AviChina

AviChina Industry & Technology Company Limited

中国航空科技工业股份有限公司

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

(Stock Code : 2357)

Annual Report 2020

Contents

Company Profile

The Company is a joint stock limited company established in the PRC on 30 April 2003. The Company's H Shares have been listed on the Hong Kong Stock Exchange since 30 October 2003 (stock code: 2357). As at the date of this report, the shareholders of the Company mainly include AVIC, Airbus and Tianjin Free Trade Zone Investment.

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

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

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

PRINCIPAL PRODUCTS OF THE GROUP

Helicopter: Z-series, AC series and EC-120 helicopters jointly produced by the Group and Airbus;

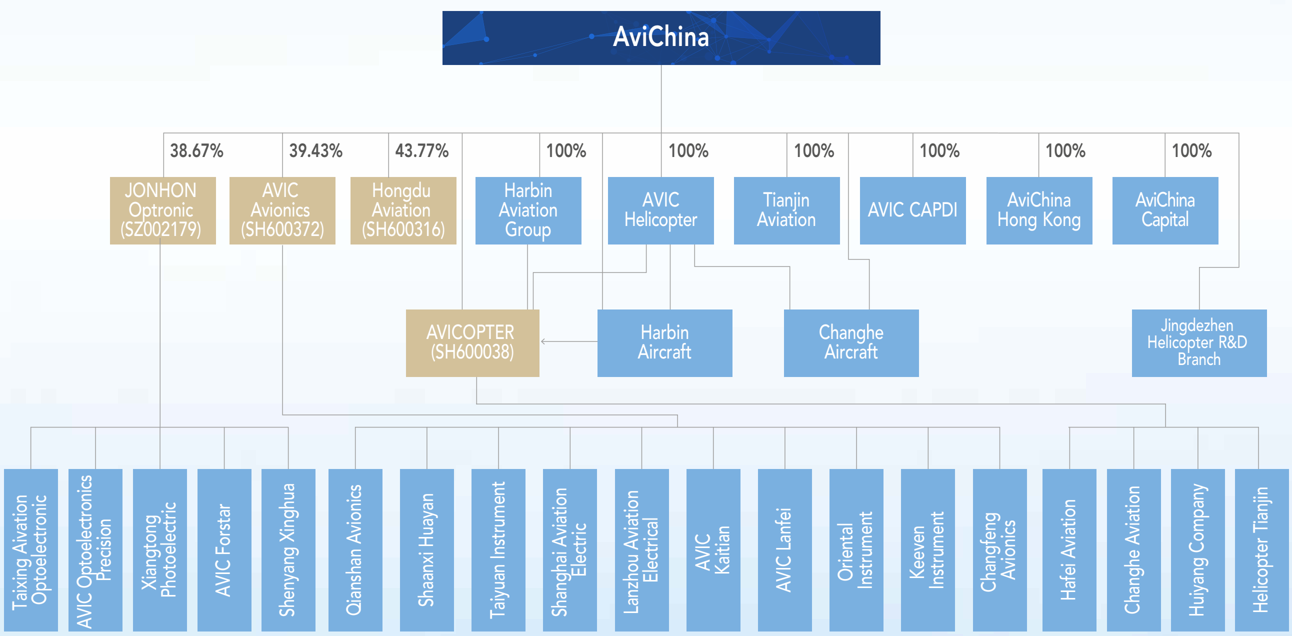
Trainer: L15, K8 and CJ-6 (PT-6) trainers series;

General-purpose aircraft: Y-12 multi-purpose aeroplanes series and the N-5 agricultural aeroplanes series;

Aviation ancillary system: connectors, avionics products and its accessories; and

Aviation engineering services: planning, design and consultation services, etc.

CORPORATE STRUCTURE OF THE GROUP
(As at 31 December 2020)



Financial Highlights

CONSOLIDATED PROFIT AND LOSS

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

	For the year ended 31 December		
	2020	2019 (restated)	Changes
Revenue	50,117	43,832	14.34%
Profit before income tax	4,362	3,132	39.27%
Profit attributable to the equity holders of the Company	1,995	1,347	48.11%
Gross profit margin	20.88%	21.98%	-1.10%
Earnings per share for profit attrbutable to the equity holders of the Company (RMB)			
– Basic	0.258	0.174	48.28%
– Diluted	0.258	0.174	48.28%

CONSOLIDATED ASSETS AND LIABILITIES

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

	As at 31 December		
	2020	2019 (restated)	Changes
Total assets	116,048	107,816	7.64%
Total liabilities	70,339	67,975	3.48%
Non-controlling interests	23,154	19,546	18.46%
Owner’s equity (other than non-controlling interests)	22,555	20,295	11.14%

Financial information on the Group's comprehensive business in the recent five years starting from 1 January 2016 is summarized as follows:

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

	As at 31 December/For the year ended 31 December				
	2020	2019 (restated)	2018 (restated)	2017	2016
Total assets	116,048	107,816	101,450	78,933	71,628
Total liabilities	70,339	67,975	64,865	47,773	42,665
Non-controlling interests	23,154	19,546	18,579	16,451	15,161
Owner' equity (other than non-controlling interests)	22,555	20,295	18,007	14,709	13,802
Revenue	50,117	43,832	37,165	32,597	36,834
Profit before income tax	4,362	3,132	3,003	2,758	2,652
Profit attributable to the equity holders of the Company	1,995	1,347	1,442	1,222	1,160
Gross profit margin	20.88%	21.98%	23.22%	22.84%	19.11%
Earnings per share for profit attributable to the equity holders of the Company (RMB)					
– Basic	0.258	0.174	0.193	0.205	0.194
– Diluted	0.258	0.174	0.193	0.205	0.194

Financial Highlights

TOTAL ASSETS

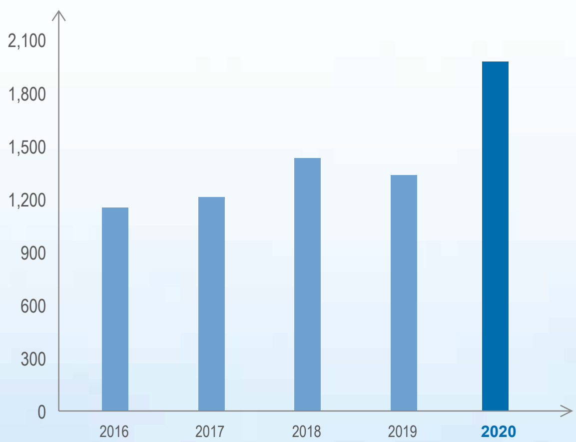
(RMB million)

REVENUE

(RMB million)

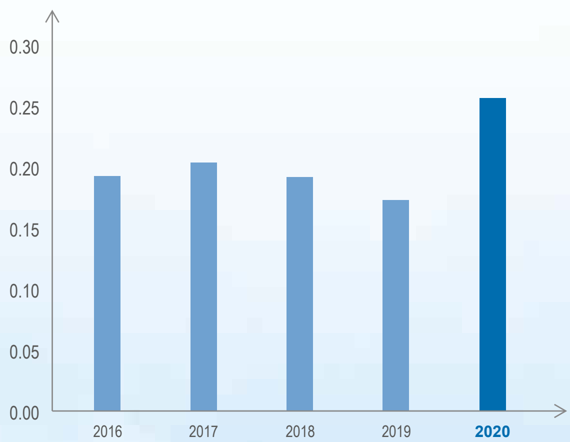
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(RMB million)



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

(RMB)



Chairman's Statement

To all Shareholders:

On behalf of the Board of the Company, I am pleased to present the consolidated annual results of the Group for the year 2020. For the year ended 31 December 2020, the Group recorded revenue of RMB50,117 million, and the profit attributable to equity holders of the Company amounted to RMB1,995 million, achieving growth in both revenue and profit.

Mr. Wang Xuejun
Chairman of the Board

BUSINESS REVIEW

In 2020, the pandemic of COVID-19 (the "**Pandemic**"), the worst pandemic in the century, gave heavy blow to the globe, resulting in rising risks and challenges both at home and abroad. In face of complicated international and domestic development situations, as well as the unexpected Pandemic, the Chinese government actively coordinated pandemic prevention and control as well as economic and social development actively, as a result, achieving stable recovery of economic performance and taking the lead in achieving positive growth among major economies of the world. AVIC, the controlling shareholder of the Company, resolutely played its roles in such a hard time, and deployed its self-developed airfreighters and helicopters to deliver large quantities of supplies and carry medical teams to anti-pandemic frontline in Wuhan for many times, and performed the tasks of transporting anti-pandemic supplies to several countries successively, providing a quick pass for allocation of supplies. In addition, large amphibious aircraft AG600 completed its first flight over the sea successfully; Pterosaur series unmanned aerial vehicles showed their capabilities in the fields of communication relay and typhoon detection. Meanwhile, AVIC was listed in the Fortune Global 500 for the 12th successive year with the ranking of 163, and was ranked the fifth among the global 500 top companies in the aerospace and defense industry.

Depending on the success achieved by AVIC in the "two frontal battles", in 2020, the Company continued to implement the strategic target of building aviation power of new era comprehensively, and devoted itself to building a flagship company that provides high-tech aviation products and services for civil and military purposes. In the hard time, the Company has made concrete efforts to deal with difficulties and keep forging ahead, so as to effectively improve the management quality, actively perform its social responsibilities in fighting against the Pandemic, and successfully make progress in all aspects of work. The Company has achieved steady progress in assets reorganization, and completed the acquisition of 100% of equities of AVIC Helicopter, actively promoted the synergy effect on the helicopter business of the Group, so as to improve the overall competitiveness of helicopter products; meanwhile, the equity interest in AVICOPTER held by the Company has been further increased. AVIC Forstar became one of the first batch of domestic companies and the first central state-owned enterprise to be quoted on the NEEQ Select. The Company has continuously improved its core products and the capability of research and development ("**R&D**"), developed the Tianjin Helicopter Industrial Base, and achieved an unprecedented breakthrough in the application of AC312E Helicopter to police aviation field. The new 4-ton civil helicopter AC332 was rolled out; Y12F Plane was put into commercial operation for the first time; L15 Advanced Trainer was awarded with the First Prize of National Award for Science and Technology Progress; the aviation ancillary system was applied in several major national projects successfully and the Group seized the domestic 5G market and shifted the focus to the domestic mainstream new energy industry of related products. The project of AVIC CAPDI was awarded with Tien-Yow Jeme Civil Engineering Prize again. In addition, the Company screened and modified the inefficient investment projects proactively, and optimized the asset layout; deepened the market value management to maintain the confidence in market and protect interests of investors; and implemented stock repurchase actively. Meanwhile, the Company devoted itself to corporate governance and investor relation improvement, and made efforts to promote the brand marketing.

OUTLOOK

The year 2021 bears great significance as it marks the beginning of the "14th Five-Year Plan". The international environment is getting more complicated and is deeply impacted by the Pandemic, and there has been a significant increase in instability and uncertainty of the international situation. The Chinese economy has entered into a stage of high-quality development, and AVIC will further the achievements it had made in technological innovation and high-quality development during the period of "13th Five-Year Plan", continue to implement the strategic goal of building aviation power, and highlight the main stream of leading innovation system construction, advanced equipment system construction, modern industrial system construction and digital intelligence system construction, thus to speed up the pace of entering into the new development stage of leading innovation, collaborative systems, robust industry and efficient governance.

In 2021, with the new responsibilities and missions, and in the face of new situations, the Company will benchmarking the world-class enterprises, actively implement the three-year action plan for SOE reform, grasp the opportunities, cope with challenges, take initiative to plan, and make efforts to build a new development pattern of "dual circulation" of domestic and foreign capital markets; integrate resources in the main aviation business, pay attention to new areas and revolutionary technology actively, invest the capital into industries and optimize the investment structure; promote integration of helicopter business actively, accelerate development of civil helicopter industrial base; continue to improve the synergy effect of helicopter business; continue to improve the technical capability and the construction of the system and mechanism of aviation ancillary system products, accelerate planning of integrate manufacturing; build the civil aviation operation supporting system actively, and promote the market-oriented development of civil aviation products actively; continue to clarify the corporate governance framework, improve the governance structure, and build an effective system for capital management; have dialogue with market and investors actively, and provide positive return to shareholders; Responsibility leads growth and vision creates the future. We will carry out innovation independently, manage the corporation pursuant to laws, conduct poverty alleviation and adhere to green aviation manufacturing, to actively fulfill social responsibilities, and continue to demonstrate its mission.

In 2021, the Board of the Company will lead the Company to implement the strategic goals firmly, seize strategic opportunities, maintain strategic focus, and steadily promote the work. With full confidence, I and all our staff will be dedicated to our works, forge ahead with determination, increase values, thus to build a sustainable listed company.

APPRECIATION

Last but not least, on behalf of the Board, I would like to take this opportunity to express my appreciation to the investors, clients and cooperative partners for their trust and support, and express my appreciation to our management team and all our staff for their hard work and contributions in the past year.

Wang Xuejun
Chairman
Beijing, 30 March 2021

Management Discussion and Analysis

Mr. Zhao Hongwei
General Manager

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

SUMMARY

Due to the completion of the acquisition of 100% equity interests in AVIC Helicopter in December 2020, AVIC Helicopter, Harbin Aircraft and Changhe Aircraft all became wholly-owned subsidiaries of the Company. The financial data of the Group in the corresponding period of the preceding year was restated pursuant to the relevant regulations and requirements. In 2020, the businesses of the Group were divided into aviation entire aircraft segment, aviation ancillary system and related business segment, and aviation engineering services segment. The revenue, gross profit margin and other key financial performance indicators of these segments are analyzed in this report to demonstrate their operation and development.

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

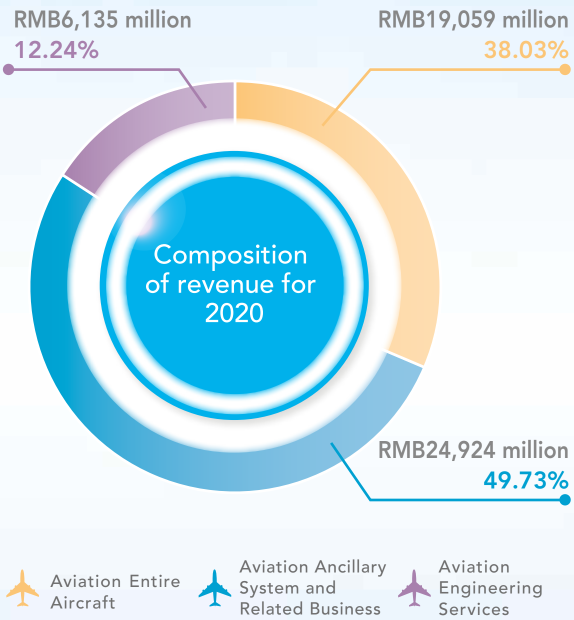
For the year ended 31 December 2020, the Group recorded a revenue of RMB50,117 million, representing an increase of RMB6,285 million or 14.34% as compared with that of RMB43,832 million in the corresponding period of the preceding year. The profit attributable to equity holders of the Company amounted to RMB1,995 million, representing an increase of RMB648 million or 48.11% as compared with that of RMB1,347 million in the corresponding period of the preceding year.

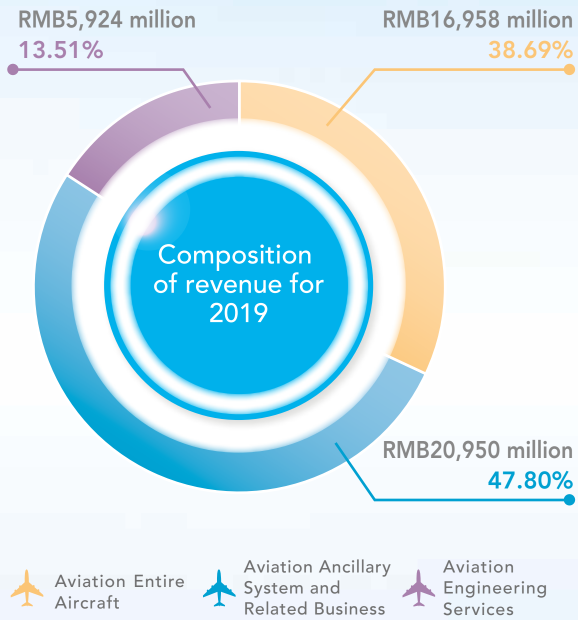
The following shows the comparison between the consolidated operating results of the Group for the year ended 31 December 2020 and those for the year ended 31 December 2019:

CONSOLIDATED OPERATING RESULTS

1 Composition of revenue

The revenue of the Group for the year 2020 was RMB50,117 million, representing an increase of 14.34% as compared with that of RMB43,832 million in the corresponding period of the preceding year. During the period, each of the Group's business segments recorded revenue increase to different extent.





The revenue of the Group's aviation entire aircraft business for the year 2020 amounted to RMB19,059 million, representing an increase of RMB2,101 million or 12.39% as compared with that of RMB16,958 million in the corresponding period of the preceding year, which was mainly attributable to the increase of sales volume of helicopter products. The revenue of the aviation entire aircraft business for the year 2020 accounted for 38.03% of the total revenue of the Group, representing a decrease of 0.66 percentage point as compared with that in the corresponding period of the preceding year.

The revenue of the Group's aviation ancillary system and related business for the year 2020 amounted to RMB24,924 million, representing an increase of RMB3,974 million or 18.97% as compared with that of RMB20,950 million in the corresponding period of the preceding year, which was mainly attributable to the increase of sales volume of connector products. The revenue of the aviation ancillary system and related business for the year 2020 accounted for 49.73% of the total revenue of the Group, representing an increase of 1.93 percentage points as compared with that in the corresponding period of the preceding year.

The revenue of the Group's aviation engineering services business for the year 2020 amounted to RMB6,135 million, representing an increase of RMB211 million or 3.56% as compared with that of RMB5,924 million in the corresponding period of the preceding year. The revenue of the aviation engineering services business for the year 2020 accounted for 12.24% of the total revenue of the Group, representing a decrease of 1.27 percentage points as compared with that in the corresponding period of the preceding year.

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

2 Selling and distribution expenses

The Group's selling and distribution expenses for the year 2020 amounted to RMB635 million, representing a decrease of RMB57 million or 8.23% as compared with that of RMB692 million in the corresponding period of the preceding year. The Pandemic, strengthening of cost control and enhancement of labor efficiency all led to the decrease in sales services cost of sales person and business travel cost of certain subsidiaries of the Company. In 2020, the selling and distribution expenses accounted for 1.27% of the revenue of the Group, representing a decrease of 0.31 percentage point as compared with that in the corresponding period of the preceding year.

3 Administrative expenses

The Group's administrative expenses for the year 2020 amounted to RMB6,184 million, representing an increase of RMB80 million or 1.31% as compared with that of RMB6,104 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase of RMB165 million of investment in R&D and the decrease in operation costs resulted from the management and control in operation cost. In 2020, the administrative expenses accounted for 12.34% of the revenue of the Group, representing a decrease of 1.59 percentage points as compared with that in the corresponding period of the preceding year.

4 Operating profit

The operating profit of the Group for the year 2020 amounted to RMB4,294 million, representing an increase of RMB1,112 million or 34.94% as compared with that of RMB3,182 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase of the gross profit contribution driven by the increase of revenue and other gains from the disposal of financial assets increased as well.

5 Finance costs, net

The Group's net finance costs in 2020 amounted to RMB94 million, representing a decrease of RMB184 million or 66. 18% as compared with that of RMB278 million in the corresponding period of the preceding year, which is mainly attributable to the significant decrease of interests costs resulting from the redemption and the conversion of convertible bonds by certain subsidiaries and the lower average balance of bank borrowings as compared with that of the corresponding period of the preceding year. Please refer to Note 7 to the financial statements for details.

6 Income tax expenses

The Group's income tax expense in 2020 was RMB470 million, representing an increase of RMB137 million or 41.14% as compared with that of RMB333 million in the corresponding period of the preceding year, and such increase was mainly attributable to the growth of operating profit. Please refer to Note 10 to the financial statements for details.

7 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company for the year 2020 amounted to RMB1,995 million, representing an increase of RMB648 million or 48.11% as compared with that of RMB1,347 million in the corresponding period of the preceding year. The increase in the operating profit and the decrease in the finance costs both led to an increase in the profit attributable to equity holders of the Company during the reporting period as compared with that in the corresponding period of the preceding year.

GUARANTEED AND SECURED LOANS

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.

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 2020, the Group had no significant contingent liabilities.

CASH FLOW AND FINANCIAL RESOURCES

1 Liquidity and capital resources

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:

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

The Group's cash flow for each of the years 2020 and 2019 were as follows:

Unit: RMB million (except for percentage)

Main items of cash flow	2020	2019 (restated)	Changes (amount)	Changes rate (percentage)
Net cash flows from operating activities	465	5,378	(4,913)	-91.35%
Net cash flows from (used in) investing activities	2,413	(2,532)	4,945	/
Net cash flows from financing activities	1,290	523	767	146.65%

2 Operating, investing and financing activities

Net cash inflows from operating activities of the Group for 2020 amounted to RMB465 million, representing a decrease of net inflows by RMB4,913 million as compared with the net cash inflows of RMB5,378 million in the corresponding period of the preceding year. The main reason was that part of the receivables has not been collected at the end of the reporting period.

Net cash inflows from investing activities of the Group for 2020 amounted to RMB2,413 million, representing an increase of net inflows by RMB4,945 million as compared with the net cash outflows of RMB2,532 million in the corresponding period of the preceding year. The main reason was that based on funding arrangements, the investment in time deposits for more than three months decreased significantly during the reporting period.

Net cash inflows from financing activities of the Group for the year 2020 amounted to RMB1,290 million, representing an increase of net inflows by RMB767 million as compared with the net cash inflows of RMB523 million in the corresponding period of the preceding year. The main reason was that JONHON Optronic completed the second phase of the restricted stock incentive plan share grant and received contributions from participants.

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 are repayable as follows:

Maturity	RMB million
Within one year	1,460
In the second year	2,041
In the third to fifth year	2,377
After the fifth year	816
Total	6,694

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.

GEARING RATIO

As at 31 December 2020, the Group's gearing ratio was 10.05% (as at 31 December 2019: 11.15% (as restated)), which was arrived at by dividing the total borrowings and convertible bonds by the total assets as at 31 December 2020.

SEGMENT 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

Revenue

The Group's revenue derived from the aviation entire aircraft business for 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 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.

Gross Profit Margin

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

THE AVIATION ANCILLARY SYSTEM AND RELATED BUSINESS

Revenue

The Group's revenue derived from the aviation ancillary system and related business for the year 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 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.

Gross Profit Margin

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

THE AVIATION ENGINEERING SERVICES BUSINESS

Revenue

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

Gross Profit Margin

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

BUSINESS REVIEW AND OUTLOOK

In 2020, faced with the complex international and domestic development environment and the unexpected Pandemic, AVIC, the controlling shareholder of the Company, remained committed to high-quality growth and implemented the development strategy of the aviation industry for the new era. And AVIC also ensured the successful conclusion of its tasks during the "13th Five-Year Plan" and achieved remarkable results in its "two frontal battles" in Pandemic prevention and control as well as resumption of business and production.

In 2020, aiming at the strategic goal of building an aviation power in the new era, the Company has been dedicated to becoming a flagship company that provides high-tech aviation products and services for both military and civil purposes. In order to fight the "two frontal battles", the Company made concerted efforts to rapidly resume manufacture and operation. As it ensured smooth progress in all tasks, the pandemic did not have any material adverse effect on its manufacture and operation process.

In 2020, the Company has carried out its assets reorganization project steadily. It has completed the acquisition of 100% equity of AVIC Helicopter. As a result of this, the Company benefitted from a more completed helicopter industrial chain, more efficient allocation of resources, more optimized capital distribution plan and more competitive helicopter products in general. Meanwhile, the equity interest in AVICOPTER held by the Company has further increased. AVIC Forstar became one of the first batch of domestic companies and the first central state-owned enterprise to be quoted on the NEEQ Select. In order to maintain investors' confidence and protect their interests, the Company repurchased and cancelled a total of 34,459,000 H shares during the reporting period. In 2020, the Company received a number of major honours which included the "New Fortune HK Listed Company with the Best IR Award", the "Golden Bauhinia Award of China Securities – Best Investment Value in Listed Company" and the "2020 China Top 100 Award". JONHON Optronic was shortlisted as the "Top 50 A-share Core Assets" once again. Its project application garnered two national awards, namely the "Second Prize in Innovation Achievement for Modernized Management of Chinese Enterprises" and the "Second Prize in Management Innovation of National Defence Technology Corporation".

In 2020, the Group continued to improve the quality and core competitiveness of its helicopter products, which demonstrated outstanding performance in various activities. After entering the new stage of certification application and flight test, the AC352 helicopter conducted a "parallel flight test" and completed it for low-temperature fitness at Jiansanjiang Wetland Airport, which became the first civil helicopter in China to conduct such tests. The AC352 helicopter also completed the high-temperature fitness at Shijiazhuang Luancheng Airport. Meanwhile, the 4-ton twin-engine light civil helicopter AC312E passed the assessment of the Aircraft Evaluation Group, which laid a sound foundation for its delivery to the first batch of users. Tianjin Civil Helicopter Industrial Base reached the full development stage. The AC321E helicopter completed the first flight after final assembly and the new 4-ton civil helicopter AC332 was rolled out with indicative orders with launch users. The AC311 helicopter undertook air patrol, transport of casualties, airdrop of emergency supplies and other missions in the cross-regional drill for hazardous chemical disasters in Jiangxi Province, which examined the requirements for domestically-manufactured helicopters to participate in relief operations for "all types of emergencies" and "major emergencies", as well as their abilities to provide professional rescue in such disasters. Two AC311A helicopters completed the aerial photography mission in Tibet and the aerial spraying of agricultural chemicals in Qilian, Qinghai Province, respectively, which fully demonstrated their outstanding capabilities in plateau areas. Moreover, the "Civil Helicopter Design Assurance Manual" was approved by CAAC East China Regional Administration, representing the phased achievement of the construction of the civil helicopter design assurance system.

In 2020, the Group continued to expand its market in the trainer jet business. The L15 advanced trainer jet and the CJ6 primary trainer jet appeared at the 2020 Nanchang Flight Convention. The K8 trainer jet was piloted by Chinese, Egyptian, and Pakistani pilots to achieve the "cloud show" in different regions of the world at the same time. Hongdu Aviation adopted an innovative way of the remote "cloud-based inspection and acceptance and cloud-based delivery" providing a scientific solution to the delay of delivery and opening up new possibilities for foreign trade and delivery in the aviation industry.

In 2020, the general-purpose aircraft business of the Group grew steadily. The Group delivered the Y-12E aircraft to Ying'an General Aviation Co., Ltd.* (英安通用航空有限公司) upon completion of the inspection and acceptance. With the launch of the "Harbin-Yichun" route which was served by the Y-12E aircraft, the travel time was significantly reduced. During the year, the Y-12F aircraft started commercial flight for the first time and commenced the general-purpose route connecting "Heihe-Mohe-Jiagedaqi", thereby opening a new chapter for "short-haul transport+low-altitude tourism". The Y-12E+ light aircraft with multiple purposes passed the preliminary design review. Besides, the Y-12F time-domain aircraft completed the air launch and recovery tests of nacelles. It will conduct the flight test on the time-domain aviation electromagnetic measurement system shortly, which will support the development of the aero-geophysical survey industry in China.

In 2020, the Group pursued the innovation-driven strategy for its aviation ancillary system and related business, which brought its core capability to the an upper level. JONHON Optronic has further improved its R&D as well as the industrialization capability of 5G related products and high voltage connection products for new energy vehicles. Apart from winning the "ZTE Best Technology Innovation Award", it was honoured as "National Enterprise with Intellectual Property Strengths" and "Gold Supplier of Huawei". JONHON Optronic also provided a huge variety of opto-electronic interconnect products for the entire rocket and the ground test and launch control system for the Long March 5B Series Launch Vehicle, which offered a stable and reliable signal transmission channel for rocket launching and flight. Meanwhile, AVIC Kaitian developed two types of altitude signal boxes based on non-similarity principles, which secured the safe return of the Long March 5B Series Launch Vehicle test vessel with its reliable performance. AVIC Kaitian was listed as a state-owned "Innovative Technology Reform Demonstration Enterprise" and was approved to establish the post-doctoral scientific research workstation, so as to further upgrade the innovative system and facilitate high-quality corporate development. The intelligent mechanical spraying project of Shanghai Aviation Electric has passed the review and will be able to meet the requirements for surface paint of light guide plate products for various aviation equipment as well as civil aircraft (such as C919 aircraft). Taiyuan Instrument entered into an intention of cooperation with China Huayun Meteorological Technology Group Corporation* (中國華雲氣象科技集團公司) in relation to the research and development and application of on-board meteorological measurement equipment, promoting the technology innovation of such equipment. Meanwhile, Taiyuan Instrument also leverages the innovation strengths of school-enterprise cooperation by joining hands to set up the joint advanced manufacturing laboratory and the aviation equipment research institute, with the aim of developing key general-purpose technologies and core technologies in the field of avionics.

In 2020, the Group ramped up the market development efforts in the aviation engineering service business, so that they achieved steady growth. AVIC CAPDI intensely took part in crucial national projects in heavy and new generation human spaceflight, reaching substantial breakthroughs in developing the aviation market. While further expanding the civil aviation market, it won the bid for the renovation and expansion design project for the airfield at Xilinhot Airport, as well as the major airport terminal design projects in provincial capitals such as Taiyuan and Hefei. In addition, it devoted heavily to the establishment of the vaccine manufacture system and secured important national medical design projects. It spared no effort in the prevention and control of the pandemic and made remarkable progress in the pharmaceutical and medical market. In parallel with this, the new Chengdu Museum designed by AVIC CAPDI has been awarded the highest honour in China's civil engineering sector, namely the Tien-Yow Jeme Civil Engineering Prize. By far, AVIC CAPDI has won six Tien-Yow Jeme Civil Engineering Prize.

The year 2021 bears great significance as it marks the beginning of the "14th Five-Year Plan". In spite of the widespread Covid-19 pandemic around the world, the drastic changes in the international political and economic landscape, the escalating financial risks due to global quantitative easing and the increasingly complex trading environment worldwide, China's economy maintains the secular upward trend in general and its growth continues to be supported by favourable factors and conditions. Facing the immense opportunities for leap-frog development and major strategic challenges, the Group will stay dedicated to building a flagship company that provides high-tech aviation products and services for military and civil purposes. It will take the initiative to fulfil responsibilities and strive for excellence. Meanwhile, it will push forward high-quality development through strategic planning and shareholder engagement:

1. The Company will further implement the strategy of financial-industrial combination, give full play to the integrated financial-industrial platform, carry out multi-dimensional and mutually beneficial cooperation, optimize the industrial structure and develop an open and inclusive market;

2. The Company will promote the innovation of aviation technology and carry out major aviation technology projects that are forward-looking and strategically important, so that it will become self-reliant in technology innovation;

3. The Company will support the integration of the helicopter business and capitalize on the synergetic advantages from capital operation, in order to facilitate the development of the helicopter business;

4. The Company will integrate resources and increase investment in the principal aviation business, which will improve its core competitiveness and transform it into an integrated industrial group with good governance;

5. The Company will exert vigorous efforts in investment and financing, equity operation and capital integration and keep on optimizing its capital structure, so as to enhance its quality as a listed company;
6. The Company will push forward the market-oriented development of the civil aviation industry and make use of its overseas platform to pursue opportunities for overseas capital operation; and

7. The Company will strengthen its governance capability on a continuous basis, reinforce the governance structure and improve the capital management and control system.

USE OF PROCEEDS

As at 31 December 2020, a total of RMB5,137 million of the proceeds raised by the Company had been used in the manufacturing and R&D of advanced trainer aircraft, helicopters and aviation composite materials as well as the acquisition of aviation assets and the equity investments. In the end of 2018, the net proceeds raised by the Company through H share placing were approximately HK$1,346 million. Up to now, an amount of RMB580 million had been used to invest in the aviation business such as aviation cabin interior trimming business and military-civilian fund for aviation industry. As at 31 December 2020, the remaining balance of the proceeds amounted to approximately RMB601 million. In the next year, the Company proposes to use such proceeds for investment in aviation businesses, the industrialization projects of aviation research institutes and military-civilian fund for aviation industry, the funding of acquisitions of aviation equity interest or aviation assets and for general corporate purposes.

EMPLOYEES

As at 31 December 2020, the Group had 45,268 employees. The Group has provided appropriate emoluments, benefits and trainings to its employees.

Employees Breakdown (by business segments)	Number of employees	Percentage to total number of employees (%)
Aviation entire aircraft business	16,758	37.02
Aviation ancillary system and related business	24,446	54.00
Aviation engineering services business and others	4,064	8.98
Total	45,268	100.00

For the year ended 31 December 2020, the total staff costs of the Group amounted to RMB8,204 million, representing an increase of RMB18 million or 0.22% as compared with those of RMB8,186 million in the corresponding period of the preceding year.

REMUNERATION OF EMPLOYEES

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

TRAINING FOR EMPLOYEES

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

In accordance with its development strategy in 2020, in order to facilitate the development of its various businesses, the Group actively established a new training environment, systematically organized its trainings, enhanced the specificity and effectiveness of trainings, improved corresponding management systems and resources allocation mechanism. During the year, relevant staff of the Group have conducted many trainings, covering job skills, system knowledge, professional knowledge, etc. Through trainings, the employees can learn the latest laws, regulations and work skills in time, continuously enriching and improving themselves, which in turn will enhance the Group's competitiveness so as to adapt to the ever-changing market demand.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Wang Xuejun (王學軍)

48, Chairman of the Board, a researcher level senior economist. Mr.Wang Xuejun graduated from Renmin University of China with a bachelor degree in economics specializing in international finance in July 1995, and graduated from Economy and Management School of Tsinghua University with a MBA degree in July 2002. Mr.Wang Xuejun commenced his career in aviation in 1995. He had been a section chief, vice director and director of the Capital Management Department of AVIC since 2008. Mr. Wang had been the non-executive Director of the Company from June 2018 to March 2019. Mr. Wang was appointed as the executive Director and general manager of the Company since March 2019. Mr. Wang has been the Chairman of the Board of the Company since 16 October 2020.

Mr. Zhao Hongwei (趙宏偉)

54, a senior engineer. Mr. Zhao successively graduated from Nanjing University of Aeronautics and Astronautics with a bachelor degree majoring in industrial management engineering, and Zhejiang University with a MBA degree. Mr. Zhao commenced his career in aviation industry in 1989. He successively served as the manager of the Comprehensive Planning Department and deputy general manager of China National Aero-Technology Import & Export Shanghai Corporation, deputy general manager of AVIC Auto Maintenance Equipment Co., Ltd., deputy general manager and general manager of China National Aero-Technology Import & Export Hangzhou Corporation, and general manager and chairman of AVIC International Lease Co., Ltd. Mr. Zhao served as the general manager of AVIC Capital from June 2017 to October 2020, and served as the director of AVIC Capital since June 2017. Mr. Zhao was appointed as the general manager of the Company since 16 October 2020. Mr. Zhao had been the executive Director of the Company since December 2020.

Non-executive Director

Mr. Yan Lingxi (閆靈喜)

50, a master degree holder and a senior engineer. Mr. Yan graduated from Beijing University of Aeronautics and Astronautics with a bachelor degree in engineering in 1991 and with a master degree in management in 1999. He commenced his career in the aviation industry in July 1991 and worked in the reform bureau of the Ministry of Aero-Space Industry, the corporate management office of Nanjing Jincheng Machinery Factory, the corporate management department and the asset and business management department of Former AVIC, respectively. He was appointed as the deputy director and the director of the corporate assets management department of AVIC II. From June 2012 to September 2016, Mr. Yan had been a director of AVIC Avionics. From August 2014 to September 2016, Mr. Yan had been a director of AVICOPTER PLC. From October 2016 to February 2018, Mr. Yan had successively been the head of the office of the board of directors and the deputy director of capital management department of AVIC, and a director of the Board, the deputy general manager and the secretary of the board of directors of AVIC Capital. From April 2004 to August 2016, Mr. Yan had been the director of the securities and legal department, the secretary of the Board and the assistant to the general manager of the Company, respectively. Mr. Yan was the standing deputy general manager of the Company from February 2018 to March 2019. He has been the director of the capital operating department of AVIC since March 2019. He has been the non-executive Director of the Company since May 2019.

Mr. Lian Dawei (廉大為)

58, a doctorate degree holder and a researcher level senior engineer. Mr. Lian graduated from the Department of Urban Construction of Harbin Institute of Architectural Engineering with a bachelor of engineering degree majoring in heating and ventilation, and successively obtained his master degree in technology economy and management from Tsinghua University and doctorate degree in engineering and project management from Beijing Jiaotong University. Mr. Lian had successively been the deputy division director, division director, department chief, vice president and president of China Aviation Planning and Design Institute, the general manager of AVIC CAPDI, etc. Mr. Lian has been the chairman of the board of AVIC CAPDI since August 2016. He has been the non-executive Director of the Company since May 2019.

Mr. Xu Gang (徐崗)

49, a doctorate degree holder. Mr. Xu graduated from Tianjin University with a bachelor degree in information management system engineering. Mr. Xu also holds a master degree in business administration from Roosevelt University in Chicago and a doctorate degree in economics from Nankai University. In 1995, Mr. Xu worked for the Tianjin Economic and Technology Development Area Administrative Committee. He was nominated as the deputy head of the Investment Promotion Bureau of Tianjin Free Trade Zone in 2003 and was promoted as its head in 2005, when he started to actively participate in the Airbus A320 Series Final Assembly Line programme jointly initiated by Airbus and its Chinese partners. From 2008 to 2011, Mr. Xu was the deputy general manager of Airbus Tianjin A320 Series Final Assembly Line and the head of the Investment Promotion Bureau of Tianjin Free Trade Zone Administrative Committee. In 2011, he was appointed as the chairman of board of Airbus Tianjin Final Assembly Line and the director of Tianjin Free Trade Zone Administrative Committee. From 2014 to 2017, Mr. Xu was appointed as the Party Secretary of Tianjin Youth League. From January 2018, Mr. Xu has served as chief executive officer of Airbus China and the head of Airbus China, responsible for all commercial aircraft operations and helicopter, defense and aerospace operations of Airbus in China. He has been the non-executive Director of the Company since May 2019.

Independent Non-executive Directors

Mr. Liu Renhuai (劉人懷)

80, an academician of the Chinese Academy of Engineering, graduated from Lanzhou University in 1963. He was elected as academician of the division of mechanical and vehicle technology of Chinese Academy of Engineering in 1999 and one of the first academicians of the division of engineering management of Chinese Academy of Engineering in 2000. He used to work as the president of Jinan University, deputy director of the division of engineering management of Chinese Academy of Engineering, director of the guiding committee on education of mechanics for colleges and universities of the Ministry of Education, director of the management department of the Science & Technology Commission of Ministry of Education, chairman of Chinese Vibration Engineering Society, vice chairman of Chinese Mechanics Society and vice chairman of Chinese Society for Composite Materials from 1995 to 2006. He is currently a professor and a board member of Jinan University, director of the institute of applied mechanics, and director of the research center of strategic management of Jinan University. Mr. Liu served as a non-executive director of Sino-Tech International Holdings Limited (whose shares are listed on the Hong Kong Stock Exchange) from August 2010 to January 2012. Mr. Liu served as an independent director of Guangdong Hongda Blasting Co., Ltd. (whose A shares are listed on the Shenzhen Stock Exchange) from December 2013 to December 2019 and an independent non-executive director of CSSC Offshore & Marine Engineering (Group) Co., Ltd (a A+H company whose shares are listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange) from December 2017 to October 2020. Mr. Liu has been the independent non-executive Director of the Company since June 2014.

Mr. Liu Weiwu (劉威武)

57, a master degree holder with the intermediate accountant qualification. Mr. Liu is a director of the finance (property) department of China Merchants Group Limited. Mr. Liu was the head of treasury division of financial department of Guangzhou Ocean Shipping Company, the manager of financial department of Hong Kong Mingwah Co., Ltd*. Mr. Liu has been the deputy general manager of financial department of China Merchants Group Limited from August 2004 to February 2009. Mr. Liu had successively been the director, the chief financial officer and the deputy general manager of China Merchants Energy Shipping Co., Ltd* since February 2009. Mr. Liu has been the executive director of China Merchants Port Holdings Company Limited since March 2021. Mr. Liu has been the Independent non-executive Director of the Company since June 2018.

Mr. Wang Jianxin (王建新)

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

SUPERVISORS

Mr. Zheng Qiang (鄭強)

57, chairman of the supervisory committee, a master degree holder and a researcher. He graduated from Northwestern Polytechnical University with a master degree majoring in aircraft design in 1988. Mr. Zheng commenced his career in aviation industry from 1988, and served as an engineer, deputy director and director of Civil Aircraft Division of China Aviation System Engineering Research Institute ("**CASERI**"); deputy chief engineer and director of Aircraft System Engineering Research Division of CASERI since March 1996; deputy director-general and director-general of CASERI since October 1996; deputy head and head of Civil Aircraft Department of AVIC I since August 2001; and assistant to the general manager of AVIC I since September 2004. Mr. Zheng was appointed as vice general manager of the Company from June 2009 to June 2015. Mr. Zheng also served as director at AVICOPTER from August 2014 to March 2015. Mr. Zheng has been appointed as director of the management innovation office of AVIC since June 2015. From April 2017 to October 2019, Mr. Zheng was a supervisor of Sichuan Chengfei Integration Technology Corporation Limited. Mr. Zheng had been a director of AVIC Capital from May 2017 to October 2020. Mr. Zheng served as the supervisor and the chairman of the supervisory committee of AVIC CAPDI and Jinhang Digital Technology Co., Ltd.* since November 2020, and as the supervisor and the chairman of the supervisory committee of China Aviation Technology International Holdings Co., Ltd.* since January 2021. Mr. Zheng has been the Supervisor of the Company since October 2016.

Mr. Guo Guangxin (郭廣新)

51, a bachelor degree holder. Mr. Guo graduated with a bachelor of engineering from the department of computer and science technology in Harbin College of Shipbuilding Engineering in 1991 and majoring in computer application technology. Mr. Guo served successively as a member of technology department then a senior staff member of disciplinary committee in Heilongjiang Branch of Industrial and Commercial Bank of China* from July 1991 to January 2000. Mr. Guo served successively as the deputy head of the equity management department, the head of the debt comprehensive operation department, the head of the comprehensive management department and the assistant to senior manager of the innovation business department in Harbin Branch of China Huarong Asset Management Co., Ltd.* from April 2002. Mr. Guo served as a senior manager of Business Division VII in Heilongjiang Branch of China Huarong Asset Management Co., Ltd.* from 2013 to 2020. Mr. Guo has been a senior manager of Business Division IV in Heilongjiang Branch of China Huarong Asset Management Co., Ltd.*since 2021. Mr. Guo has been the Supervisor of the Company since June 2018.

Mr. Zhao Zhuo (趙卓)

48, a master degree holder and a researcher. Mr. Zhao successively graduated from Beijing Institute of Chemical Technology with a bachelor degree of engineering majoring in industrial management engineering and the school of management of Beihang University with a master degree of engineering majoring in management. Mr. Zhao has obtained an EMBA degree from University of Texas at Arlington. Mr. Zhao has commenced his career in aviation industry since 1995. He successively served for AVIC Economics & Technology Research Establishment, the planning and development department of Former AVIC, the general affairs division of AVIC II. Since 2005, Mr. Zhao has served as the deputy director of the comprehensive management department, the deputy director, director of the internal audit department, and the director of the capital market department of the Company. Mr. Zhao had been a supervisor of JONHON Optronic from October 2017 to August 2018 and a director of AVIC BIAM New Materials Technology and Engineering Co., Ltd. from May 2017 to May 2018. Mr. Zhao had been the Supervisor of the Company since December 2020.

SENIOR MANAGEMENT

Mr. Tao Guofei (陶國飛)

Deputy General Manager & Chief Financial Officer

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

Mr. Liu Wanming (劉萬明)

Deputy General Manager

55, Senior Accountant, a postgraduate of Shanghai University of Finance and Economics majoring in Business and Management. Mr. Liu Wanming commenced his career in aviation in 1986. He used to work in the division of Planning and Finance of Beijing Aviation Technology Research Institute, Beiyuan management segment of Aviation Industry Corporation of China. He had been the deputy general of Technology Service Center of AVIC I, vice general manager of Assets Management Segment of AVIC, CFO, General Manager, director and Chairman of the Board of Beijing Yunhu Holiday Resort Company Limited. Mr. Liu has been appointed as the Chairman of the Board of AVIC Rongfu Fund Management Company Limited since February 2020. Mr. Liu has been the deputy general manager of the Company since July 2020.

Mr. Xu Bin (徐濱)

Board Secretary

44, 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 had been a director of AVIC Kaitian from December 2013 to 2020, the head of the Compliance Department of the Company since June 2014, a supervisor of Hongdu Aviation from October 2019 and a director of AVIC Avionics from December 2020. Mr. Xu has been serving as the Board Secretary of the Company since August 2020.

Report of The Board

The Board of Directors of AviChina hereby presents its Report of the Board together with the audited financial statements of the Group for the year ended 31 December 2020.

BUSINESS OF THE GROUP

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

For details of the business and future business development of the Group, please refer to the section headed "Business Review and Outlook" from page 17 to page 20 of this annual report.

ENVIRONMENTAL POLICIES

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

During this reporting period, the Company continuously strengthened the management of environmental protection, actively participated in energy saving and emission reduction, and pursued green development. For details, please refer to the section headed "Environmental, Social and Governance Report" on page 76 to page 108 of this annual report.

RESULTS, DIVIDEND AND DIVIDEND POLICY

The results of the Group for 2020 are set out in the Consolidated Statement of Profit or Loss on page 116 of this annual report.

The Board recommended the payment of a final dividend for the year 2020 in an aggregate amount of RMB385,566,612.10, representing a dividend of RMB0.05 per share (2019: RMB0.03 per share), calculated based on the existing number of total issued shares of 7,711,332,242 shares of the Company as at the date of this announcement, subject to adjustment (if any) based on the number of total issued shares as at the Record Date(as defined below).

The final dividend will be paid to those shareholders whose names appear on the Company's register of members at the close of business on Wednesday, 9 June 2021 (the "**Record Date**"). To determine the identity of the shareholders entitled to receive the final dividend, the Company's register of members will be closed from Friday, 4 June 2021 to Wednesday, 9 June 2021 (both days inclusive), during which period no transfer of H shares of the Company will be registered. In order to be entitled to receive the final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, by not later than 4:30 p.m. on Thursday, 3 June 2021.

In accordance with Article 152 of the Articles of Association of the Company, the dividend will be declared in RMB to the shareholders. The dividend payable to domestic shareholders will be paid in RMB within three months after the dividend declaration date, the dividend payable to H Shares shareholders will be denominated and declared in RMB and paid in Hong Kong Dollars within three months after the dividend declaration date. The dividend to be paid in Hong Kong Dollars will be converted based on the average closing exchange rate between RMB and Hong Kong Dollars issued by the People's Bank of China for the five business days prior to the declaration of dividends at the annual general meeting of the Company to be held on Friday, 28 May 2021 (the "**2020 AGM**"). Subject to the approval of the Company's shareholders at the 2020 AGM, the aforementioned dividend is expected to be paid by the Company on or before 18 August 2021.

The 2020 AGM will be held on Friday, 28 May 2021. The H share register of members of the Company will be closed from Saturday, 8 May 2021 to Friday, 28 May 2021 (both days inclusive), during which period no transfer of H shares will be registered. Holders of the Company's H shares and domestic shares whose names appear on the Company's register of members at the opening of business on Friday, 28 May 2021 are entitled to attend and vote at the 2020 AGM. In order to be eligible to attend and vote at the 2020 AGM, holders of the Company's H shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, not later than 4:30 pm on Friday, 7 May 2021.

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

- make up of losses;
- transfer to statutory common reserve fund;
- transfer to discretionary common reserve fund;
- payment of dividends to ordinary shares.

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

INFORMATION ON TAX DEDUCTION

H shareholders shall be taxed for the dividends distributed by the Company in accordance with the Enterprise Income Tax Law of the PRC, the Individual Income Tax Law of the PRC and other relevant laws, regulations and rules. However, H shareholders may enjoy tax relief in accordance with the provisions of applicable tax treaties entered into by the countries/regions where they belong to by virtue of residential identification and the PRC. For details, please refer to the announcement of the Company dated 30 June 2020.

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

SHARE CAPITAL

The Company's structure of share capital as at 31 December 2020 was as follows:

Class of Shares	Number of Shares as at 31 December 2020	Percentage of total number of Shares in issue as at 31 December 2020 (%)
Domestic Shares	1,500,669,406	19.46
Overseas listed foreign invested shares (H Shares)	6,210,662,836	80.54
Total	**7,711,332,242**	**100**

Note:

During the reporting period, the Company repurchased and canceled a total of 34,459,000 H Shares and the total H Share capital of the Company decreased from 6,245,121,836 H Shares to 6,210,662,836 H Shares.

On 24 December 2020, the 1,500,669,406 Domestic Shares were issued by the Company, and the total share capital of the Company increased from 6,210,662,836 Shares to 7,711,332,242 Shares, among which 6,210,662,836 Shares are overseas listed foreign invested shares and 1,500,669,406 Shares are Domestic Shares.

FIVE-YEAR FINANCIAL HIGHLIGHTS

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

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, pursuant to the register kept under Section 336 of the Securities and Futures Ordinance (the "**SFO**"), Shareholders holding 5% or more equity interests in the class shares and underlying shares of the Company were as follows:

Name of Shareholders	Class of Shares	Capacity	Number of Shares	Approximate percentage 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	3,499,531,569	56.35%	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:

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

2 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.

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

Save as disclosed above, as at 31 December 2020, the Company had not been notified of any interests and short positions in 5% or more of the shares and underlying shares of the Company which had been recorded in the register kept under Section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the reporting year, the Company repurchased and canceled a total of 34,459,000 H Shares at an aggregate consideration of HK$133,324,670. The Board believe that the repurchases reflect the Company's confidence in its long term business prospects and would ultimately benefit the Company and for the enhancement of shareholder value in the long term. The monthly breakdown of shares repurchased during the 2020 was as follows:

Month of Repurchase	Number of Shares repurchased	Per Share The highest price paid (HK$)	Per Share The lowest price paid (HK$)	Aggregate consideration (HK$)
May 2020	3,490,000	3.53	3.28	11,716,160
June 2020	30,969,000	4.13	3.58	121,608,510
Total	**34,459,000**			**133,324,670**

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listing securities for the year ended 31 December 2020.

PRE-EMPTIVE RIGHTS

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

DONATION

For the year ended 31 December 2020, for details of major donation of the Group, please refer to the section headed "Environmental, Social and Governance Report" from page 76 to page 108 of this annual report.

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2020, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

FIXED ASSETS

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

RESERVES

Details of movement in reserves of the Group for the year ended 31 December 2020 are set out in the Consolidated Statement of Changes in Equity and Note 36 to the financial statements.

DISTRIBUTABLE RETAINED EARNINGS

As at 31 December 2020, the Company had distributable retained earnings of RMB789,430,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's total purchases from the five largest suppliers for the aviation business accounted for 16.19% of the Group's total purchases, of which, purchases from the largest supplier accounted for 5.19% of the Group's total purchases. The Group's sales to the five largest customers accounted for 60.07% of the Group's total sales, of which, sales to the largest customer accounted for 43.17% of the Group's total sales.

Purchases from the five largest suppliers in the aviation entire aircraft segment accounted for 32.83% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 11.40% of the total purchases in that segment. Sales to the five largest customers in the aviation entire aircraft segment accounted for 100% of the total sales in that segment, of which, sales to the largest customer accounted for 98.55% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation ancillary system and related business segment accounted for 9.69% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 3.19% of the total purchase in that segment. Sales to the five largest customers in the aviation ancillary system and related business segment accounted for 26.22% of the total sales in that segment, of which, sales to the largest customer accounted for 11.89% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation engineering services segment accounted for 16.16% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 5.52% of the total purchase in that segment. Sales to the five largest customers in the aviation engineering services segment accounted for 17.60% of the total sales in that segment, of which, sales to the largest customer accounted for 4.24% of the total sales in that segment.

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

SUBSIDIARIES

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

DIRECTORS

Details of the Directors are set out from pages 22 to 26 of this annual report. Details of changes of the Directors during the year 2020 are set out from pages 49 to 50 of this annual report.

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

1 On 28 November 2019, the Company entered into the Equity Acquisition and Share Issuance Agreement with AVIC and Tianjin Free Trade Zone Investment, pursuant to which, the Company conditionally agreed to acquire (i) 68.75% and 31.25% equity interests in AVIC Helicopter held by AVIC and Tianjin Free Trade Zone Investment, respectively; (ii) 10.21% equity interests in Harbin Aircraft held by AVIC; and (iii) 47.96% equity interests in Changhe Aircraft held by AVIC, at a total consideration of approximately RMB5,687,537,050.94. Upon completion of the Proposed Acquisition, each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft has 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 was settled by issuance of the Domestic Shares 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 Listing Rules. The above transaction was approved at the extraordinary general meeting held on 13 February 2020, and the issuance of 1,500,669,406 Domestic Shares was completed on 24 December 2020, among which 1,250,899,906 Domestic Shares are held by AVIC and 249,769,500 Domestic Shares are held by Tianjin Free Trade Zone Investment. Upon the completion of the Issuance, the total number of issued shares of the Company has been increased from 6,210,662,836 shares to 7,711,332,242 shares, among which 6,210,662,836 shares are overseas listed foreign invested Shares and 1,500,669,406 shares are Domestic Shares. For details, please refer to the announcements of the Company dated 12 October 2018, 13 October 2019, 28 November 2019, 23 February 2020 and 24 December 2020 and the circular dated 6 January 2020.

2 On 18 February 2020, 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 Mechanics-electronics-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.

3 On 21 December 2020, the Company Shareholders (namely the Company and Tianjin Aviation), the Connected Shareholders (namely Shanghai Aviation Electronics, AVIC International Aero-Development Corporation* (中航國際航空發展有限公司) ("**AVIC International Aero-Development**"), Nanjing Jincheng and AVIC Guizhou Aviation Aircraft Co., Ltd.* (中航貴州飛機有限責任公司) ("**AVIC Guizhou Aircraft**"), Shenzhen Dazhong Flight Entrepreneurship Investment LLP (Limited Partnership)* (深圳市大眾飛行創業投資合夥企業(有限合夥)) ("**Dazhong Flight**"), the Natural Person Shareholders and AviChina Intelligent entered into the Capital Reduction Agreement, pursuant to which AviChina Intelligent carried out the Capital Reduction and the Company Shareholders and the Connected Shareholders withdrew their respective capital contribution at a total consideration of RMB146,419,600. Upon completion of the Capital Reduction, the Company ceased to hold any equity interest in AviChina Intelligent, and Dazhong Flight together with the Natural Person Shareholders, collectively, will hold 100% equity interest in AviChina Intelligent, among which 99.9988% was held by Dazhong Flight and the remaining 0.0012% was evenly held by the Natural Person Shareholders. As at the date of Capital Reduction Agreement, AVIC is the controlling Shareholder of the Company. Each of Shanghai Aviation Electronics, AVIC International Aero-Development, Jincheng Nanjing and AVIC Guizhou Aircraft is a subsidiary of AVIC and is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. AviChina Intelligent is a subsidiary of the Company with over 10% equity interest held by the Connected Shareholders, thus is a connected subsidiary of the Company. The exit of the Connected Shareholders from AviChina Intelligent as well as the disposal of AviChina Intelligent resulting from the exit of the Company Shareholders constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 21 December 2020.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

(a) Continuing connected transactions between the Company and connected persons in 2020

For the year ended 31 December 2020, the Group engaged in continuing connected transactions with AVIC, AVIC Avionics and its subsidiaries ("**AVIC Avionics Group**"), AVICOPTER and its subsidiaries ("**AVICOPTER Group**"). AVIC is the controlling shareholder of the Company and therefore is a connected person of the Company. AVIC has direct and indirect equity interest of 26.88% in AVIC Avionics, which is a subsidiary of the Company held as to 39.43% by the Company and is consolidated in the audited accounts of the Company. AVIC Avionics is therefore a connected subsidiary of the Company under the Hong Kong Listing Rules.

The Group completed the acquisition of 100% equity interests in AVIC Helicopter in December 2020. Before the acquisition, AVIC has indirect equity interest of 26.93% in AVICOPTER, which is a subsidiary of the Company held as to 34.77% by the Company and is consolidated in the audited accounts of the Company. AVICOPTER is therefore a connected subsidiary of the Company under the Hong Kong Listing Rules. Upon completion of the acquisition, AVIC Helicopter and Harbin Aircraft have become the wholly-owned subsidiaries of the Company, the equity interests held by the Company in AVICOPTER have increased from 34.77% to 50.80%, and the equity interests held by AVIC (excluding the equity interests indirectly held by AVIC through the Company) have decreased to less than 10%, therefore, AVICOPTER is no longer a connected subsidiary of the Company. The Group also entered into continuing connected transactions with AVIC Finance, which is a subsidiary of AVIC and therefore connected person of the Company.

With AVIC

During the year 2020, the Group carried out the following continuing connected transactions with AVIC Group pursuant to the four continuing connected transaction agreements entered into between the Company and AVIC:

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

The Existing Mutual Supply Agreement expired on 31 December 2020, and therefore, on 21 August 2020, the Company entered into a new mutual supply of products agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group and the Group agreed to mutually provide manufacturing raw materials, parts and components, finished and semi-finished aviation products (including but not limited to aviation entire aircraft and aviation parts and components) required by aviation products used in their respective production and business operation activities and their related sale and ancillary services for a term of three years ending 31 December 2023.

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

The Existing Mutual Provision Agreement expired on 31 December 2020, and therefore, on 21 August 2020, the Company entered into a new mutual provision of services agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group agreed to provide certain services relating to the production and business operations of the Group for a term of three years ending 31 December 2023 and the Group also agreed to provide certain services relating to the production and business operations of AVIC Group including but not limited to engineering technologies, engineering general contracting and equipment general contracting services for a term of three years ending 31 December 2023.

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

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

The Existing Land Use Rights and Properties Leasing Agreement expired on 31 December 2020, and therefore, on 21 August 2020, the Company entered into a new land use rights and properties leasing agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group and the Group agreed to mutually lease certain land and properties for manufacturing and operation for a term of three years ending 31 December 2023.

With AVIC Avionics and AVICOPTER

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

The Existing Products and Services Mutual Supply and Guarantee Agreement expired on 31 December 2020. Since AVICOPTER is no longer a connected subsidiary of the Company after the completion of acquisition of 100% equity interests in AVIC Helicopter, the transactions between the Group and AVICOPTER no longer constitute continuing connected transactions of the Company. However, as the Group continues to have the need to procure from and supply to AVIC Avionics Group various products and services in its business operation and give the guarantee to AVIC Avionics Group, the Company entered into a new Mutual Product and Service Supply and Guarantee Agreement with AVIC Avionics Group on 21 August 2020 to continue certain continuing connected transactions. Pursuant to which, the Group agreed to provide aviation parts and components, raw materials, and relevant production, labour and guarantee(s) services, as well as engineering technology, engineering general contracting, equipment general contracting services, etc. to AVIC Avionics Group for a term of three years ending 31 December 2023; and AVIC Avionics Group agreed to provide aviation parts and components and related ancillary services, engineering and equipment sub-contracting services to the Group for a term of three years ending 31 December 2023.

With AVIC Finance

6 On 30 August 2017, the Company entered into the financial services framework agreement (the "**Existing Financial Services Framework Agreement**") with AVIC Finance, pursuant to which, AVIC Finance agreed to provide the Group with non-exclusive deposit services, loan services, settlement services, guarantee services and other financial services subject to the terms and conditions provided therein for a term of three years ending 31 December 2020. On 21 August 2020, AVIC Finance and the Company entered into the Existing Financial Services (Supplemental) Framework Agreement to increase the deposit services cap from RMB11,000 million to RMB23,000 million. Save as the above revision of the cap, the terms of the Existing Financial Services Framework Agreement remain the same.

The Existing Financial Services Framework Agreement expired on 31 December 2020, and therefore, on 21 August 2020, the Company entered into a new financial services framework agreement with AVIC Finance, pursuant to which, AVIC Finance has agreed to provide the Group with the deposit services, the loan services, the settlement services, the guarantee services, the AVIC finance factoring services and the other financial services (i.e. such other financial services (including but not limited to bill acceptance and discount services) as approved by the CBIRC) for a term of three years ending 31 December 2023.

Financial Service Framework Agreement with AVIC Trust

7 On 10 July 2018, the Company entered into the Financial Service Framework Agreement with AVIC Trust, pursuant to which, the Group will, from time to time, utilise the financial services provided by AVIC Trust as and when the Group deems necessary for a term of three years ending 9 July 2021. Such services include the tailored financial products offered by AVIC Trust to the Group which will enhance the Group's capital operation efficiency. After the entering into of the Financial Service Framework Agreement, the Group proposed to purchase assembled fund trust plan products issued by AVIC Trust as the trustee pursuant to the individual purchase agreements to be entered into by the Group and AVIC Trust. On 11 December 2020, the Company entered into the Supplemental Agreement with AVIC Trust to increase the original cap (being RMB800 million) to the revised cap (being RMB1,150 million) for the financial products to be purchased by the Group for the term commencing from the effective date of the Supplemental Agreement to 9 July 2021. AVIC is the controlling Shareholder of the Company and AVIC Trust is a subsidiary of AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, AVIC Trust is a connected person of the Company and the entering into of the Financial Service Framework Agreement and Supplemental Agreement with AVIC Trust constitutes continuing connected transactions of the Company.

Framework Agreement entered by AVIC CAPDI, and AVIC Renewable Energy

8 On 23 August 2019, AVIC CAPDI, a wholly-owned subsidiary of the Company, entered into the Framework Agreement with AVIC Renewable Energy, pursuant to which, AVIC CAPDI agreed to grant the Entrusted Loans (each for a term of not more than one year) to AVIC Renewable Energy through AVIC Finance for the three years ending 31 December 2022. The daily balance of the outstanding entrusted loans under the Framework Agreement shall not be more than RMB300 million during the three years ending 31 December 2022. Pursuant to the Framework Agreement, AVIC CAPDI also agreed to provide Guarantees to AVIC Renewable Energy for the economic businesses with banks and financial institutions for the three years ending 31 December 2022. The daily balance of the outstanding guarantees under the Framework Agreement shall not be more than RMB300 million during the three years ending 31 December 2022. As at the date of the Framework Agreement, AVIC is the controlling Shareholder of the Company, and AVIC Renewable Energy is a subsidiary of the Company, which is owned as to over 10% by AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, AVIC Renewable Energy is a connected person of the Company and the grant of the Entrusted Loans and Guarantees under the Framework Agreement by AVIC CAPDI to AVIC Renewable Energy constitutes continuing connected transactions of the Company.

Entrusted Loan Framework Agreement entered by AVIC CAPDI and AVIC Construction and Development Technology

9 On 18 March 2020, AVIC CAPDI, a wholly-owned subsidiary of the Company, entered into the Framework 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 CAPDI agreed to grant the Entrusted Loans (each for a term of not more than one year) to AVIC Institute of Geotechnical Engineering Co., Ltd.* (中航勘察設計研究院有限公司) ("**AVIC Geotechnical**") and China Aviation Changsha Design and Research Co., Ltd.* (中航長沙設計研究院有限公司) ("**AVIC Changsha Design**"), both being subsidiaries of AVIC Construction and Development Technology, through AVIC Finance for the three years ending 31 December 2022. The daily balance of the outstanding entrusted loans under the Framework Agreement shall not be more than RMB200 million during the three years ending 31 December 2022. Pursuant to the Framework Agreement, AVIC CAPDI also agreed to provide Guarantees to AVIC Geotechnical and AVIC Changsha Design, both being subsidiaries of AVIC Construction and Development Technology, for the economic businesses with banks and financial institutions for the three years ending 31 December 2022. The daily balance of the outstanding guarantees under the Framework Agreement shall not be more than RMB200 million during the three years ending 31 December 2022. AVIC is the controlling Shareholder of the Company, and AVIC Construction and Development Technology, AVIC Geotechnical and AVIC Changsha Design are subsidiaries of AVIC. Therefore, pursuant to Chapter 14A ofthe Hong Kong Listing Rules, AVIC Construction and Development Technology, AVIC Geotechnical and AVIC Changsha Design are connected persons of theCompany and the grant of the Entrusted Loans and Guarantees under the Framework Agreement by AVIC CAPDI to AVIC Geotechnical and AVIC Changsha Design constitutes continuing connected transactions of the Company.

For details of the aforementioned continuing connected transactions, please refer to the announcements of the Company dated 30 August 2017, 10 July 2018, 23 August 2019, 18 March 2020, 21 August 2020 and 21 December 2020 and the circular dated 16 November 2017 and 10 November 2020.

The annual caps of the year 2020 or the continuing connected transactions and the actual transaction amounts incurred by the Group in 2020 are set out below. For the year ended 31 December 2020, such continuing connected transactions of the Group were calculated on a consolidated basis as follows:

		For the year 2020	
		Actual Amount (RMB million)	Annual Cap (RMB million)
1	Mutual Supply of Products Agreement		
	(a) Annual expenditure of the Group	9,414	26,000
	(b) Annual revenue of the Group	27,783	53,900
2	Mutual Provision of Services Agreement		
	(a) Annual expenditure of the Group	374	3,800
	(b) Annual revenue of the Group	2,235	12,000
3	Land Use Rights and Properties Leasing Agreement		
	(a) Annual expenditure of the Group	19	74
	(b) Annual revenue of the Group	17	28
4	Trademarks and Technology Cooperation Framework Agreement		
	(a) Annual expenditure of the Group	260	1,000
	(b) Annual revenue of the Group	337	430
5	Products and Services Mutual Supply and Guarantee Agreement		
	(a) Annual expenditure of the Group	766	2,100
	(b) Annual revenue of the Group	807	3,200

	Maximum daily outstanding balance of deposit (RMB million)	Cap for the maximum daily outstanding balance of deposit (RMB million)
6 Financial Services Framework Agreement with AVIC Finance		
(a) Maximum daily outstanding balance of deposits (including accrued interests) placed by the Group with AVIC Finance	16,578	23,000

	Actual Amount (RMB million)	Annual Cap (RMB million)
(b) Other financial services provided by AVIC Finance to the Group	670	4,000

	Maximum daily outstanding balance (RMB million)	Cap for the maximum daily outstanding balance (RMB million)
7 Financial Services Framework Agreement with AVIC Trust		
The daily maximum balance of the Group's wealth management products at AVIC Trust	1,100	1,150
8 Entrusted Loan Framework Agreement with AVIC Renewable Energy Investment		
(a) The daily maximum entrusted loan balance of the Group (including interest)	–	300
(b) The daily maximum guarantee provided by the Group	9	300
9 Entrusted Loan Framework Agreement with AVIC Construction and Development (Beijing) Technology Co., Ltd		
(a) The daily maximum entrusted loan balance of the Group (including interest)	29	200
(b) The daily maximum guarantee provided by the Group	–	200

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

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

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

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

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

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

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

(a) the transactions were approved by the Board;

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

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

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

According to the Hong Kong Listing Rules, both the above transactions and part of the related party transactions mentioned in note 39 to the financial statements also constituted continuing connected transactions as defined under Chapter 14A of the Hong Kong Listing Rules. Such transactions were in compliance with the disclosure requirements of Chapter 14A of the Hong Kong Listing Rules.

(b) Other continuing connected transaction agreement entered into by the Company in 2020

Finance Lease and Factoring Framework Agreement entered with AVIC Lease

On 21 August 2020, the Company entered into the Finance Lease and Factoring Framework Agreement with AVIC Lease, pursuant to which, AVIC Lease has agreed to provide the Group with the Finance Lease Services by itself and provide the Group with the AVIC lease factoring services through the AVIC Lease Factoring Subsidiary for a term of three years commencing ending 21 December 2023.

As to the finance lease services under the Finance Lease and Factoring Framework Agreement, the maximum outstanding balance payable the Group to AVIC Lease (inclusive of the outstanding principal amount and interest and other expenses deducting the deposit) in relation to the Finance Lease Services under the Finance Lease and Factoring Framework Agreement for each of the three years ending 31 December 2023 will be capped at RMB3 billion. However, for the purpose of the Hong Kong Listing Rules, the direct lease service under the Finance Lease Services involves "acquisition" of the right-of-use assets, while the sale and leaseback service under the Finance Lease Services involves "disposal". As such, the caps for each of the direct lease service and the sale and leaseback service under the Finance Lease Servicesshall be no more than RMB2 billion for each of the three years ending 31 December 2023.

As to the AVIC lease factoring services under the Finance Lease and Factoring Framework Agreement, the balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC lease factoring services under the Finance Lease and Factoring Framework Agreement shall not exceed RMB1.5 billion for each of the three years ending 31 December 2023. As at the date of entering into this agreement, AVIC Lease is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules, and therfore, the finance lease services provided to the Group and the AVIC lease factoring services provided to the Group through the AVIC Lease Factoring Subsidiary constitute continuing connected transactions of the Company. For details, please refer to the announcement of the Company dated 21 August 2020 and the circular of the Company dated 10 November 2020.

One-Off Connected Transactions

1. On 30 January 2019, AviChina Hong Kong, AVICT Global Holdings Limited* (航信環球控股有限公司) ("**AVICT Global**") and AVICT Dragon Holdings Limited* (航龍控股有限公司) ("**AVICT Dragon Holdings**") entered into the Loan Agreement, pursuant to which AviChina Hong Kong agreed to grant the loan with an amount of no more than HK$260 million to AVICT Global for a term of twelve months, and AVICT Dragon Holdings agreed to grant the debt transfer right to AviChina Hong Kong in connection with the loan. On 22 January 2020, AviChina Hong Kong, AVICT Global and AVICT Dragon Holdings entered into the Supplemental Agreement, pursuant to which the parties agreed to extend the repayment date of the loan under the Loan Agreement dated 30 January 2019 from 30 January 2020 to 30 January 2021, with the principal amount and interest rate remaining unchanged for the above extension period. As at the date of the Supplemental Agreement, AVIC is the controlling shareholder of the Company. Both AVICT Global and AVICT Dragon Holdings are beneficially controlled by AVIC Trust, a subsidiary of AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVICT Global and AVICT Dragon Holdings is a connected person of the Company. Each of the grant of the loan by AviChina Hong Kong to AVICT Global and the grant of the debt transfer right by AVICT Dragon Holdings to AviChina Hong Kong contemplated under the Loan Agreement (as amended by the Supplemental Agreement) constitutes a connected transaction of the Company. For details, please refer to the announcements of the Company dated 30 January 2019 and 22 January 2020.

2. On 10 March 2020, China Avionicsentered into Shaanxi Huayan Capital Contribution Agreement with Shaanxi Huayan and AVIC Zhonghang Electric Measuring Instruments Co., Ltd.* (中航電測儀器股份有限公司) ("**AVIC Electric Measuring**"), pursuant to which AVIC Avionics and AVIC Electric Measuring as the existing shareholders participated in the capital contributions in Shaanxi Huayan in a total amount of approximately RMB73.64 million on a pro-rata basis. As at the date of the Capital Contribution Agreement, Shaanxi Huayan is owned 80% by AVIC Avionics and 20% by AVIC Electric Measuring, respectively. Accordingly, AVIC Avionics contributed an amount of approximately RMB58.91 million in cash in Shaanxi Huayan. On 10 March 2020, AVIC Avionics entered into AVIC Kaitian Capital Contribution Agreement with AVIC Kaitian, Chengdu Aircraft Industry (Group) Co., Ltd.* (成都飛機工業(集團)有限責任公司) ("**Chengdu Aircraft Industry**"), AVIC Investment Holding and Chengdu Kaidi Aircraft Design Co., Ltd.* (成都凱迪飛行器設計有限責任公司) ("**Chengdu Kaidi**"), pursuant to which AVIC Avionics, Chengdu Aircraft Industry, AVIC Investment Holding and Chengdu Kaidi as the existing shareholders participated in the capital contributions in AVIC Kaitian in a total amount of approximately RMB50.55 million on a pro-rata basis. As at the date of the Capital Contribution Agreement, AVIC Kaitian is owned 88.3% by AVIC Avionics, 1.56% by Chengdu Aircraft Industry, 5.07% by AVIC Investment Holding and 5.07% by Chengdu Kaidi. Accordingly, AVIC Avionics contributed an amount of approximately RMB44.64 million in cash in AVIC Kaitian. As at the date of the Capital Contribution Agreements, AVIC Avionics is a non-wholly-owned subsidiary of the Company. Each of Shaanxi Huayan and AVIC Kaitian is a connected subsidiary of AVIC Avionics by virtue of being owned as to over 10% by AVIC indirectly as AVIC Electric Measuring, Chengdu Aircraft Industry, AVIC Investment Holding and Chengdu Kaidi are subsidiaries of AVIC. Therefore, the capital contribution by AVIC Avionics in each of Shaanxi Huayan and AVIC Kaitian 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 March 2020.

3. On 28 April 2020, Tianjin Aviation entered into the Joint Venture Agreement with Tianjin Shunying Investment Centre (Limited Partnership)* (天津順盈投資中心(有限合夥)) ("**Tianjin Shunying Investment**") and Tianjin Jindian Feiyue Enterprise Management Consulting Partnership (Limited Partnership)* (天津津電飛悦企業管理諮詢合夥企業(有限合夥)) ("**Tianjin Jindian Feiyue**") in relation to the proposed formation of AVIC Surface Treatment Technology (Tianjin) Co., Ltd.* (中航表面處理技術 (天津)有限公司) (subject to the final approval by the industrial and commercial administrative authorities) ("**AVIC Surface**"). Pursuant to the Joint Venture Agreement, Tianjin Aviation agreed to make a capital contribution of RMB27.20 million in cash, representing 34% of the total capital contribution of AVIC Surface. As at the date of the Joint Venture Agreement, Tianjin Aviation is a wholly-owned subsidiary of the Company and AVIC is the controlling shareholder of the Company. Therefore, Tianjin Shunying Investment is a connected person of the Company by virtue of AVIC's partnership interest and management power in Tianjin Shunying Investment pursuant to the Hong Kong Listing Rules. The formation of AVIC Surface constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. Given that Tianjin Aviation, at the request of Tianjin Shunying Investment, may purchase the initial 17% equity interest held by Tianjin Shunying Investment in AVIC Surface under the Joint Venture Agreement, it constitutes a grant of option to a connected person under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 28 April 2020.

4. On 22 October 2020, AviChina Hong Kong, AVICT Global and AVICT Dragon Holdings entered into the Supplemental Agreement, pursuant to which the parties agreed to further extend the repayment date of the Loan from 22 October 2020 to 22 October 2021, with the principal amount remaining unchanged and a fixed interest rate of 7% per annum for the above extension period. As at the date of the Supplemental Agreement, AVIC is the controlling shareholder of the Company. Both AVICT Global and AVICT Dragon Holdings are beneficially controlled by AVIC Trust, a subsidiary of AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVICT Global and AVICT Dragon Holdings is a connected person of the Company. Each of the grant of the Loan by AviChina Hong Kong to AVICT Global and the grant of the Debt Transfer Right by AVICT Dragon Holdings to AviChina Hong Kong contemplated under the Loan Agreement (as further amended by the Supplemental Agreement) constitutes a connected transaction of the Company. For details, please refer to the announcements of the Company dated 19 October 2018, 22 October 2019 and 22 October 2020.

5. On 29 October 2020, JONHON Optronic entered into: (1) the Capital Increase Agreement with the Beijing AviChina Phase I Aviation Industrial Investment Fund (Limited Partnership)* (北京中航一期航空工業產業投資基金(有限合夥)) ("**Fund**"), Shenyang Xinghua, Huayi Technology Co., Ltd.* (華億科技有限公司) ("**Huayi Technology**") and Shenyang Xinghua Huayi Rail Transportation Electric Appliance Co., Ltd.* (瀋陽興華華億軌道交通電器有限公司) ("**Xinghua Huayi**"), pursuant to which, JONHON Optronic, the Fund and the Employees' Shareholding Platform have agreed to make a capital contribution of RMB69.69 million, RMB100 million and RMB14.4704 million to Xinghua Huayi, respectively; and (2) the Shareholders Agreement with the Fund, Shenyang Xinghua, Huayi Technology and Xinghua Huayi, pursuant to which, the parties have agreed on the corporate governance and shareholder's rights of Xinghua Huayi. As at the date of the Increase Agreement and the Shareholders Agreement, JONHON Optronic is a subsidiary of the Company and AVIC is the controlling shareholder of the Company. Each of Shenyang Xinghua and Xinghua Huayi is a subsidiary of JONHON Optronic and a connected subsidiary of the Company by virtue of being owned as to over 10% directly and indirectly by AVIC. The Fund is also a connected person of the Company by virtue of AVIC's partnership interest and management power in the Fund. The capital contributions by the Investors in Xinghua Huayi have led to a dilution of equity interest in Xinghua Huayi by the Company, which constitutes a deemed disposal and a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. In addition, the transfer of Disposed Assets by JONHON Optronic to Xinghua Huayi also constitutes a connected transaction of the Company. Given that JONHON Optronic grants an option to the Fund under the Shareholders Agreement, pursuant to which the Fund is entitled to procure JONHON Optronic to repurchase the equity interest in Xinghua Huayi it holds, it also constitutes a grant of option to a connected person under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 29 October 2020.

6. On 18 December 2020, the Company entered into the Capital Reduction Agreement with AVIC Air Traffic Management System Equipment Co., Ltd.* (中航空管系統裝備有限公司) ("**AVIC ATM System**"), Chinese Aeronautical Radio Electronics Research Institute* (中國航空無線電電子研究所) ("**Electronics Research Institute**"), AVIC Airborne Systems, Aviclub Holding Co., Ltd.* (愛飛客控股有限責任公司) ("Aviclub Holding"), CNAC (Shanghai) Aeronautical Radio Electronics Technology Co., Ltd.* (中航(上海)航空無綫電電子技術有限公司) ("**CNAC Electronics Technology**") and Shanghai Hanggong Enterprise Management Centre (Limited Partnership)* (上海航恭企業管理中心(有限合夥)) ("**Hanggong Management**") and Other Shareholders of AVIC ATM System. Pursuant to the Capital Reduction Agreement, the Shareholders of AVIC ATM System agreed to reduce their capital contribution in AVIC ATM System by 43.38% in proportion to their respective equity interests by way of cash. Upon the completion of the Capital Reduction, the total capital contribution agreed by the Company reduced from RMB198,000,000 to RMB112,115,400, and the equity interest in AVIC ATM System held by the Company remained unchanged, representing 33% of the total capital contribution of AVIC ATM System. As at the date of the Capital Reduction Agreement, AVIC is the controlling shareholder of the Company. AVIC ATM System is a subsidiary of Electronics Research Institute, which in turn is a subsidiary institute of AVIC. AVIC Airborne Systems, Aviclub Holding and CNAC Electronics Technology are subsidiaries of AVIC. Therefore, AVIC ATM System, Electronics Research Institute, AVIC Airborne Systems, Aviclub Holding and CNAC Electronics Technology are connected persons of the Company. The entering into of the Capital Reduction Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcements of the Company dated 15 March 2018 and 18 December 2020.

For other one-off connected transactions of the Group, please refer to paragraphs 1 under the subsection headed "Material Acquisitions and Disposal of Subsidiaries and Associated Companies During the Reporting Period" of this session from page 35 to page 37.

SIGNIFICANT EVENTS DURING THE REPORTING YEAR

On 30 October 2020, the Company published an inside information announcement that the Company was considering and exploring the possibility of issuance of ordinary shares of the Company to be traded in Renminbi. As at the date of this report, the Company has not formulated the offering proposal of the Proposed A Share Offering, and has not applied to any of the relevant regulatory authorities in the People's Republic of China for approval of the Proposed A Share Offering. The Company will perform its information disclosure obligations in accordance with the relevant requirements of the Listing Rules in due course. For details, please refer to the announcement of the Company dated 30 October 2020.

CORPORATE GOVERNANCE

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Board, throughout the year ended 31 December 2020 and up to the date of this report, the Company maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Hong Kong Listing Rules.

AUDITORS

There is no change of the auditor of the Company in the past three years.

According to the Financial Reporting Council Ordinance (Cap 588) of Hong Kong effective on 1 October 2019, SHINEWING (HK) CPA Limited engaged by the Company is a registered international auditor, and ShineWing Certified Public Accountant LLP is a recognised PRC auditor.

The financial statements for the year 2020 have been audited by SHINEWING (HK) CPA Limited.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Due to other work commitment, on 16 October 2020, Mr. Chen Yuanxian applied to the Board for resignation as the Director of the Company, the chairman of the Board as well as all other positions in each of the special committees of the Board. The resignation took effect on 16 October 2020, and the term of the Director ended when the extraordinary general meeting held on 11 December 2020 considered and approved the resolution in relation to the appointment of Mr. Zhao Hongwei as an executive Director of the Company. At the Board meeting held on 16 October 2020, Mr. Wang Xuejun was elected as the chairman of the sixth session of the Board as well as the chairman of the Nomination Committee and the Development and Strategy Committee of the Board.

Due to other work commitment, Mr. Wang Xuejun applied to the Board for resignation as the general manager of the Company. At the Board meeting held on 16 October 2020, the Board considered and approved the resolution in relation to the appointment of Mr. Zhao Hongwei as the general manager of the Company, with the term of office commencing from the date of approval of such resolution to the date on which the Board removes his duty. At the extraordinary general meeting held on 11 December 2020, the extraordinary general meeting considered and approved the resolution in relation to the appointment of Mr. Zhao Hongwei as an executive Director of the Company with a term of office commencing from the approval at the extraordinary general meeting until the date on which the term of the sixth session of the Board will expire.

At the Board meeting held on 13 July 2020, the Board considered and approved the resolution in relation to the appointment of Mr. Liu Wanming as the deputy general manager of the Company, with the term of office commencing from the date of approval of such resolution to the date on which the Board removes his duty.

Due to other work commitment, Mr. Gan Liwei ceased to be the Board Secretary of the Company. At the Board meeting held on 21 August 2020, the Board considered and approved the resolution in relation to the appointment of Mr. Xu Bin as the Board Secretary of the Company, with the term of office commencing from the date of approval of such resolution to the date on which the Board removes his duty.

Due to other work adjustment, Mr. Shi Shiming applied for resignation as the employee representative supervisor of the Company. At the general meeting of employees held on 21 December 2020, Mr. Zhao Zhuo has been elected by the general meeting of employees of the Company as the employee representative supervisor of the sixth session of the Supervisory Committee with a term of office to the date on which the term of the sixth session of the Supervisory Committee will expire.

BOARD REPORT

As of the date of this announcement, the sixth session of the Board consists of the following members: Mr. Wang Xuejun (chairman, executive director), Mr. Zhao Hongwei (executive director), Mr. Yan Lingxi (non-executive director), Mr. Lian Dawei (non-executive director), Mr. Xu Gang (non-executive director) and Mr. Liu Renhuai (independent non-executive director), Mr. Liu Weiwu (independent non-executive director) and Mr. Wang Jianxin (independent non-executive director).

The sixth session of the Supervisory Board is composed of the following members: Mr. Zheng Qiang (Shareholder Representative Supervisor), Mr. Guo Guangxin (Shareholder Representative Supervisor) and Mr. Zhao Zhuo (Employee Representative Supervisor)

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

As at 31 December 2020, none of the Directors or Supervisors or senior management had any interest in any businesses which may constitute competition, directly or indirectly, with the Company.

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

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

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

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

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

As at 31 December 2020, based on information provided by directors and supervisors, save as disclosed below, none of the Directors, Supervisors or Chief Executive of the Company had interests or held short positions in the shares, underlying shares and/or debentures of the Company and/or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers".

Name	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Directors					
Yan Lingxi	H Share	Beneficial owner	267,740	0.003%	Long position
Supervisors					
Zheng Qiang	H Share	Beneficial owner	239,687	0.003%	Long position
		Interest of spouse	966	0.000%	Long position
Zhao Zhuo	H Share	Beneficial owner	69,110	0.001%	Long position

Note: Based on the relevant disclosure of interests filed on website of the Stock Exchange, as at 31 December 2020, Mr. Zhao Hongwei held 721,500 A shares in AVIC Capital, representing approximately 0.008% of the total issued share capital of AVIC Capital, and 1,500 A shares in Shennan Circuits Co Ltd.d (深南電路股份有限公司) ("**Shennan Circuits**"), representing approximately 0.0003% of the total issued share capital of Shenan Circuits. Mr. Zheng Qiang held 33,500 A shares in AVIC Capital, representing approximately 0.0003% of the total issued share capital of AVIC Capital, and his spouse held 2,500 A shares in Shennan Circuits, representing approximately0.0005% of the total issued share capital of Shennan Circuits. AVIC Capital and Shennan Circuits are subsidiaries of AVIC, and therefore are associated corporations (within the meaning of Part XV of the SFO) of the Company.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2020, none of the Directors or Supervisors was entitled to acquiring shares or debentures of the Company or its associated corporations (within the meaning of the SFO).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existing during the year of 2020.

COMPLIANCE WITH LAWS AND REGULATIONS

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

The Group has implemented internal control measures to ensure its compliance with such laws and regulations. During the year ended 31 December 2020, within the knowledge of the Directors, the Group does not have any violation of relevant laws and regulations in the PRC which gives rise to significant impact to the Group's development, performance and business.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

PRINCIPAL RISKS AND UNCERTAINTIES

For details of the financial risks of the Group, please refer to Note 43 of the financial statements in this annual report. For details of the exchange rate risks of the Group, please refer to the section headed "Management Discussion and Analysis" in this annual report. Save as disclosed above, a number of other factors, including international policies, domestic and overseas economic conditions, may affect the result and business operations of the Group.

PERMITTED INDEMNITY PROVISION

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

Report of the Supervisory Committee

To all shareholders,

During the year of 2020, the Supervisory Committee overcome the impact of Pandemic and strictly complied with the Company Law of the PRC, the Articles of Association and the Procedural Rules for Meetings of the Supervisory Committee and duly adhered to the principles of honesty and integrity in performing the supervisory duties and exercising the rights conferred on it by the Articles of Association, and also in good faith safeguarded the shareholders' interests in a diligent, pragmatic and serious manner.

In 2020, the Supervisory Committee convened three meetings, at which nine resolutions were considered and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2019 annual report, 2020 interim report, and the profits distribution plans for 2019 and the first six months of 2020. The Supervisory Committee also attended the general meetings and the Board meetings held in 2020 to monitor the validity of procedures for the convening of and resolutions of the general meetings and the Board meetings. Through convening Supervisory Committee meetings and attending the general meetings and the Board meetings, the Supervisory Committee performed its duties of supervising the major operating activities of the Company, as well as the performance of Directors and senior management officers in discharging their duties, and made suggestions to the Board. At the same time, the Company revised the Articles of Association, Authorization System for Legal Person, Working Guidelines for the Management, the Rules of Procedure of the Board, and the Rules of Procedures of the Supervisory Committee in 2020, perfecting the corporate governance related systems, and making the corporate governance more standardized and more efficient.

The Supervisors attended two meetings of the Audit Committee for the year 2020 and heard the report of the auditors of the Company, and communicated with the independent non-executive Directors and auditors in respect of the Company's major operating matters to acquire overall financial knowledge of the Company. Through the communication and discussion with the senior management of the Company, the Supervisory Committee considered the financial report submitted to the general meeting had objectively and fairly reflected the financial position and operating results of the Company and the accounts of the Company has standard specification, clear record and compete figures.

In addition, the Supervisory Committee had reviewed the Report of the Board which the Board submitted to the general meeting, and considered that the report had fairly reflected the current position of the Company. In 2020, the Board and the senior management of the Company had duly performed various duties and made their best endeavors to make important contributions to the development of the Company.

In 2021, the Supervisory Committee will continue to supervise on the operation of the risk control system of the Company, act in a diligent manner, and give full play to its supervisory roles in respect of the operation and management of the Company, financial position of the Company and the performance of the Directors and senior management of the Company. The Supervisory Committee will persistently strengthen the self-construction of the Supervisory Committee, to better safeguard the Company's and its shareholders' interests and to promote the Company to develop in a healthy and sustainable manner.

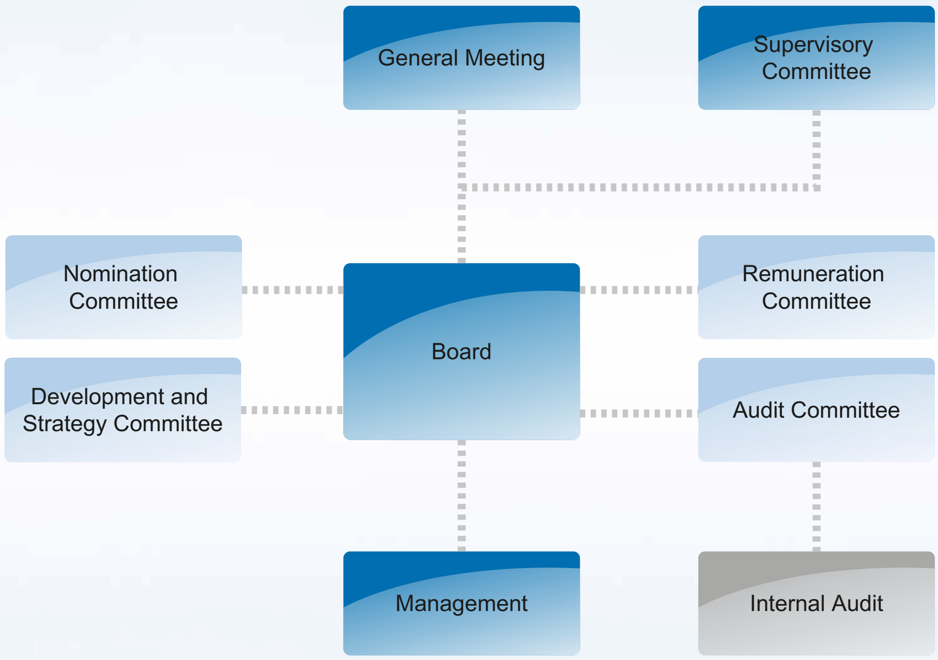
Chairman of the Supervisory Committee
Zheng Qiang

Beijing, 30 March 2021

Corporate Governance Report

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

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



BUSINESS MODEL AND LONG TERM STRATEGY

The Company mainly operates through its subsidiaries. The Company will give full play to its advantages, actively develop aviation business and perfect the aviation industry chain. The details of the business and financial review of the Group for the year 2020 are set out in the section headed "Management Discussion and Analysis" of this annual report.

CORPORATE GOVERNANCE POLICY

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

– Corporate governance and related suggestions: In light of moderate growth of global economy and complex and sensitive international political situation in 2020, the Company discussed risks and risk management at Board meetings and the meetings of the relevant specialized committees. The Board conducted continuous assessment on potential influence of ever-changing external environment and amendments to national laws and regulations and regulatory rules on the business of the Company.

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

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

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

CORPORATE GOVERNANCE CODE

During the reporting period, the Company strictly complied with various applicable laws, rules and regulations as well as the Articles of Association to standardize its operation. The Board reviewed the corporate governance practices adopted by the Company for the year ended 31 December 2020 and was of the view that the Company complied with the principles and code provisions set out in the Corporate Governance Code under the Hong Kong Listing Rules.

THE BOARD

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

DIRECTORS

As at the date of this report, the Board comprises eight Directors, including two executive Directors, namely, Mr. Wang Xuejun (Chairman), Mr. Zhao Hongwei (General Manager), three non-executive Directors, namely Mr. Yan Lingxi, Mr. Lian Dawei, and Mr. Xu Gang, and three independent non-executive Directors, namely, Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin. The Directors have comprehensive industrial skills, knowledge and experience. With extensive professional knowledge and experience, the independent non-executive Directors have assumed the supervisory and balancing roles and they are capable to make judgments independently and objectively in order to protect the interests of the Company and its shareholders as a whole, which complies with the guidelines on the independence of independent non-executive Directors as set out in Rule 3.13 of the Hong Kong Listing Rules. In addition, the Company had received a written confirmation from each independent non-executive Director on their independence. Based on such confirmation and the relevant information available to the Board, the Company believes that each independent non-executive Director remains independent.

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

Each Director (including any non-executive Director) holds office for a period of three years, and is eligible for re-election upon expiration of the term of office. A list of Directors, their respective profiles and roles in the Board are set out on pages 22 to 26 of this annual report. Relevant information is also published on the website of the Company. There is no relationship (including financial, business, family or other material or relevant relationships) among members of the Board.

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

RESPONSIBILITIES OF THE BOARD

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

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

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

RESPONSIBILITIES OF THE MANAGEMENT

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

CHAIRMAN AND GENERAL MANAGER

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

DIRECTORS TRAINING

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

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

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

In addition, the Directors also proactively studied and learnt knowledge on corporate governance through reading relevant materials in order to consolidate their development in their respective specialties. The Directors of the Company also attended lectures on corporate governance, Hong Kong Listing Rules, etc. The trainings received by each Director during the reporting period were as follows:

	Training Scope		
Directors	Corporate Governance	Laws and Regulations	Business Management
Executive Directors			
Mr. Chen Yuanxian*	√	√	√
Mr. Wang Xuejun	√	√	√
Mr. Zhao Hongwei**	√	√	√
Non-executive Directors			
Mr. Yan Lingxi	√	√	√
Mr. Lian Dawei	√	√	√
Mr. Xu Gang	√	√	√
Independent Non-executive Directors			
Mr. Liu Renhuai	√	√	√
Mr. Liu Weiwu	√	√	√
Mr. Wang Jianxin	√	√	√

* Due to other work commitment, on 16 October 2020, Mr. Chen Yuanxian applied to the Board for resignation as the Director of the Company, the chairman of the Board as well as all other positions in each of the special committees of the Board.

** At the extraordinary general meeting held on 11 December 2020, Mr. Zhao Hongwei was appointed as an executive Director of the Company.

BOARD MEETINGS

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

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

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

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

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

The Board has established a Development and Strategy Committee, an Audit Committee, a Remuneration Committee and a Nomination Committee to ensure good corporate governance. Duties of these committees are set out in accordance with the principles of the Corporate Governance Code. Each committee reports directly to the Board. Minutes of committee meetings are kept by the Board Secretary. In 2020, the Company convened two meetings of the Audit Committee, three meetings of the Nomination Committee. The terms of reference of the Audit committee, the Remuneration Committee and the Nomination Committee are published on the websites of the Company and the Hong Kong Stock Exchange.

Seven meetings were held by the Board during 2020. The attendance record of every Director at the Board meetings in 2020 is set out below:

Directors	Times of meeting should attend	Times of attendance	Times of attendance by proxy
Executive Directors			
Mr. Chen Yuanxian*	6	6	0
Mr. Wang Xuejun	7	7	0
Mr. Zhao Hongwei**	1	1	0
Non-executive Directors			
Mr. Yan Lingxi	7	7	0
Mr. Lian Dawei	7	7	0
Mr. Xu Gang	7	7	0
Independent Non-executive Directors			
Mr. Liu Renhuai	7	7	0
Mr. Liu Weiwu	7	6	1
Mr. Wang Jianxin	7	7	0

* Due to other work commitment, on 16 October 2020, Mr. Chen Yuanxian applied to the Board for resignation as the Director of the Company, the chairman of the Board as well as all other positions in each of the special committees of the Board.

** At the extraordinary general meeting held on 11 December 2020, Mr. Zhao Hongwei was appointed as an executive Director of the Company.

In 2020, Directors who did not attend the Board meeting in person due to other business commitments all read the related meeting materials and appointed other Directors as proxy to present their opinions and exercise their voting rights on their behalf at the meeting.

DEVELOPMENT AND STRATEGY COMMITTEE

As at the date of the report, the Development and Strategy Committee of the Company comprises the Directors, namely Mr. Wang Xuejun, Mr. Yan Lingxi, and Mr. Xu Gang. Mr. Wang Xuejun is the chairman of the Development and Strategy Committee.

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

Members of the Development and Strategy Committee communicated with each other from time to time in 2020 on matters relating to the committee's development, the Company's future development strategies and international cooperation. No formal meeting was held by the committee during the reporting period.

REMUNERATION COMMITTEE

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

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

The Remuneration Committee is responsible for approving the emolument policies of the Directors, Supervisors and senior management staff and proposing to the Board amendments to the emolument policies and system. The Remuneration Committee will take into consideration factors such as work performance and experience of Directors and Supervisors when determining their remunerations and will report to the Board after each meeting. Members of the Remuneration Committee communicated with each other from time to time in 2020 on matters relating to the remuneration standard of new directors and new senior management and the remuneration standard of Directors of the sixth session of the Board, Supervisors of the sixth session of the supervisory committee and the session of senior management in 2020. No formal meeting was held by the committee during the reporting period.

For the year ended 31 December 2020, remunerations of senior management members by band are set out as follows:

Remuneration Band	Number
RMB600,000-800,000 (inclusive)	1
RMB800,000-1,000,000 (inclusive)	2
RMB1,500,000-1,700,000 (inclusive)	1

Details of remunerations of Directors and Supervisors for the year ended 31 December 2020 are set out in Note 8 to the financial statements.

AUDIT COMMITTEE

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

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

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

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

Mr. Wang Jianxin and Mr. Liu Weiwu have appropriate professional qualifications in accounting or related financial management expertise as required by the Hong Kong Listing Rules.

During 2020, the Audit Committee:

- reviewed the financial statements and the annual results announcement for the year ended 31 December 2019;

- reviewed the interim financial statements and relevant interim results announcement for the six months ended 30 June 2020;

- reviewed the Company's profit distribution plan for the year 2019 and the interim profit distribution plan for the year 2020;

- reviewed the proposal relating to the appointment of international and domestic auditors of the Company for the year 2020 and determination of their respective remunerations;

- reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2020, and regarded the systems being effective and sufficient;

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

– reviewed the reports on operating results of the Company for the year 2019 and the first half of 2020, the internal control report of the Company for the year 2019, and listened to the report from the external auditors on its audit work in relation to the year 2019 and on its review of 2020 interim report as well as its recommendations to the management of the Company.

The Audit Committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2020.

The Audit Committee held two meetings during 2020. The Audit Committee reviewed and evaluated the findings of the Auditor's Report issued by the external auditors, the accounting principles and standards applied by the Group and the risk management, internal control and the financial statements of the Company. The Audit Committee reported to the Board its scope of work, discussion results and recommendations after every meeting. The attendance record of the members of the committee is set out as follows:

Name of Director	Position	Times of meetings should attend	Times of attendance	Times of attendance by alternate director
Mr. Wang Jianxin	Chairman of the Audit Committee, Independent non-executive Director	2	2	0
Mr. Liu Renhuai	Independent non-executive Director	2	2	0
Mr. Liu Weiwu	Independent non-executive Director	2	2	0
Mr. Wang Xuejun	Executive Director	2	2	0

EXTERNAL AUDITORS

In 2020, the annual payment made by the Company to the Company's external auditors in relation to auditing services amounted to RMB2.80 million. Such payment had been approved by the Audit Committee, the Board and the general meeting. In addition, the payment made by the Company to the Company's external auditors in relation to auditing services for project amounted to RMB0.27 million. Saved for above, the Company's external auditors did not provide other non-auditing services to the Company and the Company did not make the payment in relation to non-auditing services.

The statement of the external auditors of the Company in relation to their reporting responsibilities on the consolidated financial statements is set out on pages 109 to 115 of this annual report.

NOMINATION COMMITTEE

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

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

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

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

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

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

The Nomination Committee held three meetings in 2020. The Nomination Committee discussed the composition and size of the board and professional committees, approved resolutions relating to change of Directors and resolutions relating to the adjustment of members of the senior management team of the Company. The attendance record of the Nomination Committee members at the meetings is as follows:

Name of Director	Position	Times of meetings should attend	Times of attendance	Times of attendance by alternate director
Mr. Chen Yuanxian*	Chairman of the Nomination Committee, executive Director	3	3	0
Mr. Wang Xuejun*	Chairman of the Nomination Committee, executive Director	0	0	0
Mr. Liu Renhuai	Independent non-executive Director	3	3	0
Mr. Liu Weiwu	Independent non-executive Director	3	3	0
Mr. Wang Jianxin	Independent non-executive Director	3	3	0

* On 16 October 2020, Mr. Chen Yuanxian applied to the Board for resignation as the member of the Nomination Committee of the Board, Mr. Wang Xuejun was elected as the chairman of the Nomination Committee of the Board.

COMPANY SECRETARY

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

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

INTERESTS HELD BY DIRECTORS AND SECURITIES TRANSACTIONS

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

Interests of the Company held by the Directors as at 31 December 2020 have been disclosed in the Report of the Board of this annual report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Hong Kong Listing Rules and the Shares Trading Management Rules as its own guidelines for securities transactions by Directors, Supervisors and employees of the Company. The Shares Trading Management Rules of the Company is stricter than the Model Code to a certain degree. All Directors and Supervisors have been provided with a copy of the Model Code and the Shares Trading Management Rules upon appointments. Prior to 60 days and 30 days before the announcement of the annual or interim results of the Company, respectively, written reminders of the restrictions on dealing in any securities or derivatives of the Company under the Hong Kong Listing Rules will be provided to the Directors and the Supervisors appropriately. All Directors and Supervisors of the Company have confirmed their compliance with the Model Code in 2020 upon specific enquiries with them.

Employees who is likely to possess unpublished inside information of the Group are also required to comply with the Model Code. The Company is not aware of any breach in this regard in 2020.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Directors are responsible for monitoring the preparation of the consolidated financial statements for every financial year and ensuring those consolidated financial statements present a true and fair view on the operating results, financial performance and cash flow of the Group in the relevant financial year. In preparing the consolidated financial statements for the year ended 31 December 2020, the Directors have:

– selected appropriate accounting policies and applied them consistently;

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

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

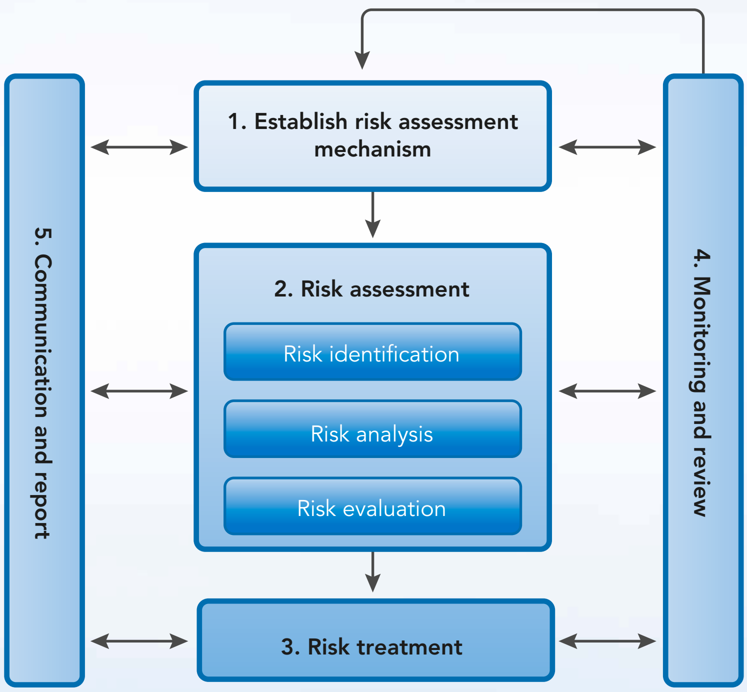
In accordance with the requirements of the Hong Kong Listing Rules, the Company has timely announced its annual and interim results within three and two months respectively after the end of the relevant financial periods.

INTERNAL CONTROL

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

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

The Group has embedded its risk management systems into the core operating practices of the business. In daily management, the Group formulate control strategies, and formulate specific strategies and management methods related to risk management and internal control requirements. In accordance with the relevant requirements of the Group, subsidiaries establish and improve their own risk management and internal control management systems, combined with external regulatory requirements and actual business conditions. Based on the results of risk assessment, the Group and all subsidiaries optimize business processes, improve business systems, and take necessary control measures to control the risks of business activities within an acceptable level. The respective subsidiaries of the Group review and assess the status of potential risks which may impact on their ability to achieve their business objectives, and determine the nature and extent of such risks they are willing to take in achieving their business objectives. The Group adopts the relevant risk management principles in China as its approach to manage its business and operational risks and monitor its internal control. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:



Notes:

1 Set up the risk assessment mechanism of the Group;

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

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

4 Each subsidiary monitors the risk mitigating measures;

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

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

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

In 2020, in accordance with the requirements of The Basic Standard for Enterprise Internal Control of the PRC and its supporting guidelines, in order to ensure the effectiveness of internal control design and operation, timely detect of defects in internal control, and continuously improve the ability to prevent and control risks in various business links, the major subsidiaries of the Company issued internal control evaluation reports after evaluating the effectiveness of their own internal control and appointed accounting firms to conduct independent audit on their internal control in 2020. During the reporting period, those companies established and effectively implemented the internal control of the businesses and items within the scope of the evaluation, achieving the objectives of internal control with no major defect identified. On this basis, and taking into account the comments on the internal control and the state of establishment of the internal control system of other subsidiaries and the risk management status of each subsidiary, the Company was responsible for internal control and audit evaluated the risk management and internal control of the Group as a whole and reported the evaluation conclusions to the Audit Committee and the Board. The Board reviewed through the Audit Committee the effectiveness of the risk management and internal control system of the Group for the year ended on 31 December 2020, including all the significant financial, operational and regulatory control and risk management functions, and was satisfied that such system was effective and sufficient. The Audit Committee also reviewed and was satisfied with the sufficiency of resources and the qualifications and experience of the employees for performing the Group's accounting and financial reporting functions, the adequacy of the employee training courses and the relevant budget. The Company also attaches high importance to continuously improve the Company's risk management and internal control system according to the business development model of the Company and the new requirements of laws and regulations, so as to adapt to new situations and new environment. However, due to the inherent limitations of the risk management and internal control system, the establishment of the Group's risk management and internal control system is for the purpose of managing potential risks rather than eliminating all the risks, which is impossible to achieve. Therefore, the internal control system can only provide a reasonable assurance, rather than an absolute assurance, for the Group to achieve its operational targets. Likewise, it is impossible for the internal control system to completely eliminate all material inaccurate statements made or all the losses caused to the Group.

SUPERVISORY COMMITTEE

The Supervisory Committee is accountable to the general meetings of the Company. The sixth session of the Supervisory Committee comprises two shareholder representative Supervisors (Mr. Zheng Qiang and Mr. Guo Guangxin) and one employee representative Supervisor (Mr. Zhao Zhuo). In 2020, the Supervisory Committee held three meetings and considered and approved nine resolutions. It supervised, on behalf of shareholders of the Company, the financial position of the Group, the legality and compliance of the performance of duties by the Directors and senior management of the Company, attended the Board meetings and general meetings and fulfilled its duties diligently.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

GENERAL MEETING

The general meeting is the supreme authority of the Company. It performs its functions according to laws and makes decisions on major issues in relation to the Company. The annual general meetings and extraordinary general meetings of the Company provide a channel for shareholders to communicate directly with the Board. In 2020, the Company convened three general meetings, at which eighteen resolutions in total were considered and approved. All Directors, Supervisors and members of the senior management of the Company endeavored to attend the general meetings. The following is the attendance record of the Directors:

Director	Time(s) of meeting(s) should attend	Times of attendance
Mr. Chen Yuanxian*	2	2
Mr. Wang Xuejun	3	3
Mr. Yan Lingxi	3	3
Mr. Lian Dawei	3	3
Mr. Xu Gang	3	3
Mr. Liu Renhuai	3	3
Mr. Liu Weiwu	3	2
Mr. Wang Jianxin	3	3
Mr. Zhao Hongwei**	1	1

* On 16 October 2020, Mr. Chen Yuanxian applied to the Board for resignation as an executive Director of the Company;

** On 11 December 2020, Mr. Zhao Hongwei was appointed as an executive Director of the Company.

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

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

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

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

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

ARTICLES OF ASSOCIATION

For the year 2020, to emphasize the importance of compliance with the PRC laws and regulations, the Company amended certain articles of the Articles of Association of the Company. For details of the revision of the Articles of Associations, please refer to announcements of the Company dated 16 October 2020, 11 December 2020 and 24 December 2020, and circulars of the Company dated 10 November 2020 and 30 December 2020.

The amended Articles of Association was uploaded on the website of the Company and the Hong Kong Stock Exchange on 15 January 2021.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

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

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

The Company also emphasized the mutual communication with its investors. A specific department of the Company is in charge of the communication with shareholders, investors and other participants of the capital market pursuant to the requirements of the Corporate Governance Code. During 2020, although the frequency of meetings and communications with investors has been reduced due to the impact of the Pandemic, the Company still actively used online communication methods such as video conferences and teleconferences to enable shareholders and investors to timely and fully understand the operations and development plans of the Company and respond the key concerns from investors. The annual general meetings and extraordinary general meetings also provide further platform and opportunities for shareholders to exchange opinions directly with members of the Board. The efforts of information disclosure and investor relations of the Company has been affirmed by the market, which have won the "New Fortune HK Listed Company with the Best IR " award for many times.

Environmental, Social & Governance Report

This report covers the ESG performance for the period from 1 January 2020 to 31 December 2020, part of which exceeds the aforesaid scope. The report follows the provisions of the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange (the "ESG Reporting Guide"). Unless otherwise specified, the financial data quoted in this report are derived from the audited financial report. Other data are derived from the internal official documents of the Company and relevant statistics. The report has been reviewed by the Board.

This report has been prepared in accordance with the reporting principles stipulated in the "ESG Reporting Guide" of the Hong Kong Stock Exchange:

Materiality: The materiality matrix disclosed in the report explains the process and ultimate results of the determination of material issues in details. Key stakeholders and targeted measures for communication have also been listed out. For details, please refer to "Stakeholders Engagement" and "Determination of Material ESG Issues" in the section headed "ESG Management".

Quantitative: All references and standards, calculation methods and parameters used for the environmental data disclosed in the report have been indicated.

Balance: Both positive and negative information have been disclosed objectively in this report to ensure unbiased content.

Consistency: The indicators disclosed in this report are presented to the extent possible in the form of comparative data of 2 consecutive years or more based on actual management conditions. The scope of disclosure of the report includes AviChina and its subsidiaries, which is the same as last year.

1 RESPONSIBILITY MANAGEMENT

The Group continues to improve the internal ESG work management system, understands the expectations and demands of stakeholders, determines the priority of ESG issues, gives sufficient responses through information disclosure, and promotes the full integration of ESG concepts in corporate management and operation on an ongoing basis. The Group has been enhancing the responsibility governance structure and strengthening corruption risk control, thereby establishing a corporate culture of business integrity and a sound foundation for long-term and steady growth.

1. Stakeholders Engagement

The Group attaches great importance to stakeholders' expectations and requirements. Therefore, it formulates and optimizes the effective mechanism for stakeholders engagement to support decision-making, evaluation and execution of sustainability-related matters, so as to promote mutual development with society. In 2020, the Group continued to engage in communication and dialogue with a total of six groups of stakeholders including governmental and regulatory bodies, shareholders/investors, customers and partners, environment, employees, community and the public, which allowed it to gain insights and respond to the expectations of stakeholders in a timely manner.

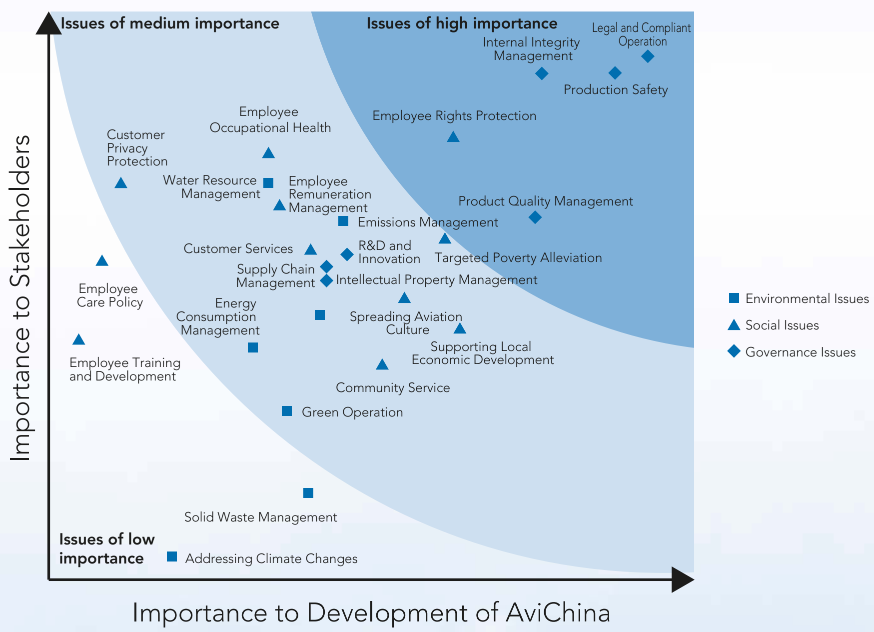
Stakeholders	Expectations and Requirements	Communication and Response Methods
Governmental and Regulatory Bodies	Implementation of national policies, laws and regulations Promotion of local economic development Improvement of local employment Promotion of industrial development	Submission of documents Advice and suggestions Special report Negotiation and cooperation
Shareholders/Investors	Returns on investment Compliant operation Production safety	Company announcements Telephone reception Visitor reception
Customers and Partners	Quality products and services Business integrity Sustainable sourcing	Business communications Exchanges and seminars Capacity building
Environment	Compliant emissions Energy saving and emission reduction Ecological conservation Climate change	Work report Report submissions Investigations and inspections
Employees	Protection of rights and interests Occupational health and safety Compensation and benefits Career development	Workers congress Collective bargaining Democratic communication platform
Community and the Public	Improvement of the community environment Participation in public welfare undertakings Provision of public and transparent information	Company websites Company announcements Interviews and communications Public welfare activities

2. Determination of Material ESG Issues

Based on the ESG Reporting Guide of the Hong Kong Stock Exchange, the Group identifies material issues and implements the determination procedures with reference to the industry development trends. To promote more accurate and complete ESG disclosures, the Group conducted an anonymous survey with the management team and stakeholders including governmental and regulatory bodies, shareholders, customers and partners, environment, employees, community and the public, with the aim of gathering broad insights into their awareness and assessment of the Group's ESG performance and invited them to rate the materiality of ESG issues. During the reporting period, a total of 2,180 valid questionnaires were collected. According to the survey results, the Group formulated the materiality matrix for the year, which became the basis of disclosure for this report and the guiding direction for sustainability management in the future.

The materiality matrix on sustainable development of the Group in 2020 is presented below:

ESG Materiality Matrix of AviChina in 2020



3. Business integrity and Anti-corruption

The Group strictly abides by the laws and regulations such as the Supervision Law of the People's Republic of China and formulate various internal management systems including the Provisions of the Construction of Corporate Integrity Governance in CCP Working Style and Anti-corruption Coordination Group (Pilot). Besides, they establish a corporate leadership workforce, require party members, leaders and cadres in key areas and positions to sign the Commitment Letter for Honest Practices, organize regular supervision and inspection on the implementation of anti-corruption measures, and optimize the construction of integrity governance in CCP working style and anti-corruption mechanism of the Group on an ongoing basis.

The Group requires all subsidiaries to formulate a series of administrative measures to curb corruption, prevent commercial bribery and promote business integrity in CCP working style, which include the Regulation on Forbidding the Acceptance of Money or Gifts by Employees, the Administrative Measures for Alert of Business Integrity Risks and the Administrative Measures for Preventing Conflict of Interests of Leaders in Operations and Management (Pilot). In order to control the corruption risk of the Company effectively, each of the subsidiaries conducts business integrity assessment as well as special supervision and inspection on off-the-book accounts, reserves for emergency procurement, targeted rectifications, purchasing of special local products or gifts, disposal of obsolete equipment and pandemic prevention.

The Group has established comprehensive whistleblowing procedures to report on corruption. In accordance with the Regulations on Discipline Inspection, Letters and Visits and the Administrative Measures for Whistleblowing via Letters and Visits, they have publicized the reporting channels to all employees including the reporting mailboxes and hotlines. This not only further refines the procedures for whistleblowing via letters and visits as well as the review of noncompliance events, but also fully protects the privacy and legitimate rights and interests of the informers.

In 2020, the subsidiaries carried out various forms of anti-corruption training with a combination of regular cadre meetings, party lectures on special integrity governance topics and business integrity promotion. They also implemented disciplinary education by means of cultural advocacy, case compilation and warnings to improve business integrity and self-discipline of management staff. In 2020, there were no corruption cases in the Group.

Case study: Tianjin Aviation strengthened anti-corruption education and training

In 2020, Tianjin Aviation carried out various forms of party-building work to promote business integrity:

- Signing of "Commitment Letter for Honest Practices": A total of 60 party members, members of the leadership team and cadres (100%) in key areas and positions signed the "Commitment Letter for Honest Practices";
- Special training on business integrity and party lectures: The secretary of the party committee and the disciplinary committee organized business integrity training and party lectures for a total of 205 employees;
- Educational film on business integrity: Screenings of educational films on business integrity were held to showcase "Inspection as a Sharp Sword", "Always on the Road" and "National Supervision" to 99 employees;
- Visits to promote business integrity: Visits to Tianjin Museum and Tianjin Planning Exhibition Hall were arranged for 96 employees to raise their awareness of business integrity;
- Education and examination on business integrity: Two business integrity examinations were held for a total of 87 employees. By encouraging learning through examination and improvement through learning, Tianjin Aviation enhanced party-building, integrity knowledge and awareness, as well as the anti-corruption mindset of the workforce;
- Daily anti-corruption education: Tianjin Aviation issued the Notice on Upholding Business Ethics, Discipline and Integrity during Festivals on the New Year's Day, the Lunar New Year, the Labour Day, the Dragon Boat Festival, the Mid-Autumn Festival and the National Day. Through messaging platforms and WeChat groups, it reminded employees to prevent excessive spending and maintain business integrity and self-discipline as a part of the daily anti-corruption education routine.

2 PRODUCT RESPONSIBILITY

The Group always regards independent innovation as the driver to the booming aviation industry in China. In recent years, we have been committed to innovation and further cooperation between industry, academia and research sectors. We aim to provide high-quality and outstanding products to customers and consumers. In addition to strengthening the protection of intellectual property, we also actively protect customers' privacy and improve their satisfaction in all aspects by reinforcing information security management.

1. Technology Innovation

The Group implements the innovation-driven development strategy and focuses on upgrading its independent innovation capability. Apart from the cooperation and communication between industry, academia and research sectors, it also promotes intellectual property protection and strives to be a significant contributor to national strategic technology development.

1.1 R&D Innovation

We maintain substantial investment in technology innovation every year. Leveraging our independent innovation efforts, we have acquired the intellectual property of various self-developed core technology and made several original achievements that won major national, provincial and municipal technology awards. At the same time, we support the formulation of international and domestic industry standards to facilitate the development of the aviation sector.

Table: Selected Scientific Research and Innovation Achievements of the Group in 2020

Shenyang Xinghua	• The technology centre successfully applied for the recognition of its "Breakthrough Project on Major Key Core Technology for High-Speed Signal Transmission and Protection of Aircraft Cable (飛機綫纜高速信號傳輸及防護重大關鍵核心技術攻關)" as a Shenyang Technology Planning Project; • The "Project on High-Power and High-Reliability Integrated Power Supply and Electricity Interconnection Technology for Aircraft and Ground Use (大功率高可靠集成化飛機與地面電源電氣互聯技術)" received the Third Prize in the 2020 National Defense Scientific and Technological Invention Award; • The "Design Technology for Isolated and Sealed Asymmetrical-winding Bullet Motor (彈用非對稱繞組隔離密封電機設計技術)" won the Third Prize in the 2020 Liaoning Province Technological Advancement Award.
Tianjin Aviation	• Participation in the formulation of two international standards, namely the "General Performance Requirements of Push/Pull Single-Pole Circuit Breaker for General Purpose in Aircraft (航空器一般用途按拔式單極斷路器性能通用要求)" and the "General Performance Requirements of Push/Pull Three-Pole Circuit Breaker for General Purpose in Aircraft (航空器一般用途按拔式三極斷路器性能通用要求)"; • Participation in the formulation of two domestic standards, namely the "General Standards of Fire and Smoke Detection System on Aircraft (飛機火焰和烟霧探測系統通用規範)" and the "Compliance Guidelines for Research and Manufacturing of Fire Extinguishing System on Civil Aircraft (民用飛機防火系統研製過程符合性指南)".
Hafei Aviation	• Three projects, including the "Strength Design and Airworthiness Verification Technology for CCAR23 Commuter Aircraft (CCAR23部通勤類飛機强度設計及適航驗證技術)", the "Research and Manufacturing of Testing System for High-precision and Full-range Shrouded Tail Propellers (高精度全尺寸涵道尾槳試驗系統研製)" and the "Research on Technology for the Comprehensive Testing System of Final Assembly and Avionics (總裝航電綜合測試系統技術研究)", received the Third Prize of the Scientific and Technological Award from the Chinese Society of Aeronautics and Astronautics; • The "Hydraulic Brake System and Front Wheel Steering Structure for Aircraft (一種飛機液壓剎車與前輪轉彎機構)" won the China Excellent Patent Award; • Formulation of two aviation industry standards, namely the "Blanking Mould Design and Manufacturing Guide (沖裁模設計與製造指南)" and the "Zinc Spraying Technique (噴鋅工藝)".

Case study: Hafei Aviation led the industry development through constant innovation

Hafei Aviation pushed forward continuous technological innovation in several areas, including design, production techniques and preliminary research. It made multiple breakthroughs in core scientific research and production technology, which drove high-quality corporate development.

In terms of design, Hafei Aviation strengthened the technological edges of the CAAR-23 aircraft and acquired core technologies such as the design of damage tolerance and the design and verification of the icing prevention and removal system. It enhanced the R&D capability for the CAAR-29 helicopters significantly and overcame difficulties in relation to core technology for the flight tests of plateau performance and computing expansion of civil helicopters. Hafei Aviation also improved the composite material technology drastically with ground-breaking advanced technology such as the automated fibre placement technology for honeycomb sandwich structure and the application of high-performance composite materials. Besides, it made remarkable progress in airworthiness tests and flight tests and commenced airworthiness certification for the CAAC, FAA and IAC models, which reinforced its position as the domestic leader of airworthiness certification technology.

In terms of production techniques, Hafei Aviation saw rapid development in areas such as automated parts assembly, digitalized manufacturing of composite materials, intelligent parts manufacturing, integrated final assembly tests and test flight technology. The pressurization technology that is adaptive and adjustable to product appearance has greatly improved the quality of unibody frame made of composite materials. In addition, Hafei Aviation promoted transitioning to intelligent manufacturing through research on core technology, including the automated spraying/electroplating production line, intelligent production line of main blades made of composite materials, digital connection for sub-assembly of helicopter parts and application of intelligent units.

In general, Hafei Aviation has achieved the balance between sub-assembly and final assembly driven by ongoing technological innovation. It has embarked on the journey of high-quality development characterized by automated, just-in-time, precision and intelligent manufacturing practice.

1.2 Industry Partnership

The Group enhanced collaborative innovation among the industry, academic and research sectors. It entered into strategic cooperation agreements with enterprises, high schools and research institutions to jointly promote the application of aviation technological achievements. Furthermore, it explored the long-term cooperation mechanism for enterprises and schools under the "industry-academic-research" model to nurture technology talents.

Tianjin Aviation expanded the technological chain to make up for its shortcomings. It conducted preliminary research with leading disciplines in high schools and national key laboratories to accelerate the application of achievements from industry-academic-research cooperation, which laid the foundation for ongoing improvement of independent innovation capability.

AVIC Kaitian launched a research and manufacturing project in collaboration with the State Administration for Science, Technology and Industry for National Defense, so as to study the production techniques of high-temperature alloy sealing rings and sealing loops. It also joined hands with the Ministry of Industry and Information Technology of the People's Republic of China in technological development projects such as the study on satellite navigation atmospheric data and strapdown attitude reference system in civil aircraft technology research projects.

Changhe Aviation and Tsinghua University established the cooperation model of Tsinghua-Changhe Aircraft Advanced Manufacturing Research Institute and signed the collaboration agreement, with the aim of promoting industry exchange and the application of achievements from industry-academic-research cooperation.

Case study: AVIC CAPDI collaborated with China Academy of Cultural Heritage to improve earthquake resistance of antiquities

AVIC CAPDI has entered into the strategic cooperation framework agreement with China Academy of Cultural Heritage. Focusing on the practical issues of earthquake damage to antiquities collection in China's museums, AVIC CAPDI conducted research on the application of complex coupling system technology while developing diversified earthquake-resistant devices. As a result, it established the integrated earthquake resistance solution that comprised the "risk assessment + design theory + measures and equipment" system, which enhanced earthquake resistance of antiquities by providing major technological support for protection of museum collection against earthquake.

In addition, both parties had in-depth exchange in relation to the joint research on frontier technology for cultural heritage preservation and the joint cultivation of outstanding multidisciplinary talents with expertise in heritage preservation technology. The meeting and the strategic cooperation agreement aimed to strengthen trust and cooperation between the parties and facilitate multi-disciplinary, multi-channel and multi-model cooperation and exchange, so that they can achieve more intense cooperation and mutual development in researching the role of the cultural heritage and scientific innovation centre as well as the preventive protection of immovable heritage.

1.3 Intellectual Property Management

The Group has strictly abided by the Patent Law of the People's Republic of China and the Anti-unfair Competition Law of the People's Republic of China, formulated the Intellectual Property Protection Management Regulations and the Measures for Patent Management within the Group, established the management system comprising the Intellectual Property Management Committee and the Intellectual Property Office, and actively implemented intellectual property protection measures, which ensured intellectual property management in an orderly and controllable manner through the development of relevant standards, organizations and talents.

The subsidiaries of the Group have actively supported the protection of intellectual property.

- Tianjin Aviation has a comprehensive intellectual property protection and management system in place. It has established the intellectual property development strategy and the intellectual property management office that comprised of the intellectual property leading group and the intellectual property officers. Tianjin Aviation devotes RMB1.50 million per year for patent application and maintenance. It has set up a robust patent incentive system and distributed RMB300,000 per year for the special awards that encourage innovation by technical staff.

- AVIC Kaitian has formed the Intellectual Property Management Committee as the highest decision-making unit for intellectual property management, which was responsible for leading the formulation of its intellectual property strategy, emergency response of intellectual property warnings and intellectual property evaluation, as well as the establishment and implementation of its intellectual property development plans and annual plans. The Intellectual Property Management Office under the Intellectual Property Management Committee undertakes all duties in relation to daily intellectual property management.

- Taking into account the actual circumstances, AVIC CAPDI introduced the Intellectual Property Protection Regulation, the Patent Management Regulation, the Copyright Management Regulation, the Trademark Management Regulation and a series of business secret protection measures, which formed its intellectual property management system.

- AVIC Forstar actively promoted intellectual property culture among staff and raised their innovation and intellectual property awareness. On such basis, it entered into confidentiality agreements with its employees. In addition, it carried out patent novelty search before and after applying for patents. In case of technology introduction, it made application for the technology to be introduced and conducted a complete research on the legal status of its intellectual property in a timely manner, thereby reducing infringement risk significantly.

As at 31 December 2020, the Group applied for 1,734 patents and was authorised 984 patents, which effectively protected their technological innovation achievements and enhanced their edges in intellectual property.

Indicator	Quantity	Unit
Patent applications	1,734	set
Patents granted	984	set

2. Products and Services

The Group believes that product quality is crucial for business growth. It has been establishing and improving the quality management system and promoting the certification of the product quality system in support of the development of the civil aviation sector, so that customers and consumers can enjoy high-quality products and services. The Group has strengthened the protection of customer privacy and business secret management. By adopting various systems, regulations and technical means, it strives to ensure information security.

2.1 Product Quality

In accordance with the Product Quality Law of the People's Republic of China, the Regulations on the Administration of Production Licenses of Industrial Products, the Rules for the Domestic Transportation of Civil Aviation Goods and other relevant laws and regulations, the Group coordinated with its subsidiaries in the formulation of the GJB 9001C, GJB 5000A and AS9100D quality management system, and obtained the corresponding quality management system certifications such as ISO9000. Pursuing the principle of quality-comes-first, we have strictly implemented the quality inspection and management system.

The subsidiaries of the Group have established various product management systems, which include the Customer Management Control Procedures, the Procedures of Product Design and Development Control, the Procurement Control Procedures, the Manufacturing Process Control Procedures, the Inspection Control Procedures, the After-sale Service Control Procedures and the Improvement Control Procedures. These systems cover the whole process of customer management, product design, procurement, production, inspection, servicing and improvement, which enable better product quality management. Furthermore, the subsidiaries ensure effective implementation of the quality management system through assessment and inspection. Based on customers' requirements, they combine self-monitoring and external review in such assessment and inspection to carry out full-range evaluation and guarantee product quality in all aspects.

Case study: AVIC CAPDI performed quality appraisal

AVIC CAPDI continued to refine the technical guidance for project proposals and quality check of design products, enhanced the quality of design products, and provided regular supervision for the technical proposals of projects through the Professional Technology Committee. During the year, it conducted comprehensive and professional proposal review for 162 projects in total. At the same time, it expanded the scope of quality inspection for design products and increased the inspection rate to 30%, which further improved the quality of finished products.

In order to strengthen the management of project operation and ensure the effective implementation of the management system, AVIC CAPDI organized 624 self-inspections on consultation and design projects at the institutional level and a total of 181 random inspections on the procedures of such projects throughout 2020, with fewer issues identified than before. AVIC CAPDI inspected the process management and product quality of general contracting projects regularly. It conducted quarterly review of inspection results, analysed problems and drew inferences to facilitate improvement of project quality and management standards. Leveraging the above efforts, AVIC CAPDI maintained the 3A certificate of the quality management system for engineering survey and design.

In regard to customer complaints, the Company arranges its sales personnel to communicate with customers promptly once it receives complaints. Customers' requests are passed to demand management staff of the marketing department in a timely manner for follow-up, assessment and feedback. The Company also has a communication platform dedicated to collect, categorize and pass customers' requests to the responsible departments while the marketing department undertakes the duties of supervision, assessment and feedback. The Company has improved customer satisfaction by catering to customers' needs swiftly.

2.2 Protection of Customer Privacy

The Group recognizes the importance of business secret management and customer privacy protection. In accordance with the Cybersecurity Law of the People's Republic of China and other applicable national laws and regulations, it formulated various administrative measures including the Customer Management Control Procedures, the Information Security Management Procedures, the Administrative Measures for Business Secrets of Civilian Products and International Markets Department and the Rules of Business Secrets Management of the Company. On such basis, all subsidiaries have developed the corresponding internal management system supplemented with technical means, so as to effectively prevent illegal use, leak, sales of customers information and privacy.

- In line with the Cybersecurity Management Regulation of AVIC CAPDI, AVIC CAPDI established the cybersecurity leadership responsibility system and the professional cybersecurity maintenance group. It also adopted the system security protection standards, the information dissemination approval system and management procedures for better information security management. In order to prevent external hackers from directly accessing important systems and data, AVIC CAPDI has an independent business secret network and various cybersecurity solutions in place, which include WAF, firewall, IDS, host audit and antivirus features. Apart from that, it conducts regular cybersecurity audit to ensure data safety and control of the system.

- Changhe Aviation formulated internal regulations and systems including the Rules for Business Secret Management and Protection and the Catalogue of Business Secrets. It established the Confidentiality Department for the stringent management and protection of business secrets. Based on the "minimization" principle, it restricted the access of business secret database and files by relevant departments and personnel. It also conducted departmental self-inspection as well as corporate supervision and inspection on a regular basis to facilitate effective management measures.

- In order to enhance safety control of important data, JONHON Optronic developed various internal regulations and systems such as the Administration Measures for Business Secrets of JONHON Optronic, the Administration Measures for Business Secret and Information System of JONHON Optronic and the Administration Measures for Business Information Confidentiality for Customers of JONHON Optronic. It established the ISO27001 Information Security Management System and developed cybersecurity protection with firewall, intrusion detection, host audit, antivirus software, loophole scanning and mailbox protection, so as to achieve double guarantee of information security through technology and management.

To raise employees' confidentiality awareness, the Company requires all of them to sign the letter of confidentiality, which ensures their strict compliance with the rules and specifies their responsibility in confidentiality management. During orientation training, new employees will undergo special training relating to customer information security. Staff with access to business secrets will receive education and training and sign the confidentiality agreements. In case of staff turnover, the Company strictly follows the employment termination procedures and requires employees who have gained knowledge of business secrets to sign the non-competition agreement for privacy protection. Besides, the Company has established the business secret reward and penalty mechanism to provide incentive and punishment to relevant staff, so as to effectively protect customers' information and privacy.

3. Supply Chain Management

The Group is committed to supplying chain management and is dedicated to building a responsible and sustainable green supply chain. Apart from formulating various internal management systems including the Supplier Management Procedures, the Procurement and Supplier Management Procedures, the Outsourcing and Commission Quality Control Procedures and the External Supplier Evaluation Regulations, it has established the Supply Chain Management Committee so as to strictly regulate supplier management.

Under our comprehensive supplier management procedures and online procurement management system, we have established the management standards, procedures and systems for supplier approval evaluation, as well as details and process of performance assessment. Through the ERP system, we monitor the expiry date of suppliers' qualification, such as their business licenses and certification of the quality management system. Alerts will be sent automatically by the system one month prior to the expiry date, so as to ensure validity of suppliers' qualifications and operational compliance of the Group.

In order to promote sustainability in the supply chain, the Group prioritizes suppliers with ISO14001 and OHSAS 18000 certification in the supplier approval, bidding and price comparison process after considering their environmental and social performance in accordance with the Supplier Management, the Supplier Performance Evaluation Management, the On-site Review of Suppliers and the Administrative Measures for Supplier Development. It also includes the "provision of products that meet the environmental standards" as one of the indicators for supplier evaluation, thereby encouraging suppliers to select green products and services.

Meanwhile, the subsidiaries of the Group have actively incorporated sustainability development in supplier management:

- AVIC CAPDI specifies the environmental requirements of the products in the tender documents during the bidding process. On the execution of contracts, it sets out the environmental standards, model specifications, inspection standards and testing procedures of the products and signed the Environmental and Occupational Health and Safety Management Agreement as the appendix. In terms of contract performance, it conducts relevant inspections and tests on products as required to ensure compliance.

- JONHON Optronic has forwarded international environmental requirements to suppliers, which included the RoHS[1] and REACH[2]. It also requires them to sign the Compensation Agreement for Environmental Problems of Materials from Supplier (EU RoHS Directive/REACH standard requirements), so as to encourage suppliers to select environmental-friendly products and provide green services. In accordance with the Operations Manual for RoHS Environmental Control Requirements, JONHON Optronic monitors and inspects incoming materials from suppliers to make sure they meet the environmental requirements.

As at 31 December 2020, the Group had a total of 7,640 suppliers worldwide. Amongst which, 7,402 suppliers were from Mainland China, accounting for 97%.

Number of suppliers by region	Quantity	Unit
China	7,402	company
Asia (excluding China)	24	company
Europe	130	company
North America	82	company
Oceania	2	company

1 The "Directive on the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment"
2 The abbreviation of "Registration, Evaluation, Authorisation and Restriction of Chemicals", which is the preventive management regulation of the European Union on all chemicals that enter its market

3. GREEN OPERATION

The Group always adheres to the green development philosophy of "efficient, clean and low-carbon" operation. It is committed to fulfilling its social mission and environmental responsibility. In order to enhance our environmental and energy resources management, we optimize the environmental management system on an ongoing basis, strictly control the emission of all types of pollutants, boost the efficiency of energy utilization, minimize the negative effect of our production and operation, and strive to become an eco-friendly enterprise. In 2020, the Group did not have any environmental pollution incidents.

1. Environmental Management System

1.1 Environmental Management Approach and Strategy

The Group strictly abides by the Environmental Protection Law of the People's Republic of China and other laws and regulations. It requires all subsidiaries to establish the Environmental Management Committee as the highest decision-making, management and execution unit for environmental protection matters. The Committee is responsible for promoting environmental protection in all aspects and implementing the policy and plans of the Group. Taking into account the characteristics of its business, the Group has formulated the documents for the comprehensive environmental management system in areas including project construction, production and operation, as well as daily business practices. It continues to establish and improve the environmental management system and facilitates the fulfilment of environmental responsibility in all aspects.

The Group has been actively introducing the ISO14001 international environment management system. It has encouraged all subsidiaries to develop their environmental management system in line with ISO14001 and obtain the relevant certification. The significant improvement in environmental management standards and energy utilization rate has led to ongoing enhancement of environmental performance. In 2020, a number of subsidiaries including Huiyang Aviation, AVIC Lanfei and Qianshan Avionics have established a comprehensive environmental management system and passed the on-site certification audit for ISO14001.

1.2 Environmental Compliance

The Group has actively formulated energy-saving and environmental protection plans and strategy, established annual target in a scientific manner, stepped up efforts in energy saving, consumption reduction and environmental protection, increased green investment year after year and enhanced basic management.

In terms of new construction, renovation and expansion projects, the Group closely follows the "Three Simultaneous" construction requirements for environmental assessment and analyses the potential environmental impact of such projects in a systematic manner. It strictly implements environment impact assessment and acceptance, while promoting research and application of integrated resources utilization and waste reduction projects.

For production and operation, we take the initiative to identify pollutants. We develop and update monitoring equipment and keep close track of environmental factors that have been identified, so as to maintain classification management in environmental data monitoring, define clear responsibility and implement effective measures. We have also engaged third party institutions to conduct regular monitoring and to collect accurate environmental data in time to ensure emission compliance of all pollutants.

The Group has been actively identifying the environmental risks in the process of construction and production operation. It has established special emergency plans and prescribed the responsibility of individuals. Besides, it has organized drills for environmental pollution incidents regularly to enhance employees' emergency response and mitigate environmental pollution risks significantly.

2. Emission Management

The Group has closely abided by laws and regulations including the Environmental Protection Law of the People's Republic of China, the Atmospheric Pollution Prevention and Control Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste and the Law of the People's Republic of China on the Prevention and Control of Pollution from Environmental Noise. It has formulated and promoted the emission management system, such as the Environmental Protection Management System of Shenyang Xinghua, the Hazardous Chemicals and Industrial Solid Wastes (Disposal of Hazardous Wastes) Management System of Qianshan Avionics and the Pollutant Prevention and Control Procedures of Huiyang Aviation. It has strictly regulated the generation and emission management of the "three types of wastes" in the normal course of construction and operation, with the view of reducing emission of pollutants, minimizing the negative impact of its production and operation, protecting the surrounding environment and evolving into an eco-friendly enterprise.

2.1 Emission Reduction

Exhaust Gas and Wastewater Management

The Group has focused on the control of emission sources. Through upgrading and adopting technical means, it exercises control and reduces emission of wastewater and exhaust gas in the course of production and operation.

In 2020, the Group further upgraded and renovated the manufacturing facilities and emission equipment. We optimized the production process, built new wastewater and exhaust gas treatment plants and promoted the application of clean energy, which effectively reduced the emission of exhaust gas and wastewater.

Measures to reduce emission of exhaust gas and wastewater by subsidiaries:

- Hafei Aviation further boosted the utilization rate of clean energy. Supplemented by the coal-fired boilers, its two 10t/h natural gas boilers operated at full capacity for heat generation, which greatly lowered the emission of soot, sulphur dioxide and nitrogen oxides in flue gas from boilers.

- JONHON Optronic upgraded and renovated the exhaust gas emission system for the printing process for more effective purification of atmospheric pollutants by exhaust gas treatment device.

- Huiyang Aviation conducted denitration transformation of 5 gas-fired boilers at two plants, which reduced the emission of nitrogen oxides from 150mg/m^3 to 30 mg/m^3 and the emission intensity from 70 mg/m^3 to below 30 mg/m^3. The emission of nitrogen oxides decreased by 52% as compared to 2019.

- Hongdu Aviation invested RMB3.9 million for the construction of environmental protection facilities to treat exhaust gas from the spraying process in the Aviation Town. This not only increased the treatment efficiency of exhaust gas from the spraying process, but also reduced the emission intensity of volatile organic substances.

- Keeven Instrument invested more than RMB1.2 million to build the new sewage treatment plant, which carried out pre-treatment of production wastewater to meet the discharge standards.

The Group organized its subsidiaries for the installation, inspection and acceptance, interconnection and filing of the exhaust gas and wastewater monitoring system, so as to minimize the risk of environmental incompliance arising from testing facilities and equipment. The back-end property management department of AVIC Forstar monitored the pollutant emission intensity of production workshops regularly and assessed the qualification and capability of inspection staff, which ensured compliance of all emission indicators.

Table: Wastewater and Exhaust Gas Emission Data of the Group in 2020

Type of emissions	Unit	Data for 2019	Data for 2020
Total emission of exhaust gas	ten thousand standard cubic meters	554,292	738,459.3
Emission of sulphur dioxide	tons	57	61
Total emission of nitrogen oxides	tons	323	325
Total emission of soot	tons	107	23
Total emission of wastewater	tons	4,065,833	3,180,161
Emission of COD	tons	239	252

Noise Control

The Group requires all subsidiaries to purchase low-noise manufacturing equipment and units as possible without comprising production quality. It also promotes and adopts advanced technology and production process that utilize low-noise and environmentally-friendly equipment, enhances green management and strictly controls noise pollution. Meanwhile, we have identified sources of noise and developed scientific plans for the settings of production areas. We also engaged qualified third parties regularly to measure noise emission and prevent noise pollution in accordance with environmental management requirements. Changhe Aviation has carried out noise treatment at air compressor stations within the plants. By adopting rotary-screw air compressors in replacement of high energy consuming and noisy piston air compressors, it reduced noise intensity by approximately one-third.

2.2 Waste Treatment

The Group adopts the principle of reduction, recycling and decontamination for waste prevention and control. It strictly manages the generation and emission of solid wastes from the production process, so as to reduce the environmental impact.

We implement waste sorting for general waste from the normal course of production and operation. We collect and separate recyclable waste such as waste metals and wastepaper, and sell them to qualified enterprises for recycling. As to unrecyclable domestic waste, we engage municipal environmental and sanitation authorities for collective and comprehensive disposal.

With regard to the management of hazardous waste, the Group has been optimizing the relevant disposal solution. Apart from establishing the hazardous waste management ledger, it implemented classified storage of hazardous waste and posted signs of hazardous waste at prominent locations in strict accordance with national standards. In addition, it engaged qualified third parties for the transfer and disposal of waste on a regular basis, so as to ensure compliance in the disposal of hazardous waste.

- Hafei Aviation recycled scrap metal, slag and fly ash. In 2020, it produced a total of 12,416 tons of slag and fly ash, which was delivered to external parties for brick manufacturing. Throughout the year, it recycled 1,019.8 tons of scrap metal.

- AVIC Lanfei reused the supernatant from sedimentation and filtration of gasoline and other organic solvent waste in the inspection and assembly process, thereby increasing the number of use of the organic solvent waste and reducing the volume of hazardous waste production.

Table: Waste Emission Data of the Group in 2020

Indicator of Emission	Unit	2019	2020
Total emission of general waste	tons	22,971	17,523
Emission intensity of general waste	kg per RMB10,000 revenue	5.5	3.50
Total emission of hazardous waste	tons	2,164	2,529
Emission intensity of hazardous waste	kg per RMB10,000 revenue	0.51	0.50
Use of packaging materials	tons	3,643	2,751
Intensity of use of packaging materials	kg per RMB10,000 revenue	0.9	0.55

3. Use of Resources

The Group strictly complies with relevant laws and regulations, including the Energy Conservation Law of the People's Republic of China and the Water Law of the People's Republic of China. It also implements internal energy saving and emission reduction policy, such as the Corporate Energy Management System of Qianshan Avionics, as well as the Energy Management Responsibility System, the Energy Supply Management System and the Daily Water and Natural Gas Maintenance and Management System of JONHON Optronic.

We actively explore energy saving and emission reduction technology while enhancing the water conversation management of production units that covers the entire process from water sourcing to water consumption. Some of our subsidiaries consider energy efficiency in staff appraisal, which greatly boosts the efficiency of resources and energy utilization and incorporates the concept of energy saving and emission reduction in all aspects of daily operation. In 2020, Huiyang Aviation included energy management performance in its annual performance evaluation, established indicators for electricity and energy consumption in working hours and peak hours of major energy consuming units, and carried out special KPI evaluation every month. At the same time, Hafei Aviation has been strengthening the supervision and monitoring of reasonable power consumption of production units, addressing problems in a timely manner, conducting monthly assessment of energy management performance, and preparing regular presentation on energy saving progress.

3.1 Technology Transformation to Save Energy

The Group has pushed forward the R&D of energy saving technology, facilitated technology transformation for energy conservation and supported energy saving promotion and training. It also promoted the use of new technology, production process, equipment and materials to save energy, while initiatively phasing out energy-intensive and outdated ones. By actively exploring the application of energy consumption monitoring system, it strives to achieve success in energy saving and emission reduction.

Table: Energy Consumption of the Group in 2020

Indicator of Energy Consumption	Unit	2019	2020
Coal	tons	37,572	32,040
Gasoline	tons	961	801
Kerosene	tons	5,330	5,568
Diesel	tons	698	149
Natural gas	ten thousand standard cubic meters	1,416	1,377
Electricity	ten thousand kWh	36,685	32,685
Outsourcing thermal power	million kJ	123,951	199,753
Comprehensive energy consumption[3]	ten thousand tons of standard coal	10.6	9.8
Intensity of comprehensive energy consumption	tons of standard coal per RMB10,000 revenue	0.03	0.02

Table: Greenhouse Gas Emission of the Group in 2020

Indicator of Greenhouse Gas Emission	Unit	2019	2020
Total greenhouse gas emission[4]	ten thousand tons of equivalent CO_2 emissions	50.8	45.3
Intensity of greenhouse gas emission	tons of equivalent CO_2 emissions per RMB10,000 revenue	0.12	0.09

3 Calculated based on electricity conversion coefficient of 0.1229 (kg standard coal/kWh), gasoline conversion coefficient of 1.4714 (kg standard coal/kg), diesel conversion coefficient of 1.4571 (kg standard coal/kg), kerosene conversion coefficient of 1.4714 (kg standard coal/kg), coal conversion coefficient of 0.7143 (kg standard coal/kg), natural gas conversion coefficient of 1.3300 (kg standard coal/kg) and outsourcing thermal power conversion coefficient of 34.12 (kg standard coal/GJ) pursuant to the General Principles for Integrated Energy Consumption Calculation (GBT2589-2020) (《綜合能耗計算通則》(GBT2589-2020))

4. Pursuant to the electricity coefficient provided by the 2019 China Regional Grid Baseline Emission Factor of Emission Reduction Projects (《2019年度減排項目中國區域電網基線排放因子》), Northeast China is calculated based on 1.0826 tons of carbon dioxide emission per MWh of electricity consumed, North China is calculated based on 0.9419 tons of carbon dioxide emission per MWh of electricity consumed, Eastern China is calculated based on 0.7921 tons of carbon dioxide emission per MWh of electricity consumed, Central China is calculated based on 0.8587 tons of carbon dioxide emission per MWh of electricity consumed, Northwestern China is calculated based on 0.8922 tons of carbon dioxide emission per MWh of electricity consumed, and Southern China is calculated based on 0.8042 tons of carbon dioxide emission per MWh of electricity consumed; while the carbon dioxide emission of fossil fuels is calculated pursuant to the 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

Case study: Shenyang Xinghua actively explored energy-saving initiatives for the heating and ventilation system

Shenyang Xinghua implemented a series of energy saving initiatives with a focus on the central air conditioning and heat supply system. For the central air conditioning system, it formulated a set of reasonable operating parameters for central air conditioning units in summer. Taking into account the adjustment and management requirements for operation, it lowered energy consumption without sacrificing comfort. In terms of the heat supply system, Shenyang Xinghua adopted real-time monitoring of operating parameters of the system after considering the actual circumstances, which allowed it to identify problems from abnormalities and implement reasonable renovation. It also adjusted the system in a reasonable manner to reduce energy use and consumption.

Case study: Changhe Aviation adopted energy saving practices

- Changhe Aviation monitored the energy efficiency of boilers and air compressors. Based on the results, it adjusted their mode of operation of boilers and air compressors and explored the energy saving potential of the energy conversion facilities.
- Taking into account the actual circumstances, Changhe Aviation promoted the application of new energy saving technology. It implemented the full transformation of the lighting system to LED lights through outsourcing. Currently, it has completed the renovation of the hangars and the 420 plants.
- Changhe Aviation has started the establishment of and formed the preliminary energy management system. It also completed the first stage review and rectified problems thereof. It is planned that the energy management system will pass the review and obtain the certificate in June of the coming year.

The Group is committed to the water resources management and consumption optimization. It actively explores ways to replace freshwater with reclaimed water and rainwater. It also promotes the recycling of water for production as well as the application of water saving equipment. Besides, it inspects and maintains the water supply system for early identification and solving of problems. By preventing running, overflowing, dripping, leaking of water and other wastages, it reduces the consumption of water resources.

Table: Water Consumption of the Group in 2020

Indicator of water consumption	Unit	2019	2020
Total water consumption	tons	5,064,703	4,402,657
Water consumption intensity	tons per RMB10,000 revenue	1.2	0.9

Case study: Hafei Aviation promoted water conservation initiatives

Through supervision and assessment of key water-consuming workshops and production equipment, Hafei Aviation enhanced the sewage recycling management, increased the volume of recycling and implemented water saving practices. Throughout 2020, it reused approximately 2.18 million tons of cooling water and rainwater, which effectively boosted the use of recycled water and reduced the purchase volume of tap water. At the same time, Hafei Aviation strengthened the monitoring of water consumption in production units and carried out inspection of unnecessary water consumption from running, overflowing, dripping and leaking of water. Furthermore, it issued energy rectification notices to responsible units of existing problems, conducted monthly assessment in line with the plan of energy management performance appraisal and prepared and circulated regular presentation on energy saving progress.

Case study: JONHON Optronic organized the Water Saving Week

During the Water Saving Week, JONHON Optronic educated all of its employees on water saving knowledge. Besides, it carried out the water balance test in accordance with the requirements of the Luoyang Municipal Water Saving Regulations. With the support of the leadership team and all entry level units, JONHON Optronic completed the three stages of survey, testing and data compilation, and successfully determined the relationship between its class I, class II and class III water consumption, as well as its water consumption profile and level, which provided a scientific foundation for reasonable water consumption in the future. The project also passed the inspection and acceptance of the municipal water conservation office. Meanwhile, JONHON Optronic focused on the sources of water consumption at all responsible departments. It laid out plans for reasonable allocation of water resources, facilitated comprehensive water utilization, improved water consumption measurement and defined the responsibilities of individuals by optimizing the management system. The campaign has raised employees' awareness on water conservation. In 2020, JONHON Optronic was selected as the Provincial Advanced Unit in Water Saving.

3.2 Green operation

The Group remains committed to sustainable development. It supports green business practices and educates its staff on the concept of sustainability. Through Energy Conservation and Environmental Protection Week and knowledge competitions, it promotes energy saving and consumption reduction and raises employees' awareness of resources conservation, so that they respond to the call of green operation and help reducing energy consumption and emission.

Case study: AVIC CAPDI built the green technology development office building

AVIC CAPDI applied LED lightings and smart automatic lighting control technology at the technology development office building at its headquarters. It established the multi-connected system between the air conditioning room and major conference rooms to meet indoor cooling and heating requirements, and adopted the non-negative pressure variable-frequency control technology for water pumps. Apart from setting up the solar water heating system, it also developed the comprehensive energy management system for real-time monitoring of water, power and gas consumption in office areas. Currently, the technology development building at the headquarters has passed the assessment standards of 3-star green design and 2-star operation.

Case study: AVIC Kaitian commenced the promotion of energy saving and emission reduction

In 2020, taking into account the actual situations the development of green aviation business and other factors, AVIC Kaitian joined hands with Chenghang community to launch the 2020 National Energy Saving Promotion Week of Aviation Industry, which enhanced the awareness of the employees and their families of resources depletion and energy saving. We guided our staff and their families to build good habits and mindsets by promoting green, energy-saving and low-carbon lifestyle, consumption pattern and habits in daily life. In addition, we urged them to use efficient lightings, energy-saving taps and home appliances and avoid traveling by cars. At the workplace, we attached importance to power and water conservation and advocated good energy consumption habits such as turning off lights and computers after office hours. As we devoted more efforts in promotion, our employees paid more attention to energy saving and emission reduction.

4. PEOPLE-ORIENTED APPROACH

The Group adheres to the development philosophy of "talent is the foundation of an enterprise". Thus, it adopts and optimizes the management systems in areas of employee recruitment, training and development, health and safety to improve labour efficiency. Besides, it cares about employees' mental health and their spiritual life.

1. Employee Recruitment

In terms of talent recruitment, the Group has strictly abided by the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and other laws and regulations. It has established a sound internal staff management system and implemented the Measures for Administration of Staff Recruitment, the Measures for Administration of Staff Ranking System and the Measures for Administration of Recruitment of Full-time University Graduates. The Group has adopted fair and equal recruitment principles by formulating standards for the recruitment procedure and the execution of labour contracts, which specify wage and benefits management and prevent discrimination. Apart from safeguarding the legitimate interests and human rights of employees, the Group also forbids child labour and any forms of forced labour. As at 31 December 2020, the Group had a total of 45,268 formal employees, all located in Mainland China.

2. Employee Development and Training

2.1 Staff Training

We attach great importance to employees' career and quality development, therefore we provide training opportunities to them in different aspects. The Group has formulated the Regulation for Staff Training Management to standardize the training management system, optimize the operating mechanism, enhance the quality of the workforce and improve the talent structure. It has also developed the Measures for Implementation of Staff Training Performance Appraisal to assess the lecturers, training materials and students' learning outcome. Meanwhile, the Measures for Corporate Training Performance Appraisal sets out the evaluation procedures for training at all units, so as to promote scientific, standardized and systematic staff training. The Group has organized different training programs and offered teachers to fit the needs of employees, such as internal training, outings, secondary training, and certification for work that cover job skills, system knowledge and professional expertise. In 2020, a total of 35,437 employees received 848,372 hours of training.

Case study: Hongdu Aviation played to its strengths and nurtured outstanding talents

Based on its annual training plan, Hongdu Aviation has organized training to meet the needs of employees so that they could apply what they have learnt. Capitalizing on its training base for international competitions, Hongdu Aviation provided training to the provincial team for the Aircraft Maintenance Contest in Jiangxi Province, the Manufacturing Team Challenge and the provincial selection contest for the construction metal work category. One of its employees received the championship in the Aircraft Maintenance Contest of the 1st China WorldSkills Competition, which was also the only gold medal won by Jiangxi enterprises. Besides, Hongdu Aviation continued to hold the "Zhenxing Cup (振興杯)", which is an occupational skills contest that puts six types of works in the aviation industry to the test, including aircraft assembly and aircraft metal plating inspection. A total of 18 contestants were selected as the top 3 performers in their respective categories and were recommended to apply for honorary titles such as Jiangxi Technical Expert, Jiangxi Young Job Skill Expert and Jiangxi Outstanding Female Worker.

Case study: JONHON Optronic optimized the standardized training system and rolled out comprehensive talent training

In accordance with the ISO10015 standards, JONHON Optronic formulated the training management system to regulate training management requirements and procedures at the headquarters. It developed the teacher and expert database and implemented certification for qualification, so as to establish a professional, high-quality and comprehensive team of trainers. In order to promote staff training through informatization tools, it built the online staff training and learning platform while exploring innovative training model on mobile APP.

With a focus on R&D and technical staff, JONHON Optronic launched the mentorship scheme for talent development and piloted the "Distinguished Technical Masters and Accomplished Students Program". It also introduced innovative format of orientation briefing by expanding indoor training, regulating on-the-job training for non-frontline staff and organizing "Four-One" training comprising "one week of training, one session of production practice, one period of internship and one year of mentorship". In view of the major problems in production operation and shortcomings in strategic development, JONHON Optronic offered Lean Six Sigma training, skill enhancement courses for designers and sales managers, along with a dozen of mid-to-long term systematic training courses for employees to learn in-depth knowledge in an organized manner, which was beneficial to talent development. At the same time, it held business English training continuously to establish a talent pool of outstanding individuals in support of overseas business expansion.

Case study: AVIC Kaitian focused on the annual mission and enhanced skills in ten areas

In 2020, AVIC Kaitian strived to strengthen employees' capabilities in ten aspects, which included strategic management, planning control and forward design. Through the "Three Progress and Two Exploration" program, it secured more resources, optimized the reach to high schools, major institutions and industrial circle, gained access to frontier technology and broadened the horizons. AVIC Kaitian continued to offer "expert's lectures" to leverage on experts' flexibility in talent training and facilitate the development of a young talent pool. It selected core staff and sent them to participate in training at Civil Aviation University of China, the training base of the Group and national authorities, so that they could expand knowledge, sharpen skills, and enhance management and technical proficiency. In 2020, AVIC Kaitian sent a total of 232 employees to join external training.

2.2 Job Promotion

The Group recognizes the importance of staff development and training. Therefore, it has built a smooth career path for employees, established the ranking management system and the promotion mechanism, optimized remuneration allocation and improved reward administration. The Group also formulated various administrative measures, including the Remuneration System, the Measures for Employee Ranking Determination, the Measures for Administration of Position Promotion, the Corporate Annuity Proposal and the Measures for Administration of Social Insurance of Employees. By which, it specifies the staff remuneration and benefits standards, adjustment system, promotion mechanism, reward administration and distribution methods, so as to motivate the workforce.

Case study: JONHON Optronic drove staff development

JONHON Optronic governs the labour system in accordance with the Measures for Administration of Remuneration by Rank and the Implementation Rules of Labour Contracts. It has entered into labour contracts with employees after negotiation at arm's length, and maintained strict compliance with the working hours and leave system, which offers statutory holidays and annual leave with pay. Meanwhile, it expands talent introduction channels and modes, carries out continuing staff recruitment and establishes a flexible and diverse staffing model to regulate labour management and build a harmonious relationship with employees. JONHON Optronic enhances talent nurture, boosts employees' skill level and promotes mutual development of staff and corporate through education, training and competitive recruitment. It continuously advances ranking management, establishes a smooth career development path for staff and optimizes the remuneration allocation mechanism to fully motivate the workforce with remuneration arrangements.

Case study: Hongdu Aviation customized the career development path for employees to support their development

Based on the talent development pattern of the aviation industry, Hongdu Aviation analyses the career development path of employees in a systematic manner and categorizes value creation factors into different levels. Employees' remuneration level is determined with reference to their actual job duties and competence. Hongdu Aviation has also established the remuneration and performance system based on employees' career path and optimized the talent nurture model for various stages. Apart from matching leadership development with staff's career development, it takes into account employees' personality, professional interests, strengths and development pattern, as well as its organizational management systems, to build the organizations and mechanisms that promote staff development. This has created extensive room for employees' career development by helping them identify career goals, develop mechanisms, design development paths and take key measures.

3. Occupational Health and Safety

The Group safeguards employees' health and safety from the perspective of production safety and occupational health.

In accordance with the Production Safety Law of the People's Republic of China, the Group has formulated relevant regulations such as the Corporate Safety Production Responsibility System, the Corporate Management System for Work Injury and Production Safety Accidents and the Corporate Emergency Plan for Production Safety Accidents. It also seeks to identify deficiencies in the operation process and engages auditors for external review of system operation. Through the effective implementation of above measures and administrative procedures, it specifies the responsibility of relevant departments and staff in relation to production safety and establishes the comprehensive corporate safety control and accountability system, which help safeguarding the occupational safety of employees.

In accordance with the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases and other laws and regulations, the Group formulated the Occupational Health Management System, the Environmental Protection Management System and the Measures for Administration of Labour Protection Equipment in regard to occupation health, which specify the standards of occupational medical examination, occupational health allowance and the distribution of labour protection equipment at workplace. The Group carries out annual inspection of occupational hazardous factors, occupational health check and transfer of employees with occupational diseases, so as to minimize the risks of occupational diseases. It also offers cooling medicines and drinks in summer and renovates the ventilation system at offices to prevent general sickness. In order to reduce the risk of mental diseases, it provides mental health consultation services to employees and encourage them to develop healthy lifestyle.

- Tianjin Aviation adopted the accountability system for occupational disease prevention. In addition to improving the identification of occupational hazardous factors, it formulated control measures and emergency plans for streamlining the key areas of occupational hazards and implemented the appraisal, reward and punishment system. It also established archives for employees facing occupational hazards and maintained strict compliance with the alert and notification system for occupational hazardous sites, so as to minimize occupational health management risks.

- AVIC Optoelectronics Precision purchased medical insurance and Shenzhen Medical Insurance for Major Diseases for all employees. It offered pre-job, on-the-job and post-job occupational health check for employees facing occupational hazards. Besides, it installed sound-proof chambers for all stamping press machines to lower the noise level and equipped grinding machines with ventilation and dust removal system as protection measures.

- Hongdu Aviation updated the ledger of inspection points for occupational hazardous factors in a timely manner. It installed ventilation and dust removal system in workplaces with dust and toxic and hazardous gas, and adopted fire-proof, explosive-proof, lightning-proof and static-proof safety technical measures, as well as flammable gas detectors in workplaces with flammable and explosive chemicals.

- Qianshan Avionics fulfilled its corporate responsibility in relation to production safety. It established the production safety management accountability system with the chief executive as the primary person-in-charge and developed the production safety management mechanism of "Dual Duties for One Position". Furthermore, it linked production safety responsibility with performance appraisal at departmental level and conducted KPI evaluation in every quarter.

Case study: AVIC Lanfei renovated the facilities to safeguard the health and safety of employees

AVIC Lanfei imposed measures to prevent its employees from occupational diseases in three aspects, namely enhancing the employees' awareness of prevention, monitoring the toxic and hazardous workplaces and the renovation of on-site occupational diseases prevention facilities.

- The Company educated and supervised its employees to wear and use the labour protection supplies properly, and organized events for occupational health publicity and education such as the promotion week for prevention and control of occupational diseases, the promotion of information regarding prevention and control of occupational diseases.
- The Company entrusted qualified occupational health service agencies to conduct daily monitoring on the toxic and hazardous workplaces of the Company and evaluation on the current status of occupational hazards.
- The Company formulated annual renovation plan for occupational diseases prevention facilities at the beginning of each year. In recent years, facilities such as the ventilation system of sand-blasting workshop, the ventilation device of sand-lined machines, the laser cutting room (plant) and the emergency eyewash equipment in the surface treatment branch factory have been renovated.

4. Employee Caring

Adhering to the management philosophy of "creating wealth safely and enjoying life healthily", the Group attaches great importance to employees' physical and mental well-being and their spiritual life. In order to create a working environment that is favourable for the mental and physical health of employees, the Company has decorated the office areas with green plants and installed the central air conditioning system. It has also conducted staff interview regularly to understand their psychological needs. Employees are welcome to use the ping pong table, badminton court, basketball court, dancing room and breastfeeding room in the office. They can also join regular hiking tours and interesting sports games which are designed to enrich their work lives and promote healthy and happy working environment.

5. SOCIAL RESPONSIBILITY

Social responsibility is an integral part of the Group's corporate development. The Group has made contribution to public welfare through targeted poverty alleviation, community development and local development.

1. Targeted poverty alleviation

The year 2020 marked the end of targeted poverty alleviation. In accordance with the requirements under the national poverty alleviation strategy, we took into account our own edges and formulated plan of poverty alleviation. To actively push forward targeted poverty alleviation measures, we played our part in reducing poverty with concrete actions. In 2020, we continued to support targeted impoverished areas through education, social, industrial and cultural initiatives. We also launched new poverty alleviation programs and helped poverty-stricken villages and counties to explore resources for sustainable development.

The subsidiaries of the Group implemented various measures to lift its relief recipients out of poverty.

- AVIC Huiyang organized visits to poverty alleviation village in Longjiapu Village in Yi County, Hebei. More than 80 employees participated in five visit and study trips. A total of 109 households received relief and 317 registered poverty-stricken people were lifted out of poverty.

- AVIC Forstar was dedicated to helping the impoverished population. It donated over RMB200,000 to people in distress, such as patients with serious illness, badly-off college students and unemployed youth.

- In 2020, JONHON Optronic paid a number of visits to Yangyu Village in Huangzhuang Town, Song County, which was the target of its poverty alleviation initiatives. During the trips, it visited impoverished households, exchanged views with party branch on party building, and promoted aviation knowledge to aid recipients. It also purchased tea leaves worth more than RMB450,000 from the county receiving its aid, and brought tea leaves worth more than RMB72,600 from Hubei Province through direct sales.

- AVIC Lanfei offered a poverty support fund of RMB120,000 to the designated poverty alleviation village. It drove local economic development through consumption and donated stationery and sports equipment to the village.

- Taiyuan Instrument formed the village-based poverty alleviation team with its key employees, who stationed in Zhangjiayaowa Village of Yaogetai Town in Baode County, Xinzhou City. The team implemented poverty alleviation measures and visited registered impoverished households to help solve problems in relation to production, livelihood, children's education and medical care for major diseases. Besides, it developed the operating model comprising the "party branch + cooperative + enterprise + production base + farmers", which increased the production value of forsythia grown by villagers from RMB300/mu to RMB1,500/mu. The production of organic forsythia tea leaves under the "Lianxiang Xiyu (連香硒玉)" brand has become a new popular business at the county and municipal level, with the products featuring in the Shanxi Agriculture Exhibition and seminars in Beijing.

Case study: Shenyang Xinghua provided assistance to farmers

In order to support the call of "battling against poverty and building a moderately prosperous society", Shenyang Xinghua spent RMB216,900 to purchase local products including edible fungus and mushrooms from Xi Town, which was a recipient of targeted poverty aid, and sent them to employees as gifts.

Furthermore, Shenyang Xinghua raised RMB7,351.20 from charity sales at the "Xinghua Youth Promoting Economic Development of Xi Town" campaign to alleviate poverty through consumption.

Case study: AVIC CAPDI capitalized on its professional strengths to promote public welfare in impoverished villages

Given the lack of rivers and lakes, Fanqi Village, which was a poverty-stricken region in Guizhou Province that received poverty aid from AVIC CAPDI, faced problems in the development of industrial projects due to insufficient irrigation water.

On 20 May 2020, the technical expert team of AVIC CAPDI visited the village to survey and analyse the landscape, formation lithology, structural geology, hydrogeology and other geological conditions within its 5 km radius. Through comparison and study of water content and water quality of the stratum as well as convenience to the villagers, the team determined the final and optimal location of the well and successfully yielded water, which effectively supported the agricultural development of the village.

2. Contribution to Community

2.1 Engaging in Public Welfare Activities

The Group is committed to public welfare activities. Apart from making contribution to local development, community services and the promotion of aviation culture, it has also formulated the management system in relation to external donation and voluntary works. In 2020, it spent a total of 44,063 hours on volunteer services.

Supporting Local Development

We attach great importance to local development and cooperate with government authorities, social institutions and enterprises in support of social progress. To encourage local economic development, AVIC Huiyang purchased products from suppliers within the area, which increased job opportunities. Besides, it encouraged local construction companies to undertake small-scaled infrastructure projects of the Group and supported local businesses in the provision of security, cleaning and garbage disposal services. In 2020, AVIC Lanfei offered infrastructure maintenance assistance to villages by granting a special fund to Xiejiachuan Village and other villages for the maintenance of streetlights, guard rails, gym facilities, sewage pipes, fences and roads. At the same time, Shanghai Aviation Electric formed partnership with Qibao High School in Minhang District, Shanghai and donated RMB200,000 for public welfare and education purpose.

Community Services

We organize voluntary activities on an ongoing basis to serve the community. Under the brand of "Wudaguan Youth Volunteer Team", Lanzhou Aviation Electrical launched various campaigns for employees to contribute to the communities, such as the "Le Feng Month" and the "Youth Community Service Event". Meanwhile, AVIC Lanfei held a series of voluntary activities to transform Lanzhou into a civilized city. AVIC Forstar rolled out the "Filial Piety and Caring the Elderly" campaign at the Double Ninth Festival and gifted mooncakes to elderly people in the nursing home, so as to show love and promote care for the elderly. In 2020, Shanghai Aviation Electric staged 15 elderly care, environmental protection and pandemic prevention voluntary activities as well as 2 blood donation events. During the year, Hafei Aviation improved the surrounding environment of its plants through the "Icebreaking Action", the "Cleaning Campaign" and the "Civilized Workplace initiatives".

Promotion of Aviation Culture

Leveraging its professional capability, the Group educates the public on aviation knowledge and promotes aviation culture to fulfil its social responsibility. JONHON Optronic held aviation science talk, model aircraft building workshop and model aircraft competition for students at Tailunde Primary School in Luoyang City. AVIC Lanfei organized science popularization activities at campus to explain aviation knowledge and raise the aviation interests of primary school students. Changfeng Avionics launched the "Culture Lecturer Training for Brand Promotion Team", with the view of nurturing a group of "Golden Volunteers" to share aviation stories. Throughout the year, it held various aviation promotion events for approximately 900 participants in 18 groups.

Case study: AVIC Kaitian helped students to develop their aviation dream

On 17 September 2020, AVIC Kaitian and AVIC Chengdu Aircraft Industrial (Group) Co., Ltd. launched the aviation knowledge promotion activity at the campus of Xindu No. 1 Middle School in Chengdu. Under the theme of "Carrying forward the Spirit of Feng Ru and Building the Aviation Dream", AVIC Kaitian raised young people's interests in aviation and aerospace through model aircraft gifts, aerobatics performance, aviation knowledge talk, model aircraft building and test flight.

2.2 *Emergency Response and Rescue*

The Group has formulated the Emergency Rescue and Relief Measures and the Overall Emergency Rescue and Relief Plan while its subsidiaries have set up the emergency rescue teams. The Group actively takes part in and supports the emergency drills organized by the government authorities to prepare for emergency rescue and relief. In case of emergency disasters in the local areas, it makes full use of its own experience and advantages and participates in relief operation to fulfil its social responsibility.

Case study: Lanzhou Aviation Electrical offered emergency flood relief

In August 2020, Longnan region and Dananyu Town in Gansu Province witnessed the greatest flood in decades. Lanzhou Aviation Electrical donated RMB100,000 to the government of Dananyu Town as emergency funds, which was used for rescue and relief operation, resumption of production, resumption of road transport in towns and villages and disaster damage control.

Case study: Changhe Aviation actively participated in national and local emergency rescue operation

In 2020, Changhe Aviation cooperated with various parties to support emergency rescue:

- Carrying out take-off and landing point verification for emergency rescue helicopters, anti-terrorist drills, transportation of pandemic prevention supplies and forest fire drills in Jiujiang City and Jian City, Jiangxi Province;
- Cooperating with Jiangxi Emergency Management Office in the search of the missing backpacker in Mingyue Mountain, Yichun City;
- Dispatching two AC311 helicopters for offshore rescue operation, coordination and deployment, as well as air drop of supplies at Poyang Lake.

3. Special Topic on Social Responsibility: Pandemic Prevention in Action

In 2020, the widespread of Pandemic outbreak presented severe challenges to China. The Group was committed to Pandemic prevention and control. By adopting effective measures in a timely manner, it strived to fight against the disease and facilitate the resumption of work and operation. In view of the inconvenience and difficulties brought by the Pandemic, we safeguarded employees' health and safety to meet production needs, while offering help to pandemic-stricken areas and fulfilling our social responsibilities.

Quick to adapt and ensure business operation

Given the sudden outbreak of the Pandemic, the Group carefully formulated and implemented Pandemic prevention and control policies, so as to guarantee employees' safety and provide better support to the resumption of work and production. The Group has developed the Plan for Business Resumption and Disease Prevention during the Pandemic, the Flexible Working System for Pandemic Prevention after Business Resumption and the Pandemic Prevention and Control Proposal. It also promoted disease prevention and worked out the control measures and production plan. In respond to the call of the party committee, Lanzhou Aviation Electrical formed 15 work teams comprising over 200 employees to ensure timely product delivery for core national models during the Pandemic.

Case study: JONHON Optronic implemented the paramedic control policy and offered livelihood protection to staff

In times of Pandemic prevention, JONHON Optronic organized its branches to learn about the difficulties faced by employees in need. It spent over RMB44,000 to offer and deliver breakfast for 460 employees under isolated quarantine and engaged 11 hairdressers to offer haircuts to over 1,700 employees. It also established more than 300 special teams comprising party members of the party (general) branch to undertake "urgent, difficult, risky, critical and new missions" in the two-front war and carried out specific tasks such as body temperature check, sanitation and cleaning, as well as inspection of pandemic control.

Support Pandemic Prevention through Donation

In the spirit of charity, the Group made cash and in-kind donation to pandemic-stricken areas without sufficient supplies and sent volunteers to provide comprehensive assistance. During Wuhan's lockdown, Shanghai Aviation Electric donated protective suits and thermometers to Wuhan Aviation Instrument Co., Ltd. In view of the lack of pandemic control supplies and transportation difficulties, employees of Lanzhou Aviation Electrical delivered 2,000 face masks in person to villages and towns suffering from supplies shortage problems. JONHON Optronic supported the call to buy slow-moving agricultural products in Hubei Province and purchased tea leaves worth more than RMB72,600 from Hefeng County, Hubei Province. During the Pandemic, Tianjin Aviation formed a volunteer team with over 20 technical experts to play its part in national pandemic prevention initiatives by helping Tianjin Jiuan Medical Electronics Co., Ltd. in the urgent manufacturing of thermometers. AVIC Forstar organized the "Save Life with Blood Donation" event, where 141 people donated their blood to support the fight against Pandemic with concrete actions.

Independent Auditor's Report

SHINEWING (HK) CPA Limited
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33 Hysan Avenue
Causeway Bay, Hong Kong

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

OPINION

We have audited the consolidated financial statements of AviChina Industry & Technology Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 116 to 256, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

Refer to the accounting policies and disclosures for the expected credit loss ("ECL") of accounts receivables included in notes 2.4, 3 and 24 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
ECL of accounts receivables	
As at 31 December 2020, the Group's accounts receivables was significant to the consolidated financial statements. The estimation of ECL is based on a significant degree of management judgement and may be subject to management bias. The assessments are dependent upon management's judgement in making assumptions and selecting inputs to the ECL calculation based on the Group's historical credit loss experience and forward-looking information at the end of the reporting period, such as creditworthiness of material debtors, ageing of accounts receivables, repayment history, past due status and economic condition.	Our audit procedures to assess the ECL of accounts receivables included, but are not limited to the audit procedures below. We have obtained an understanding of the ECL assessment process for accounts receivables, performed walkthrough and identified relevant controls within the transaction process; inquired with management in regard to their estimation of the ECL, checked the ageing analysis, selected samples to trace to the original supporting documents; inquired management about their consideration for the material and/or long-aged categories, examined the historical collection and evaluated the financial strength of the customers concerned; examined subsequent collections by checking to the bank receipts and related original documents; assessed the appropriateness of the ECL provisioning methodology, examined the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the ECL.

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

KEY AUDIT MATTERS (Continued)

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition for construction contracts (input method)	
As at 31 December 2020, the Group's revenue recognition on construction contracts was significant to the consolidated financial statements. The Group uses the input method in accounting for its contract revenue. Significant management judgement is involved in using input method as it requires management to estimate the total estimated cost as well as the cost incurred up to the date as a proportion of the total estimated cost for each contract.	Our audit procedures to assess the revenue recognition for construction contracts (input method) included, but are not limited to the audit procedures below. We have obtained an understanding of the contract accounting process, performed walkthrough and identified and tested relevant controls within the transaction process; checked the contract revenue to the original contract clause; examined the compilation of the total estimated cost and discussed with management and various project officials to assess whether the estimation uncertainties have been adequately addressed; examined the cost incurred up to the date by reviewing the breakdown, selected samples to check to the original supporting documents; recalculated the percentage of total estimated costs for each performance obligation in the contract and performed gross profit analysis.

Independent Auditor's Report

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

KEY AUDIT MATTERS (Continued)

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

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories	
As at 31 December 2020, the Group's inventories were significant to the consolidated financial statements. Management estimates the net realisable value for finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and writes down obsolete and slow-moving items in inventories to net realisable value. This assessment of impairment of inventories requires significant management estimates on current market conditions.	Our audit procedures to assess the impairment of inventories included, but are not limited to the audit procedures below. We obtained an understanding of the impairment assessment process for inventories, performed walkthrough and identified and tested relevant controls within the transaction process; discuss with the management for identifying the obsolete or slow-moving items; obtained the final stock list and selected samples to check to subsequent net realisable values; examined the impairment calculation and the aging analysis prepared by management and checked the subsequent usage and sales of inventories.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

Hong Kong
30 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	Notes	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
REVENUE	5	50,117,150	43,831,760
Cost of sales		(39,654,402)	(34,199,358)
Gross profit		10,462,748	9,632,402
Other income and gains	5	803,828	669,825
Other expenses		(149,217)	(42,460)
Other income and gains, net		654,611	627,365
Selling and distribution expenses		(635,471)	(692,383)
Administrative expenses		(6,184,475)	(6,103,886)
Impairment loss of financial assets	6	(3,746)	(281,715)
OPERATING PROFIT		4,293,667	3,181,783
Finance income		441,226	412,677
Finance costs		(535,452)	(690,876)
Finance costs, net	7	(94,226)	(278,199)
Share of profits of:			
Joint ventures		26,591	18,912
Associates		135,539	209,762
PROFIT BEFORE TAX	6	4,361,571	3,132,258
Income tax expenses	10	(470,063)	(332,824)
PROFIT FOR THE YEAR		3,891,508	2,799,434
Attributable to:			
Equity holders of the Company		1,994,860	1,347,172
Non-controlling interests		1,896,648	1,452,262
		3,891,508	2,799,434
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
For profit for the year	12	RMB0.258	RMB0.174

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Note	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
PROFIT FOR THE YEAR		3,891,508	2,799,434
OTHER COMPREHENSIVE (LOSS) INCOME			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		(30,250)	9,981
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods		(30,250)	9,981
Items that will not be reclassified subsequently to profit or loss:			
(Loss) gain on a defined benefit scheme		(133,660)	1,983
Changes in fair value of financial assets at fair value through other comprehensive income		92,818	78,000
Income tax effect	22	(18,178)	(13,560)
Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods		(59,020)	66,423
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR, NET OF INCOME TAX		(89,270)	76,404
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,802,238	2,875,838
Attributable to:			
Equity holders of the Company		1,860,269	1,399,410
Non-controlling interests		1,941,969	1,476,428
		3,802,238	2,875,838

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)	1/1/2019 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	13	17,191,997	15,788,444	18,350,003
Right-of-use assets – land use rights	16	1,901,144	1,829,916	2,042,702
Right-of-use assets – others	14	680,918	880,067	787,464
Investment properties	15	381,485	361,077	426,264
Goodwill	17	69,122	69,122	69,122
Other intangible assets	18	456,632	489,734	587,921
Investments in joint ventures	19	170,206	151,428	141,772
Investments in associates	20	1,191,461	1,167,814	992,776
Financial assets at fair value through other comprehensive income	21	1,605,233	1,396,766	888,628
Deferred tax assets	22	373,214	354,807	328,352
Prepayments, deposits and other receivables	25	641,857	1,423,855	1,459,438
Contract assets	26	256,846	526,733	856,741
Total non-current assets		24,920,115	24,439,763	26,931,183
CURRENT ASSETS				
Inventories	23	30,713,010	29,200,875	25,938,764
Accounts and notes receivables	24	25,138,352	21,630,459	21,470,520
Prepayments, deposits and other receivables	25	3,216,132	4,063,308	3,155,123
Contract assets	26	4,542,892	2,567,912	2,118,950
Financial assets at fair value through profit or loss	27	2,378,749	1,250,983	280,629
Pledged deposits	28	779,846	1,127,846	1,649,757
Term deposits with initial terms of over three months	28	1,549,519	5,017,242	4,894,771
Cash and cash equivalents	28	22,809,125	18,517,739	15,125,957
Total current assets		91,127,625	83,376,364	74,634,471
TOTAL ASSETS		116,047,740	107,816,127	101,565,654

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)	1/1/2019 RMB'000 (Restated)
CURRENT LIABILITIES				
Accounts and notes payables	29	31,956,218	28,974,712	27,050,352
Other payables and accruals	30	6,069,004	5,475,878	5,071,408
Interest-bearing bank and other borrowings	31	6,432,943	7,589,794	9,547,235
Contract liabilities	26	17,136,186	18,048,690	14,944,498
Lease liabilities	14	104,809	85,427	82,893
Financial liabilities at fair value through profit or loss	34	20,417	–	–
Tax payable		177,139	160,163	217,678
Total current liabilities		61,896,716	60,334,664	56,914,064
NET CURRENT ASSETS		29,230,909	23,041,700	17,720,407
TOTAL ASSETS LESS CURRENT LIABILITIES		54,151,024	47,481,463	44,651,590
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	31	5,234,419	2,307,809	1,799,190
Deferred income from government grants	32	764,116	820,823	842,855
Deferred tax liabilities	22	139,742	67,940	36,640
Convertible bonds	33	–	2,128,959	2,930,007
Contract liabilities	26	–	20,905	–
Lease liabilities	14	636,375	681,172	571,618
Other payables and accruals	30	1,667,355	1,613,086	1,890,710
Total non-current liabilities		8,442,007	7,640,694	8,071,020
TOTAL LIABILITIES		70,338,723	67,975,358	64,985,084
Net assets		45,709,017	39,840,769	36,580,570

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)	1/1/2019 RMB'000 (Restated)
EQUITY				
Equity attributable to equity holders of the Company				
Share capital	35	7,711,332	6,245,122	6,245,122
Reserves	36	14,843,748	14,049,440	11,759,940
		22,555,080	20,294,562	18,005,062
Non-controlling interests		23,153,937	19,546,207	18,575,508
Total equity		45,709,017	39,840,769	36,580,570

The consolidated financial statements on pages 116 to 256 were approved and authorised for issue by the board of directors on 30 March 2021 and are signed on its behalf by:

Director	Director
Wang Xuejun	**Zhao Hongwei**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity holders of the Company								Non-controlling interests	Total
	Share capital RMB'000	Capital reserve RMB'000	Equity component of convertible bonds of a subsidiary RMB'000	Fair value reserve RMB'000	Currency translation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000	RMB'000	RMB'000
As at 1 January 2020 (as restated)	6,245,122	12,006,194	192,098	(469,005)	21,499	534,153	1,764,501	20,294,562	19,546,207	39,840,769
Profit for the year	–	–	–	–	–	–	1,994,860	1,994,860	1,896,648	3,891,508
Other comprehensive (loss) income for the year, net of tax	–	–	–	(104,440)	(30,151)	–	–	(134,591)	45,321	(89,270)
Total comprehensive (loss) income for the year	–	–	–	(104,440)	(30,151)	–	1,994,860	1,860,269	1,941,969	3,802,238
Transfer fair value reserve from disposal of financial assets at fair value through other comprehensive income	–	–	–	8,860	–	–	(8,860)	–	–	–
Disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	(117,270)	(117,270)
Deemed disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	(57,611)	(57,611)
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	84,161	84,161
Repurchase of shares	(34,459)	(87,663)	–	–	–	–	–	(122,122)	–	(122,122)
Issuance of shares	1,500,669	4,186,868	–	–	–	–	–	5,687,537	–	5,687,537
Business combinations involving entities under common control (Note (b) and Note 2.1)	–	(5,687,537)	–	–	–	–	–	(5,687,537)	–	(5,687,537)
Issue of shares by a subsidiary upon exercise of convertible bonds	–	779,407	(192,098)	–	–	–	–	587,309	1,608,587	2,195,896
2019 final dividend (Note 11)	–	–	–	–	–	–	(187,354)	(187,354)	–	(187,354)
Contribution from non-controlling shareholders of subsidiaries (Note (c))	–	–	–	–	–	–	–	–	360,280	360,280
Recognition of equity-settled share-based payment expenses of a subsidiary	–	63,641	–	–	–	–	–	63,641	100,921	164,562
Share-based payments of a subsidiary vested	–	21,691	–	–	–	–	–	21,691	38,022	59,713
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(480,560)	(480,560)
Transfer to statutory surplus reserve (Note 36(c))	–	–	–	–	–	35,444	(35,444)	–	–	–
Appropriation (Note 36(c))	–	–	–	–	–	57,156	(57,156)	–	–	–
Changes in ownership interests in subsidiaries without change of control	–	26,831	–	–	–	–	–	26,831	152,619	179,450
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	(23,197)	(23,197)
Others	–	10,661	–	–	–	–	(408)	10,253	(191)	10,062
As at 31 December 2020	7,711,332	11,320,093*	–*	(564,585)*	(8,652)*	626,753*	3,470,139*	22,555,080	23,153,937	45,709,017

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to equity holders of the Company								Non-controlling interests	Total
	Share capital RMB'000	Capital reserve RMB'000	Equity component of convertible bonds of subsidiaries RMB'000	Fair value reserve RMB'000	Currency translation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000	RMB'000	RMB'000
As at 1 January 2019 (as previously stated)	6,245,122	5,246,246	287,799	(365,440)	11,552	291,077	5,622,449	17,338,805	18,853,712	36,192,517
Business combinations involving entities under common control (Note 2.1)	–	5,573,499	–	(142,110)	–	168,435	(4,933,567)	666,257	(278,204)	388,053
As at 1 January 2019 (as restated)	6,245,122	10,819,745	287,799	(507,550)	11,552	459,512	688,882	18,005,062	18,575,508	36,580,570
Profit for the year	–	–	–	–	–	–	1,347,172	1,347,172	1,452,262	2,799,434
Other comprehensive income for the year, net of tax	–	–	–	42,291	9,947	–	–	52,238	24,166	76,404
Total comprehensive income for the year	–	–	–	42,291	9,947	–	1,347,172	1,399,410	1,476,428	2,875,838
Transfer fair value reserve from disposal of financial assets at fair value through other comprehensive income	–	–	–	(24,228)	–	–	24,228	–	–	–
Disposals of interests in subsidiaries	–	–	–	20,482	–	–	(20,482)	–	(124,115)	(124,115)
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	46,302	46,302
Business combinations involving entities under common control (Note (a))	–	(505,165)	–	–	–	–	–	(505,165)	(683,448)	(1,188,613)
Deemed issuance for disposal of convertible bonds by the company	–	–	9,019	–	–	–	–	9,019	24,841	33,860
Issue of shares by a subsidiary upon exercise of convertible bonds	–	513,451	(104,720)	–	–	–	–	408,731	664,232	1,072,963
2018 final dividend	–	–	–	–	–	–	(187,354)	(187,354)	–	(187,354)
Contribution from non-controlling shareholders of subsidiaries (Note (c))	–	–	–	–	–	–	–	–	99,137	99,137
Recognition of equity-settled share-based payment expenses of a subsidiary	–	5,911	–	–	–	–	–	5,911	8,948	14,859
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(324,285)	(324,285)
Transfer to statutory surplus reserve (Note 36(c))	–	–	–	–	–	31,999	(31,999)	–	–	–
Appropriation (Note 36(c))	–	–	–	–	–	42,642	(42,642)	–	–	–
Changes in ownership interests in subsidiaries without change of control	–	1,223,778	–	–	–	–	–	1,223,778	(109,228)	1,114,550
Repurchase share relating to share based payments of a subsidiary	–	(69,887)	–	–	–	–	–	(69,887)	(92,779)	(162,666)
Share-based payments of a subsidiary vested	–	17,017	–	–	–	–	–	17,017	38,407	55,424
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	(29,710)	(29,710)
Others	–	1,344	–	–	–	–	(13,304)	(11,960)	(24,031)	(35,991)
As at 31 December 2019 (as restated)	6,245,122	12,006,194*	192,098*	(469,005)*	21,499*	534,153*	1,764,501*	20,294,562	19,546,207	39,840,769

Note (a):

During the year ended 31 December 2019, Jiangxi Hongdu Aviation Industry Co., Ltd. ("Hongdu Aviation", a non-wholly-owned subsidiary of the Company) entered into asset swap agreement with Jiangxi Hongdu Aviation Industry (Group) Corporation Ltd. ("Hongdu Group", a connected person of the Company) and pursuant to which Hongdu Aviation transferred disposed assets to Hongdu Group and Hongdu Group transferred acquisition assets to Hongdu Aviation and paying the difference between the consideration for the acquisition assets and the disposed assets of RMB846,037,800 to Hongdu Aviation in cash through business combinations involving entities under common control.

Note (b):

On 28 November 2019, the Company entered into an equity acquisition and share issuance agreement with Aviation Industry Corporation of China Ltd.# (中國航空工業集團有限公司) (the "AVIC", the holding company of the Company) and Tianjin Free Trade Zone Investment Company Limited# (天津保税區投資有限公司), a state-owned enterprise incorporated in the PRC and pursuant to which, the Company agreed to acquire AVIC Helicopter Co., Ltd.# (中航直升機有限責任公司) (the "Target Entities") from AVIC and Tianjin Free Trade Zone Investment Company Limited through business combinations involving entities under common control and details of which are set out in Note 2.1.

Note (c):

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

* These reserve accounts comprise the consolidated reserves of RMB14,843,748,000 (2019 (restated): RMB14,049,440,000) in the consolidated statement of financial position.

For identification only

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,361,571	3,132,258
Adjustments for:			
Finance costs	7	535,452	690,876
Share of profits of joint ventures	19	(26,591)	(18,912)
Share of profits of associates	20	(135,539)	(209,762)
Finance income	7	(441,226)	(412,677)
Gain on disposal of property, plant and equipment	5	(100,338)	(91,841)
Gain on disposal of investments in associates	5	(113)	(122)
Gain on disposal of financial assets at fair value through profit or loss	5	(225,830)	(58,864)
Gain on disposal of financial liabilities at fair value through profit or loss	5	(2,199)	–
Gain on disposal of right-of-use assets – land use rights	5	(287)	(523)
Gain on disposal of interest in subsidiaries	5	(317)	(200,979)
Fair value gains on financial assets at fair value through profit or loss	5	(184,680)	(18,689)
Fair value gain on financial liabilities at fair value through profit or loss	5	(46)	–
Depreciation on investment properties	15	11,967	15,507
Depreciation on property, plant and equipment	13	1,463,176	1,513,202
Depreciation of right-of-use assets – others	14	55,470	46,814
Amortisation of other intangible assets	18	32,620	41,292
Depreciation of right-of-use assets – land use rights	16	59,186	52,440
Impairment of investment in an associate	6	–	2,646
Impairment of property, plant and equipment	6	29,596	24,405
Impairment of other intangible assets	6	275	–
Impairment of contract assets	6	10,436	–
Impairment of accounts and notes receivables and deposits and other receivables	6	3,746	281,715
Write-down of inventories to net realisable value	6	128,100	177,005
Share-based payment expense	6	164,562	14,859
Dividend income from financial assets at fair value through profit or loss/at fair value through other comprehensive income	5	(146,515)	(29,664)
Losses from debt restructuring		131	–
Factoring service fee		12,776	–
Waiver of provision		–	(21,233)
Operating cash flows before movements in working capital		5,605,383	4,929,753
Increase in inventories		(1,617,719)	(5,255,357)
Increase in accounts and notes receivables		(3,679,903)	(868,359)
Increase in contract assets		(1,715,529)	(109,686)
(Increase) decrease in prepayments, deposits and other receivables		(137,138)	164,626
Increase in accounts and notes payables		2,166,666	2,188,332
(Decrease) increase in contract liabilities		(933,409)	3,132,733
Increase in other payables and accruals		867,758	1,177,488
Increase in pledged deposits		348,000	521,911
Cash from operations		904,109	5,881,441
Interest received		452,647	400,727
Interest paid		(473,998)	(505,989)
Income tax paid		(417,870)	(398,205)
Net cash flows from operating activities		464,888	5,377,974

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(2,225,935)	(2,312,614)
Purchase of investment properties		(548)	(278)
Purchase of right-of-use assets – land use rights		(162,499)	(15,007)
Purchase of other intangible assets		–	(1,939)
Purchase of financial assets at fair value through profit or loss		(1,587,830)	(855,104)
Purchase of financial assets at fair value through other comprehensive income		(14)	(515,211)
Purchase of non-controlling interest		(26,993)	(22,148)
Additions to investments in associates	20	(287,748)	(154,243)
Redemption of term deposits with initial terms of over three months		5,017,242	4,894,771
Addition of term deposits with initial terms of over three months		(1,549,519)	(5,017,242)
Government grant for purchase of property, plant and equipment	32	62,291	147,231
Proceeds from disposal of property, plant and equipment		144,249	130,066
Proceeds from disposals of right-of-use assets – land use rights		32,372	824
Proceeds from disposals of other intangible assets		207	–
Disposals of financial assets at fair value through profit or loss		1,370,683	912,641
Disposals of financial assets at fair value through other comprehensive income		107	32,340
Disposal of investments in associates		33,053	3,639
Disposal of investments in joint ventures		207	–
Disposal of investments in subsidiaries	44	(135,930)	(52,389)
Proceeds from disposal of investments in subsidiaries in last year		240,991	–
Business combinations involving entities under common control		801,800	49,079
Dividend received from joint ventures	19	7,606	9,256
Dividends received from financial assets at fair value through profit or loss/at fair value through other comprehensive income		146,730	29,664
Repayment from related companies		20,149	–
Repayment from fellow subsidiaries		330,905	–
Dividend received from associates	20	181,610	204,512
Net cash flows from (used) in investing activities		2,413,186	(2,532,152)

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Notes	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		11,073,798	11,519,970
Repayments of borrowings		(10,058,491)	(10,319,923)
Redemption of convertible bonds		(12,085)	(2,304)
Repayment of lease liabilities		(114,097)	(111,764)
Payment of repurchase of shares of the Company		(122,122)	–
Capital injection by non-controlling shareholders of subsidiaries		84,161	46,302
Proceeds from disposal of interests in subsidiaries without change of control		–	76,708
Proceeds from fund raising of a subsidiary		206,464	–
Dividends paid to equity holders of the Company		(187,354)	(187,354)
Dividends paid to non-controlling shareholders of subsidiaries		(297,720)	(336,343)
Proceeds from share -based payment scheme		725,303	–
Payment of repurchase of shares of a subsidiary		(8,232)	(162,666)
Net cash flows from financing activities		1,289,625	522,626
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,167,699	3,368,448
Cash and cash equivalents at beginning of year		18,517,739	15,125,957
Effect of foreign exchange rate changes, net		123,687	23,334
CASH AND CASH EQUIVALENTS AT END OF YEAR		22,809,125	18,517,739
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	28	25,138,490	24,662,827
Less: Pledged deposits	28	(779,846)	(1,127,846)
Term deposits with initial terms of over three months	28	(1,549,519)	(5,017,242)
Cash and cash equivalents as stated in the consolidated statement of cash flows	28	22,809,125	18,517,739

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. CORPORATE AND GROUP INFORMATION

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

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

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

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

Information about principal subsidiaries

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

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2020		2019 (restated)		
			Direct	Indirect	Direct	Indirect	
Harbin Aviation Industry (Group) Co., Ltd. (哈爾濱航空工業(集團)有限公司)	PRC	RMB450,000,000	100	–	100	–	Manufacture and sale of aero products and related services
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)*	PRC	RMB717,114,512	43.77 Note (a)	–	43.77 Note (a)	–	Design, development, manufacture and sale of basic trainers, general-purpose aeroplanes and other aero products, including parts and components

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2020		2019 (restated)		
			Direct	Indirect	Direct	Indirect	
AVIC JONHON Optronic Technology Co., Ltd. (中航光電科技股份有限公司) *	PRC	RMB1,100,883,678	38.67 Note(a)	–	39.78 Note(a)	–	Research and development, manufacture and sale of electrical connectors, optical components and cable assemblies
China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司) *	PRC	RMB1,928,214,265	39.43 Note (b)	–	43.21 Note (b)	–	Holding investments in companies engaged in aviation equipment business
Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司)	PRC	RMB293,163,439	100	–	100	–	Manufacture and sale of aviation electrical engineering products and accessories
China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究總院有限公司)	PRC	RMB750,000,000	100	–	100	–	Delivery of planning, design, consultation, construction, operation and other related aviation engineering services
AviChina Hong Kong Limited. (中航科工香港有限公司)	Hong Kong	HKD1,000	100	–	100	–	Design, sale and development of aviation products, finance and investment, information consulting, training and house rental
AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司)	PRC	RMB200,000,000	100	–	100	–	Aviation industry project investment, consulting research and technology transfer

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2020		2019 (restated)		
			Direct	Indirect	Direct	Indirect	
AVICOPTER PLC (中航直升機股份有限公司) *	PRC	RMB589,476,716	6.56	44.24	6.56	44.24	Research, development, design, manufacture and sale of aero products, including parts and components
AVIC Helicopter Co., Ltd. (中航直升機有限責任公司)	PRC	RMB7,800,000,000	100	–	100	–	Research, development, design, manufacture and sale of helicopters
Harbin Aircraft Industry Group Co., Ltd. (哈爾濱飛機工業集團有限責任公司)	PRC	RMB1,184,958,734	10.21	89.79	10.21	89.79	Manufacturing and sales of aviation products
Changhe Aircraft Industry (Group) Corporation Ltd. (昌河飛機工業(集團)有限責任公司)	PRC	RMB442,591,999	47.96	52.04	47.96	52.04	Development, production and sales of helicopter aviation products
Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司)	PRC	RMB630,422,696	–	50.80	–	50.80	Manufacture and sale of helicopters, other electrical engineering products, accessories and related materials
Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司)	PRC	RMB86,838,030	–	50.80	–	50.80	Manufacture aviation propellers, speed governors, feathering pumps, helicopter rotors, tail rotors, hovercrafts with propellers
Tianjin Helicopter Company Limited. (天津直升機有限責任公司)	PRC	RMB250,000,000	–	50.80	–	50.80	Research and manufacture of helicopters, other aircrafts and aerospace components, and production, sale and maintenance services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2020		2019 (restated)		
			Direct	Indirect	Direct	Indirect	
Harbin Hafei Aviation Industry Co., Ltd. (哈爾濱哈飛航空工業有限責任公司)	PRC	RMB500,000,000	–	50.80	–	50.80	Design, development, manufacture and sale of helicopters, other aircrafts and electrical engineering products
Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司)	PRC	RMB530,000,000	–	39.43 Note (b)	–	43.21 Note (b)	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司)	PRC	RMB540,000,000	–	39.43 Note (b)	–	43.21 Note (b)	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司)	PRC	RMB410,000,000	–	39.43 Note (b)	–	43.21 Note (b)	Research, manufacture and sale of aviation auto control equipment and instruments
Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司) *	PRC	RMB376,897,007	–	34.82 Note (b)	–	38.15 Note (b)	Research, manufacture and sale of air data systems and various types of aviation instruments
AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司)	PRC	RMB280,000,000	–	39.43 Note (b)	–	43.21 Note (b)	Manufacture and sale of aviation electrical engineering products and accessories

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2020		2019 (restated)		
			Direct	Indirect	Direct	Indirect	
AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司)	PRC	RMB472,000,000	–	39.43 Note (b)	–	43.21 Note (b)	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司)	PRC	RMB450,000,000	–	31.54 Note (b)	–	34.57 Note (b)	Manufacture and sale of aviation electrical engineering products and accessories
Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司)	PRC	RMB243,432,216	–	39.43 Note (b)	–	43.21 Note (b)	Manufacture and sale of aviation instruments, sensors and autopilot products and related products
Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司)	PRC	RMB209,632,782	–	39.43 Note (b)	–	43.21 Note (b)	Research, manufacture, sale of avionics, airborne equipment and aviation products and related services
Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司)	PRC	RMB230,000,000	–	39.43 Note (b)	–	43.21 Note (b)	Manufacture and sale of aeronautic instruments and other civil mechanical and electrical instruments
AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限責任公司)	PRC	RMB80,856,400	–	24.31 Note (a)	–	25.01 Note (a)	Research, manufacture, sale, maintenance and related service of aviation electric equipment, electric connectors and related products

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company 2020 Direct	2020 Indirect	2019 (restated) Direct	2019 (restated) Indirect	Principal activities
AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司) *	PRC	RMB93,864,000	–	18.03 Note (a)	–	22.08 Note (a)	Manufacture of electric connectors, wires and cables, cable components, microwave components, optoelectronic devices, antennas, power supplies, instruments and meter production and marketing
Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司)	PRC	RMB2,360,000	–	19.72 Note (a)	–	20.29 Note (a)	Research and development, manufacture and sale of optical fibre connectors, optical-module ceramic cores, active and passive optical fibre communication devices, and new ceramic materials
AVIC Optoelectronic Precision Electronics (Shenzhen) Co., Ltd. (中航光電精密電子(深圳)有限公司)	PRC	RMB50,000,000	–	38.67 Note (a)	–	20.29 Note (a)	Manufacture and sale of electrical connectors
China Aviation International Construction and Investment Co., Ltd. (中國航空國際建設投資有限公司)	PRC	RMB130,000,000	–	100	–	100	Project contracting of aviation, civil and industrial construction
China Aviation Integration Equipment Co., Ltd. (中航工程集成設備有限公司)	PRC	RMB61,000,000	–	100	–	100	Research, manufacture and sale of mechanical equipment
China Aviation Engineering Supervision (Beijing) Co., Ltd. (中航工程監理(北京)有限公司)	PRC	RMB6,000,000	–	100	–	100	Construction supervision and engineering consulting

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2020		2019 (restated)		
			Direct	Indirect	Direct	Indirect	
AVIC CAPDI Engineering Consulting (Beijing) Co., Ltd. (中航工程諮詢(北京)有限公司)	PRC	RMB3,000,000	–	100	–	100	Engineering consulting
AVIC CAPDI (Macau) Company Limited (中航院設計諮詢(澳門)有限公司)	Macau	MOP600,000	–	100	–	100	Engineering, designing and consulting
AVIC Renewable Energy Investment Co., Ltd. (中國航空工業新能源投資有限公司)	PRC	RMB329,687,591	–	69.31	–	69.31	Engineering consulting and power generation

* A joint stock limited company established in the PRC.

Excepted for the joint stock limited companies established in the PRC, the other PRC subsidiaries of the Company are limited liability companies.

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

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

Notes:

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

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

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

Merger accounting for business combination involving entities under common control

On 28 November 2019, the Company entered into the entity acquisition and share issuance agreement with AVIC and Tianjin Free Trade Zone Investment Company Limited* (天津保稅區投資有限公司) (Tianjin Free Trade Zone Investment) to acquire AVIC Helicopter Co., Ltd.* (中航直升機有限責任公司) and its subsidiaries ("AVIC Helicopter") through business combinations, pursuant to which, the Company acquired (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 (equivalent to approximately HK$6,296,103,515.39). The transaction has been completed on 24 December 2020.

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

By applying the principles of merger accounting, these consolidated financial statements also included the financial position, results and cash flows of business combination as if it had been combined within the Group throughout the year ended 1 January 2019 and 31 December 2019, and from the earliest date presented. Comparative figures as at 1 January 2019 and 31 December 2019 and for the year then ended have been restated as a result of such. All intra-group transactions and balances have been eliminated on consolidation.

* For identification only

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merger accounting for business combination involving entities under common control (Continued)

(i) The effect of restatements described above on the consolidated statement of profit or loss for the year ended 31 December 2019 by line items is as follows:

	Year ended 31/12/2019 RMB'000 (Audited and as originally stated)	Business combination under common control RMB'000	Year ended 31/12/2019 RMB'000 (As restated)
REVENUE	42,119,126	1,712,634	43,831,760
Cost of sales	(33,104,168)	(1,095,190)	(34,199,358)
Gross profit	9,014,958	617,444	9,632,402
Other income and gains (expenses)	685,822	(15,997)	669,825
Other expenses	(39,675)	(2,785)	(42,460)
Other income and gains, net	646,147	(18,782)	627,365
Selling and distribution expenses	(687,377)	(5,006)	(692,383)
Administrative expenses	(5,294,907)	(808,979)	(6,103,886)
(Impairment loss) reversal of impairment of financial assets	(282,050)	335	(281,715)
OPERATING PROFIT (LOSS)	3,396,771	(214,988)	3,181,783
Finance income	249,124	163,553	412,677
Finance costs	(639,896)	(50,980)	(690,876)
Finance (costs) income, net	(390,772)	112,573	(278,199)
Share of profits of:			
Joint ventures	18,912	–	18,912
Associates	208,695	1,067	209,762
PROFIT (LOSS) BEFORE TAX	3,233,606	(101,348)	3,132,258
Income tax expenses	(297,602)	(35,222)	(332,824)
PROFIT (LOSS) FOR THE YEAR	2,936,004	(136,570)	2,799,434

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merger accounting for business combination involving entities under common control (Continued)

(i) **The effect of restatements described above on the consolidated statement of profit or loss for the year ended 31 December 2019 by line items is as follows: (Continued)**

	Year ended 31/12/2019 RMB'000 (Audited and as originally stated)	Business combination under common control RMB'000	Year ended 31/12/2019 RMB'000 (As restated)
Attributable to:			
Equity holders of the Company	1,376,856	(29,684)	1,347,172
Non-controlling interests	1,559,148	(106,886)	1,452,262
	2,936,004	(136,570)	2,799,434
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
For profit (loss) for the year	RMB0.220	(RMB0.046)	RMB0.174

(ii) **The effect of restatements described above on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 by line items is as follows:**

	Year ended 31/12/2019 RMB'000 (Audited and as originally stated)	Business combination under common control RMB'000	Year ended 31/12/2019 RMB'000 (As restated)
PROFIT (LOSS) FOR THE YEAR	2,936,004	(136,570)	2,799,434
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations	9,981	—	9,981

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merger accounting for business combination involving entities under common control (Continued)

(ii) The effect of restatements described above on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 by line items is as follows: (Continued)

	Year ended 31/12/2019 RMB'000 (Audited and as originally stated)	Business combination under common control RMB'000	Year ended 31/12/2019 RMB'000 (As restated)
Other comprehensive income to be reclassified to profit or loss in subsequent periods	9,981	–	9,981
Items that will not be reclassified subsequently to profit or loss:			
Gain (loss) on a defined benefit scheme	2,023	(40)	1,983
Changes in fair value of financial assets at fair value through other comprehensive income	78,000	–	78,000
Income tax effect	(13,560)	–	(13,560)
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	66,463	(40)	66,423
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	76,444	(40)	76,404
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	3,012,448	(136,610)	2,875,838
Attributable to:			
Equity holders of the Company	1,428,457	(29,047)	1,399,410
Non-controlling interests	1,583,991	(107,563)	1,476,428
	3,012,448	(136,610)	2,875,838

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merger accounting for business combination involving entities under common control (Continued)

(iii) The effect of restatements described above on the consolidated statement of financial position as at 1 January 2019 is as follows:

	1/1/2019 RMB'000 (Audited and as originally stated)	Business combination of entities under common control RMB'000	1/1/2019 RMB'000 (As restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15,164,691	3,185,312	18,350,003
Right-of-use assets – land use rights	1,701,996	340,706	2,042,702
Right-of-use assets – others	787,464	–	787,464
Investment properties	365,106	61,158	426,264
Goodwill	69,122	–	69,122
Other intangible assets	575,863	12,058	587,921
Investments in joint ventures	141,772	–	141,772
Investments in associates	970,799	21,977	992,776
Financial assets at fair value through other comprehensive income	888,628	–	888,628
Deferred tax assets	324,183	4,169	328,352
Prepayments, deposits and other receivables	1,424,001	35,437	1,459,438
Contract assets	856,741	–	856,741
Total non-current assets	23,270,366	3,660,817	26,931,183
CURRENT ASSETS			
Inventories	23,442,736	2,496,028	25,938,764
Accounts and notes receivables	21,272,651	197,869	21,470,520
Prepayments, deposits and other receivables	2,791,983	363,140	3,155,123
Contract assets	2,074,429	44,521	2,118,950
Financial assets at fair value through profit or loss	280,629	–	280,629
Pledged deposits	1,414,308	235,449	1,649,757
Term deposits with initial terms of over three months	1,394,771	3,500,000	4,894,771
Cash and cash equivalents	12,122,364	3,003,593	15,125,957
Total current assets	64,793,871	9,840,600	74,634,471
TOTAL ASSETS	88,064,237	13,501,417	101,565,654

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merger accounting for business combination involving entities under common control (Continued)

(iii) The effect of restatements described above on the consolidated statement of financial position as at 1 January 2019 is as follows: (Continued)

	1/1/2019 RMB'000 (Audited and as originally stated)	Business combination of entities under common control RMB'000	1/1/2019 RMB'000 (As restated)
CURRENT LIABILITIES			
Accounts and notes payables	25,324,860	1,725,492	27,050,352
Other payables and accruals	3,722,719	1,348,689	5,071,408
Interest-bearing bank and other borrowings	9,022,435	524,800	9,547,235
Contract liabilities	6,995,894	7,948,604	14,944,498
Lease liabilities	82,893	–	82,893
Tax payable	217,336	342	217,678
Total current liabilities	45,366,137	11,547,927	56,914,064
NET CURRENT ASSETS (LIABILITIES)	19,427,734	(1,707,327)	17,720,407
TOTAL ASSETS LESS CURRENT LIABILITIES	42,698,100	1,953,490	44,651,590
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	1,294,190	505,000	1,799,190
Deferred income from government grants	777,498	65,357	842,855
Deferred tax liabilities	36,640	–	36,640
Convertible bonds	2,930,007	–	2,930,007
Lease liabilities	571,618	–	571,618
Other payables and accruals	895,630	995,080	1,890,710
Total non-current liabilities	6,505,583	1,565,437	8,071,020
TOTAL LIABILITIES	51,871,720	13,113,364	64,985,084

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merger accounting for business combination involving entities under common control (Continued)

(iii) The effect of restatements described above on the consolidated statement of financial position as at 1 January 2019 is as follows: (Continued)

	1/1/2019 RMB'000 (Audited and as originally stated)	Business combination of entities under common control RMB'000	1/1/2019 RMB'000 (As restated)
Net assets	36,192,517	388,053	36,580,570
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	6,245,122	–	6,245,122
Reserves	11,093,683	666,257	11,759,940
	17,338,805	666,257	18,005,062
Non-controlling interests	18,853,712	(278,204)	18,575,508
Total equity	36,192,517	388,053	36,580,570

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merger accounting for business combination involving entities under common control (Continued)

(iv) The effect of restatements described above on the consolidated statement of financial position as at 31 December 2019 is as follows:

	31/12/2019 RMB'000 (Audited and as originally stated)	Business combination of entities under common control RMB'000	31/12/2019 RMB'000 (As restated)
NON-CURRENT ASSETS			
Property, plant and equipment	12,624,271	3,164,173	15,788,444
Right-of-use assets – land use rights	1,496,226	333,690	1,829,916
Right-of-use assets – others	880,067	–	880,067
Investment properties	303,102	57,975	361,077
Goodwill	69,122	–	69,122
Other intangible assets	480,621	9,113	489,734
Investments in joint ventures	151,428	–	151,428
Investments in associates	1,144,770	23,044	1,167,814
Financial assets at fair value through other comprehensive income	1,396,766	–	1,396,766
Deferred tax assets	349,947	4,860	354,807
Prepayments, deposits and other receivables	1,432,017	(8,162)	1,423,855
Contract assets	526,733	–	526,733
Total non-current assets	20,855,070	3,584,693	24,439,763

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merger accounting for business combination involving entities under common control (Continued)

(iv) **The effect of restatements described above on the consolidated statement of financial position as at 31 December 2019 is as follows: (Continued)**

	31/12/2019 RMB'000 (Audited and as originally stated)	Business combination of entities under common control RMB'000	31/12/2019 RMB'000 (As restated)
CURRENT ASSETS			
Inventories	25,671,657	3,529,218	29,200,875
Accounts and notes receivables	21,673,943	(43,484)	21,630,459
Prepayments, deposits and other receivables	3,966,225	97,083	4,063,308
Contract assets	2,541,907	26,005	2,567,912
Financial assets at fair value through profit or loss	502,343	748,640	1,250,983
Pledged deposits	955,999	171,847	1,127,846
Term deposits with initial terms of over three months	1,517,242	3,500,000	5,017,242
Cash and cash equivalents	13,059,640	5,458,099	18,517,739
Total current assets	69,888,956	13,487,408	83,376,364
TOTAL ASSETS	90,744,026	17,072,101	107,816,127
CURRENT LIABILITIES			
Accounts and notes payables	27,223,029	1,751,683	28,974,712
Other payables and accruals	4,504,501	971,377	5,475,878
Interest-bearing bank and other borrowings	6,665,294	924,500	7,589,794
Contract liabilities	7,212,132	10,836,558	18,048,690
Lease liabilities	85,427	–	85,427
Tax payable	159,402	761	160,163
Total current liabilities	45,849,785	14,484,879	60,334,664
NET CURRENT ASSETS (LIABILITIES)	24,039,171	(997,471)	23,041,700

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merger accounting for business combination involving entities under common control (Continued)

(iv) The effect of restatements described above on the consolidated statement of financial position as at 31 December 2019 is as follows: (Continued)

	31/12/2019 RMB'000 (Audited and as originally stated)	Business combination of entities under common control RMB'000	31/12/2019 RMB'000 (As restated)
TOTAL ASSETS LESS CURRENT LIABILITIES	44,894,241	2,587,222	47,481,463
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	2,042,809	265,000	2,307,809
Deferred income from government grants	755,827	64,996	820,823
Deferred tax liabilities	63,625	4,315	67,940
Convertible bonds	2,128,959	–	2,128,959
Contract liabilities	20,905	–	20,905
Lease liabilities	681,172	–	681,172
Other payables and accruals	651,366	961,720	1,613,086
Total non-current liabilities	6,344,663	1,296,031	7,640,694
TOTAL LIABILITIES	52,194,448	15,780,910	67,975,358
Net assets	38,549,578	1,291,191	39,840,769
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	6,245,122	–	6,245,122
Reserves	12,235,782	1,813,658	14,049,440
	18,480,904	1,813,658	20,294,562
Non-controlling interests	20,068,674	(522,467)	19,546,207
Total equity	38,549,578	1,291,191	39,840,769

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Merger accounting for business combination involving entities under common control (Continued)

(v) The effect of restatements on the Group's basic earnings per share for the year ended 31 December 2019 is as follows:

	Year ended 31/12/2019 RMB (Audited and as originally stated)	Business combination of entities under common control RMB	Year ended 31/12/2019 RMB (As restated)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
For profit for the year	0.220	(0.046)	0.174

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basis of consolidation (Continued)

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

Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

In the current year, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in IFRSs and the following amendments to IFRSs, issued by the IASB, which are effective for the Group's financial year beginning 1 January 2020:

Amendments to IFRS 3	Definition of a Business
Amendments to International Accounting Standard ("IAS") 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in IFRSs and the amendments to IFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 17	Insurance Contracts and related Amendments[5]
Amendments to IFRS 3	Reference to Conceptual Framework[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 16	Property, plant and Equipment: Proceeds before Intended Use[3]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendments to IFRS 16	COVID-19-Related Rent Concessions[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2018 – 2020 cycle[3]
Amendments to IAS 1	Disclosure of Accounting Policies[5]
Amendments to IAS 8	Definition of Accounting Estimates[5]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2022.
4 Effective for annual periods beginning on or after 1 June 2020.
5 Effective for annual periods beginning on or after 1 January 2023.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture.

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

Gains and losses resulting from transactions between the Group and its associate or joint venture are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate or joint venture. The Group's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

Merger accounting

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting (Continued)

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

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

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

Goodwill

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

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

Fair value measurement

The Group measures fair value except for the Group's share-based payment transactions, leasing transactions, net realisable value of inventories and value-in-use of property-plant and equipment, right-of-use assets-land use rights, right-of-use assets-others, investment properties and other intangible assets, at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

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

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

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

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

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

Impairment of non-financial assets (other than goodwill)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units.

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets – land use rights" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment (other than construction in progress) less their residual value over its estimated useful lives as follows:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are interests in buildings (including the leasehold interest for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.

Investment properties also include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Owned investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. An investment property held by the Group as a right-of-use asset is measured initially at cost in accordance with IFRS 16.

If an item of property, plant and equipment becomes an investment property when there is a change in use, as supported by observable evidence, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in other reserves. The properties revaluation reserve in respect of that item will be transferred directly to retained earnings when it is derecognised.

If an investment property becomes an owner-occupied property when there is a change in use, as supported by observable evidence, the fair value of that property at the date of transfer is the deemed cost for subsequent accounting for that property as an item of property, plant and equipment.

Intangible assets (other than goodwill)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

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

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

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

Technology know-how

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

Trademarks and licences

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

Contractual customer relationships

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

Service concession arrangements

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Definition of a lease

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

The Group as lessee

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease, at inception of the contract or acquisition date, as appropriate. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

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

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Right-of-use assets – others/land use rights

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

They are depreciated over the shorter period of lease term and useful life of the underlying asset. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position.

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

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient for all leases.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When a contract includes both lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

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

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for accounts and notes receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

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

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) (Continued)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI.

Interest income is recognised in profit or loss and is included in the "Other income and gains" line item (Note 5).

Equity instruments designated as at FVTOCI

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

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

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

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

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

A financial asset is held for trading if:

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

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

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

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

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

Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

Significant increase in credit risk (Continued)

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

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

Definition of default

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

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

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

Credit-impaired financial assets

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

- significant financial difficulty of the issuer or the borrower;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (Continued)

Credit-impaired financial assets (Continued)

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

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivables, when the amounts are over 3 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

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

Financial liabilities subsequently measured at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Convertible bonds

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

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

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

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity components are charged to equity immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

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

Taxation

Income tax comprises current and deferred tax. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

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

Revenue recognition

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- The Group' performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

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

Contract assets and contract liabilities

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Contract assets and contract liabilities (Continued)

The Group recognised revenue from the following major sources:

- sales of goods
- rendering of services

The sale of goods and rendering of services

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

The sale of goods and rendering of services (Continued)

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Pension scheme

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

Housing benefits

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

Defined benefits scheme

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

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

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

Foreign currencies

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Critical judgements in applying accounting policies

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

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

The directors of the Company assessed whether the Group has control over any entity based on whether the Group has the practical ability to direct the relevant activities of the entity unilaterally. The management of the Company considers that the Group has de facto control of certain entities even though it has less than 50% of the equity interest and voting rights, since the equity interests held by other shareholdings are dispersed and the other shareholders have not organised their interests in such a way that they exercise more votes than the Group. After assessment, the directors of the Company concluded that the Group has sufficiently dominant voting interest to direct the relevant activities of those entities and therefore the Group has control over these entities.

Classification between investment properties and owner-occupied properties

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

Deferred tax and income tax

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

The estimation of useful lives of property, plant and equipment, right-of-use assets – others, investment properties, right-use-assets – land use right and intangible assets

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

Impairment allowances on financial assets

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Impairment allowances on financial assets (Continued)

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

Impairment of inventories

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

Revenue recognition – input method

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

4. OPERATING SEGMENT INFORMATION

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

The executive directors classify the business into three reportable segments:

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

- Manufacturing and sale of aviation ancillary system and related business ("Aviation ancillary system and related business");

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

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

The Group is domiciled in the PRC from where most of its revenue from external customers is derived and in where all of its assets are located and thus, no geographical information was presented.

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31/12/2020	Aviation entire aircraft RMB'000	Aviation ancillary system and related business RMB'000	Aviation engineering services RMB'000	Total RMB'000
Segment Revenue:				
Sales to external customers	19,058,635	24,923,916	6,134,599	50,117,150
Intersegment sales				3,204,273
				53,321,423
Reconciliation:				
Elimination of intersegment operations				(3,204,273)
Revenue				50,117,150
Segment results	1,234,046	3,009,382	247,349	4,490,777
Reconciliation:				
Finance income				441,226
Corporate and other unallocated expenses				(34,980)
Finance costs				(535,452)
Profit before tax				4,361,571
Segment assets	51,637,117	51,880,036	15,379,257	118,896,410
Reconciliation:				
Elimination of intersegment receivables				(2,848,670)
Total assets				116,047,740

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31/12/2020	Aviation entire aircraft RMB'000	Aviation ancillary system and related business RMB'000	Aviation engineering services RMB'000	Total RMB'000
Segment liabilities	36,965,504	25,717,555	10,504,334	73,187,393
Reconciliation:				
Elimination of intersegment payables				(2,848,670)
Total liabilities				70,338,723
Other segment information:				
Share of profits of:				
Joint ventures	240	26,351	–	26,591
Associates	(11,140)	146,051	628	135,539
Impairment losses recognised in the consolidated statement of profit or loss	56,649	95,458	20,046	172,153
Other non-cash items	28,799	163,177	–	191,976
Depreciation and amortisation	685,758	650,483	286,178	1,622,419
Investments in joint ventures	25,318	144,888	–	170,206
Investments in associates	358,988	754,127	78,346	1,191,461
Capital expenditure*	942,340	1,947,757	1,148,304	4,038,401

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

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31/12/2019 (Restated)	Aviation entire aircraft RMB'000	Aviation ancillary system and related business RMB'000	Aviation engineering services RMB'000	Total RMB'000
Segment Revenue:				
Sales to external customers	16,957,698	20,950,209	5,923,853	43,831,760
Intersegment sales				3,210,648
				47,042,408
Reconciliation:				
Elimination of intersegment operations				(3,210,648)
Revenue				43,831,760
Segment results	565,443	2,597,047	303,463	3,465,953
Reconciliation:				
Interest income				412,677
Corporate and other unallocated expenses				(55,496)
Finance costs				(690,876)
Profit before tax				3,132,258
Segment assets	50,280,942	44,719,760	15,102,297	110,102,999
Reconciliation:				
Elimination of intersegment receivables				(2,286,872)
Total assets				107,816,127

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31/12/2019 (Restated)	Aviation entire aircraft RMB'000	Aviation ancillary system and related business RMB'000	Aviation engineering services RMB'000	Total RMB'000
Segment liabilities	36,086,463	24,116,697	10,059,070	70,262,230
Reconciliation:				
Elimination of intersegment payables				(2,286,872)
Total liabilities				67,975,358
Other segment information:				
Share of profits of:				
Joint ventures	488	18,424	–	18,912
Associates	1,313	207,407	1,042	209,762
(Reversal of impairment losses) impairment losses recognised in the consolidated statement of profit or loss	(3,023)	443,519	45,275	485,771
Other non-cash items	(41,401)	14,935	3,233	(23,233)
Depreciation and amortisation	763,109	709,226	196,920	1,669,255
Investments in joint ventures	25,078	126,350	–	151,428
Investments in associates	370,268	705,653	91,893	1,167,814
Capital expenditure*	765,007	1,736,361	628,430	3,129,798

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

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

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

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Customer A[1]	21,637,438	19,910,699
Customer B[1]	5,284,220	N/A[2]

1 Revenue from Aviation entire aircraft and Aviation ancillary system and related business segments.

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Revenue from contracts with customers within the scope of IFRS 15		
Sales of goods	43,133,619	38,220,950
Rendering of services	6,983,531	5,610,810
	50,117,150	43,831,760

5. REVENUE, OTHER INCOME AND GAINS (Continued)

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Disaggregation of revenue from contracts with customers by timing of recognition		
Timing of revenue recognition		
At a point in time	25,945,851	22,299,387
Over time	24,171,299	21,532,373
Total revenue from contracts with customers	50,117,150	43,831,760

The transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as at 31 December and the expected timing of recognition are as follows:

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Within one year	17,136,186	18,048,690
More than one year	–	20,905
	17,136,186	18,069,595

5. REVENUE, OTHER INCOME AND GAINS (Continued)

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Other income from contracts within the scope of IFRS 15		
Income from sales of materials	587,885	545,993
Cost of sales of materials	(529,553)	(510,518)
Gross profit from sales of materials	58,332	35,475
Income from rendering of maintenance and other services	38,328	81,898
Total other income from contracts with customers	96,660	117,373
Other income from other sources		
Dividend income	146,515	29,664
Gross rental income	66,708	82,066
Gross rental expense	(48,230)	(60,646)
	18,478	21,420
Total other income from other sources	164,993	51,084
Total other income	261,653	168,457
Gains		
Fair value gains, net:		
Financial assets at fair value through profit or loss	184,680	18,689
Financial liabilities at fair value through profit or loss	46	–
Foreign exchange gains, net	–	24,121
Default fine	27,302	27,256
Gain on disposal of:		
Interests in subsidiaries	411	200,979
Interests in associates	113	122
Financial assets at fair value through profit or loss	225,830	58,864
Financial liability at fair value through profit or loss	2,199	–
Property, plant and equipment	100,338	91,841
Right-of-use assets – land use rights	286	523
Others	970	78,973
Other income and gains	803,828	669,825
	50,920,978	44,501,585

6. PROFIT BEFORE TAX

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

	Notes	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Cost of inventories sold		33,684,193	29,710,004
Cost of services provided		5,970,209	4,489,354
Depreciation:			
Investment properties	15	11,967	15,507
Property, plant and equipment	13	1,463,176	1,513,202
Right-of-use assets – others		55,470	46,814
Less: Amortisation of deferred income from government grants	32	(112,733)	(132,358)
		1,417,880	1,443,165
Amortisation:			
Right-of-use assets – land use rights	16	59,186	52,440
Other intangible assets	18	32,620	41,292
Research and development costs:			
Current year expenditure		4,281,204	4,087,850
Less: Government grants released*		(957,400)	(958,040)
		3,323,804	3,129,810
Auditor's remuneration		11,629	10,828
Employee benefits expense (including directors' and supervisors' remuneration):			
Wages, salaries, housing benefits and other allowances		7,325,636	7,103,694
Share-based payment expense		164,562	14,859
Pension scheme contributions		711,960	1,067,155
Foreign exchange losses (gains), net		119,814	(24,121)
Lease expenses in relation to short-term lease	14	65,551	138,319
Impairment of:			
Investment in an associate being disposed during the year	20	–	2,646
Accounts and notes receivables and deposits and other receivables		3,746	281,715
Contract assets	26	10,436	–
Property, plant and equipment	13	29,596	24,405
Other intangible assets	18	275	–
Write-down of inventories to net realisable value		128,100	177,005

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

7. FINANCE COSTS, NET

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Finance income:		
Bank interest income	417,433	385,119
Other interest income	23,793	27,558
	441,226	412,677
Finance costs:		
Interest on bank and other borrowings	414,016	510,168
Interest on lease liabilities	44,274	36,170
Effective interest expenses on convertible bonds (Note 33)	78,999	142,564
Total interest expense for financial liabilities not classified at fair value through profit or loss	537,289	688,902
Less: Interest capitalised	(46,641)	(42,485)
Other financial costs	44,804	44,459
	535,452	690,876
Finance costs, net	94,226	278,199

The interests were capitalised in construction in progress by interest rates of banks and bonds ranging from 1.08% to 4.90% and 5.41% respectively in 2020 (2019 (restated): 1.08% to 4.90% and from 5.34% to 5.41% respectively).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Fees	630	718
Other emoluments:		
Salaries, contributions to retirement benefits schemes and allowances	1,996	2,737
	2,626	3,455

(a) Independent non-executive directors

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

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Mr. Liu Weiwu	210	210
Mr. Wang Jianxin	210	210
Mr. Liu Renhuai	210	210
	630	630

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries and allowances RMB'000	Performance related bouns RMB'000	Pension scheme contribution RMB'000	Total remuneration RMB'000
Year ended 31/12/2020					
Executive directors:					
Mr. Wang Xuejun[1&5]	–	779	–	–	779
Mr. Chen Yuanxian[1]	–	–	–	–	–
Mr. Zhao Hongwei[1]	–	96	–	–	96
Non-executive directors:					
Mr. Yan Lingxi	–	–	–	–	–
Mr. Lian Dawei	–	688	–	–	688
Mr. Xu Gang	–	–	–	–	–
	–	1,563	–	–	1,563

	Fees RMB'000	Salaries and allowances RMB'000	Performance related bouns RMB'000	Pension scheme contribution RMB'000	Total remuneration RMB'000
Year ended 31/12/2019					
Executive directors:					
Mr. Tan Ruisong[3]	–	–	–	–	–
Mr. Chen Yuanxian[5]	–	–	–	–	–
Mr. Wang Xuejun[2&5]	–	454	–	–	454
Non-executive directors:					
Mr. Wang Xuejun[2]	–	–	–	–	–
Mr. Li Yao[3]	–	–	–	–	–
Mr. Patrick de Castelbajac[3]	–	–	–	–	–
Mr. He Zhiping[4]	88	–	–	–	88
Mr. Yan Lingxi[3&6]	–	363	–	–	363
Mr. Lian Dawei[3]	–	1,259	–	–	1,259
Mr. Xu Gang[3]	–	–	–	–	–
	88	2,076	–	–	2,164

There was no arrangement under which directors of the Company has waived or agreed to waive any remuneration during the years ended 31 December 2020 and 2019. The emoluments paid or payable to each of the directors were paid by the Company or its subsidiaries.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(c) Supervisors

	Fees RMB'000	Salaries and allowances RMB'000	Total remuneration RMB'000
Year ended 31/12/2020			
Supervisors:			
Mr. Zheng Qiang	–	–	–
Mr. Guo Guangxin	–	–	–
Mr. Shi Shiming[7]	–	433	433
Mr. Zhao Zhuo[7]	–	–	–
	–	433	433

	Fees RMB'000	Salaries and allowances RMB'000	Total remuneration RMB'000
Year ended 31/12/2019			
Supervisors:			
Mr. Zheng Qiang	–	–	–
Mr. Guo Guangxin	–	–	–
Mr. Shi Shiming	–	661	661
	–	661	661

1 On 11 December 2020, Mr. Zhao Hongwei appointed as executive director and general manager of the Company and his emoluments disclosed above include those for services rendered by him as the executive director. Mr. Chen Yuanxian resigned as the executive director of the Company. Mr. Wang Xuejun redesignated as chairman of board of director of the Company.

2 On 20 March 2019, Mr. Wang Xuejun was redesignated from a non-executive director to an executive director of the Company.

3 On 17 May 2019, Mr. Lian Dawei, Mr. Yan Lingxi and Mr. Xu Gang appointed as the non-executive director of the Company. Mr. Tan Ruisong resigned as the executive directors of the Company and Mr. Li Yao and Mr. Patrick de Castelbajac resigned as the non-executive directors of the Company.

4 On 17 May 2019, Mr. He Zhiping resigned as the non-executive directors of the Company.

5 On 20 March 2019, Mr. Chen Yuanxian resigned as the general manager of the Company and was appointed as the chairman of the Board. Mr. Wang Xuejun was appointed as the general manager of the Company. Their emoluments disclosed above represent services rendered by them as the general manager.

6 Mr. Yan Lingxi has been the standing deputy general manager of the Company from 6 February 2018 to 20 March 2019. His emoluments disclosed above represent services rendered by him as the standing deputy general manager.

7 On 21 December 2020, Mr. Shi Shiming resigned as supervisor of the Company, Mr. Zhao Zhuo was elected by the general meeting of employees of the Company as a supervisor.

9. FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, nil (2019 (restated): one) was the directors of the Company whose remunerations are set out in Note 8 above. Details of the remuneration for the year of the five (2019 (restated): remaining four) highest paid employees of the Group are as follows:

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Salaries, contributions to retirement benefits schemes and allowances	7,485	5,024

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

	Number of employees	
	Year ended 31/12/2020	Year ended 31/12/2019 (Restated)
HK$1,000,001 to HK$1,500,000 (equivalent to 2020: approximately RMB839,000 to RMB1,258,000) (2019: HK$1,000,001 to HK$1,500,000, equivalent to approximately RMB892,000 to RMB1,323,000)	3	4
HK$1,500,001 to HK$2,000,000 (equivalent to 2020: approximately RMB1,259,000 to RMB1,677,000)	2	–
	5	4

During the years ended 31 December 2020 and 2019, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals has waived or agreed to waive any remuneration during the years ended 31 December 2020 and 2019.

10. INCOME TAX EXPENSES

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2019: 15%), in accordance with the relevant PRC enterprise income tax rules and regulations, provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25% (2019: 25%) on the assessable income of respective entities in the Group.

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Current income tax – PRC Enterprise Income Tax	434,846	342,324
Deferred income tax (Note 22)	35,217	(9,500)
Total tax charge for the year	470,063	332,824

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the year ended 31 December 2020 and 2019, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime.

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

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Profit before tax	4,361,571	3,132,258
Tax at the statutory tax rate of 25%	1,090,393	783,065
Lower tax rate(s) for specific provinces or enacted by local authorities	(583,361)	(519,857)
Tax effect of share of profits attributable to joint ventures and associates	(38,422)	(57,122)
Income not subject to tax	(65,107)	(64,698)
Expenses not deductible for tax	38,971	89,040
Tax losses utilised from previous periods	(4,646)	(18,960)
Tax losses not recognised	72,419	46,912
Others	(40,184)	74,444
Tax charge at the Group's effective rate	470,063	332,824

11. DIVIDENDS

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Proposed:		
Final dividend, proposed of RMB0.05 (2019: RMB0.03) per share	385,567	187,354

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

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

The calculation of the basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 7,726,579,000 (2019 (restated): 7,745,791,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2020 (2019 (restated): nil).

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

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Earnings		
Profit attributable to equity holders of the Company used in the basic and diluted earnings per share calculation	1,994,860	1,347,172
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (thousands)	7,726,579	7,745,791
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation (thousands)	7,726,579	7,745,791

13. PROPERTY, PLANT AND EQUIPMENT

31/12/2020	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture, fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost					
As at 1 January 2020 (Restated)	3,686,470	8,614,883	9,599,398	4,513,457	26,414,208
Additions	2,736,526	69,251	229,350	142,956	3,178,083
Transfer from investment properties	–	5,386	–	–	5,386
Transfer upon completion	(3,072,092)	1,378,794	1,343,305	349,993	–
Disposals/write-off	(103,990)	(142,647)	(313,018)	(105,341)	(664,996)
Disposal of subsidiaries	–	–	(9,650)	(4,826)	(14,476)
Transfer to investment properties	(18)	(38,907)	–	–	(38,925)
As at 31 December 2020	3,246,896	9,886,760	10,849,385	4,896,239	28,879,280
Accumulated depreciation and impairment					
As at 1 January 2020 (Restated)	–	(2,269,606)	(5,170,756)	(3,185,402)	(10,625,764)
Depreciation	–	(360,311)	(668,509)	(434,356)	(1,463,176)
Transfer from investment properties	–	(3,038)	–	–	(3,038)
Impairment	–	(803)	(28,793)	–	(29,596)
Elimination on disposals/write-off	–	85,870	240,747	95,551	422,168
Disposal of subsidiaries	–	–	4,637	5,688	10,325
Transfer to investment properties	–	1,798	–	–	1,798
As at 31 December 2020	–	(2,546,090)	(5,622,674)	(3,518,519)	(11,687,283)
Net book value					
As at 31 December 2020	3,246,896	7,340,670	5,226,711	1,377,720	17,191,997

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

31/12/2019 (Restated)	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture, fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost					
As at 1 January 2019 (Restated)	4,377,341	9,540,238	10,635,854	4,444,689	28,998,122
Additions	2,448,942	3,722	205,783	153,436	2,811,883
Transfer from investment property	–	3,287	–	–	3,287
Transfer upon completion	(1,680,738)	655,890	575,667	449,181	–
Disposals/write-off	(89,940)	(342,753)	(158,988)	(83,661)	(675,342)
Disposal arising from assets swap	(1,319,045)	(837,737)	(1,481,493)	(177,602)	(3,815,877)
Disposal of subsidiaries	(50,090)	(385,011)	(177,425)	(272,586)	(885,112)
Transfer to investment properties	–	(22,753)	–	–	(22,753)
As at 31 December 2019 (Restated)	3,686,470	8,614,883	9,599,398	4,513,457	26,414,208
Accumulated depreciation and impairment					
As at 1 January 2019 (Restated)	–	(2,307,000)	(5,267,039)	(3,074,080)	(10,648,119)
Depreciation	–	(350,520)	(725,510)	(437,172)	(1,513,202)
Transfer from investment properties	–	(2,222)	–	–	(2,222)
Impairment	–	(21,489)	(2,916)	–	(24,405)
Disposals/write-off	–	218,388	105,255	76,416	400,059
Disposal arising from assets swap	–	48,099	581,482	59,606	689,187
Transfer to investment properties	–	6,612	–	–	6,612
Disposal of subsidiaries	–	138,526	137,972	189,828	466,326
As at 31 December 2019 (Restated)	–	(2,269,606)	(5,170,756)	(3,185,402)	(10,625,764)
Net book value					
As at 31 December 2019 (Restated)	3,686,470	6,345,277	4,428,642	1,328,055	15,788,444

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group was in the process of applying for the legal titles for buildings with a net book value of approximately RMB1,658,645,000 as at 31 December 2020 (2019 (restated): RMB1,114,991,000).

During the year ended 31 December 2020, impairment losses of RMB803,000 (2019 (restated): RMB21,489,000) and RMB28,793,000 (2019 (restated): RMB2,916,000) respectively have been recognised in respect of buildings and plant and equipment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use.

14. LEASES

(i) Right-of-use assets – others

	31/12/2020 RMB'000	31/12/2019 RMB'000
Buildings	106,959	94,381
Plant and equipment	573,959	785,686
	680,918	880,067

The Group has lease arrangements for buildings and plant and equipment. The lease terms are generally ranged from two to five years.

All leases are fixed lease payments.

In respect of lease arrangement for renting plant and equipment, the Group has options to purchase plant and equipment for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such lease.

Additions to the right-of-use assets for the year ended 31 December 2020 amounted to RMB45,871,000 and RMB363,652,000 (2019: RMB4,632,000 and RMB134,785,000), due to new leases of buildings and plant and equipment respectively.

14. LEASES (Continued)

(ii) Lease liabilities

	31/12/2020 RMB'000	31/12/2019 RMB'000
Non-current	636,375	681,172
Current	104,809	85,427
	741,184	766,599

Amounts payable under lease liabilities	31/12/2020 RMB'000	31/12/2019 RMB'000
Within one year	104,809	85,427
After one year but within two years	94,633	90,987
After two years but within five years	227,486	221,284
After five years	314,256	368,901
	741,184	766,599
Less: Amount due for settlement within 12 months (shown under current liabilities)	(104,809)	(85,427)
Amount due for settlement after 12 months	636,375	681,172

As at 31 December 2020, the lease liabilities in respect of leased plant and equipment under hire purchase agreements amounted to RMB561,002,000 was secured by the lessor's title to the leased assets (2019: RMB636,123,000). During the year ended 31 December 2020, the Group entered into a number of new lease agreements in respect of renting properties and recognised lease liability of RMB409,523,000 (2019: RMB139,417,000).

14. LEASES (Continued)

(iii) Amounts recognised in profit or loss

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000
Depreciation expense on right-of-use assets – buildings	33,157	25,809
Depreciation expense on right-of-use assets – plant and equipment	22,313	21,005
Interest expense on lease liabilities	44,274	36,170
Expense relating to short-term leases	65,551	138,319
Expense relating to leases of low value assets	145	337

(iv) Others

During the year ended 31 December 2020, the total cash outflow for leases amount to approximately RMB554,793,000 (2019 (restated): RMB250,083,000).

15. INVESTMENT PROPERTIES

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Carrying amount at 1 January	361,077	426,264
Additions	548	278
Transfer from owner-occupied property	37,127	16,141
Transfer from right of use assets – land use rights	–	2,471
Depreciation	(11,967)	(15,507)
Transfer to owner-occupied property	(2,348)	(1,065)
Exchange realigment	(2,952)	1,194
Disposal of subsidiaries (Note 43)	–	(68,699)
Carrying amount at 31 December	381,485	361,077
At fair value	1,199,865	1,075,851

Investment properties are located in the mainland China and Hong Kong and their fair values as at 31 December 2020 and 2019 were determined by the directors of the Company based on either the recent observable market prices for similar buildings in the similar locations and conditions in the same districts, which are within Level 2 and Level 3 of the fair value hierarchy for those investment properties located in Hong Kong and mainland China respectively.

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

The Group was in the process of applying for the legal titles for investment properties with a net book value of approximately RMB98,886,000 as at 31 December 2020 (2019 (restated): RMB101,627,000).

16. RIGHT-OF-USE ASSETS – LAND USE RIGHTS

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Cost		
As at 1 January	2,354,502	2,548,229
Additions	162,499	15,007
Disposal of subsidiaries	–	(73,706)
Disposals/write off	(42,272)	(1,738)
Disposal arising from assets swap	–	(130,425)
Transfer to investment properties	–	(2,865)
As at 31 December	2,474,729	2,354,502
Accumulated depreciation		
As at 1 January	(524,586)	(505,527)
Depreciation/amortisation	(59,186)	(52,440)
Disposal of subsidiaries	–	13,222
Disposal/write off	10,187	1,437
Disposal arising from assets swap	–	18,328
Transfer to investment properties	–	394
As at 31 December	(573,585)	(524,586)
Net book amount		
As at 31 December	1,901,144	1,829,916

17. GOODWILL

	31/12/2020 RMB'000	31/12/2019 RMB'000
Carrying amount at 31 December	69,122	69,122

The goodwill acquired in the acquisitions of Shenzhen Xiangtong Photoelectric Technology Co., Ltd. ("Xiangtong Photoelectric") in 2014 and AVIC Forstar S&T Co., Ltd. ("AVIC Forstar") in 2013 is fully allocated to each cash-generating unit respectively. As of 31 December 2020, the Group performed an impairment assessment of goodwill based on the respective recoverable amounts of the CGUs and concluded that no impairment provision was necessary. The recoverable amount of each CGU is determined based on a value-in-use calculation using the discounted cash flow method. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

The key assumptions used for value-in-use calculations in 2020 were operating income growth rates of 2% to 17% and 0% to 9% (2019: 10% to 13% and 2% to 9%) for the five-year forecast, growth rates beyond the five-year period of 2% and 0% (2019: 0% and 0%) and pre-tax discount rates of 15% and 15% (2019: 15% and 15%) for Xiangtong Photoelectric and AVIC Forstar, respectively.

Management determined that volume of sales and gross margin covering over the five-year forecast period are the key assumptions. The volume of sales in each period is the main driver for revenue and costs. The annual volume growth rates are based on past performance and management's expectations of market development. The long-term growth rates used are determined with reference to the forecasts included in industry reports and adjusted by the entities' specific conditions. The discount rates used are pre-tax and reflect specific risks relating to the relevant businesses.

18. OTHER INTANGIBLE ASSETS

31/12/2020	Development costs RMB'000	Service concession arrangement RMB'000	Technology know-how RMB'000	Trademarks and licences RMB'000	Contractual customer relationships RMB'000	Total RMB'000
Cost						
As at 1 January 2020 (Restated)	–	594,588	175,675	8,242	19,302	797,807
Disposals/write-off	–	–	(350)	–	–	(350)
As at 31 December 2020	–	594,588	175,325	8,242	19,302	797,457
Accumulated amortisation and impairment						
As at 1 January 2020 (Restated)	–	(136,921)	(148,053)	(8,222)	(14,877)	(308,073)
Amortisation	–	(23,823)	(6,376)	(7)	(2,414)	(32,620)
Disposals/write-off	–	–	143	–	–	143
Impairment loss recognised	–	–	(275)	–	–	(275)
As at 31 December 2020	–	(160,744)	(154,561)	(8,229)	(17,291)	(340,825)
Net book amount						
As at 31 December 2020	–	433,844	20,764	13	2,011	456,632

31/12/2019 (restated)	Development costs RMB'000	Service concession arrangement RMB'000	Technology know-how RMB'000	Trademarks and licences RMB'000	Contractual customer relationships RMB'000	Total RMB'000
Cost						
As at 1 January 2019 (Restated)	56,895	594,588	178,755	80,982	19,302	930,522
Additions	1,939	–	–	–	–	1,939
Disposal arising from assets swap	(58,834)	–	–	–	–	(58,834)
Disposals/write off	–	–	–	(72,640)	–	(72,640)
Disposal of subsidiaries	–	–	(3,080)	(100)	–	(3,180)
As at 31 December 2019 (Restated)	–	594,588	175,675	8,242	19,302	797,807
Accumulated amortisation and impairment						
As at 1 January 2019 (Restated)	–	(113,078)	(136,102)	(80,955)	(12,466)	(342,601)
Amortisation	–	(23,843)	(15,031)	(7)	(2,411)	(41,292)
Disposal of subsidiaries	–	–	3,080	100	–	3,180
Disposals/write-off	–	–	–	72,640	–	72,640
As at 31 December 2019 (Restated)	–	(136,921)	(148,053)	(8,222)	(14,877)	(308,073)
Net book amount						
As at 31 December 2019 (Restated)	–	457,667	27,622	20	4,425	489,734

Concession assets

The Group's concession assets represent the rights that the Group obtained for the usage of the concessions in relation to wastewater treatment plants. The Group recognised the rights as intangible assets and the amounts are amortised over the relevant concession services periods.

19. INVESTMENTS IN JOINT VENTURES

The following table illustrates the financial information of the Group's joint ventures which are not individually material:

	31/12/2020 RMB'000	31/12/2019 RMB'000
Share of net assets, as at 1 January	151,428	141,772
Share of profit for the year	26,591	18,912
Disposal of investments	(207)	–
Dividend declared	(7,606)	(9,256)
Share of net assets, as at 31 December	170,206	151,428

20. INVESTMENTS IN ASSOCIATES

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Share of net assets, as at 1 January (Restated)	1,177,073	1,002,035
Increase in investments	287,748	161,274
Share of profit for the year	135,539	209,762
Disposal of investments	(227,289)	(9,035)
Dividend declared	(181,610)	(186,963)
	1,191,461	1,177,073
Less: Impairment	–	(9,259)
Share of net assets, as at 31 December	1,191,461	1,167,814

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVTOCI")

Financial assets at FVTOCI comprise:

	31/12/2020 RMB'000	31/12/2019 RMB'000
Equity instruments designated as at FVTOCI		
– Listed	368,152	332,749
– Unlisted	1,237,081	1,064,017
Total	1,605,233	1,396,766
Analysed for reporting purposes as:		
Non-current assets	1,605,233	1,396,766

The fair value of these investments is disclosed in note 42.

The above investments consist of investments in equity securities which were designated as financial assets at fair value through other comprehensive income and have no fixed maturity date.

The above unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC.

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

During the year ended 31 December 2020, the Group has disposed an unlisted equity investment designated at FVTOCI at consideration of approximately RMB107,000 (2019: RMB95,803,000). At the date of disposal, the fair value of such investment is approximately RMB107,000 (2019: RMB95,803,000) and the cumulative loss on disposal is approximately RMB12,321,000 (2019: cumulative gain on disposal is approximately RMB24,042,000).

22. DEFERRED TAX

The movement in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Impairment loss recognised RMB'000	Accruals and other temporary differences RMB'000	Fair value change of financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2019 (Restated)	225,380	97,096	5,876	328,352
Disposal of subsidiaries	(751)	–	(34)	(785)
Deferred tax credited (charged) to profit or loss during the year	32,880	(4,835)	–	28,045
Deferred tax charged to the other comprehensive income during the year	–	–	(805)	(805)
At 31 December 2019 (Restated)	257,509	92,261	5,037	354,807
Deferred tax (charged) credited to profit or loss during the year	(27,516)	45,965	–	18,449
Deferred tax charged to the other comprehensive income during the year	–	–	(42)	(42)
At 31 December 2020	229,993	138,226	4,995	373,214

22. DEFERRED TAX (Continued)

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

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Deductible temporary differences	289,595	274,395
Tax losses not recognised	1,368,224	1,140,795

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

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
2020	–	182,439
2021	180,060	182,258
2022	166,949	166,949
2023	288,339	288,339
2024	221,687	221,688
2025	201,997	–
2028	99,122	99,122
2030	210,070	–
	1,368,224	1,140,795

Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences which relate to certain subsidiaries that have been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses and deductible temporary differences can be utilised.

22. DEFERRED TAX (Continued)

Deferred tax liabilities

	Fair value change of financial assets at fair value through other comprehensive income RMB'000	Investment profit to be amortised RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2019 (Restated)	854	4,817	30,969	36,640
Deferred tax charged to profit or loss during the year	–	3,097	15,448	18,545
Deferred tax charged to the other comprehensive income during the year	12,755	–	–	12,755
At 31 December 2019 (Restated)	13,609	7,914	46,417	67,940
Deferred tax charged to profit or loss during the year	–	26,379	27,324	53,703
Disposal of subsidiaries (Note 44)	(37)	–	–	(37)
Deferred tax charged to the other comprehensive income during the year	18,136	–	–	18,136
At 31 December 2020	31,708	34,293	73,741	139,742

23. INVENTORIES

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Carrying amounts, net of impairment		
Raw materials	7,857,176	7,435,763
Work in progress	19,034,222	18,551,800
Finished goods	3,821,612	3,213,312
	30,713,010	29,200,875

24. ACCOUNTS AND NOTES RECEIVABLES

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Accounts receivables		
– Ultimate holding company	330	648
– Fellow subsidiaries	7,865,695	8,488,178
– A joint venture	447	198
– Associates	52,214	47,580
– Others (Note)	9,370,064	8,875,657
Accounts receivables, gross	17,288,750	17,412,261
Loss allowance	(918,081)	(951,107)
Accounts receivables, net	16,370,669	16,461,154
Notes receivables		
– Fellow subsidiaries	4,582,708	1,842,338
– A joint venture	2,851	618
– Associates	60,000	9,034
– Others (Note)	4,153,514	3,323,112
Notes receivable, gross	8,799,073	5,175,102
Loss allowance	(31,390)	(5,797)
Notes receivable, net	8,767,683	5,169,305
Accounts and notes receivables	25,138,352	21,630,459

Note: Others represent independent third parties of the Group.

24. ACCOUNTS AND NOTES RECEIVABLES (Continued)

As at 31 December 2020, the gross amount of accounts receivables arising from contracts with customers amounted to approximately RMB17,288,750,000 (2019 (restated): RMB17,412,261,000).

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

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

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Within 1 year	13,772,050	13,284,935
1 to 2 years	1,707,776	2,288,985
2 to 3 years	561,260	492,211
Over 3 years	329,583	395,023
	16,370,669	16,461,154

The movements in provision for impairment are as follows:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
At beginning of year	956,904	925,821
Impairment losses recognised, net	36,628	163,148
Amounts written off as uncollectible	(42,540)	(123,387)
Disposal of subsidiaries	(1,521)	(8,678)
	949,471	956,904

24. ACCOUNTS AND NOTES RECEIVABLES (Continued)

The Group measures the loss allowance for accounts and notes receivables at an amount equal to lifetime ECL. The expected credit losses on accounts and notes receivables are estimated using a provision matrix by reference to the ageing of accounts receivables, past default experience of the debtors and an analysis of the debtors' current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9. As at 31 December 2020, an impairment of approximately RMB36,628,000 (2019 (restated): RMB163,148,000) was made against the gross amounts of accounts and notes receivables.

The weighted average expected loss rate of accounts and note receivables is 4% for the year ended 31 December 2020 (2019 (restated): 4%).

There is no concentration of credit risk with respect to accounts receivables as the Group has different types of customers. Accounts receivables were collateralised by types of customers.

At 31 December 2019 and 2020, accounts receivables were mainly denominated in RMB.

Certain accounts and notes receivable were pledged as security for bank borrowings (note 31(d)).

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Carrying amounts, net of impairment		
Advances to suppliers paid to:		
– Ultimate holding company	284	–
– Fellow subsidiaries	385,723	310,630
– Associates	–	18,151
– Others (Note (a))	1,306,111	974,948
Dividends receivable from:		
– Fellow subsidiaries	309	309
– Others (Note (a))	–	215
Prepayments and deposits paid to:		
– Ultimate holding company	–	25,605
– Fellow subsidiaries	4,257	23,412
– Others (Note (a))	240,638	518,706
Other advances to:		
– Associates	86	–
– Others (Note (a))	421	4,426
Other current assets receivables from:		
– Ultimate holding company	–	596
– Fellow subsidiaries	5,293	25,269
– Others (Note (a))	712,907	1,045,618
Other receivables from:		
– Ultimate holding company	512	512
– Fellow subsidiaries (Note (b))	10,237	1,225,093
– A joint venture	21	52
– Associates	465	626
– Others (Note (a))	1,190,725	1,312,995
	3,857,989	5,487,163
Less: Non-current portion	(641,857)	(1,423,855)
	3,216,132	4,063,308

Note (a): Others represent independent third parties of the Group.

Note (b): As of 31 December 2020, others in other receivables included prepayment of research and development expenses of approximately RMB570,122,000 (2019: RMB495,535,000).

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

The movements in provision for impairment are as follows:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
At beginning of year	354,739	281,254
(Reversal of) impairment losses recognised	(32,882)	118,567
Amounts written off as uncollectible	(112,905)	(2,077)
Disposal of subsidiaries	–	(43,005)
	208,952	354,739

26. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Carrying amounts, net of impairment		
Aviation entire aircraft	2,388,479	162,986
Aviation engineering services	2,411,259	2,931,659
Total contract assets	4,799,738	3,094,645
Current	4,542,892	2,567,912
Non-current	256,846	526,733
	4,799,738	3,094,645
Ultimate holding company	9	62,864
Fellow subsidiaries	1,368,657	1,015,045
Others (Note)	3,431,072	2,016,736
	4,799,738	3,094,645

Note: Others represent independent third parties of the Group.

26. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(a) Contract assets (Continued)

The contract assets primarily relate to the Group's right to consideration for work completed but not yet billed because the rights are conditional on the Group's future performance in achieving specified performance obligations at the end of the reporting period on aviation entire aircraft and aviation engineering services. The contract assets are transferred to accounts receivables when the rights become unconditional.

The significant increase in contract assets from aviation entire aircraft in 2020 is the result of the decrease in completion of aviation entire aircraft at the end of the year.

As part of the internal credit risk management, the Group applies internal credit rating for its customers in relation to construction contracts. The exposure to credit risk and ECL for contact assets are assessed collectively based on provision matrix as at 31 December 2020 and 2019.

During the year ended 31 December 2020, RMB10,436,000 (2019: Nil) is recognised as provision for expected credit loss on contract assets.

(b) Contract Liabilities

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Aviation entire aircraft	14,831,880	14,988,106
Aviation engineering services	1,593,932	2,683,704
Others	710,374	397,785
Total contract liabilities	17,136,186	18,069,595
Current	17,136,186	18,048,690
Non-current	–	20,905
	17,136,186	18,069,595
Analysed as:		
Ultimate holding company	565	34,592
Fellow subsidiaries	896,713	621,601
Associates	888	–
Others (Note)	16,238,020	17,413,402
	17,136,186	18,069,595

Note: Others represent independent third parties of the Group.

26. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

(b) Contract Liabilities (Continued)

Contract liabilities include advances received to deliver aviation entire aircraft and advances received to render aviation engineering services. Others include received in advance of sales materials, rents and parts of manufacturing.

As at 31 December 2020, the aggregate amount of transaction price allocated to the performance obligations that are unsatisfied (or partially satisfied) are approximately RMB17,136,186,000 (2019 (restated): RMB18,069,595,000).

The transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) regarding contract liabilities as at 31 December and the expected timing of recognition are, as follows:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Within 1 year	17,136,186	18,048,690
1 to 2 years	–	15,946
2 to 3 years	–	2,312
Over 3 years	–	2,647
	17,136,186	18,069,595

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at FVTPL include:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Financial assets mandatorily measured at FVTPL		
Listed securities held for trading listed in the PRC	1,837	652
Bonds listed in the PRC	3	7
Exchange traded fund ("ETF Fund") listed in the PRC	426,927	883,451
Unlisted securities (Note (a))	54,883	366,873
Unlisted fund investments (Note (b))	1,895,099	–
	2,378,749	1,250,983

Note (a):

Movement of unlisted financial assets at FVTPL is analysed as follows:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
At the beginning of the year	366,873	55,968
Additions (Note (i))	111,758	407,013
Changes in fair value (Note (ii))	(1,199)	–
Disposals (Note (iii))	(422,549)	(96,108)
At the end of the year	54,883	366,873

(i) During the year ended 31 December 2020, additions to financial assets at FVTPL mainly comprised of additional investment in China Government Bond and other unlisted securities.

(ii) During the year ended 31 December 2020, changes in fair value to FVTPL comprised of the revaluation of certain unlisted securities.

(iii) During the year ended 31 December 2020, the Group disposed of certain investments in unlisted securities.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Financial assets at FVTPL include: (Continued)

Note (b):

As at 31 December 2020, the Group's unlisted fund investments are domiciled in the PRC with a total fair value of approximately RMB1,895,099,000 (2019: nil) with an aggregate initial investment cost of approximately RMB1,890,000. The investments are measured at fair value derived from observable market values of underlying assets at the end of the reporting period.

28. PLEDGED DEPOSITS AND TERM DEPOSITS WITH INITIAL TERMS OF OVER THREE MONTHS AND CASH AND CASH EQUIVALENTS

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Cash and bank balances	25,138,490	24,662,827
Less: Pledged deposits	(779,846)	(1,127,846)
Term deposits with initial terms of over three months	(1,549,519)	(5,017,242)
Cash and cash equivalents	22,809,125	18,517,739

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between seven days and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term fixed deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2020, approximately RMB16,578,429,000 (31 December 2019 (restated): RMB17,322,538,000) was deposited in AVIC Finance Co, Ltd., a fellow subsidiary of the Company.

29. ACCOUNTS AND NOTES PAYABLES

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Accounts payables (Note (a))		
– Ultimate holding company	23	23
– Fellow subsidiaries	5,121,305	4,292,874
– Joint ventures	113,679	13,346
– Associates	157,363	69,553
– Others	18,039,011	16,244,230
	23,431,381	20,620,026
Notes payables (Note (b))		
– Fellow subsidiaries	1,541,136	1,871,241
– Joint ventures	106,484	65,845
– Associates	12,489	30,342
– Others	6,864,728	6,387,258
	8,524,837	8,354,686
	31,956,218	28,974,712

Notes:

(a) An ageing analysis of the accounts payables as at the end of the reporting period, based on the invoice date, is as follows:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Within 1 year	18,712,048	15,336,103
1 to 2 years	2,331,557	2,413,623
2 to 3 years	963,087	1,212,040
Over 3 years	1,424,689	1,658,260
	23,431,381	20,620,026

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

Terms offered to the Group's related parties are similar to those offered to the major suppliers of the Group. Accounts and notes payables to those related parties are unsecured, non-interest-bearing and are repayable in accordance with the relevant trading terms.

(b) The notes payable are with an average maturity period of less than six months. As at 31 December 2020, notes payable of approximately RMB2,343,367,000 (31 December 2019 (restated): RMB2,807,885,000) were secured by pledged deposits to the extent of approximately RMB695,904,000 (31 December 2019 (restated): RMB1,038,667,000).

30. OTHER PAYABLES AND ACCRUALS

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Advances from customers to:		
– Others	–	1,370
Wages, salaries, bonuses and other employee benefits	3,450,907	2,806,609
Accrued expenses on:		
– Fellow subsidiaries	17,000	20,761
– Associates	–	9
– Others	341,090	420,883
Payable for acquisition of property, plant and equipment to:		
– Ultimate holding company	2,307	–
– Fellow subsidiaries	1,374	16,472
– Others	98,766	55,068
Deferred income from government grants (Note 32)	43,170	36,905
Amounts payable to the ultimate holding company	–	8,969
Other advances from		
– Fellow subsidiaries	110	–
– Associates	–	197
– Others	3,479	18,369
Dividend payable to non-controlling shareholders of subsidiaries		
– Fellow subsidiaries	355,310	171,981
– Others	7,230	7,719
Other taxes payable	170,610	171,362
Provision (Note)	574,768	550,577
Other payables to:		
– Ultimate holding company	–	530,000
– Fellow subsidiaries	14,153	288,715
– Associates	–	97
– Others	2,656,085	1,982,901
	7,736,359	7,088,964
Less: Non-current portion	(1,667,355)	(1,613,086)
	6,069,004	5,475,878

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

Note: The balances as at 31 December 2020 and 2019 represent the provision of products. Protection insurance is based on the management's estimation by reference to the historical experience. During the year ended 31 December 2020, the provision charge to profit or loss was RMB173,488,000 (2019 (restated): RMB240,780,000) and utilisation of provision was RMB149,297,000 (2019 (restated): RMB456,543,000).

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31/12/2020			31/12/2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000 (Restated)
Current						
Bank borrowings – unsecured	2-5	2021	1,477,190	2-5	2020	2,553,357
Bank borrowings – secured	4-5	2021	5,028	3-4	2020	122,180
Other borrowings – unsecured	2-5	2021	3,319,030	3-4	2020	4,031,500
Other borrowings – secured	3-4	2021	172,146	3-4	2020	220,821
Current portion of long-term						
– Bank borrowings – unsecured	2-5	2021	334,368	5	2020	400,500
– Bank borrowings – secured	1-5	2021	10,931	1-5	2020	210,510
– Other borrowings – unsecured	2-5	2021	1,114,250	4-5	2020	40,426
– Other borrowings – secured			–	5	2020	10,500
			6,432,943			7,589,794
Non-current						
Bank borrowings – unsecured	3-5	2022-2033	1,992,128	3-5	2021-2033	653,626
Bank borrowings – secured	1-5	2022-2033	1,081,039	1-5	2021-2033	1,429,269
Other borrowings – unsecured	2-5	2022-2025	2,161,252	2-5	2021-2022	219,414
Other borrowings – secured			–	5	2021	5,500
			5,234,419			2,307,809
			11,667,362			9,897,603

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Analysed into:		
Bank borrowings repayable:		
– Within one year	1,827,517	3,286,547
– In the second year	1,369,952	752,356
– In the third to fifth years, inclusive	886,768	633,728
– Beyond five years	816,447	696,811
	4,900,684	5,369,442
Other borrowings repayable:		
– Within one year	4,605,426	4,303,247
– In the second year	671,219	186,880
– In the third to fifth years, inclusive	1,490,033	38,034
	6,766,678	4,528,161
	11,667,362	9,897,603

Notes:

(a) As at 31 December 2020, other borrowings represented:

- borrowings granted by fellow subsidiaries of the Group amounting to RMB5,730,720,000 (31 December 2019: RMB4,172,661,000) bearing interest at 2% to 5% (2019: 3% to 5%) per annum.

- borrowings granted by an independent financial institution, Xi'an Hi-tech Emerging Industry Investment Fund Partnership, amounting to RMB3,000,000 (2019: RMB3,000,000) bearing interest at 2.38% (2019: 2.38%) per annum.

- borrowings granted by ultimate holding company amounting to RMB1,008,428,000 (31 December 2019: RMB328,000,000) bearing interest at 2% to 5% (2019: 3.92%) per annum.

- borrowings granted by an independent enterprise, Chengdu Guoying Jinjiang Machine Factory, amounting to RMB24,530,000 (2019: RMB24,500,000) bearing interest at 4.35% (2019: 4.35%) per annum.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes

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

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Bank borrowings		
– Fixed rates (1% – 5%)	2,970,409	3,769,305
– Floating rates (2% – 6%)	1,930,275	1,600,137
	4,900,684	5,369,442
Other borrowings		
– Fixed rates (2% – 5%)	6,258,225	4,192,161
– Floating rates (3% – 5%)	508,453	336,000
	6,766,678	4,528,161
	11,667,362	9,897,603

The new borrowings were borrowed for business daily operations.

The annual effective interest rates of long-term and short-term borrowings at the end of the reporting period were as follows:

	31/12/2020	31/12/2019 (Restated)
Weighted average effective interest rates		
– Bank borrowings	4%	4%
– Other borrowings	3%	4%

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

(d) The Group's long-term and short-term bank and other borrowings are secured as follows:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Securities over the Group's assets, at carrying value		
– Notes receivables	12,054	81,577
– Accounts receivables	80,762	122,364
	92,816	203,941
Guarantees provided by		
– Entities within the Group	822,550	1,437,779
– Others (Note)	5,028	3,400
	827,578	1,441,179
	920,394	1,645,120

Note: Others represent independent third parties of the Group.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

(e) The Group had the following undrawn committed borrowings facilities:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
At floating rates		
– Expiring within one year	17,223,042	6,959,557
– Expiring over one year	4,135,582	5,800,397
	21,358,624	12,759,954

32. DEFERRED INCOME FROM GOVERNMENT GRANTS

Movements of deferred income from government grants for the years ended 31 December 2020 and 2019 are as follows:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
At 1 January	857,728	842,855
Additions	62,291	147,231
Amortisation	(112,733)	(132,358)
At 31 December	807,286	857,728
Less: Current portion (Note 30)	(43,170)	(36,905)
	764,116	820,823

33. CONVERTIBLE BONDS

A subsidiary of the Company, China Avionics Systems Co., Ltd. issued convertible bonds with a coupon rate of 0.2% in year 1, 0.5% in year 2, 1% in year 3, 1.5% in year 4, 1.8% in year 5 and 2% in year 6 at a total principal value of RMB2,400,000,000 on 25 December 2017 ("CB 2017"). Among the total principal amount, RMB500,000,000 was held by the Company as at 31 December 2017 and was disposed of at a consideration of approximately RMB521,540,000 during the year ended 31 December 2018. The convertible bonds are denominated in RMB and are guaranteed by the Company's ultimate holding company. The convertible bonds entitle the holders to convert them into ordinary shares of the subsidiary at any time between the date after six months of issue of the bonds and their settlement date on 24 December 2023 at a conversion price of RMB14.29 per convertible bond. An adjustment had been made to the conversion price from RMB14.18 to RMB14.12 (2019:RMB14.23 to RMB14.18) as a result of the dividends paid since the convertible bonds were issued. The convertible bond was fully redeemed or converted to ordinary shares during the year ended 31 December 2020.

A subsidiary AVIC JONHON Optronic Technology Co., Ltd., of the Company issued convertible bonds with a coupon rate of 0.2% in year 1, 0.5% in year 2, 1% in year 3, 1.5% in year 4, 1.8% in year 5 and 2% in year 6 at a total principal value of RMB1,300,000,000 on 5 November 2018 ("CB 2018"). Among the total principal amount, RMB300,000,000 was held by the Company at the issue date (i.e. 5 November 2018), and principal amount of RMB128,000,000 was disposed of at a consideration of approximately RMB141,015,000 during the year ended 31 December 2018. During the year ended 31 December 2019, the convertible bonds held by the Company were fully disposed. The convertible bonds entitle the holders to convert them into ordinary shares of the subsidiary at any time before their settlement date on 5 November 2024 at a conversion price of RMB40.26 per convertible bond. If the bonds have not been converted, they would be redeemed on 5 November 2024 at par. Interest would be paid annually up until the settlement date, redemption date or the conversion date whichever earlier. The convertible bonds were fully redeemed or converted to ordinary shares during the year ended 31 December 2019.

During the year, the principal amount of RMB2,382,876,000 (2019: RMB4,852,000) of CB 2017 was converted into 168,691,361 (2019: 340,898) shares of China Avionics Systems Co. Ltd. at conversion price from RMB14.12 to RMB14.18 (2019 (restated): from RMB14.18 to RMB14.23) each respectively.

The convertible bonds contain two components, liability and equity elements. The equity element is presented in equity heading "equity component of convertible bonds of subsidiaries/a subsidiary". The effective interest rate of the liability component is 5.41% and 5.34% per annum for CB 2017 and CB 2018 respectively.

The movements of the liability component of the convertible bonds for the year is set out below:

	31/12/2020 RMB'000	31/12/2019 RMB'000
Carrying amount at beginning of the financial year	2,128,959	2,930,007
Deemed issuance for disposal by the Company	–	131,654
Conversion to ordinary shares	(2,195,873)	(1,072,962)
Redemption	(12,085)	(2,304)
Imputed interests charge (Note 7)	78,999	142,564
Carrying amount at end of the financial year	–	2,128,959

34. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group entered into gold leasing contracts with banks. The maturity periods of gold leasing contracts are generally less than 1 year (1 year inclusive).

Realised or unrealised fair value gain (loss) on gold leasing contracts are recognised and presented in the consolidated statement of profit or loss as "Other income and gains" (Note 5).

35. SHARE CAPITAL

	Share capital	
	31/12/2020	31/12/2019
	RMB'000	RMB'000
Registered, issued and fully paid:		
H shares of RMB1 each	6,210,663	6,245,122
Domestic shares of RMB1 each	1,500,669	–

	Number of shares	
	31/12/2020	31/12/2019
	'000	'000
At beginning of the financial year	6,245,122	6,245,122
Repurchase of shares (Note (b))	(34,459)	–
Issue of shares (Note (c))	1,500,669	–
At the end of the financial year	7,711,332	6,245,122

(a) The H shares rank pari passu in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars.

(b) During the year, the Company repurchased 34,459,000 H shares, representing 0.5518% of the total issued share capital of the Company and the average repurchase price is HK$3.882 (equivalent to RMB3.546) per share.

(c) On 24 December 2020, the Company issued 1,500,669,406 domestic shares.

36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

(a) Capital reserve

Capital reserve of the Group also includes reserves arising from the issuance of additional shares by subsidiaries, share-based payment, capital contributions in associates and disposals to non-controlling interests without change in control. Upon group restructuring where there are acquisitions or distributions with a holding company, the consideration is also accounted for in capital reserve of the Group.

(b) Currency translation reserve

Currency translation reserve arises from currency translations of subsidiaries that have functional currencies different from RMB, which is the Group's presentation currency.

(c) Other reserves

(i) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with the PRC accounting standards to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, this reserve balance should not fall below 25% of the registered capital by other usage.

(ii) Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside an amount to a safety reserve at the rate ranging from 0.1% to 2% on the total revenue of aviation products recognised for the year. The reserve can be utilised for improvements of safety on the manufacturing work of aviation products, and the amounts utilised are charged to the consolidated statement of profit or loss, as incurred. In 2020, approximately RMB166,578,000 (2019 (restated): RMB120,062,000) was appropriated to the special reserve, and approximately RMB109,422,000 (2019 (restated): RMB77,420,000) was utilised.

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

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

Percentage of equity interest held by non-controlling interests

	31/12/2020	31/12/2019 (Restated)
AVIC JONHON Optronic Technology Co., Ltd.	61.33%	60.22%
China Avionics Systems Co., Ltd.	60.57%	56.78%
AVICOPTER PLC	49.20%	49.20%
Jiangxi Hongdu Aviation Industry Co., Ltd.	56.23%	56.23%

Profit for the year allocated to non-controlling interests

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
AVIC JONHON Optronic Technology Co., Ltd.	978,324	742,484
China Avionics Systems Co., Ltd.	418,875	349,683
AVICOPTER PLC	386,153	294,151
Jiangxi Hongdu Aviation Industry Co., Ltd.	76,803	48,269

37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

Dividends paid to non-controlling interests

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
AVIC JONHON Optronic Technology Co., Ltd.	128,702	83,786
China Avionics Systems Co., Ltd.	82,558	55,219
AVICOPTER PLC	87,013	70,806
Jiangxi Hongdu Aviation Industry Co., Ltd.	6,707	5,641

Accumulated balances of non-controlling interests at the reporting date

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
AVIC JONHON Optronic Technology Co., Ltd.	6,770,636	5,527,602
China Avionics Systems Co., Ltd.	6,826,388	4,817,256
AVICOPTER PLC	4,684,048	4,363,498
Jiangxi Hongdu Aviation Industry Co., Ltd.	2,889,320	2,804,478

37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

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

31/12/2020	AVIC JONHON Optronic Technology Co., Ltd. RMB'000	China Avionics Systems Co., Ltd. RMB'000	AVICOPTER PLC RMB'000	Jiangxi Hongdu Aviation Industry Co., Ltd. RMB'000
Revenue	9,832,433	8,634,737	19,393,672	5,057,241
Total expenses	2,123,145	1,925,031	1,496,951	162,502
Profit for the year	1,536,457	675,349	784,097	135,597
Total comprehensive income for the year	1,539,097	758,424	821,538	162,133
Current assets	16,035,391	18,425,134	23,207,556	7,691,213
Non-current assets	3,252,093	6,300,661	3,095,454	1,975,213
Current liabilities	8,365,230	11,127,180	16,260,852	3,940,291
Non-current liabilities	358,554	2,591,221	876,968	601,543
Net cash flows from (to) operating activities	1,266,945	809,572	(684,792)	(142,081)
Net cash flows (used in) from investing activities	(412,847)	(615,382)	(160,012)	902,053
Net cash flows from (used in) financing activities	853,007	409,053	(131,299)	(125,980)
Effect of foreign exchange rate changes, net	(70,494)	(671)	(37)	(2,108)
Net increase (decrease) in cash and cash equivalents	1,636,611	602,572	(976,140)	631,884

37. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

31/12/2019	AVIC JONHON Optronic Technology Co., Ltd. RMB'000	China Avionics Systems Co., Ltd. RMB'000	AVICOPTER PLC RMB'000	Jiangxi Hongdu Aviation Industry Co., Ltd. RMB'000
Revenue	8,778,738	8,204,162	15,602,505	4,399,794
Total expenses	1,885,117	2,134,246	1,577,668	294,032
Profit for the year	1,171,758	597,515	606,459	85,229
Total comprehensive income for the year	1,173,704	672,933	610,682	85,542
Current assets	12,336,171	16,986,830	23,178,581	6,400,035
Non-current assets	2,864,764	5,715,769	3,151,711	2,029,338
Current liabilities	6,000,367	11,373,577	17,173,992	3,406,902
Non-current liabilities	398,020	3,138,663	682,108	48,285
Net cash flows from operating activities	821,751	735,641	770,050	25,130
Net cash flows used in investing activities	(281,244)	(820,863)	(89,494)	(98,435)
Net cash flows (used in) from financing activities	(315,790)	953,377	7,119	(13,719)
Effect of foreign exchange rate changes, net	20,171	(855)	–	872
Net increase (decrease) in cash and cash equivalents	244,888	867,270	687,675	(86,152)

38. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

Contracted for but not provided in the consolidated financial statements

	31/12/2020 RMB'000	31/12/2019 RMB'000
Plant and equipment	324	379
Construction in progress	65,933	93,821
	66,257	94,200

39. RELATED PARTY DISCLOSURES

The Group is directly and indirectly controlled by AVIC, which owned 61.60% in total of the Company's shares as at 31 December 2020. The remaining 38.40% of the shares are widely held.

Related parties refer to entities in which AVIC has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; or directors or officers of the Company and of its ultimate holding company, associates or joint ventures. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government structure, a majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"), including AVIC, its subsidiaries, associates and joint ventures in the ordinary course of business.

In accordance with IAS 24 *Related Party Disclosures*, state-owned enterprises and their subsidiaries, other than entities under AVIC (also a state-owned enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither AVIC nor the PRC government publishes financial statements for public use. In the normal course of the Group's business, the Group may either enter into various transactions with one or more of such state-owned enterprises and their subsidiaries. However, the Company adopts IAS 24 (revised) which grants exemptions on disclosure requirements about government-related entities.

Saved as disclosed elsewhere in these consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions in addition to the related party information shown elsewhere in these consolidated financial statements. Management of the Group are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

39. RELATED PARTY DISCLOSURES (Continued)

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

	Notes	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Ultimate holding company:			
Rendering of services	(2)	1,643	5,387
Services fee payable		4,000	–
Sales of products	(2)	–	168
Purchases of products	(2)	–	2,781
Interest expense		23,123	6,042
Associates:			
Sales of products	(2)	48,539	6,155
Purchases of products	(2)	56,733	96,525
Rendering of services	(2)	903	3,205
Services fee payable	(2)	21,327	12,299
Rental income	(2)	–	1,139
Joint ventures:			
Sales of products	(2)	3,273	1,628
Purchases of products	(2)	177,562	154,717
Fellow subsidiaries:	(1)		
Sales of products	(2)	10,727,460	8,863,044
Purchases of products	(2)	8,680,246	8,376,229
Rendering of services	(2)	2,232,999	2,468,986
Services fee payable	(2)	334,098	350,642
Rental expense for short-term lease	(2)	55,492	77,145
Rental income	(2)	12,366	14,761
Guarantee	(2)	–	312,460
Other financial services	(2)	1,785,066	947,170
Interest expense	(2)	207,513	85,237
Interest income	(2)	264,057	183,295

Notes:

(1) Fellow subsidiaries are companies whose are controlled by the same ultimate holding company, AVIC.

39. RELATED PARTY DISCLOSURES (Continued)

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

Notes: (Continued)

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

- Sales/purchases of goods and materials, and rendering/receiving services

  The products and ancillary services are provided: (i) according to the Government-prescribed price; (ii) if there is no Government-prescribed price, then according to the Government-guidance price; (iii) if there is no Government-guidance price, then according to the market price; and (iv) if none of the above is applicable, then according to the contractual price.

- Rental income/expenses

  The annual rental is reviewed and adjusted regularly and not be higher than the prevailing market annual rental as determined by: (i) recent fair transaction prices in the comparable rental market where the leased land and properties are located; (ii) guidance price for land and property leases from the government (if any); (iii) related factors such as the location, size and public facilities of the land and properties; and (iv) an independent valuer's valuation which is determined after consent between the two parties (if any).

- Guarantees

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

39. RELATED PARTY DISCLOSURES (Continued)

(b) Significant outstanding balances with related parties:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Assets:		
Accounts receivable		
– Ultimate holding company	330	648
– Fellow subsidiaries	7,865,695	8,488,178
– A joint venture	447	198
– Associates	52,214	47,580
Notes receivable		
– Fellow subsidiaries	4,582,708	1,842,338
– A joint venture	2,851	618
– Associates	60,000	9,034
Advance to suppliers		
– Ultimate holding company	284	–
– Fellow subsidiaries	385,723	310,630
– Associates	–	18,151
Other receivables and prepayments		
– Ultimate holding company	512	26,713
– Fellow subsidiaries	20,096	1,274,083
– A joint venture	21	52
– Associates	551	626
Deposits		
– A fellow subsidiary	16,578,429	17,322,538
Contract assets		
– Ultimate holding company	9	62,864
– Fellow subsidiaries	1,368,657	1,015,045
Liabilities:		
Accounts payable		
– Ultimate holding company	23	23
– Fellow subsidiaries	5,121,305	4,292,874
– Joint ventures	113,679	13,346
– Associates	157,363	69,553
Notes payable		
– Fellow subsidiaries	1,541,136	1,871,241
– Joint ventures	106,484	65,845
– Associates	12,489	30,342

39. RELATED PARTY DISCLOSURES (Continued)

(b) Outstanding balances with related parties: (Continued)

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Other payables and accruals		
– Ultimate holding company	2,307	538,969
– Fellow subsidiaries	387,947	497,929
– Associates	–	303
Lease liabilities		
– Fellow subsidiaries	278,743	303,497
Borrowings		
– Ultimate holding company	1,008,428	328,000
– Fellow subsidiaries	5,730,720	4,172,661
Contract liabilities		
– Ultimate holding company	565	34,592
– Fellow subsidiaries	896,713	621,601
– Associates	888	–

Except for borrowings from fellow subsidiaries as stated in Note 31, other balances with related parties above are unsecured, non-interest-bearing, and are repayable or settled in accordance with the relevant trading terms.

(c) Compensation of key management personnel of the Company

	Year ended 31/12/2020 RMB'000	Year ended 31/12/2019 RMB'000 (Restated)
Short-term employee benefits and total compensation paid to key management personnel	5,284	4,952

Key management includes directors (executive and non-executive), supervisors and senior management of the Company.

Further details of directors' and supervisors' emoluments are included in Note 8.

40. TRANSFERS OF FINANCIAL ASSETS

(1) Transferred financial assets that are not derecognised in their entirety

(a) At 31 December 2020, the Group endorsed certain notes receivables accepted by banks in the PRC (the "Endorsed Bills") with a carrying amount of approximately RMB513,758,000 (2019 (restated): RMB359,519,000) to certain of its suppliers in order to settle the accounts payable due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards to certain balances, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated accounts payable settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the accounts payable settled by the Endorsed Bills during the year to which the suppliers have recourse was approximately RMB492,081,000 (2019 (restated): RMB359,519,000) as at 31 December 2020.

(b) During the course of it's the ordinary business, the Group entered into accounts receivables factoring arrangements (the "Arrangements I") and transferred certain accounts receivables to banks. Under the Arrangements I, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment. The Group is exposed to default risks of the accounts debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the accounts receivables, including the sale, transfer or pledge of the accounts receivables to any other third parties. The original carrying value of the accounts receivables transferred under the Arrangements I that have not been settled as at 31 December 2020 was approximately RMB nil (2019 (restated): RMB62,797,000). The carrying amount of the assets that the Group continued to recognise as at 31 December 2020 was approximately RMB nil (2019 (restated): RMB62,797,000) and that of the associated liabilities as at 31 December 2020 was approximately RMB nil (2019 (restated): RMB1,466,000)

(2) Transferred financial assets that are derecognised in their entirety

(a) At 31 December 2020, the Group endorsed certain notes receivables accepted by banks in the PRC (the "Derecognised Bills") to certain of its suppliers in order to settle the accounts payable due to such suppliers with a carrying amount in aggregate of approximately RMB539,164,000 (2019 (restated): RMB682,492,000). The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated accounts payable. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2020, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

40. TRANSFERS OF FINANCIAL ASSETS (Continued)

(2) Transferred financial assets that are derecognised in their entirety (Continued)

(b) Other than described in (1)(b) above, the Group entered into accounts receivables factoring arrangements (the "Arrangements II") and transferred certain accounts receivables to a bank, AVIC Finance and AVIC International Leasing Co., Ltd (the "AVIC Leasing"). Under the Arrangements II, the Group was not required to reimburse the banks, AVIC Finance or AVIC Leasing for loss of interest if any trade debtors have late or default payment. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to those accounts receivables. Accordingly, it has derecognised the entire carrying amounts of those accounts receivables. The original carrying value of the accounts receivables transferred under the Arrangements II as at 31 December 2020 was approximately RMB444,581,000 (2019 (restated): RMB402,199,000).

During the year ended 31 December 2020, the Group has recognised loss of approximately RMB11,136,000 (2019 (restated): RMB9,606,000) on the date with refer to such transfer of accounts receivables.

41. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Financial assets at amortised cost:		
Accounts and notes receivables	25,138,352	21,630,459
Financial assets included in prepayments, deposits and other receivables	594,836	2,521,820
Pledged deposits	779,846	1,127,846
Cash and cash equivalents	22,809,125	18,517,739
Term deposits with initial terms of over three months	1,549,519	5,017,242
	50,871,678	48,815,106
Financial assets at fair value through other comprehensive income	1,605,233	1,396,766
Financial assets at fair value through profit or loss	2,378,749	1,250,983

41. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Financial liabilities at amortised cost:		
Accounts and notes payable	31,956,218	28,974,712
Financial liabilities included in other payables and accruals	3,493,315	3,503,575
Convertible bonds	–	2,128,959
Interest-bearing bank and other borrowings	11,667,362	9,897,603
Lease liabilities	741,184	766,599
	47,858,079	45,271,448

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of listed financial assets at fair value through profit or loss, listed financial assets at fair value through other comprehensive income are based on quoted market prices. The fair value of certain unlisted equity investment has been estimated using the market approach based on assumptions that are supported by observable market prices or rates.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31/12/2020

	Fair value measurement using		
	Quoted prices in active market (Level 1) RMB'000	Significant Observable inputs (Level 2) RMB'000	Total RMB'000
Financial assets at fair value through other comprehensive income:			
– Listed	368,152	–	368,152
– Unlisted	–	1,237,081	1,237,081
Financial assets at fair value through profit or loss			
– ETF Fund listed in the PRC	426,927	–	426,927
– Bonds listed in the PRC	3	–	3
– Equity securities listed in the PRC	1,837	–	1,837
– Unlisted securities	–	54,883	54,883
– Financial products	–	1,895,099	1,895,099
	796,919	3,187,063	3,983,982

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value: (Continued)

As at 31/12/2019 (Restated)

	Fair value measurement using		
	Quoted prices in active market (Level 1) RMB'000 (Restated)	Significant Observable inputs (Level 2) RMB'000 (Restated)	Total RMB'000 (Restated)
Financial assets at fair value through other comprehensive income:			
– Listed	332,749	–	332,749
– Unlisted	–	1,064,017	1,064,017
Financial assets at fair value through profit or loss			
– ETF Fund listed in PRC	883,451	–	883,451
– Bonds listed in PRC	7	–	7
– Equity securities listed in PRC	652	–	652
– Unlisted securities	–	366,873	366,873
	1,216,859	1,430,890	2,647,749

The directors of the Company consider that the carrying amounts of other current financial assets and other current financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019 (restated): Nil).

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise accounts and notes receivables, deposits and other receivables, pledged deposits, term deposits, financial assets at fair value through other comprehensive income, financial assets at fair value through profit and loss, accounts and notes payable, other payables and accruals, obligations under finance leases, convertible bonds, interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and notes receivable and accounts and notes payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are currency risk, interest-rate risk, price risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Currency risk

The Group's major operating subsidiaries have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group's exposure to foreign currency risk relates principally to its trade and other receivables, bank balances, trade and other payables denominated in foreign currencies other than the functional currency of relevant group entity.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Currency risk (Continued)

The carrying amounts of the Group's material foreign currency denominated monetary assets and monetary liabilities at the end of 2020 and 2019 are as follows:

	Assets At 31/12		Liabilities At 31/12	
	2020 RMB'000	2019 RMB'000 (Restated)	2020 RMB'000	2019 RMB'000 (Restated)
USD	1,285,151	1,457,546	–	6,940
EUR	145,045	75,156	–	175
HKD	63,581	138,099	215,215	207,659

Sensitivity analysis

The following table details the Group's sensitivity to a 10% (2019 (restated): 10%) increase and decrease in RMB against the relevant foreign currencies for the years ended 31 December 2020. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rate.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Sensitivity analysis (Continued)

A positive number below indicates an increase in post-tax profit where RMB weakening 10% (2019 (restated): 10%) against the relevant currency for the year ended 31 December 2020. For a 10% strengthen of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

At 31/12/2020

	USD RMB'000 (Restated)	EUR RMB'000 (Restated)	HKD RMB'000 (Restated)
Profit or loss	109,238	12,329	(12,889)

At 31/12/2019 (Restated)

	USD RMB'000 (Restated)	EUR RMB'000 (Restated)	HKD RMB'000 (Restated)
Profit or loss	123,302	6,373	(5,913)

Interest-rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and bank balances, details of which have been disclosed in Note 28. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 31. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. As of 31 December 2020, 79% (2019 (restated): 78%) of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest-rate risk.

At 31 December 2020, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by the People's Bank of China, with all other variables held constant, post tax profit for the year would have been approximately RMB16,964,010 (2019 (restated): RMB18,456,530) higher/lower.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Price risk

The Group is principally exposed to equity securities price risk in respect of investments held by the Group which are classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. Some of these financial assets are publicly traded in recognised stock exchanges. At 31 December 2020, if the quoted market price of these financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income held by the Group had increased/decreased by 10% (2019 (restated): 10%), with all other variables held constant, post tax profit for the year and fair value reserve would have been approximately RMB182,511,000 (2019 (restated): RMB106,334,000) and RMB30,240,000 (2019 (restated): RMB28,284,000) higher/lower respectively as a result of the changes in fair value of these financial assets.

Credit risk

20% (2019 (restated): 24%) of the Group's pledged deposits, term deposits and cash and cash equivalents are held in state-owned financial institutions, which management believes are of high credit quality. The Group's listed financial assets at fair value through profit or loss/at fair value through other comprehensive income are also publicly traded in recognised stock exchanges. Management does not expect any losses from non-performance by these counterparties.

The Group has significant related party balances (Note 39(b)) with low credit risk, and for the balances with third parties, the Group has no significant concentrations of credit risk.

For accounts and notes receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on a grouped basis for customers with significant balances and/or collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

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

					31/12/2020			31/12/2019	
	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000	Gross carrying amount RMB'000 (Restated)	Loss allowance RMB'000 (Restated)	Net carrying amount RMB'000 (Restated)
Accounts and notes receivables	N/A	N/A	Lifetime ECL (simplified approach)	26,087,823	(949,471)	25,138,352	22,587,363	(956,904)	21,630,459
Financial assets included in prepayments, deposits and other receivables	N/A	Performing	12-month ECL	803,788	(208,952)	594,836	2,876,559	(354,739)	2,521,820
Contract assets	N/A	N/A	Lifetime ECL (simplified approach)	4,810,174	(10,436)	4,799,738	3,094,645	–	3,094,645
					(1,168,859)			(1,311,643)	

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The carrying amounts of the Group's financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss as disclosed in Note 21 and 27 best represent their respective maximum exposure to credit risk. The Group holds no collateral over any of these balances.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 99.49% (31 December 2019 (restated): 100%) of the total accounts and notes receivables as at 31 December 2020.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and long-term and short-term bank and other borrowings.

As at 31 December 2020, the net current assets of the Group amounted to approximately RMB29,230,909,000 (31 December 2019 (restated): RMB23,041,700,000). Management monitors regularly the Group's current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amounts of committed banking facilities to meet its working capital requirements. The amount of undrawn credit facilities at the end of each reporting period is disclosed in Note 31(e) to the consolidated financial statements. The directors believe that the Group's current operating cash flows and credit facilities are sufficient for financing its capital commitments in the near future and for working capital purposes.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	31/12/2020					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Interest-bearing bank and other borrowings	6,729,279	2,223,628	2,610,961	854,170	12,418,038	11,667,362
Accounts and notes payables	31,956,218	–	–	–	31,956,218	31,956,218
Other payables and accruals	3,493,315	–	–	–	3,493,315	3,493,315
Lease liabilities	119,807	109,634	269,754	377,861	877,056	741,184

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	31/12/2019					
	Within 1 year RMB'000 (Restated)	1 to 2 years RMB'000 (Restated)	2 to 5 years RMB'000 (Restated)	Over 5 years RMB'000 (Restated)	Total undiscounted cash flow RMB'000 (Restated)	Carrying amount RMB'000 (Restated)
Interest-bearing bank and other borrowings	7,891,857	976,270	698,021	728,076	10,294,224	9,897,603
Accounts and notes payables	28,974,712	–	–	–	28,974,712	28,974,712
Convertible bonds	24,000	36,000	2,563,200	–	2,623,200	2,128,959
Other payables and accruals	3,503,575	–	–	–	3,503,575	3,503,575
Lease liabilities	108,915	110,411	273,656	411,822	904,804	766,599

Capital management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from prior year.

In order to maintain or adjust the capital structure, the Group may consider the macro economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generated from operations and may raise funding through capital market or bank borrowings as necessary.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings and convertible bonds divided by total assets as shown in the consolidated statement of financial position.

The gearing ratios at 31 December 2020 and at 31 December 2019 were as follows:

	31/12/2020 RMB'000	31/12/2019 RMB'000 (Restated)
Total bank and other borrowings (Note 31)	11,667,362	9,897,603
Convertible bonds (Note 33)	–	2,128,959
	11,667,362	12,026,562
Total assets	116,047,740	107,816,127
Gearing ratio	10.05%	11.15%

44. DISPOSAL OF SUBSIDIARIES

(i) On 31 December 2020, AVIC Rongfu Fund Management Company Limited (中航融富基金管理有限公司) was deemed to be disposed due to loss of control of AVIC Rongfu Fund Management Company Limited. No management of the Group was appointed as director of AVIC Rongfu Fund Management Company Limited. The subsidiary is engaged in investment management, consultation and management. The net assets of AVIC Rongfu Fund Management Company Limited at the date of deemed disposal were as follows:

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	95,388
Accounts and notes receivables	1,523
Prepayments, deposits and other receivables	4,633
Investments in associates	7,298
Property, plant and equipment	324
Financial assets at fair value through other comprehensive income	7,489
Accounts and notes payables	(252)
Other payables and accruals	(1,032)
Deferred tax liabilities	(37)
Net assets	115,334
Net assets disposed of	57,667

Gain on deemed disposal of a subsidiary:

Investments in associates	57,667
Net assets disposed of	(57,667)
Gain on disposal	–

Net cash outflow arising on deemed disposal:

Bank balances and cash disposed of	(95,388)

44. DISPOSAL OF SUBSIDIARIES (Continued)

(ii) On 21 December 2020, the Group disposed entire 36.80% equity of AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司), a non-wholly owned subsidiary of the Group, at cash consideration of approximately RMB68,578,000. The subsidiary is engaged in aviation technology development, technology transfer, technology consultation, data processing, sales and development of aircraft products. The net assets of AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. at the date of disposal were as follows:

Consideration received:

	RMB'000
Total consideration received	68,578

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	59,730
Prepayments, deposits and other receivables	100,204
Property, plant and equipment	26
Financial assets at fair value through other comprehensive income	33,943
Accounts and notes payables	(2,162)
Other payables and accruals	(6,210)
Net assets	185,531
Non-controlling interests	(117,270)
Equity attributable to equity holders of the Company	68,261
Net assets disposed of	68,261
Gain on disposal of a subsidiary:	
Consideration received	68,578
Net assets disposed of	(68,261)
Gain on disposal	317
Net cash inflow arising on disposal:	
Cash consideration	19,188
Less: Bank balances and cash disposed of	(59,730)
	(40,542)

44. DISPOSAL OF SUBSIDIARIES (Continued)

(iii) On 28 December 2019, the Group disposed entire 65.7% equity of Shanghai Comaero Electronic Engineering Co.,Ltd (上海航鍵航空設備有限公司), a subsidiary of the Group, to an independent third party at cash consideration of approximately RMB3,699,000. The subsidiary is engaged in manufacturing and sale of relay, defrost and inverters products. The net assets of Shanghai Comaero Electronic Engineering Co.,Ltd at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash received	1,110
Deferred cash consideration	2,589
Total consideration received	3,699

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	11
Accounts and notes receivable	8,607
Prepayments, deposits and other receivables	12,439
Inventories	4,988
Property, plant and equipment	348
Deferred tax assets	6
Interest-bearing bank and other borrowings	(3,000)
Accounts and notes payables	(8,993)
Other payables and accruals	(8,831)
Tax payable	(68)
Net assets	5,507

Gain on disposal of a subsidiary:

Consideration received and receivable	3,699
Net assets disposed of	(5,507)
Non-controlling interests	1,814
Gain on disposal	6

Net cash inflow arising on disposal:

Cash consideration	1,110
Less: Bank balances and cash disposed of	(11)
	1,099

44. DISPOSAL OF SUBSIDIARIES (Continued)

(iv) On 3 December 2019, the Group disposed 100% equity interest of Avic Shanxi Baocheng Aviation Instrument Co., Ltd (陝西寶成航空儀表有限責任公司), a subsidiary of the Group, to a fellow subsidiary at cash consideration of approximately RMB481,981,000. The subsidiary is engaged in manufacturing and sale of aviation electrical engineering products and accessories. The net assets of Avic Shanxi Baocheng Aviation Instrument Co., Ltd at the date of disposal were as follows:

Consideration received:

	RMB'000
Cash received	240,991
Deferred cash consideration	240,990
Total consideration received	481,981

44. DISPOSAL OF SUBSIDIARIES (Continued)

(iv) (Continued)

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	268,518
Accounts and notes receivable	560,580
Prepayments, deposits and other receivables	79,396
Inventories	468,326
Investment properties	68,699
Property, plant and equipment	413,452
Land use rights	60,484
Deferred tax assets	701
Interest-bearing bank and other borrowings	(498,771)
Accounts and notes payables	(604,318)
Other payables and accruals	(405,713)
Contract liabilities	(7,636)
Deferred income from government grants	(5,000)
Tax payable	(727)
Net assets	397,991

Gain on disposal of a subsidiary:

Consideration received and receivable	481,981
Net assets disposed of	(397,991)
Non-controlling interests	115,997
Reclassification of reserves from equity to profit or loss on loss of control of subsidiary	1,034
Gain on disposal	201,021

Net cash outflow arising on disposal:

Cash consideration received	240,991
Less: Bank balances and cash disposed of	(268,518)
	(27,527)

44. DISPOSAL OF SUBSIDIARIES (Continued)

(v) On 31 December 2019, Xi'an Forstar Microwave Technology Co., Ltd. (西安富士達微波技術有限公司) was deemed to be disposed due to the capital injection of approximately RMB9,192,000 by non-controlling shareholder. After the capital injection, the percentage directly held by Avic Forstar S&T Company Limited (中航富士達科技股份有限公司) decreased from 51% to 31.88%. The control was ceased upon the injection. The subsidiary is engaged in Research and development, manufacture and sale of optical fibre connectors, optical-module ceramic cores, active and passive optical fibre communication devices, and new ceramic materials. The net assets of Xi'an Forstar Microwave Technology Co., Ltd. at the date of deemed disposal were as follows:

Analysis of assets and liabilities over which control was lost:

	RMB'000
Cash and cash equivalents	2,138
Accounts and notes receivable	10,416
Prepayments, deposits and other receivables	1,177
Inventories	26,051
Property, plant and equipment	4,986
Deferred tax assets	78
Interest-bearing bank and other borrowings	(5,000)
Accounts and notes payables	(12,842)
Other payables and accruals	(4,946)
Net assets	22,058

Gain on deemed disposal of a subsidiary:

Net assets disposed of	(22,058)
Capital injection	9,192
Non-controlling interests	6,304
Fair value of the equity interest retained in the Group at the date of disposal	6,514
Loss on disposal	(48)

Net cash outflow arising on deemed disposal:

Bank balances and cash disposed of	(2,138)

45. SHARE-BASED PAYMENT

(i) AVIC JONHON Optronic Technology Co., Ltd. ("JONHON Optronic") passed a resolution regarding to the "Proposal on Restricted Share Intensive Scheme of the company's A-Share Stock Plan (Phase I)" ("the Scheme I") (關於向公司A股限制性股票激勵計劃(第一期)激勵對象授予限制性股票的議案) to the staffs in the directors' meeting on 18 January 2017 according to the approval in the first EGM of 2017. The boards agreed to grant 6,001,000 A-share restricted shares to 266 staffs in the Scheme I and the grant date was on 18 January 2017 in share price RMB28.19.

The Scheme I is valid from the first date of grant to the date that all the shares are unlocked or repurchased. The Scheme I is available for five years (60 months), included vesting period of two years and unlock period of three years.

The Scheme I targeted the management and core technology and business staffs of JONHON Optronic and the management and backbone staffs of its subsidiaries, which was 266 personnel in total.

(ii) JONHON Optronic passed a resolution regarding to the "Proposal on Restricted Share Intensive Scheme of the company's A-Share Stock Plan (Phase II)" ("the Scheme II") (關於向公司A股限制性股票激勵計劃(第二期)激勵對象授予限制性股票的議案) to the staffs" in the directors' meeting on 26 December 2019 according to the approval in the third EGM of 2019. The boards agreed to grant 31,493,400 A-shares restricted shares to 1,182 staffs in the Scheme II and the grant date was on 26 December 2019 in option price RMB23.43.

The Scheme II is valid from the first date of grant to the date that all the shares are unlocked or repurchased. The Scheme II is available for five years (60 months), included vesting period of two years and lock-up period of three years.

The Scheme II targeted the directors, management and core technology and business staffs of JONHON Optronic and the management and backbone staffs of its subsidiaries, which was 1,164 personnel in total.

46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Dividend payables (included in other payable and accruals) RMB'000	Interest-bearing bank and other borrowings RMB'000	Convertible bonds RMB'000	Lease liabilities RMB'000	Total RMB'000
Balance at 1 January 2019 (Restated)	191,758	11,346,425	2,930,007	654,511	15,122,701
Finance cost incurred	–	–	142,564	33,983	176,547
Financing cash flows	(552,875)	978,108	(2,304)	(111,764)	311,165
Conversion to ordinary shares	–	–	(941,308)	–	(941,308)
Disposal of subsidiaries	–	(526,930)	–	–	(526,930)
Business combinations involving entities under common control	–	(1,900,000)	–	–	(1,900,000)
New lease arrangements	–	–	–	189,869	189,869
Dividend declared	540,817	–	–	–	540,817
Balance at 31 December 2019 (Restated)	179,700	9,897,603	2,128,959	766,599	12,972,861
Finance cost incurred	–	5,690	66,937	44,275	116,902
Financing cash flows	(485,074)	1,764,069	(12,085)	(114,097)	1,152,813
Conversion to ordinary shares	–	–	(2,183,811)	–	(2,183,811)
New lease arrangements	–	–	–	44,407	44,407
Dividend declare	667,914	–	–	–	667,914
Balance at 31 December 2020	362,540	11,667,362	–	741,184	12,771,086

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	31/12/2020 RMB'000	31/12/2019 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	6,100	6,484
Right-of-use assets – others	7,155	–
Investment properties	27,814	28,974
Other intangible assets	1,111	1,592
Investments in subsidiaries	14,249,409	8,704,872
Investments in associates	473,523	294,455
Financial assets at fair value through other comprehensive income	602,645	427,201
Deferred tax assets	5,922	5,571
Prepayments, deposits and other receivables	11,565	511,015
Total non-current assets	15,385,244	9,980,164
CURRENT ASSETS		
Accounts and notes receivables	1,604	2,704
Prepayments, deposits and other receivables	9,337	341,649
Financial assets at fair value through profit or loss	1,898,302	416,279
Term deposits with initial terms of over three months	–	620,000
Cash and cash equivalents	663,397	643,528
Total current assets	2,572,640	2,024,160
TOTAL ASSETS	17,957,884	12,004,324

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	31/12/2020 RMB'000	31/12/2019 RMB'000
CURRENT LIABILITIES		
Other payables and accruals	479,250	318,680
Lease liabilities	4,445	–
Tax payable	20,765	24,036
Total current liabilities	504,460	342,716
NET CURRENT ASSETS	2,068,180	1,681,444
TOTAL ASSETS LESS CURRENT LIABILITIES	17,453,424	11,661,608
NON-CURRENT LIABILITY		
Deferred tax liabilities	25,363	14,452
TOTAL LIABILITIES	529,823	357,168
Net assets	17,428,061	11,647,156
EQUITY		
Share capital	7,711,332	6,245,122
Reserves (Note)	9,716,729	5,402,034
Total equity	17,428,061	11,647,156

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2020	4,534,255	13,082	213,293	641,404	5,402,034
Profit for the year	–	–	–	377,496	377,496
Other comprehensive income for the year, net of tax.	–	21,411	–	–	21,411
Total comprehensive income for the year	–	21,411	–	377,496	398,907
2019 final dividend	–	–	–	(187,354)	(187,354)
Transfer to statutory surplus reserve	–	–	35,444	(35,444)	–
Issue of shares	4,186,868	–	–	–	4,186,868
Derecognition of share	(87,663)	–	–	–	(87,663)
Share swap between an associate and a FVTOCI	10,609	–	–	–	10,609
Deemed disposal of a subsidiary	–	–	–	(6,672)	(6,672)
At 31 December 2020	8,644,069	34,493	248,737	789,430	9,716,729

	Capital reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2019	4,534,255	10,487	181,295	540,768	5,266,805
Profit for the year	–	–	–	296,936	296,936
Other comprehensive income for the year, net of tax.	–	25,647	–	–	25,647
Total comprehensive income for the year	–	25,647	–	296,936	322,583
2018 final dividend	–	–	–	(187,354)	(187,354)
Transfer to statutory surplus reserve	–	–	31,998	(31,998)	–
Disposal of financial asset at fair value through other comprehensive income	–	(23,052)	–	23,052	–
At 31 December 2019	4,534,255	13,082	213,293	641,404	5,402,034

Capital reserve of the Company represents:

(i) the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment, set off by net premium on issue of shares upon listing of the Company; and

(ii) the difference between the fair value of shares issued and their respective par value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: A summary of the Company's reserves is as follows: (Continued)

Other reserves of the Company represent statutory surplus reserve. In accordance with the relevant PRC law and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with the PRC accounting standards to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, this reserve balance should not fall below 25% of the registered capital by other usage.

48. COMPARATIVE FIGURES

As described explained in notes 2.1 to the consolidated financial statements, due to the application of merger accounting for business combinations involving entities under common control, certain comparative figures have been restated.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 30 March 2021.

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings indicated. In addition, shareholding percentage referred to in the definitions below is the percentage as at 31 December 2020.

"Articles of Association"	Articles of Association of the Company (as amended from time to time)
"AVIC"	Aviation Industry Corporation of China, Ltd. (中國航空工業集團有限公司), a controlling shareholder of the Company holding directly and indirectly 61.60% equity interest of the Company
"AVIC Airborne Systems"	AVIC Airborne Systems Company Limited (中航機載系統有限公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC
"AVIC Avionics"	China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange with 39.43% of its equity interest being held by the Company
"AVIC CAPDI"	China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究總院有限公司), a wholly-owned subsidiary of the Company
"AVIC Capital"	AVIC Capital Co., Ltd. (中航資本控股股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange and a subsidiary of AVIC
"AVIC Finance"	AVIC Finance Co., Ltd. (中航工業集團財務有限責任公司), a subsidiary of AVIC
"AVIC Forstar"	AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司), a subsidiary of JONHON Optronic
"AVIC Group"	AVIC and its subsidiaries
"AVIC Helicopter"	AVIC Helicopter Co., Ltd. (中航直升機有限責任公司), a wholly owned subsidiary of the Company

"AVIC I"	China Aviation Industry Corporation I (中國航空工業第一集團公司), the predecessor of AVIC
"AVIC II"	China Aviation Industry Corporation II (中國航空工業第二集團公司), a former controlling shareholder of the Company and the predecessor of AVIC
"AVIC Kaitian"	Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), a subsidiary of AVIC Avionics
"AVIC Lanfei"	Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司), a wholly-owned subsidiary of AVIC Avionics
"AVIC Lease"	AVIC International Lease Co. Ltd. (中航國際租賃有限公司), a subsidiary of AVIC
"AVIC Optoelectronics Precision"	AVIC Optoelectronics Precision Electroics (Shenzhen) Co. Ltd. (中航光電精密電子(深圳)有限公司), a subsidiary of JONHON Optronic
"AVIC Renewable Energy"	AVIC Renewable Energy Investment Co., Ltd. (中國航空工業新能源投資有限公司), a limited liability company established in the PRC
"AVIC Rongfu"	AVIC Rongfu Fund Management Company Limited (中航融富基金管理有限公司), which is held as to 50% by the Company
"AVIC Trust"	AVIC Trust Co., Ltd (中航信託股份有限公司), a joint stock limited liability company incorporated in the PRC and a subsidiary of AVIC
"AviChina", "the Company"	AviChina Industry & Technology Company Limited (中國航空科技工業股份有限公司), a joint stock limited company established in the PRC with limited liability on 30 April 2003
"AviChina Capital"	AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司), a wholly-owned subsidiary of the Company
"AviChina Hong Kong"	AviChina Hong Kong Limited (中航科工香港有限公司), a wholly-owned subsidiary of the Company
"AviChina Intelligent"	AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司)

"AVICOPTER"	AVICOPTER PLC (中航直升機股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 28.21% of its interests being held by the Company through Harbin Aviation Group and 6.56% of its interests being directly held by the Company
"Board" or "Board of Directors"	the board of directors of the Company
"Changfeng Avionics"	Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司), a wholly-owned subsidiary of AVIC Avionics
"Changhe Aircraft"	Changhe Aircraft Industries (Group) Co., Ltd. (昌河飛機工業(集團)有限責任公司), a wholly-owned subsidiary of the Company
"Changhe Aviation"	Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司), a wholly-owned subsidiary of AVICOPTER
"CSRC"	China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company
"Domestic Shares"	ordinary shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi by PRC nationals and/or PRC corporate entities
"Former AVIC"	Aviation Industry Corporation of China (中國航空工業總公司), the predecessor of AVIC I and AVIC II
"Group"	the Company and its subsidiaries
"H Shares"	overseas listed foreign invested shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
"Hafei Aviation"	Harbin Hafei Aviation Industry Co., Ltd. (哈爾濱哈飛航空工業有限責任公司), a wholly-owned subsidiary of AVICOPTER
"Harbin Aircraft"	Harbin Aircraft Industry Group Co., Ltd. (哈爾濱飛機工業集團有限責任公司), a wholly-owned subsidiary of the Company
"Harbin Aviation Group"	Harbin Aviation Industry (Group) Co., Ltd. (哈爾濱航空工業(集團)有限公司), a wholly-owned subsidiary of the Company

"Helicopter Tianjin"	Tianjin Helicopter Company Limited (天津直升機有限責任公司), a wholly-owned subsidiary of AVICOPTER
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hongdu Aviation"	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 43.77% of its interests being held by the Company
"Hongdu Group"	Jiangxi Hongdu Aviaiton Industry Group Co., Ltd. (江西洪都航空工業集團有限責任公司), a wholly-owned subsidiary of AVIC
"Huiyang Company"	Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司), a wholly-owned subsidiary of AVICOPTER
"Jingdezhen Helicopter R&D Branch"	AVIChina Industry and Technology Company Limited Jingdezhen Helicopter Research and Development Branch (中國航空科技工業股份有限公司景德鎮直升機研發分公司)
"JONHON Optronic"	AVIC JONHON Optronic Technology Co., Ltd. (中航光電科技股份有限公司), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, with 38.67% of its equity interest held by the Company
"Keeven Instrument"	Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics
"Lanzhou Aviation Electrical"	Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司), a wholly-owned subsidiary of AVIC Avionics
"Oriental Instrument"	Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司), a wholly-owned subsidiary of AVIC Avionics
"PRC"	the People's Republic of China
"Qianshan Avionics"	AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司), a wholly-owned subsidiary of AVIC Avionics
"Shaanxi Huayan"	AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司), a subsidiary of AVIC Avionics

"Shanghai Aviation Electric"	Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司), a wholly-owned subsidiary of AVIC Avionics
"Shanghai Aviation Electronics"	Shanghai Aviation Electronics Co. Ltd.* (上海航空電子有限責任公司), a subsidiary of AVIC
"Shares"	the ordinary shares of the Company
"Shenyang Xinghua"	AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限責任公司), a subsidiary of JONHON Optronic
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Taixing Aivation Optoelectronic"	Taixing Aviation OPtoelectronic Technology Co., Ltd. (泰興航空光電技術有限公司), a subsidiary of JONHON Optronic
"Taiyuan Instrument"	AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics
"Tianjin Aviation"	Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司), a wholly-owned subsidiary of the Company
"Tianjin Free Trade Zone Investment"	Tianjin Free Trade Zone Investment Company Limited* (天津保税區投資有限公司), a Company incorpoarted in the PRC
"Trainer"	aeroplanes designed and used for pilot training purposes
"Xiangtong Photoelectric"	Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司), a subsidiary of TONHON Optronic

The English names of the entities of mainland China referred to in the definitions above are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.

Corporate Information

BOARD OF DIRECTORS

Chairman, Executive Director	Wang Xuejun
Executive Director	Zhao Hongwei
Non-Executive Director	Yan Lingxi
Non-Executive Director	Lian Dawei
Non-Executive Director	Xu Gang
Independent Non-Executive Director	Liu Renhuai
Independent Non-Executive Director	Liu Weiwu
Independent Non-Executive Director	Wang Jianxin

SUPERVISORS

Chairman of the Supervisory Committee	Zheng Qiang
Supervisor	Guo Guangxin
Supervisor	Zhao Zhuo

SENIOR MANAGEMENT

General Manager	Zhao Hongwei
Deputy General Manager & CFO	Tao Guofei
Deputy General Manager	Liu Wanming
Board Secretary	Xu Bin

COMPANY SECRETARY

Xu Bin

THE LEGAL NAME OF THE COMPANY

中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited

Abbreviation name in Chinese:	中航科工
Abbreviation name in English:	AVICHINA
Legal representative:	Wang Xuejun

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2202A, 22th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong

AUTHORISED REPRESENTATIVES

Wang Xuejun Xu Bin

PRINCIPAL BANKERS

Shanghai Pudong Development Bank Limited
No. 12, Zhongshan Dong Yi Road,
Shanghai, the PRC

Bank of Communications Co., Ltd.
No. 188 Yin Cheng Zhong Road,
Pudong New District,
Shanghai, the PRC

China Minsheng Banking Corp., Ltd.
No. 2 Fuxingmennei Street,
Xicheng District, Beijing, the PRC

Bank of China Limited
No.1 Fuxingmennei Street,
Xicheng District,
Beijing, the PRC

PLACE OF LISTING, STOCK NAME AND STOCK CODE

Main Board of The Stock Exchange of Hong Kong Limited
(H Shares)
Stock Name: AVICHINA
Stock Code: 2357

REGISTERED ADDRESS

2nd floor, Building 27, No. 26 Xihuan South Street,
Beijing Economic Technological Development Area,
Beijing, the PRC
Postal Code: 100176

WEBSITE

http://www.avichina.com

CORRESPONDENCE ADDRESS

6/F, Tower A, No. 14 Xiaoguandongli,
Chaoyang District, Beijing, the PRC
Postal Code: 100029

Telephone: 86-10-58354335
Facsimile: 86-10-58354300/10
E-mail Box: avichina@avichina.com

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Room 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2020 will be held at 9:00 a.m. on Friday, 28 May 2021 at AVIC Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC.

AUDITORS

International Auditors

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

Auditors in the PRC

ShineWing Certified Public Accountant LLP
9/F, Block A, Fu Hua Mansion,
No.8, Chaoyangmen Beidajie, Dongcheng District,
Beijing, the PRC

LEGAL ADVISERS

As to Hong Kong law

Baker & McKenzie
14th Floor, One Taikoo Place, 979 King's Road, Quarry Bay,
Hong Kong

As to PRC law

Beijing Jingtian & Gongcheng Law Firm
34th Floor, Tower 3, China Central Place,
77 Jianguo Road, Chaoyang District,
Beijing, the PRC