

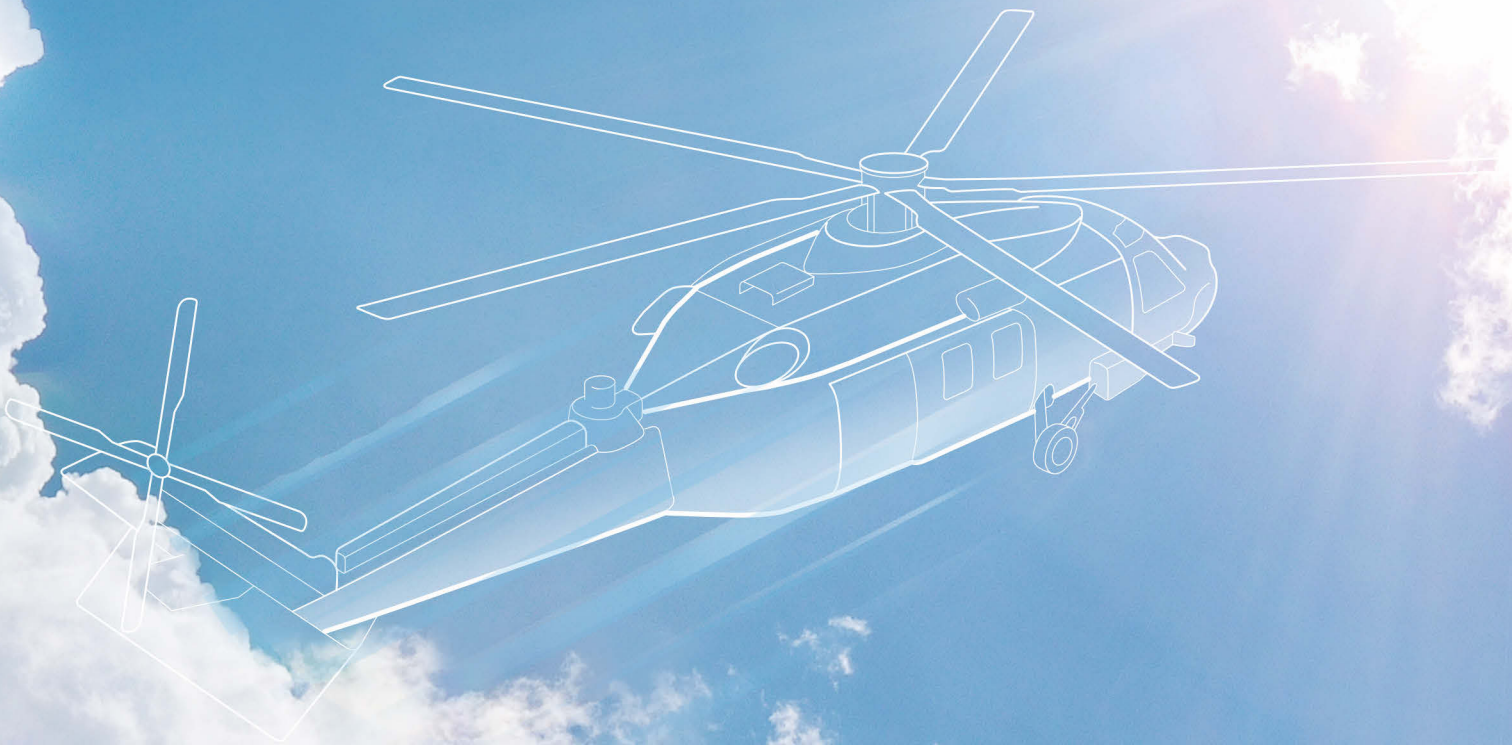


AviChina

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
2021

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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;

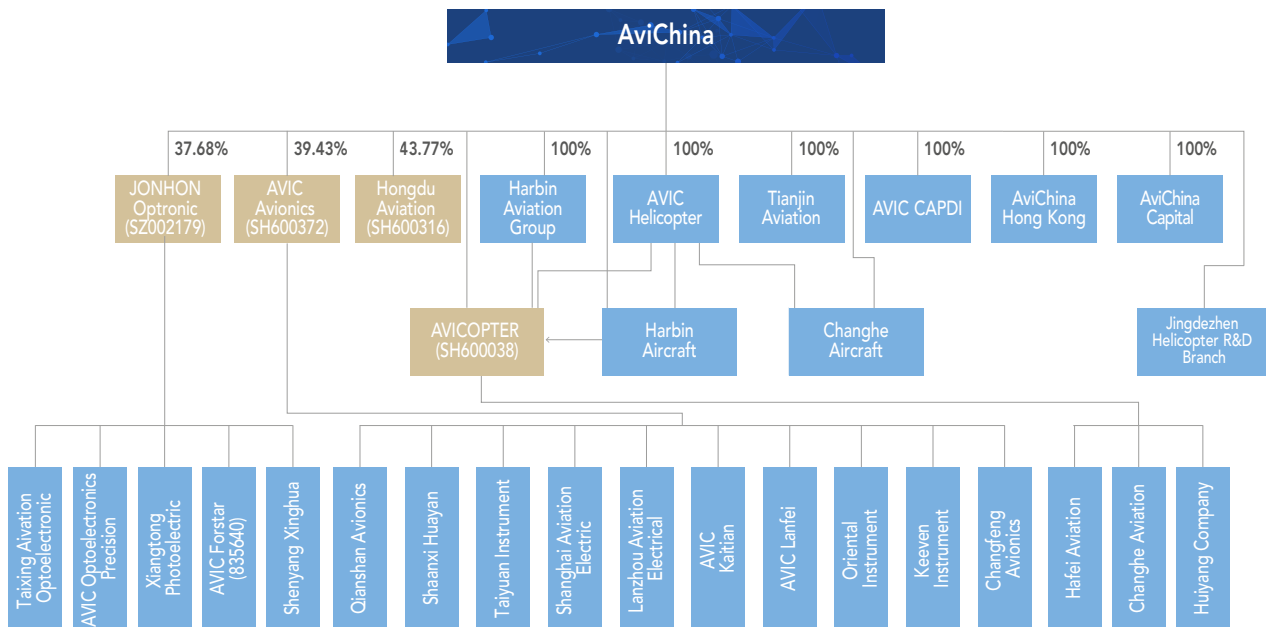
Trainer: L15, K8 and CJ-6 (PT-6) trainers series;

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

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

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

CORPORATE STRUCTURE OF THE GROUP





Financial Highlights

CONSOLIDATED PROFIT AND LOSS

(Prepared under China Accounting Standards for Business Enterprises)

(RMB million, other than basic and diluted earnings per share)

	For the year ended 31 December		Changes
	2021	2020 (restated)	
Revenue	60,296	50,930	18.39%
Profit before tax	5,315	4,268	24.53%
Net profit attributable to the owners of the parent company	2,369	1,933	22.56%
Gross profit margin	21.06%	20.49%	0.57%
Earnings per share (RMB)			
– Basic	0.307	0.250	22.80%
– Diluted	0.307	0.250	22.80%

CONSOLIDATED ASSETS AND LIABILITIES

(Prepared under China Accounting Standards for Business Enterprises)

(RMB million)

	As at 31 December		Changes
	2021	2020 (restated)	
Total assets	133,889	115,649	15.77%
Total liabilities	79,123	69,499	13.85%
Minority equity	27,859	23,173	20.22%
Shareholders' equity attributable to parent company	26,907	22,977	17.10%

Financial Highlights

Financial information on the Group's comprehensive business in the recent five years starting from 1 January 2017 is summarized as follows:

(Prepared under China Accounting Standards for Business Enterprises)

(RMB million, other than basic and diluted earnings per share)

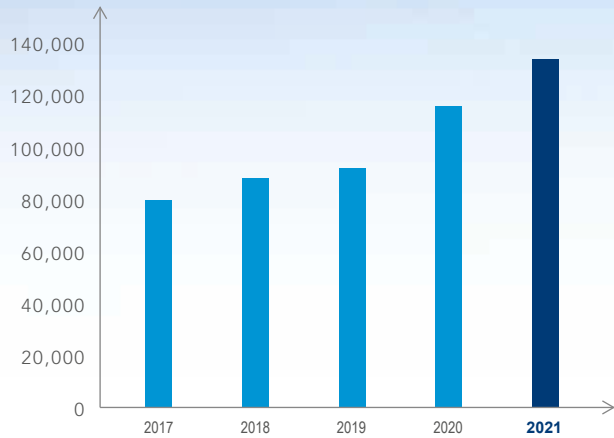
	As at 31 December/For the year ended 31 December				
	2021	2020 (restated)	2019	2018	2017
Total assets	133,889	115,649	92,209	88,126	80,344
Total liabilities	79,123	69,499	53,252	52,734	48,749
Minority equity	27,859	23,173	20,095	18,201	16,493
Shareholders' equity attributable to parent company	26,907	22,977	18,862	17,191	15,103
Revenue	60,296	50,930	42,906	35,865	33,214
Profit before tax	5,315	4,268	3,186	2,840	2,685
Net profit attributable to the owners of the parent company	2,369	1,933	1,360	1,261	1,185
Gross profit margin	21.06%	20.49%	21.49%	21.97%	22.88%
Earnings per share (RMB)					
– Basic	0.307	0.250	0.220	0.215	0.205
– Diluted	0.307	0.250	0.220	0.215	0.205



Financial Highlights

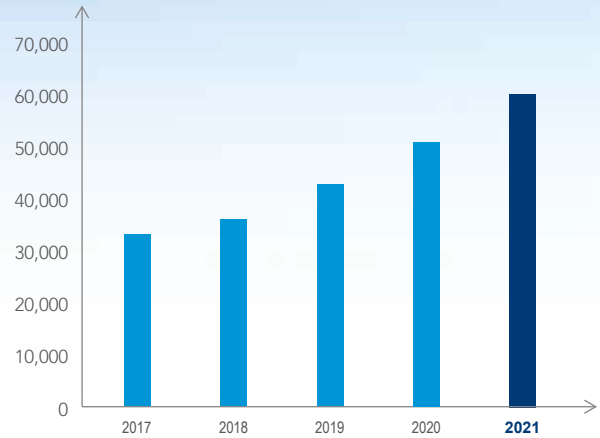
TOTAL ASSETS

(RMB million)



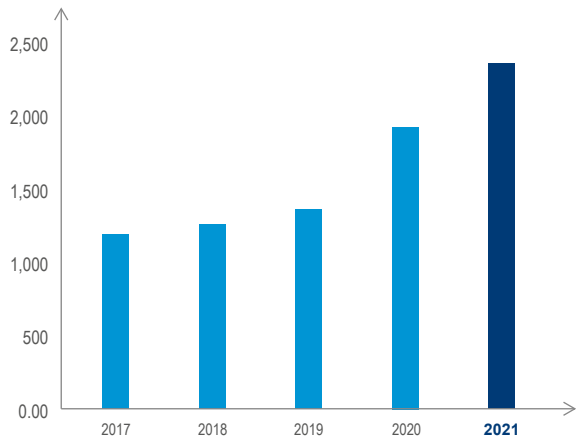
REVENUE

(RMB million)



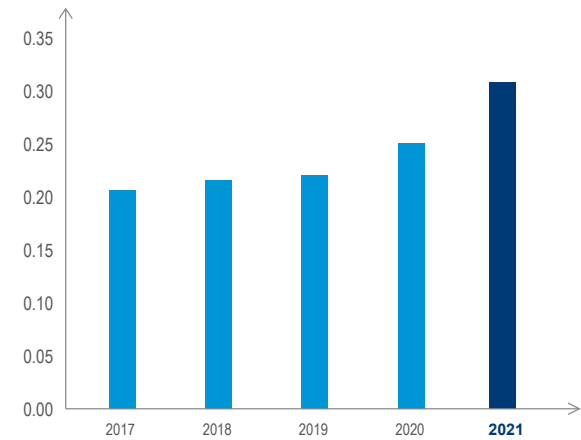
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY

(RMB million)



BASIC EARNINGS PER SHARE 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 for the year 2021 of AviChina Industry & Technology Company Limited (the "Company") and its subsidiaries (the "Group").

ANNUAL RESULTS

For the year ended 31 December 2021, the Group recorded a revenue of RMB60,296 million, and the net profit attributable to the owners of the parent company amounted to RMB2,369 million, achieving growth in both revenue and profit.

BUSINESS REVIEW

In 2021, in face of the complicated and severe international environment and multiple challenges as a result of the pandemic of COVID-19 (the "Pandemic"), with the recovery and development of national economy, China deeply advanced reform, opening up and innovation, established a new development pattern, achieved new results in quality development, successfully realizing the first Centenary Goal. At the time of the 70 anniversary of the founding of new China's aviation industry, with new steps to be taken, Aviation Industry Corporation of China, Ltd. ("AVIC"), the Company's controlling shareholder, has made firm progress and fast-in-quality improvement, achieving new breakthroughs in reform and innovation and yielding initial results of the Outline of the 14th Five-Year Plan for National Economic and Social Development ("14th Five-Year Plan"). A number of aircraft flew over Tiananmen Square in tribute to the centenary of the Communist Party of China. The new generation of aviation products was unveiled at the Airshow China, which demonstrates the spirit of China. The "Wing Loong (翼龍)"-2H emergency disaster relief UAV and Z-20 helicopters acted as the backbone of emergency rescue for the disaster in Henan. Meanwhile, AVIC was listed in the Fortune Global 500 for the 13th successive year with the ranking of 140, and was ranked the second among the global 500 top companies in the aerospace and defense industry.

In 2021, against the backdrop of AVIC's results at the beginning of the 14th Five-Year Plan, the Company was committed to becoming a flagship company to provide high-tech aviation products and services for both military and civil purposes and actively promoted various tasks. AVIC JONHON Optronics Technology Co., Ltd (中航光電科技股份有限公司) ("JONHON Optronics") Optronics completed a non-public offering of shares, raising approximately RMB3.4 billion. AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司) ("AVIC Forstar") became one of the first batch of companies and the first central state-owned enterprise to be listed on the Beijing Stock Exchange. Advanced twin-engine multi-purpose helicopter AC332 commenced manufacturing in Tianjin and Tianjin Civil Helicopter Industrial Base entered a new stage of development. Z-8A helicopter carried out the security mission for the Winter Olympic Games in 2022. Aviation ancillary system provided assistance for the manned Shenzhou XII spacecraft to achieve a complete success. A number of avionics companies became the supporting supplier of C919 project, further improving the avionics supporting capability. The Company maintained the leading position in the field of 5G communication and new energy; made steady progress in the aviation engineering service market and continued to expand the civil aviation market; subscribed for the Growth Enterprise Market IPO strategic placement of Chengdu RMI Technology (成都雷電微力科技) and deployed key areas to promote industrial extension and optimize the asset layout; improved corporate governance to enhance its image in the capital market and protect the interests of investors.

OUTLOOK

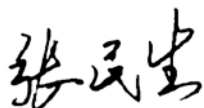
In 2022, the global economy is still facing uncertainties and instabilities, while China maintains long-term positive economic development. China's high-end equipment manufacturing entered a golden period. The air transportation industry will tend to recover. Military and civilian products are the dual driving force for the rapid development of aviation industry. The aviation industry will also transform thoroughly to the model of market-driven and innovation-driven. According to Boeing's latest Civil Aviation Market Forecast, it is expected that the delivery demand for all types of passenger aircraft will exceed 43,500 in the coming 20 years. At the same time, the level of aviation manufacturing technology and production efficiency will improve gradually and there will be more and more breakthroughs and innovations in exploring the sustainable development of the aviation industry. In the future, the development of the global aviation industry will be full of new opportunities and challenges.

We embrace the new era and advance courageously. In 2022, AviChina will aim to build a new high-tech aviation industry group, proactively plan and promote various development plans; further improve the development strategy to in line with the national development plan; constantly upgrade the industrial chain and drive resource integration through market-oriented operation; seize the opportunity to promote cooperation and advance the industrialization of civil helicopters; continue to focus on the key links of the aviation industry chain, work on resource organization and industry empowerment, and explore new dynamics of aviation industry development; implement the innovation-driven development strategy, keep up with the trend of technology reform, accelerate the transformation of digital intelligence aviation and enhance the strength of hard technology; actively engage in dialogue with the market and investors to enhance the value of the Company; improve the governance structure, strictly comply with regulatory requirements, prevent operational risks and improve the control system; devote to poverty alleviation and green aviation, and shoulder responsibilities to maintain the diligent and conscientious corporate image.

Upholding the original intention, we will be dedicated to our mission and forge ahead with determination. In 2022, the Board will lead the Company to implement the strategic goals firmly, adhere to the righteousness and innovation, and move forward courageously to enhance the value of the Company and promote the sustainable development of the aviation industry. With full confidence in the new year, I and all our staff will serve for the national interests, be diligent and dedicated to our work, make concerted efforts, adhere to the spirit of aviation, create value and reward our shareholders.

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.



Zhang Minsheng
Chairman
Beijing, 30 March 2022

Management Discussion and Analysis

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

SUMMARY

Due to the acquisition of Beijing Yinyan Industrial Co., Ltd.* (北京銀燕實業有限公司) ("Beijing Yinyan") by China Aviation Planning and Design Institute Co., Ltd.* (中國航空規劃設計研究總院有限公司) ("AVIC CAPDI", a wholly-owned subsidiary of the Company in 2021), the financial data of the Group in the corresponding period of the preceding year was restated pursuant to the relevant regulations and requirements. Unless otherwise stated, the financial data in the corresponding period of the preceding year referred in this report has been restated.

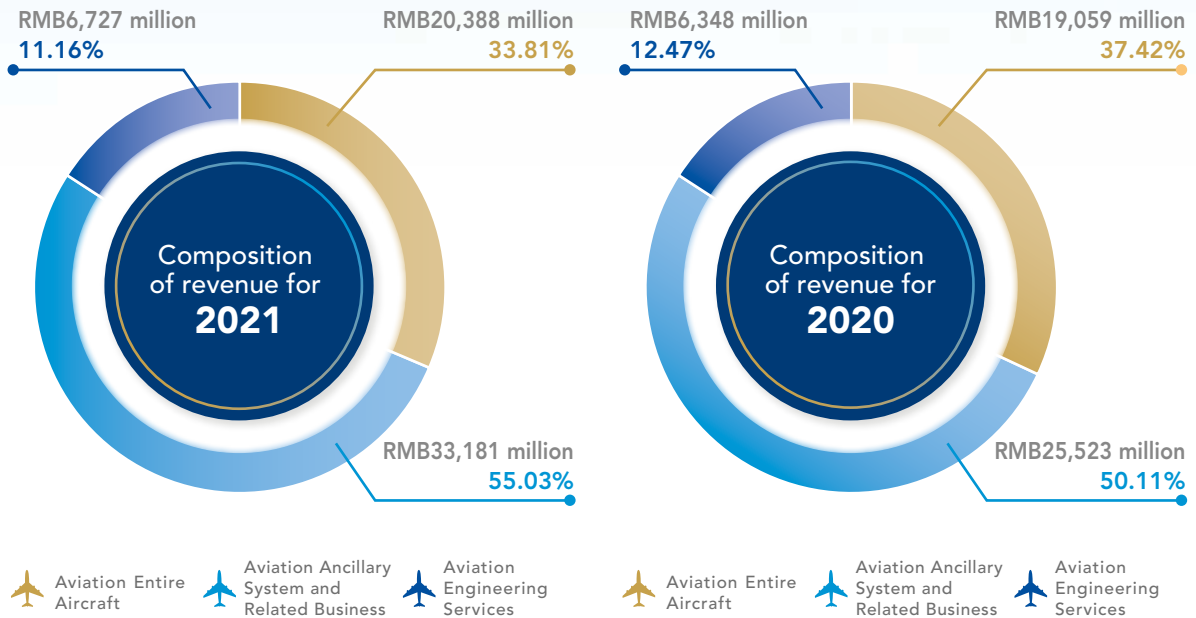
For the year ended 31 December 2021, the Group had made good growths in both revenue and profit, recording a revenue of RMB60,296 million, representing an increase of RMB9,366 million or 18.39% as compared with that of RMB50,930 million in the corresponding period of the preceding year. The net profit attributable to the owners of the parent company amounted to RMB2,369 million, representing an increase of RMB436 million or 22.56% as compared with that of RMB1,933 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 2021 and those for the year ended 31 December 2020:

CONSOLIDATED OPERATING RESULTS

1 Composition of revenue

The revenue of the Group for the year 2021 was RMB60,296 million, representing an increase of 18.39% as compared with that of RMB50,930 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 2021 amounted to RMB20,388 million, representing an increase of RMB1,329 million or 6.97% as compared with that of RMB19,059 million in the corresponding period of the preceding year, which was mainly attributable to the increase of sales volume of helicopter, advanced trainer and general-purpose aircraft products. The revenue of the aviation entire aircraft business for the year 2021 accounted for 33.81% of the total revenue of the Group, representing a decrease of 3.61 percentage points 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 2021 amounted to RMB33,181 million, representing an increase of RMB7,658 million or 30.00% as compared with that of RMB25,523 million in the corresponding period of the preceding year, which was mainly attributable to the increase of sales volume of avionics and aviation parts and components products. The revenue of the aviation ancillary system and related business for the year 2021 accounted for 55.03% of the total revenue of the Group, representing an increase of 4.92 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 2021 amounted to RMB6,727 million, representing an increase of RMB379 million or 5.97% as compared with that of RMB6,348 million in the corresponding period of the preceding year, which was mainly attributable to the increase in sales from engineering projects. The revenue of the aviation engineering services business for the year 2021 accounted for 11.16% of the total revenue of the Group, representing a decrease of 1.31 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 expenses

The Group's selling expenses for the year 2021 amounted to RMB688 million, representing an increase of RMB53 million or 8.35% as compared with that of RMB635 million in the corresponding period of the preceding year, which was mainly attributable to increase in labor cost of sales persons, sales service expense and travelling expenses incurred by certain subsidiaries of the Group in the course of marketing. In 2021, the selling expenses accounted for 1.14% of the revenue of the Group, representing a decrease of 0.11 percentage points as compared with that in the corresponding period of the preceding year.

3 Administrative expenses

The Group's administrative expenses for the year 2021 amounted to RMB3,594 million, representing an increase of RMB471 million or 15.08% as compared with that of RMB3,123 million in the corresponding period of the preceding year, which was mainly attributable to the increase in staff cost and the Group no longer benefits from the inclusive policy of social security relief in the corresponding period of last year. In 2021, the administrative expenses accounted for 5.96% of the revenue of the Group, representing a decrease of 0.17 percentage points as compared with that in the corresponding period of the preceding year.

4 Research and development expenses

The research and development ("R&D") expenses of the Group for the year 2021 amounted to RMB3,452 million, representing an increase of RMB450 million or 14.99% as compared with that of RMB3,002 million in the corresponding period of the preceding year. Such increase was mainly attributable to enhanced R&D input by the Group during the Reporting Period. In 2021, the research and development expenses accounted for 5.73% of the revenue of the Group, representing a decrease of 0.17 percentage points as compared with that in the corresponding period of the preceding year.

5 Finance costs

The Group's finance costs in 2021 amounted to RMB165 million, representing a decrease of RMB49 million or 22.90% as compared with that of RMB214 million in the corresponding period of the preceding year, which is mainly attributable to the decrease in interest expense and exchange loss of certain subsidiaries. Please refer to Note VI.55 to the financial statements for details.

6 Operating profit

The Group's operating profit in 2021 was RMB5,262 million, representing an increase of RMB989 million or 23.15% as compared with that of RMB4,273 million in the corresponding period of the preceding year. The increase of revenue and the growth of gross profit led to the increase in the operating profit.

7 Income tax expenses

The Group's income tax expenses in 2021 was RMB480 million, representing an increase of RMB10 million or 2.13% as compared with that of RMB470 million in the corresponding period of the preceding year. Please refer to Note VI.64 to the financial statements for details.

8 Net profit attributable to the owners of the parent company

The profit attributable to the owners of the parent company for the year 2021 amounted to RMB2,369 million, representing an increase of RMB436 million or 22.56% as compared with that of RMB1,933 million in the corresponding period of the preceding year, which was mainly attributable to the increase of revenue and the growth of gross profit.

GUARANTEED AND SECURED LOANS

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

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

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 2021, the Group had no significant contingent liabilities.

CASH FLOW AND FINANCIAL RESOURCES

1 Liquidity and capital resources

As at 31 December 2021, the Group's cash and cash equivalents amounted to RMB23,539 million, which was mainly derived from the following sources:

- cash and bank deposits at the beginning of the year;
- funds generated from its operations; and
- funds generated from non-public issuance of A shares by a subsidiary.

The Group's cash flow for each of the years 2021 and 2020 were as follows:


Unit: RMB million (except for percentage)

Main items of cash flow	2021	2020 (restated)	Changes (amount)	Changes rate (percentage)
Net cash flows from operating activities	2,245	861	1,384	160.74%
Net cash flows (used in) from				
investing activities	(1,942)	2,328	(4,270)	-183.42%
Net cash flows from financing activities	424	1,190	(766)	-64.37%

2 Operating, investing and financing activities

Net cash inflows from operating activities of the Group for 2021 amounted to RMB2,245 million, representing an increase of net inflows by RMB1,384 million as compared with the net cash inflows of RMB861 million in the corresponding period of the preceding year. It was mainly attributable to increases in collection of receivables and prepayments by customers during the Reporting Period.

Net cash outflows from investing activities of the Group for 2021 amounted to RMB1,942 million, representing a decrease of net inflows by RMB4,270 million as compared with the net cash inflows of RMB2,328 million in the corresponding period of the preceding year. The main reason was that, on one hand, the recovery of investment in term deposits for more than three months decreased during the Reporting Period, on the other hand, Hongdu Aviation, a subsidiary of the Company, received consideration for assets replacement in the corresponding period of the preceding year.



Management Discussion and Analysis

Net cash inflows from financing activities of the Group for the year 2021 amounted to RMB424 million, representing a decrease of net inflows by RMB766 million as compared with the net cash inflows of RMB1,190 million in the corresponding period of the preceding year. The main reason was that borrowings made by certain subsidiaries of the Group decreased and payment of dividends increased during the Reporting Period..

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

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

Maturity	RMB million
Within one year	1,124
In the second year	2,968
In the third to fifth year	2,305
After the fifth year	867
Total	7,264

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

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

GEARING RATIO

As at 31 December 2021, the Group's gearing ratio was 7.90% (as at 31 December 2020: 10.09% (as restated)), which was arrived at by dividing the total borrowings by the total assets as at 31 December 2021.

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 2021 was RMB20,388 million, representing an increase of 6.97% as compared with that in the corresponding period of the preceding year. The above revenue includes: (1) the revenue derived from the helicopter business, which amounted to RMB17,666 million, representing an increase of RMB667 million or 3.92% as compared with that in the corresponding period of the preceding year, and accounted for 86.65% of the total revenue of the aviation entire aircraft business as the sales volume of helicopters increased; (2) the revenue derived from the trainer aircraft business, which amounted to RMB2,381 million, representing an increase of RMB357 million or 17.64% as compared with that in the corresponding period of the preceding year, and accounted for 11.68% of the total revenue of the aviation entire aircraft business; (3) the revenue derived from the general purpose aircraft business, which amounted to RMB341 million, representing an increase of RMB305 million or 856.66% as compared with that in the corresponding period of the preceding year, and accounted for 1.67% of the total revenue of the aviation entire aircraft business.

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

Gross Profit Margin


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

THE AVIATION ANCILLARY SYSTEM AND RELATED BUSINESS

Revenue

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

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



Management Discussion and Analysis

Gross Profit Margin

The gross profit margin of the Group's aviation ancillary system and related business for the year 2021 was 30.87%, representing an increase of 0.36 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 2021 was RMB6,727 million, representing an increase of 5.97% as compared with that in the corresponding period of the preceding year, which was mainly attributable to the increase in sales from engineering projects. The revenue derived from the aviation engineering services business in 2021 accounted for 11.16% of the Group's total revenue, representing a decrease of 1.31 percentage points as compared with that in the corresponding period of the preceding year.

Gross Profit Margin

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

BUSINESS REVIEW AND OUTLOOK

In 2021, AVIC, the controlling shareholder of the Company, overcame the reoccurring outbreak of the Pandemic and the complicated international environment, achieved fruitful development of aviation equipment, expanded scientific and technological innovation, and made new breakthroughs in reform, realizing a steady and good beginning of the 14th Five-Year Plan.

In 2021, the Company was committed to becoming a flagship company to provide high-tech aviation products and services for both military and civil purposes, grasping the new development stage, overcoming impact of the Pandemic and made significant achievements in many aspects of our work by solidly promoting our strategic deployment, forging ahead, and being down-to-earth, achieving fruitful technical innovative achievements and growth in business results.

In 2021, the Group continued to deepen its reform and promote the positive interaction between capital and industry. AVICOPTER PLC* (中航直升機股份有限公司) ("AVICOPTER") completed the capital increase to Harbin Hafei Aviation Industry Co., Ltd.* (哈爾濱哈飛航空工業有限責任公司) ("Hafei Aviation") and Jiangxi Changhe Aviation Industry Co., Ltd.* (江西昌河航空工業有限公司), which promoted the industrialization of civil helicopters. Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司) ("Hongdu Aviation") transferred the equity of a subsidiary to focus on its principal business and effectively optimized the allocation of resources. JONHON Optronics completed the non-public issuance of A shares on 13 January 2022, and raised approximately RMB3.4 billion. AVIC Forstar became one of the first batch of companies and the first central state-owned enterprise to be listed on the Beijing Stock Exchange, leveraging on the capital market to continue to enhance its development momentum.


Management Discussion and Analysis

In 2021, the Group's helicopter products showed excellent performance in various activities, which demonstrated its core competitiveness. 10 ton medium general purpose helicopter debuted in the 13th China International Aviation & Aerospace Exhibition, showing the results of the development of new generation. Z-8 helicopters were equipped with modified medical cabin, creating the new innovative model of "helicopter + paramedic" emergency rescue, escorting the Beijing 2022 Winter Olympics; Z-8A helicopters were chosen for the Beijing 2022 Winter Olympics security mission, which completed air patrol, forest fire prevention and fire fighting in Chongli that was the core area of Beijing 2022 Winter Olympics, Winter Olympics security and other aviation rescue work; AC series helicopter debuted in the 13th China International Aviation & Aerospace Exhibition, showing the results of the development of domestic aviation emergency rescue equipment system. Advanced twin-engine multi-purpose helicopter AC332 commenced assembly in Tianjin, accelerating the comprehensive development of the Tianjin Civil Helicopter Industrial Base. AC352 helicopter completed the sub-altitude test flight, making a new breakthrough in airworthiness verification; training course for customer of AC311 helicopter for police aviation purposes was successfully completed, continuing to promote the civil aircraft operation support system and after-sales service capacity building. The scientific research project of "Helicopter Rope-Landing Operation Standard Verification Flight" carried out by AC311A helicopters completed the land subject verification flight, providing data support for the formation and improvement of domestic helicopter aviation emergency rescue capabilities.

In 2021, the market influence of the Group's trainer jet business continued to increase. The L15 advanced trainer jet was presented at the 17th Dubai International Airshow and the 15th International Defence Exhibition and Conference, attracting widespread attention for its excellent flight performance. Hongdu Aviation was selected as the training base for aircraft maintenance projects in the 46th World Skills Competition, which was conducive to extending the connotation of trainer business, and exploring the path from the sales of trainers to the sales of integrated systems and services.

In 2021, the Group's general-purpose aircraft business was steadily developing. The test flight of the Y-12F time-domain aircraft was completed, fully verifying the capability of aero-geophysical survey. Y-12E flew the "Tongren-Zhangjiajie" route, marking the official opening of the first inter-provincial short-distance transportation route between Guizhou and Hunan.

In 2021, the Group further enhanced the industrial competitiveness of aviation ancillary systems and related businesses by adhering to technological innovation. JONHON Optronics' independently developed project of nuclear grade connector components passed the appraisal, ushering in a broad market prospect under the trend of energy restructuring. The Group has integrated into the "Yangtze River Delta Aviation Industry Cluster" and established AVIC Optoelectronics (Shanghai) Co., Ltd. (中航光電(上海)有限公司) to undertake pre-research of cutting-edge technologies, specialized R&D and high-end industrial incubation in the interconnection field. AVIC JONHON Optronics (Germany) GmbH (中航光電(德國)有限公司) was established in response to "The Belt and Road" to expand the European market and implement the global development strategy. The construction of JONHON Optronics Huanan Industrial Base (中航光電華南產業基地) progressed in full speed, which is rooted in the Greater Bay Area and aims to support the country's high-end manufacturing and deeply expand the new energy industry chain. The train protection recorder developed by AVIC Shaanxi Qianshan Avionics Co., Ltd.* (陝西千山航空電子有限責任公司) ("Qianshan Avionics") has completed the full series of IEC6265-A test, reached the international standard and was exported to Europe. Qianshan Avionics also completed the development of water floating recorder simulation training system software, taking an important step in the development of virtual reality



Management Discussion and Analysis

applications. AVIC Shaanxi Huayan Aero-Instrument Co., Ltd.* (陝西華燕航空儀錶有限公司) (“**Shaanxi Huayan**”) enhanced its R&D investment and achieved breakthrough in key technologies for the development of high-precision fiber optic inertial navigation system. Tianjin Aviation Mechanical and Electrical Co., Ltd.* (天津航空機電有限公司) (“**Tianjin Aviation**”) delivered the physical fire test verification platform for aircraft, consolidating the position and technical advantages of the professional system-level supplier of fire prevention. The air pressure altitude signal device developed by Chengdu CAIC Electronics Co., Ltd.* (成都凱天電子股份有限公司) (“**AVIC Kaitian**”) guarantees the safe and smooth return of Shenzhou XII return capsule and helps Shenzhou XII manned mission to achieve complete success. Lanzhou Flight Control Co., Ltd.* (蘭州飛行控制有限責任公司) (“**AVIC Lanfei**”) passed the process standard of “hexagonal slab pavement” and the appraisal of the first article inspection, and actively explored the market.

In 2021, the Group accelerated the transformation and upgrades in the field of aviation engineering service and achieved stable development in market operation. AVIC CAPDI continued to strengthen its high-end consulting capability and undertook the successive top-level planning tasks of the MIIT and COMAC’s large aircraft special projects. The Group made steady progress in the market of principal aviation business, and undertook a number of key construction projects such as the Huanan Industrial Base of JONHON Optronics. The Group continued to expand the civil aviation market and was awarded nearly 20 projects of airport navigation service study and airport fuel supply; contracted design projects of Shenzhen Airport East Integrated Transportation Hub and Taiyuan Wusu Airport T3, achieving an important breakthrough in large-scale terminal building projects. The Group made new breakthroughs in developing the market related to aviation industry and undertook the first domestic general aviation aircraft composite material automation production line project. The Group made new market development in emerging industries and successively obtained a series of COVID-19 vaccine plant design tasks for Sinopharm and Sinovac, and undertook COVID-19 vaccine construction projects in the United Arab Emirates.

In 2021, the Group adhered to the integration of economic responsibility, social responsibility and environmental responsibility, and maintained a high level of corporate governance. Fighting against the pandemic and resume production, alleviating poverty through aviation, highlighting aviation speed and strength, improving systems and compliance operations, and promoting the integration of legal work into all aspects of production and operation, saving energy and enhancing environmental protection, carrying out emergency drills to establish a sound production safety responsibility system, focusing on the market and enhance image so as to continue to enhance the brand value of the Company.

In 2022, amid the impact of the Pandemic, global economic growth is facing downside risks. The external environment becomes more complex and severe, but the basic trend of China’s long-term economic growth has not changed and the PRC government has put forward the goal of achieving stable progress and driving the economy to achieve a steady improvement in quality and reasonable growth in quantity. AVIC will take the theme of “innovative year”, and strive to overcome the difficulties of more uncertain and unstable factors in the global economy and maintain the smooth operation of the economy, strongly promote the development of aviation equipment, continue to build leading innovation power, promote the “14th Five-Year Plan” and medium and long-term development plans, and implement a comprehensive quality improvement project to ensure sustainable, stable and healthy development. The Group will focus on the development strategy of the aviation industry, strive to build a new type of modern aviation high-technology industry group, and lead the integrated development of aviation technology industry:

Management Discussion and Analysis

1. will give full play to its advantages in the aviation high-tech industry, enhance the technological innovation of helicopters, trainers and aviation parts, and further promote the Company's hard technology advantages by increasing investment through coordinating direct investment with industrial funds;
2. will closely follow the 14th Five-Year Plan for National Emergency Rescue and increase the R&D and production of emergency rescue equipment in response to the demand for aviation emergency rescue equipment, continuously promote the optimization of the industrial layout and structural adjustment of the helicopter business, advance the industrialization process of civil helicopters and comprehensively promote the construction of Tianjin Helicopter Base;
3. continue to optimize the industrial structure, promote the investment and integration of aviation ancillary systems, research M&A targets around the high-end manufacturing industry chain in the aviation industry, and enhance competitiveness, innovation, control, influence and risk resistance;
4. insist on the professional development of connector system business, specialize and strengthen the main business, stick to international development and continuously expand the market application scope of new energy field;
5. will consolidate and enhance the emerging aviation civil market position for aviation engineering services, comprehensively improve the whole value chain services of civil aviation, and actively expand the market direction of emerging fields;
6. will actively strengthen exchanges with global institutional investors and domestic investment institutions, innovate the way of communication, establish a market image of the high-end equipment as core assets of the Company, enhance investment institutions' knowledge about the Company, enhance the Company's brand value; and
7. actively fulfill its social responsibilities, improve governance capabilities, sound governance structure, prevent operational risks, and improve capital control system.

USE OF PROCEEDS

As at 31 December 2021, a total of RMB5,521 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 the date of this report, the Company has utilised the proceeds according to the plan for use of proceeds as disclosed in the announcement of the Company dated 14 December 2018, and an amount of RMB963 million had been used to invest in the aviation product business such as aviation cabin interior trimming. As at 31 December 2021, the remaining balance of the proceeds amounted to approximately RMB212 million. In the next year, the Company proposes to use such proceeds for investment in aviation product businesses, the industrialization projects of aviation research institutes and industry investment fund for aviation business, the funding of acquisitions of aviation equity interest or aviation assets and for general corporate purposes.

EMPLOYEES

As at 31 December 2021, the Group had 46,428 employees. The Group has provided appropriate emoluments, benefits and trainings to its employees.

Employees Breakdown (by business segments)	Number of employees	Percentage to total number of employees (%)
Aviation entire aircraft business	14,500	31.23
Aviation ancillary system and related business	29,015	62.49
Aviation engineering services business and others	2,913	6.28
Total:	46,428	100.00

For the year ended 31 December 2021, the total staff costs of the Group amounted to RMB11,180 million, representing an increase of RMB1,802 million or 19.22% as compared with those of RMB9,378 million in the corresponding period of the preceding year.

REMUNERATION OF EMPLOYEES

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

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 2021, in order to facilitate the development of its various businesses, the Group focused on the need of talent team building, integrated with the training needs of young employees and key personnel in key positions, continuously improved the business capabilities and skills of employees, enhanced the specificity and effectiveness of trainings, and improved corresponding management systems and resources allocation mechanism. During the year, relevant staff of the Group have conducted many trainings, such as: risk management and internal control, constitution and personal information protection, domestic and overseas capital market dynamics, overseas issuance of securities by domestic enterprises and revision of new listing regulations, etc, 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. Zhang Minsheng (張民生)

53, a master degree holder and a first level senior accountant. Mr. Zhang also serves as chief accountant of AVIC. Mr. Zhang graduated from Dongbei University of Finance & Economics with a bachelor degree in economics and graduated from HEC Paris with an EMBA degree in 2009. Mr. Zhang commenced his career in the aviation industry in 1990, and served as vice director of the Financial and Audit Department and director of Financial Department of AVIC II, director of the Audit Department of AVIC, general manager, vice chairman and chairman of Xi'an Aviation Engine (Group) Co., Ltd., chairman of supervisory committee, general manager, director and vice chairman of Xi'an Aero-Engine Co., Ltd., director and general manager of AVIC Capital, chief accountant of Aero Engine Corporation of China and executive director of AECC Asset Management Co., Ltd. From September 2016 to April 2019, Mr. Zhang had been chairman of AECC Aviation Power Co., Ltd. Mr. Zhang has been shareholder supervisor of Bank of Communications Co., Ltd. from March 2020 to January 2022. Mr. Zhang has been the executive Director and the Chairman of the Board of the Company since January 2022.



Mr. Yan Lingxi (閔靈喜)

51, 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 Aviation Industry Corporation of China, 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. 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 the deputy general manager and the secretary of the board of directors of AVIC Capital. From March 2019 to November 2021, Mr. Yan served as director of the Capital Operation Department of AVIC. 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. And he was the non-executive Director of the Company from May 2019 to May 2021. Mr. Yan has been the general manager of the Company since December 2021 and been the executive Director of the Company since January 2022.

Directors, Supervisors and Senior Management

Non-executive Director




Mr. Lian Dawei (廉大為)

59, 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.



Li Xichuan (李喜川)

48, a master degree holder. Mr. Li graduated from University of Science and Technology Beijing with a bachelor degree majoring in ferrous metallurgy in July 1997, and graduated from Tsinghua University with a master degree majoring in business administration in June 2003. Mr. Li commenced his career in aviation in April 2003. Mr. Li had successively been the manager of strategic development department of Beijing Raise Science Company Limited, the section chief of the development and planning department of the AVIC I, the senior officer and section chief of the corporate management department and finance and planning department of AVIC. Mr. Li has been the deputy director of the capital operation department of AVIC from July 2019 to April 2022. He has been the non-executive Director of the Company since May 2021.



Directors, Supervisors and Senior Management



Mr. Xu Gang (徐崗)

50, 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 program 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.



Mr. Wang Jun (王軍)

68, a first level senior accountant. Mr. Wang graduated from Zhengzhou Aviation Industry Management Institution majoring in finance and business management. Mr. Wang commenced his career in aviation industry in August 1969 and used to be a division chief of planning department, secretary of company officer, deputy director of financial department of Harbin Dongan Engine Manufacturing Company; general manager of Shanghai Andong Industry & Trading Corporation. From February 2002, he had been the general accountant and vice general manager of Dongan Engine Manufacturing Group; director and vice general manager of Dongan Engine 2 Manufacturing Group; director, vice general manager and general manager of Harbin Aviation Group; Chairman of the board of the director of Dongan Heibao Co., Ltd.; Chairman of the board of the director and general manager of Harbin Dongan Engine (Group) Co., Ltd. Mr. Wang had been the vice general manager and chief financial officer of the Company since April 2010 to March 2014. Mr. Wang had been an independent director of AVIC BIAM New Materials Technology and Engineering Co., Ltd. from 2018 to June 2020. Mr. Wang has been a director of AVIC BIAM New Materials Technology and Engineering Co., Ltd. since July 2020. He has been the non-executive Director of the Company since May 2021.

Directors, Supervisors and Senior Management

Independent Non-executive Directors




Mr. Liu Weiwu (劉威武)

58, a master degree holder. 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 Independent non- executive Director of the Company since June 2018.



Mr. Mao Fugen (毛付根)

59, a holder of the doctorate degree, a senior management accountant and a committee member of the Cost Research Society of China. Mr. Mao graduated from the School of Accounting of Xia Men University in 1985 and achieved a master degree in economics (accounting) from Xia Men University in 1988, and a doctorate degree in economics (accounting) from Xiamen University in 1994. Mr. Mao is a long-term EMBA lecture professor in Xiamen University and other universities with main research areas including management accounting, corporate finance, crossborder corporate finance management and other areas and he has extensive experience in senior management training. Mr. Mao successively served as the lecturer, deputy professor and professor of the School of Accounting of Xiamen University. Mr. Mao had been an independent non-executive director of ZheJiang AoKang Shoes Co., Ltd. from December 2013 to December 2019, an independent non-executive director of Xiamen ITG Group Corp., Ltd. from May 2014 to May 2020 and an independent non-executive director of Huaneng Lancang River Hydropower Co., Ltd from August 2015 to February 2021. He is currently a professor of the School of Accounting of Xiamen University. He has been an independent non-executive director of Deppon Logistics Co., Ltd. since February 2018. He has been an independent non-executive director of Zhonghong Pulin Medical Product Co., Ltd. since July 2021. He has been the Independent non- executive Director of the Company since May 2021.



Directors, Supervisors and Senior Management



Mr. Lin Guiping (林貴平)

56, a holder of doctorate degree. Mr. Lin graduated from Beijing University of Aeronautics and Astronautics with a bachelor degree majoring in automotive engine in 1986, a master degree majoring in engineering thermal physics in 1989, and a doctorate degree majoring in man-machine and environmental engineering in 1993. Mr. Lin was promoted successively as the deputy professor in 1993, the professor in 1998, and was elected as the doctoral tutor in 2000. Mr. Lin has engaged in research work in multiple national projects including projects and sub-projects of major projects launched by the National Natural Science Foundation of China and the National High-tech R&D Program. Mr. Lin is a member of the Aviation Medical and Rescue Committee of the Chinese Society of Aeronautics and Astronautics. He has been the independent non-executive Director of the Company since May 2021.

SUPERVISORS



Mr. Zheng Qiang (鄭強)

58, 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 AVIC International Holding Corporation* since January 2021. Mr. Zheng has been the Supervisor of the Company since October 2016.

Directors, Supervisors and Senior Management



Mr. Guo Guangxin (郭廣新)

52, 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 January 2000. Mr. Guo served as a senior deputy manager and senior manager of Business Division VII in Heilongjiang Branch of China Huarong Asset Management Co., Ltd.* from 2013 to 2020. Mr. Guo served as a senior manager of Business Division IV in Heilongjiang Branch of China Huarong Asset Management Co., Ltd.* in January 2021. Mr. Guo has been a senior specialist and the head of Business Division IV in Heilongjiang Branch of China Huarong Asset Management Co., Ltd.* since 2022. Mr. Guo has been the Supervisor of the Company since June 2018.



Mr. Zhao Zhuo (趙卓)

49, 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, the director of the capital market department, and the director of the comprehensive management department of the Company. Mr. Zhao had been a supervisor of JONHON Optronics 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. Liu Wanming (劉萬明)

Deputy General Manager

56, 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. Wang Jingmin (王敬民)

Chief Financial Officer

49, Senior Accountant. Mr. Wang graduated from Zhengzhou Aviation Industry Management College in 1996 with a bachelor degree in accounting. In 2009, he graduated from Northeast Normal University majoring in business management with a master degree in management. Mr. Wang commenced his career in the aviation industry in 1996 and has served as the accountant of the Finance Department of Beijing Changkong Machinery Co., Ltd., the chief staff member of the Financial Audit Department, the chief staff member of the Finance Department, and the deputy director and director of the Corporate Finance Department of AVIC II, director of the Corporate Finance Department of the Financial Management Department of AVIC, director of the Financial Management Department of AVIC Helicopter, the deputy director of Culture Center of AVIC and director and deputy general manager of AVIC Culture Co., Ltd. He has been the Chief Financial Officer of the Company since December 2021.



Mr. Xu Bin (徐濱)

Board Secretary

45, 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, director assistant, and deputy director 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 director of the Compliance Department of the Company from June 2014 to February 2021, the director of the Planning and Investment Department of the Company since February 2021, 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 2021.

BUSINESS OF THE GROUP

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

For details of the business and future business development of the Group, please refer to the section headed “Business Review and Outlook” from page 16 to page 19 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 124 of this annual report.

RESULTS, DIVIDEND AND DIVIDEND POLICY

The results of the Group for 2021 are set out in the Consolidated Income Statement on page 137 of this annual report.

The Board recommended the payment of a final dividend for the year 2021 in an aggregate amount of RMB616,906,579.36, representing a dividend of RMB0.08 per share (2020: RMB0.05 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 report, subject to adjustment (if any) based on the number of total issued shares as at the Record Date(as defined below).

The final dividend will be paid to those shareholders whose names appear on the Company’s register of members at the close of business on Friday, 10 June 2022 (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 Monday, 6 June 2022 to Friday, 10 June 2022 (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, 2 June 2022.



Report of The Board

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, 27 May 2022 (the "2021 AGM"). Subject to the approval of the Company's shareholders at the 2021 AGM, the aforementioned dividend is expected to be paid by the Company on or before 18 August 2022.

The 2021 AGM will be held on Friday, 27 May 2022. The H share register of members of the Company will be closed from Saturday, 7 May 2022 to Friday, 27 May 2022 (both days inclusive), during which period no transfer of H shares will be registered. Holders of the Company's H shares whose names appear on the Company's register of members at the opening of business on Friday, 27 May 2022 are entitled to attend and vote at the 2021 AGM. In order to be eligible to attend and vote at the 2021 AGM, holders of the Company's H shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H shares register, not later than 4:30 pm on Friday, 6 May 2022.

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

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

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

INFORMATION ON TAX DEDUCTION

H shareholders shall be taxed for the dividends distributed by the Company in accordance with the Enterprise Income Tax Law of the PRC, the Individual Income Tax Law of the PRC and other relevant laws, regulations and rules. However, H shareholders may enjoy tax relief in accordance with the provisions of applicable tax treaties entered into by the countries/regions where they belong to by virtue of residential identification and the PRC. For details, please refer to the announcement of the Company dated 29 June 2021.

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 2021 was as follows:

	Number of Shares as at 31 December 2021	Percentage of total number of Shares in issue as at 31 December 2021 (%)
Class of Shares		
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

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 2021, 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 to 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 2021, 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

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 2021.

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 2021, for details of major donation of the Group, please refer to the section headed "Environmental, Social and Governance Report" from page 118 to page 124 of this annual report.

DESIGNATED DEPOSITS AND OVERDUE TERM DEPOSITS

As at 31 December 2021, there was no designated deposit or overdue term 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 VI.18 to the financial statements.

RESERVES

Details of movement in reserves of the Group for the year ended 31 December 2021 are set out in the Consolidated Statement of Changes in Shareholders' Equity and Note VI.45-49 to the financial statements.

DISTRIBUTABLE RETAINED EARNINGS

As at 31 December 2021, the Company had distributable retained earnings of RMB1,180,049,867.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's total purchases from the five largest suppliers for the aviation business accounted for 16.37% of the Group's total purchases, of which, purchases from the largest supplier accounted for 4.05% of the Group's total purchases. The Group's sales to the five largest customers accounted for 62.78% of the Group's total sales, of which, sales to the largest customer accounted for 41.07% of the Group's total sales.

Purchases from the five largest suppliers in the aviation entire aircraft segment accounted for 27.89% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 7.74% 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 87.26% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation ancillary system and related business segment accounted for 10.75% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 3.39% of the total purchase in that segment. Sales to the five largest customers in the aviation ancillary system and related business segment accounted for 20.03% of the total sales in that segment, of which, sales to the largest customer accounted for 7.37% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation engineering services segment accounted for 24.78% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 9.21% of the total purchase in that segment. Sales to the five largest customers in the aviation engineering services segment accounted for 25.87% of the total sales in that segment, of which, sales to the largest customer accounted for 10.27% 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 VIII.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 2021 are set out from pages 47 to 48 of this annual report.

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

On 10 May 2021, AVIC CAPDI, a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with AVIC Construction and Development (Beijing) Technology Co., Ltd.* (中航建發(北京)科技有限公司) (“**AVIC Construction and Development Technology**”), pursuant to which, AVIC Construction and Development Technology agreed to sell, and AVIC CAPDI agreed to acquire, 100% equity interest in Beijing Yinyan at the consideration of RMB68,361,300 (the final consideration shall be in accordance with the valuation result as filed with and approved by the State-owned Asset Administration Department). Upon completion of the Transfer, AVIC CAPDI will hold 100% equity interest in Beijing Yinyan and AVIC Construction and Development Technology will no longer hold any equity interest in Beijing Yinyan. As at the date of the Equity Transfer Agreement, AVIC CAPDI is a wholly-owned subsidiary of the Company and AVIC is the controlling Shareholder of the Company. AVIC Construction and Development Technology is a wholly-owned subsidiary of AVIC and is therefore a connected person of the Company. The acquisition of 100% equity interest in Beijing Yinyan by AVIC CAPDI from AVIC Construction and Development contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 10 May 2021.

Save as disclosed above, no other material acquisitions and disposals of subsidiaries and associated companies of the Group occurred during the Reporting Period.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

(a) *Continuing connected transactions between the Company and connected persons in 2021*

For the year ended 31 December 2021, the Group engaged in continuing connected transactions with AVIC Group, AVIC Avionics and its subsidiaries (“**AVIC Avionics 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 also entered into continuing connected transactions with AVIC Finance, AVIC Trust and AVIC Lease, which are subsidiaries of AVIC and therefore connected person of the Company.

With AVIC

During the year 2021, the Group carried out the following continuing connected transactions with AVIC Group pursuant to the three continuing connected transaction agreements entered into between the Company and AVIC:

- 1 On 21 August 2020, the Company entered into the mutual supply of products agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group and the Group agreed to mutually provide manufacturing raw materials, parts and components, finished and semi-finished aviation products (including but not limited to aviation entire aircraft and aviation parts and components) required by aviation products used in their respective production and business operation activities and their related sale and ancillary services for a term of three years ending 31 December 2023.
- 2 On 21 August 2020, the Company entered into the mutual provision of services agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group agreed to provide certain services relating to the production and business operations of the Group for a term of three years ending 31 December 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 21 August 2020, the Company entered into the land use rights and properties leasing agreement with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group and the Group agreed to mutually lease certain land and properties for manufacturing and operation for a term of three years ending 31 December 2023.

With AVIC Avionics

- 4 On 21 August 2020, the Company entered into the Mutual Product and Service Supply and Guarantee Agreement with AVIC Avionics Group to continue certain continuing connected transactions. Pursuant to which, the Group agreed to provide aviation parts and components, raw materials, and relevant production, labor 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.

Financial Service Framework Agreement with AVIC Finance

- 5 On 21 August 2020, the Company entered into the 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

- 6 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. On 9 July 2021, the relevant parties to the Previous Financial Service Framework Agreement, which include the Company and AVIC Trust, have agreed to continue with the arrangement under the Previous Financial Service Framework Agreement upon similar terms and/or covering similar scope of services as in the Financial Service Framework Agreement, of which it extends the Financial Service Framework Agreement from 9 July 2021 to 31 December 2023. 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.

Finance Lease and Factoring Framework Agreement entered with AVIC Lease

- 7 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.

(b) *Continuing connected transactions between the subsidiaries of the Company and connected persons in 2021*

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 of the Hong Kong Listing Rules, AVIC Construction and Development Technology, AVIC Geotechnical and AVIC Changsha Design are connected persons of the Company 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.

Financial Service Framework Agreement entered by Tianjin Tianli and AVIC Securities

10 On 1 November 2021, Tianjin Tianli Aviation Electro-Mechanical Co., Ltd.* (天津天利航空機電有限公司), ("Tianjin Tianli"), a subsidiary of the Company, entered into the Financial Service Framework Agreement with AVIC Securities Co., Ltd.* (中航證券有限公司) ("AVIC Securities"), pursuant to which Tianjin Tianli and its subsidiaries will, from time to time, utilise the financial services provided by AVIC Securities as and when they deem necessary from 1 November 2021 to 31 December 2023. Such services include the tailored financial products offered by AVIC Securities to Tianjin Tianli and its subsidiaries which suit their preferences and will enhance their capital operation efficiency. The maximum daily balance for the income certificate products to be purchased by Tianjin Tianli and its subsidiaries under the Financial Service Framework Agreement shall not exceed RMB200 million, AVIC is the controlling Shareholder of the Company, and AVIC Securities is a subsidiary of AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, AVIC Securities is a connected person of the Company and the entering into of the Financial Service Framework Agreement by Tianjin Tianli with AVIC Securities constitutes continuing connected transactions of the Company.

For details of the aforementioned continuing connected transactions, please refer to the announcements of the Company dated 10 July 2018, 23 August 2019, 18 March 2020, 21 August 2020, 9 July 2021 and 1 November 2021 and the circular dated 10 November 2020.

Report of The Board

The annual caps of the year 2021 or the continuing connected transactions and the actual transaction amounts incurred by the Group in 2021 are set out below. For the year ended 31 December 2021, such continuing connected transactions of the Group were calculated on a consolidated basis as follows:

	For the year 2021	
	Actual Amount (RMB million)	Annual Cap (RMB million)
1 Mutual Supply of Products Agreement		
(a) Annual expenditure of the Group	10,567	17,880
(b) Annual revenue of the Group	15,674	18,210
2 Mutual Provision of Services Agreement		
(a) Annual expenditure of the Group	375	770
(b) Annual revenue of the Group	2,605	4,920
3 Land Use Rights and Properties Leasing Agreement		
(a) The Group as the lessee		
– Right-of-use assets	7	15
– Other payments	8	30
(b) The Group as lessor		
– Lease payments	16	20
4 Products and Services Mutual Supply and Guarantee Agreement		
(a) Annual expenditure of the Group	671	1,230
(b) Annual revenue of the Group	184	280
	Maximum daily outstanding balance (RMB million)	Cap for the maximum daily outstanding balance (RMB million)
5 Financial Services Framework Agreement with AVIC Finance		
(a) Maximum daily outstanding balance of deposits (including accrued interests)	19,100	35,000
(b) Maximum daily outstanding balance of AVIC Finance factoring services	355	1,200

	Actual Amount (RMB million)	Annual Cap (RMB million)
(c) Other financial services provided by AVIC Finance to the Group	37	1,200
	Maximum daily outstanding balance (RMB million)	Cap for the maximum daily outstanding balance (RMB million)
6 Financial Services Framework Agreement with AVIC Trust		
The daily maximum balance of the Group's wealth management products at AVIC Trust	1,030	1,150
7 Finance Lease and Factoring Framework Agreement entered with AVIC Lease		
(a) Finance lease		
– Direct lease	0	2,000
– Sale and leaseback	246	2,000
(b) Maximum daily outstanding balance of AVIC lease factoring services	30	1,500
8 Entrusted Loan Framework Agreement with AVIC Renewable Energy Investment		
(a) The daily maximum entrusted loan balance of the Group (including interest)	0	300
(b) The daily maximum guarantee provided by the Group	0	300
9 Entrusted Loan Framework Agreement with AVIC Construction and Development		
(a) The daily maximum entrusted loan balance of the Group (including interest)	0	200
(b) The daily maximum guarantee provided by the Group	0	200
10 Financial Service Framework Agreement entered entered by Tianjin Tianli and AVIC Securities		
The daily maximum balance of the Group's wealth management products at AVIC Securities	100	200

Report of The Board

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 XI.(II) 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.



Report of The Board

One-Off Connected Transactions

1. On 15 January 2021, the Company and AVIC Heavy Machinery Company Limited* (中航重機股份有限公司) (“**AVIC Heavy Machinery**”) entered into the Share Subscription Agreement, pursuant to which the Company agrees to subscribe for AVIC HM A shares to be issued by AVIC Heavy Machinery through non-public offering at the total subscription amount of RMB200 million by way of cash. Upon completion of the Subscription, AVIC Heavy Machinery would not become a subsidiary of the Company. As at the date of the Share Subscription Agreement, AVIC is the controlling Shareholder of the Company, and AVIC Heavy Machinery is a subsidiary of AVIC. Therefore, AVIC Heavy Machinery is a connected person of the Company under the Hong Kong Listing Rules. As such, the transaction contemplated under the Share Subscription Agreement constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcement of the Company dated 15 January 2021.
2. On 9 July 2021, JONHON Optronics entered into a subscription agreement with China Aviation Emerging Industry Investment Co., Ltd.* (中航資本產業投資有限公司) (“**AVIC Industry Investment**”) and a subscription agreement with the Company. Pursuant to such agreements, JONHON Optronics has conditionally agreed to allot and issue, and each of AVIC Industry Investment and the Company has conditionally agreed to subscribe for the non-public issuance of A Shares (the “**Non-public Issuance**”) by AVIC JONHON Optronics with RMB190 million and RMB200 million in cash, respectively. As at the date of such subscription agreements, AVIC is the controlling Shareholder of the Company, and AVIC Industry Investment is a subsidiary of AVIC. Therefore, AVIC Industry Investment is a connected person of the Company and such proposed subscription by AVIC Industry Investment constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. On 13 January 2022, the Non-public Issuance has been completed. The total number of shares of Jonhon Optronics in issue has been increased by 35,576,016 A shares in the issue price of RMB95.57 per share, as a result of the completion of the Non-public Issuance. The Company and AVIC Industry Investment subscribed for 2,092,706 A shares of Jonhon Optronics and 1,988,071 A shares of Jonhon Optronics, respectively. As at the date of this report, the total number of shares of Jonhon Optronics in issue amounts to 1,135,521,069 A shares. The Company is the controlling shareholder of Jonhon Optronics with a shareholding of 427,837,092 A shares, representing 37.68% of its total share capital. For details, please refer to the announcements of the Company dated 17 May 2021, 9 July 2021 and 13 January 2022.

3. On 13 July 2021, AVIC Nanjing Servo Control Systems Co., Ltd. * (中航工業南京伺服控制系統有限公司) (“**Nanjing Servo Control**”) was a subsidiary of AVIC, which was held as to 53.33% by AVIC Nanjing Engineering Institute of Aircraft Systems* (中國航空工業金城南京機電液壓工程研究中心) (“**Nanjing Jincheng**”) and 46.67% by the Company. Nanjing Servo Control proposed to carry out its mixed-ownership reform and implement its ESOP by introducing two to four strategic investors and ESOP platform. Pursuant to the Company Law of the PRC, the Company, as a shareholder of Nanjing Servo Control, is entitled to the right of first refusal with respect to any increase in the capital contributions in Nanjing Servo Control in proportion to its paid-in capital contribution (unless otherwise agreed by all shareholders), pursuant to which the Company has a pre-emptive right to increase its capital contributions in Nanjing Servo Control. The Board has approved that the Company would not exercise its right of first refusal in relation to the increase in the capital contributions in Nanjing Servo Control. As at the date of the non-exercise of the right of first refusal, AVIC is the controlling Shareholder of the Company, and Nanjing Servo Control is a subsidiary of AVIC. Therefore, Nanjing Servo Control is a connected person of the Company, and the non-exercise of the right of first refusal in relation to the increase of capital contributions in Nanjing Servo Control 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 13 July 2021.
4. On 3 September 2021, AviChina Hong Kong Limited* (中航科工香港有限公司) (“**AviChina Hong Kong**”) (as subscriber) executed the Subscription Agreement to subscribe for the Investment Shares of the AVICT Investment SPC – Eagle I SP (“**Segregated Portfolio**”) for a total subscription amount of HK\$280 million on terms and conditions of the Subscription Documents. Upon completion of the Subscription, the financial results of the Segregated Portfolio would not be consolidated into the accounts of the Group, and the Investment Shares would be accounted for as investments in the Group’s financial statements. As at the date of the Subscription Agreement, AviChina Hong Kong is a wholly-owned subsidiary of the Company and AVIC is the controlling Shareholder of the Company. The AVICT Investment SPC and AVICT Global Asset Management Limited (中航資信環球資產管理有限公司) (the Investment Manager) are both non-wholly-owned subsidiaries of AVIC. Therefore, they are connected persons of the Company under the Hong Kong Listing Rules. As such, the Subscription contemplated under the Subscription Documents constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the announcements of the Company dated 3 September 2021 and 17 September 2021.

5. On 8 October 2021, Guizhou Anji Aviation Precision Casting Co., Ltd.*(貴州安吉航空精密鑄造有限責任公司) (“**Anji Casting**”) was a subsidiary of AVIC, with 87.52% of its equity interest directly and indirectly held by AVIC. The Company currently held 9.05% equity interest of Anji Casting. Anji Casting proposed to increase its registered capital from RMB284,714,896 to not exceeding RMB530,096,576 at the price of approximately RMB2.62 per registered capital (dependent on filing by related authorities) by introducing not more than eight investors. Pursuant to the Company Law of the PRC, the Company, as a shareholder of Anji Casting, is entitled to the right of first refusal with respect to any increase in the capital contributions in Anji Casting in proportion to its paid-in capital contribution (unless otherwise agreed by all shareholders), pursuant to which the Company has a pre-emptive right to increase its capital contributions in Anji Casting. The Board has approved that the Company would not exercise its right of first refusal in relation to the capital increase of Anji Casting. As at the date of the non-exercise of the right of first refusal, AVIC is the controlling Shareholder of the Company, and Anji Casting is a subsidiary of AVIC. Therefore, Anji Casting is a connected person of the Company and the non-exercise of the right of first refusal 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 8 October 2021 and 19 October 2021.
6. On 10 December 2021, Beijing Hangwei High-Technology Connection Technology Co., Ltd.* (北京航為高科連接技術有限公司) (“**Hangwei High-Tech**”) was an indirect non-wholly owned subsidiary of AVIC, with 96% of its equity interest indirectly held by AVIC (including the 38% equity interest held through the Company). Hangwei High-Tech proposed to increase its registered capital from RMB250,000,000 to not exceeding RMB407,000,000 at the price of approximately RMB1.50 per registered capital (subject to filing by related authorities on supervising state-owned assets), with not more than RMB65,000,000 to be contributed by an existing shareholder and the remaining to be contributed by not more than four newly introduced investors. Pursuant to the Company Law of the PRC, the Company, as a shareholder of Hangwei High-Tech, is entitled to the right of first refusal with respect to any increase in the capital contributions in Hangwei High-Tech in proportion to its paid-in capital contribution (unless otherwise agreed by all shareholders), pursuant to which the Company has a pre-emptive right to increase its capital contributions in Hangwei High-Tech. The Board has approved that the Company would not exercise its right of first refusal in relation to the capital increase of Hangwei High-Tech. As at the date of the non-exercise of the right of first refusal, AVIC is the controlling Shareholder of the Company, and Hangwei High-Tech is a subsidiary of AVIC. Therefore, Hangwei High-Tech is a connected person of the Company and the non-exercise of the right of first refusal 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 10 December 2021.

For other one-off connected transactions of the Group, please refer to “Material Acquisitions and Disposal of Subsidiaries and Associated Companies During the Reporting Period” of this session from page 34.

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

On 6 August 2021, after due consideration of various factors, including the market condition and the Company's actual situations, the Company decided not to proceed with the exploration of the possibility of issuance of ordinary shares of the Company to be traded in Renminbi (the "Proposed A Share Offering"). As at the date of this report, the Company has not made any formal listing application to relevant securities regulatory authorities in the PRC for approval of the Proposed A Share Offering. For details, please refer to the announcements of the Company dated 30 October 2020 and 6 August 2021.

Save as disclosed above, no other significant events of the Group occurred during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

1. On 21 March 2022, AVIC and AVIC CAPDI, as vendors, are planning to enter into an equity transfer agreement at the same time with (i) Beijing Xuneng Development Technology Co., Ltd.* (北京旭能發展科技有限責任公司) ("Xuneng Development"); (ii) Jilin Zhongkai New Energy Development and Utilization Co., Ltd.* (吉林省中愷新能源開發利用有限責任公司); and (iii) Anhui Zhongcheng Dadi Energy Development Co., Ltd.* (安徽中城大地能源發展有限公司) ("Anhui Zhongcheng"), pursuant to which AVIC agreed to transfer its 30.70% equity interest in AVIC Renewable Energy, and AVIC CAPDI agreed to transfer its 21.30% equity interest in AVIC Renewable Energy at a total consideration not less than RMB383.89 million (the "Disposal"). As at the date of this report, the above matters have been approved by the Board, and the abovementioned parties have yet to finalise and sign the equity transfer agreement.

Xuneng Development is a company owned as to 50% by AVIC Trust and 50% by Anhui Zhongcheng, respectively. AVIC Trust is owned as to approximately 73.56% by AVIC Industry-Finance, which is a non-wholly owned subsidiary of AVIC, a controlling shareholder of the Company. Therefore, Xuneng Development is a connected person to the Company pursuant to Chapter 14A of the Listing Rules and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (other than the profits ratio) for the Disposal is more than 0.1% but less than 5%, it is expected that the Disposal is subject to the reporting and announcement requirements, but is exempt from the circular and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. For further details, please refer to the announcement of the Company dated 21 March 2022.

2. On 30 March 2022, the Company announced that Ms. Wong Wailing has been appointed as the authorised representative of the Company under the Company Ordinance of Hong Kong (Cap. 622) authorised to accept on the Company's behalf service of any process or notice required to be served on the Company to replace Ms. Leung Wing Han Sharon with effect from 30 March 2022. For further details, please refer to the announcement of the Company dated 30 March 2022.

3. ShineWing Certified Public Accountant LLP intended to retire with effect from the conclusion of the 2021 AGM and would not offer themselves for re-appointment as external auditor of the Company as it could not reach a mutual agreement with the Company on the audit fee for the year ending 31 December 2022. On 30 March 2022, according to the tender results with respect to the engagement of the external auditors of the Company, the Board has resolved the proposed appointment of Da Hua Certified Public Accountants LLP (大華會計師事務所(特殊普通合夥)) as the auditor of the Company for 2022. Da Hua Certified Public Accountants LLP should hold office from the conclusion of the 2021 AGM until the conclusion of the next annual general meeting of the Company, subject to the approval of our shareholders at the 2021 AGM.

ShineWing Certified Public Accountant LLP confirmed that there is no matter in relation to the resignation that needs to be brought to the attention of the Shareholders or the Stock Exchange. The Board and the Audit and Risk Management Committee were not aware of any matter regarding the proposed change of the auditor of the Company or any other matters that should be brought to the attention of the Shareholders. For further details, please refer to the announcements of the Company dated 30 March 2022 and 6 April 2022.

Save as disclosed above, no other significant events of the Group occurred after the Reporting Period.

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 2021 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

In view of the convergence of China Accounting Standards for Business Enterprises and International Financial Reporting Standards, since the accounting year from 1 January 2021, the Company change to only adopt and comply with the China Accounting Standards for Business Enterprises to prepare financial statements of the Company. Therefore, at the 2020 annual general meeting of the Company, the Company did not re-appoint ShineWing (HK) CPA Ltd. as the international auditor of the Company for the year of 2021, and re-appoint ShineWing Certified Public Accountant LLP as the domestic auditor of the Company for the year of 2021. ShineWing Certified Public Accountant LLP is a recognized PRC auditor and would hold office for a term of office from the 2020 annual general meeting of the Company until the end of the 2021 annual general meeting of the Company. For further details, please refer to the announcements of the Company dated 20 April 2021 and 28 May 2021, and the circular of the Company dated 27 April 2021.

The financial statements for the year 2021 have been audited by ShineWing Certified Public Accountant LLP.

Saved as disclosed above, there is no change of the auditor of the Company in the past three years.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As the term of all Directors of the sixth session of the Board and all Supervisors of the sixth session of the Supervisory Committee expired at the annual general meeting held on 28 May 2021 (“2020 AGM”), members of the seventh session of the Board and the seventh session of the Supervisory Committee (with respect to shareholder representative Supervisors) were elected at the 2020 AGM. The employee representative Supervisor had been elected separately by the employee representative general meeting of the Company. The term of the Directors of the seventh session of the Board and the Supervisors of the seventh session of the Supervisory Committee is three years, commencing from the date of establishment of the seventh session of the Board of Directors and the seventh session of the Supervisory Committee, which is the date of the 2020 AGM.

At the 2020 AGM, certain members of the sixth session of the Board of the Company, namely Mr. Wang Xuejun (executive director), Mr. Zhao Hongwei (executive director), Mr. Lian Dawei (non-executive director), Mr. Xu Gang (non-executive director) and Mr. Liu Weiwu (independent non-executive director) participated in the re-election of directors of the seventh session of the Board and were re-elected as the directors. Other members of the sixth session of the Board, namely Mr. Yan Lingxi (non-executive director), Mr. Liu Renhuai (independent non-executive director) and Mr. Wang Jianxin (independent non-executive director) confirmed that they would not participate in the re-election of the directors of the seventh session of the Board upon expiry of their terms of office. Meanwhile, Mr. Li Xichuan, Mr. Wang Jun, Mr. Mao Fugen and Mr. Lin Guiping were elected as the non-executive director, non-executive director, independent non-executive director and independent non-executive director of the seventh session of the Board of the Company, respectively.

After the conclusion of the 2020 AGM, the seventh session of the Board consists of the following members: Mr. Wang Xuejun (executive Director), Mr. Zhao Hongwei (executive Director), Mr. Lian Dawei (non-executive Director), Mr. Li Xichuan (non-executive Director), Mr. Xu Gang (non-executive Director), Mr. Wang Jun (non-executive Director), Mr. Liu Weiwu (independent non-executive Director), Mr. Mao Fugen (independent non-executive Director) and Mr. Lin Guiping (independent non-executive Director).

At the Board meeting convened following the 2020 AGM on the same date, Mr. Wang Xuejun was elected as the chairman of the Board of the Company.

At the 2020 AGM, Mr. Zheng Qiang and Mr. Guo Guangxin, members of the sixth session of the Supervisory Committee, participated in the re-election as shareholder representative supervisor of the seventh session of the Supervisory Committee and were re-elected as shareholder representative supervisors. Meanwhile, Mr. Zhao Zhuo was re-elected as the employee representative supervisor of the seventh session of the Supervisory Committee.

After the conclusion of the 2020 AGM, the seventh session of the Supervisory Committee consists of the following members: Mr. Zheng Qiang (shareholder representative supervisor), Mr. Guo Guangxin (shareholder representative supervisor) and Mr. Zhao Zhuo (employee representative supervisor).



Report of The Board

At the Supervisory Committee meeting of the Company convened following the 2020 AGM on the same date, Mr. Zheng Qiang was elected as the chairman of the Supervisory Committee of the Company. For further details, please refer to the announcements of the Company dated 20 April 2021, 29 April 2021 and 28 May 2020, and the circular of the Company dated 27 April 2021.

Due to change in work arrangement, on 16 September 2021, Mr. Tao Guofei applied to the Board for resignation as the deputy general manager and chief financial officer of the Company. At the Board meeting held 23 December 2021, the Board considered and approved the resolution in relation to the appointment of Mr. Wang Jingmin as the chief financial officer of the Company, with his term of office commencing from the date of approval of such resolution at the Board meeting to the date on which the term of office of the seventh session of the Board expires.

Due to change in work arrangement, on 5 November 2021, Mr. Zhao Hongwei applied to the Board for resignation from his position as the executive Director and general manager of the Company. At the Board meeting held 3 December 2021, the Board considered and approved the resolution in relation to the appointment of Mr. Yan Lingxi as the general manager of the Company, with his term of office commencing from the date of approval of such resolution at the Board meeting to the date on which the term of office of the seventh session of the Board expires. At the extraordinary general meeting held on 18 January 2022, the Shareholders in attendance considered and approved the resolution in relation to the appointment of Mr. Yan Lingxi 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 resolution relating to the election of the new session of the Board will be considered at the annual general meeting to be convened in 2024. At the Board meeting on the same date, Mr. Yan Lingxi was elected as the member of the Development and Strategy Committee.

Due to change in work arrangement, on 3 December 2021, Mr. Wang Xuejun applied to the Board for resignation from his position as the Chairman, executive Director, chairman of the Development and Strategy Committee and chairman of the Nomination Committee of the Company. At the extraordinary general meeting held on 18 January 2022, the Shareholders in attendance considered and approved the resolution in relation to the appointment of Mr. Zhang Minsheng 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 resolution relating to the election of the new session of the Board will be considered at the annual general meeting to be convened in 2024. At the Board meeting on the same date, Mr. Zhang Minsheng was elected as the Chairman, chairman of the Development and Strategy Committee and chairman of the Nomination Committee of the Company. For further details, please refer to the announcements of the Company dated 3 December 2021 and 18 January 2022, and the circular of the Company dated 23 December 2021.

BOARD AND SUPERVISORY COMMITTEE

As at the date of this report, the seventh session of the Board consists of the following members: Mr. Zhang Minsheng (Chairman, executive Director), Mr. Yan Lingxi (executive Director), Mr. Lian Dawei (non-executive Director), Mr. Li Xichuan (non-executive Director), Mr. Xu Gang (non-executive Director), Mr. Wang Jun (non-executive Director), Mr. Liu Weiwu (independent non-executive Director), Mr. Mao Fugen (independent non-executive Director) and Mr. Lin Guiping (independent non-executive Director).

The seventh session of the Supervisory Committee 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 2021, 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, contract of significance or contract of significance for provision of services 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 2021, 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 2021, Mr. Wang Jun held (1)60,000 A shares in AVICOPTER, representing approximately 0.010% of the total issued share capital of AVICOPTER, and (2) 60,000 A Shares in AVIC Xi'an Aircraft Industry Group Company Ltd. (中航西安飛機工業集團股份有限公司) (“AVIC XAC”), representing approximately 0.002% of the total issued share capital of AVIC XAC. Mr. Zheng Qiang held 33,500 A shares in AVIC Industry-Finance Holdings Co., Ltd (中航工業產融控股股份有限公司) (“AVIC Industry-Finance”), representing approximately 0.0003% of the total issued share capital of AVIC Industry-Finance. AVIC XAC, AVICOPTER and AVIC Industry-Finance 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 XI.(V) to the financial statements.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2021, 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 2021.

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 2021, 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 IX 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,

In 2021, the Supervisory Committee conscientiously performed the rights and obligations conferred by the Company Law of the PRC and the Articles of Association, duly adhered to the principles of honesty, and faithfully performed functions according to the Procedural Rules for Meetings of the Supervisory Committee to safeguard the interests of shareholders and make positive efforts for the high-quality development of the Company with diligent and pragmatic, provision of advice and suggestions, and rigorous and meticulous.

In 2021, the Supervisory Committee convened four meetings, at which ten resolutions were considered and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2020 annual report, 2021 interim report, and the profits distribution plans for 2020 and the first six months of 2021. The Supervisory Committee also attended the general meetings and the Board meetings held in 2021 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 certain articles of the Articles of Association, the Shares Trading Management Rules for Directors, supervisors, senior management and employees of the Company, the Rules of Procedures of the Board, and the Terms of Reference of the Audit and Risk Management Committee; and formulated the Management Rules of Equity Investment, the Management Rules of Investment and Finance Business, the Management Rules of Investor Relations and the Management Rules of Registration of Inside Information and Insiders in 2021, perfecting the corporate governance related systems, and making the corporate governance more standardized and more efficient.

The Supervisors attended three meetings of the Audit and Risk Management Committee for the year 2021 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 2021, 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.

Report of the Supervisory Committee

In 2022, the Supervisory Committee will conscientiously perform its duties, continuously strengthen self-construction, enhance the awareness of self-discipline and integrity, improve the supervision mechanism, Intensify supervision, strengthen supervision functions, and earnestly take the responsibility of protecting the interests of the Company and shareholders, and promoting the Company to develop in a healthy and sustainable manner.



Chairman of the Supervisory Committee
Zheng Qiang

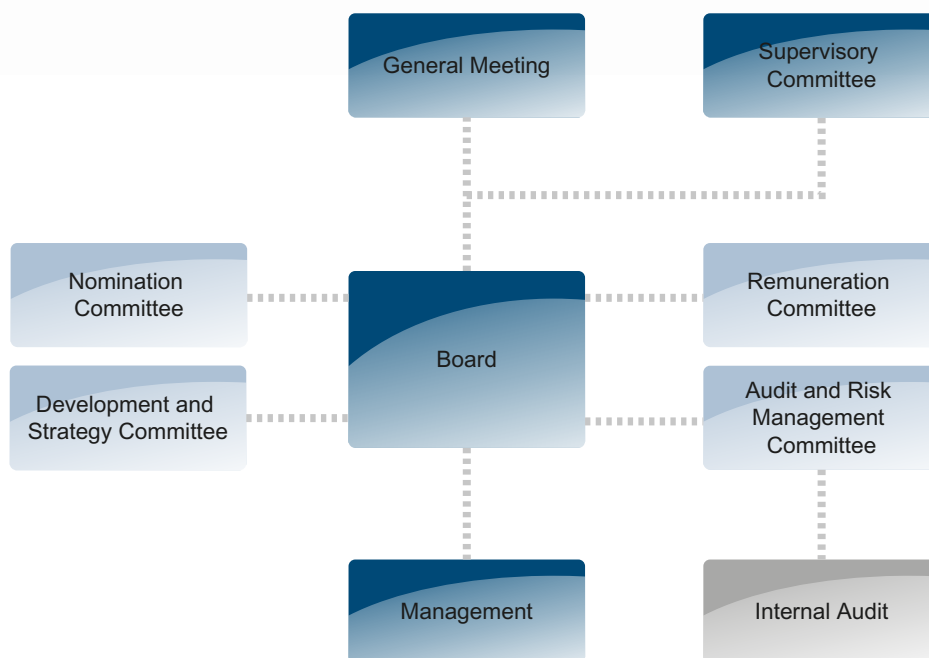
Beijing, 30 March 2022



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 and Risk Management 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 2021 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 complex international political and economic situation and the effect of the Pandemic in 2021, 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 inside information and disclosure of interests responsibilities. 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, the Shares Trading Management Rules for Directors, supervisors, senior management and employees of the Company, the Rules of Procedures of the Board, and the Terms of Reference of the Audit and Risk Management Committee; and formulated the Management Rules of Equity Investment, the Management Rules of Investment and Finance Business, the Management Rules of Investor Relations and the Management Rules of Registration of Inside Information and Insiders. 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 Report

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 2021 and was of the view that the Company complied with the principles and code provisions set out in the Corporate Governance Code under the Hong Kong Listing Rules.

THE BOARD

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

DIRECTORS

As at the date of this report, the Board comprises nine Directors, including two executive Directors, namely, Mr. Zhang Minsheng (Chairman), Mr. Yan Lingxi (General Manager), four non-executive Directors, namely Mr. Lian Dawei, Mr. Li Xichuan, Mr. Xu Gang and Mr. Wang Jun, and three independent non-executive Directors, namely, Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping. 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. Zhang Minsheng, is responsible for leading the Board to ensure the effective operation of the Board. The current general manager, Mr. Yan Lingxi, 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 (as amended from time to time).



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. Zhang Minsheng and Mr. Yan Lingxi, non-executive Director Mr. Li Xichuan and Mr. Wang Jun, independent non-executive Directors Mr. Mao Fugen and Mr. Lin Guiping, 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.

Corporate Governance Report

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:

Directors	Training Scope		
	Corporate Governance	Laws and Regulations	Business Management
Executive Directors			
Mr. Zhang Minsheng*	√	√	√
Mr. Yan Lingxi**	√	√	√
Mr. Wang Xuejun***	√	√	√
Mr. Zhao Hongwei****	√	√	√
Non-executive Directors			
Mr. Lian Dawei	√	√	√
Mr. Li Xichuan*****	√	√	√
Mr. Xu Gang	√	√	√
Mr. Wang Jun*****	√	√	√
Independent Non-executive Directors			
Mr. Liu Weiwu	√	√	√
Mr. Mao Fugen*****	√	√	√
Mr. Lin Guiping*****	√	√	√
Mr. Liu Renhuai*****	√	√	√
Mr. Wang Jianxin*****	√	√	√

* On 18 January 2022, Mr. Zhang Minsheng was appointed as an executive Director of the Company.

** On 28 May 2021, Mr. Yan Lingxi ceased to be an executive Director of the Company after the term of all Directors of the sixth session of the Board expired. On 18 January 2022, Mr. Yan Lingxi was appointed as an executive Director of the Company.

*** Due to change in work arrangement, on 3 December 2021, Mr. Wang Xuejun applied to the Board for resignation from his position as the Chairman, executive Director, chairman of the Development and Strategy Committee and chairman of the Nomination Committee of the Company.

**** Due to change in work arrangement, on 5 November 2021, Mr. Zhao Hongwei applied to the Board for resignation from his position as the executive Director of the Company.

***** On 28 May 2021, Mr. Li Xichuan, Mr. Wang Jun, Mr. Mao Fugen and Mr. Lin Guiping were appointed as non-executive Director, non-executive Director, independent non-executive Director and independent non-executive Director of the seventh session of the Board, respectively. Mr. Liu Renhuai and Mr. Wang Jianxin ceased to be independent non-executive Directors 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 and Risk Management 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 inquiries 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 and Risk Management 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 2021, the Company convened three meetings of the Audit and Risk Management Committee, five meetings of the Nomination Committee, two Remuneration Committee. The terms of reference of the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee are published on the websites of the Company and the Hong Kong Stock Exchange.

Corporate Governance Report

Thirteen meetings were held by the Board during 2021. The attendance record of every Director at the Board meetings in 2021 is set out below:

Directors	Times of meeting should attend	Times of attendance	Times of attendance by proxy
Executive Directors			
Mr. Zhang Minsheng*	0	0	0
Mr. Yan Lingxi**	5	5	0
Mr. Wang Xuejun***	13	13	0
Mr. Zhao Hongwei****	10	10	0
Non-executive Directors			
Mr. Lian Dawei	13	12	1
Mr. Li Xichuan*****	8	7	1
Mr. Xu Gang	13	12	1
Mr. Wang Jun*****	8	8	0
Independent Non-executive Directors			
Mr. Liu Weiwu	13	11	2
Mr. Mao Fugen*****	8	8	0
Mr. Lin Guiping*****	8	8	0
Mr. Liu Renhuai*****	5	5	0
Mr. Wang Jianxin*****	5	4	1

* On 18 January 2022, Mr. Zhang Minsheng was appointed as an executive Director of the Company.

** On 28 May 2021, Mr. Yan Lingxi ceased to be an executive Director of the Company after the term of all Directors of the sixth session of the Board expired. On 18 January 2022, Mr. Yan Lingxi was appointed as an executive Director of the Company.

*** Due to change in work arrangement, on 3 December 2021, Mr. Wang Xuejun applied to the Board for resignation from his position as the Chairman, executive Director, chairman of the Development and Strategy Committee and chairman of the Nomination Committee of the Company.

**** Due to change in work arrangement, on 5 November 2021, Mr. Zhao Hongwei applied to the Board for resignation from his position as the executive Director of the Company.

***** On 28 May 2021, Mr. Li Xichuan, Mr. Wang Jun, Mr. Mao Fugen and Mr. Lin Guiping were appointed as non-executive Director, non-executive Director, independent non-executive Director and independent non-executive Director of the seventh session of the Board, respectively. Mr. Liu Renhuai and Mr. Wang Jianxin ceased to be independent non-executive Directors of the Company.



In 2021, 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. Zhang Minsheng, Mr. Yan Lingxi, Mr. Li Xichuan and Mr. Xu Gang. Mr. Zhang Minsheng 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 2021 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. Mao Fugen and Mr. Lin Guiping. 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.

Corporate Governance Report

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. In 2021, the Remuneration Committee held two meetings to consider and approve the resolutions relating to the remuneration standard of new directors, new supervisors and new senior management and the remuneration standard of Directors, Supervisors and senior management in 2021. 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. Liu Weiwu	Chairman of the Remuneration Committee, Independent non-executive Director	2	2	0
Mr. Lian Dawei	non-executive Director	2	2	0
Mr. Liu Renhuai*	Independent non-executive Director	1	1	0
Mr. Wang Jianxin*	Independent non-executive Director	1	1	0
Mr. Mao Fugen*	Independent non-executive Director	1	1	0
Mr. Lin Guiping*	Independent non-executive Director	1	1	0

* On 28 May 2021, Mr. Mao Fugen and Mr. Lin Guiping were appointed as new independent non-executive Directors of the Company and the members of the Remuneration Committee; Mr. Liu Renhuai and Mr. Wang Jianxin ceased to be independent non-executive Directors and the members of the Remuneration Committee.

For the year ended 31 December 2021, remunerations of senior management members by band are set out as follows:

Remuneration Band	Number
RMB700,000-900,000 (inclusive)	1
RMB900,000-1,100,000 (inclusive)	2
RMB1,600,000-1,800,000 (inclusive)	1

Details of remunerations of Directors and Supervisors for the year ended 31 December 2021 are set out in Note XI.(V)1 to the financial statements.

AUDIT AND RISK MANAGEMENT COMMITTEE

As at the date of the report, the Audit and Risk Management Committee of the Company comprises the Directors, namely Mr. Mao Fugen, Mr. Wang Jun, Mr. Liu Weiwu and Mr. Lin Guiping. Mr. Mao Fugen is the chairman of the Audit and Risk Management Committee.

In order to strengthen the integration and coordination of the compliance management system, risk management and internal control system, and continuously improve the effective operation of the Company's management and control systems, the seventh session of the Board established the Audit and Risk Management Committee on 28 May 2021 to replace the Audit Committee in carrying out the duty of assisting the Board and independently monitoring the financial operation, audit procedures and the risk management operation of the Company; and as considered and approved by the meeting of the Board of the Company held on 27 August 2021, the Terms of Reference of the Audit and Risk Management Committee were amended in accordance with the actual situation of the Company and 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 and Risk Management 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 and Risk Management 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 and Risk Management 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 and Risk Management 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. Mao Fugen, Mr. Wang Jun and Mr. Liu Weiwu have appropriate professional qualifications in accounting or related financial management expertise as required by the Hong Kong Listing Rules.

During 2021, the Audit and Risk Management Committee:

- reviewed the financial statements and the annual results announcement for the year ended 31 December 2020;
- reviewed the interim financial statements and relevant interim results announcement for the six months ended 30 June 2021;
- reviewed the Company's profit distribution plan for the year 2020 and the interim profit distribution plan for the year 2021;
- reviewed the proposal relating to the appointment of domestic auditor of the Company for the year 2021 and determination its remuneration;
- reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2021, 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 2020 and the first half of 2021, the internal control report of the Company for the year 2020, and listened to the report from the external auditors on its audit work in relation to the year 2020 and on its review of 2021 interim report as well as its recommendations to the management of the Company.

The Audit and Risk Management Committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2021.



Corporate Governance Report

The Audit and Risk Management Committee held three meetings during 2021. The Audit and Risk Management 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 and Risk Management 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 and Risk Management Committee, Independent non-executive Director	2	1	1
Mr, Mao Fugen*	Chairman of the Audit and Risk Management Committee, Independent non-executive Director	1	1	0
Mr. Liu Renhuai*	Independent non-executive Director	2	2	0
Mr. Liu Weiwu	Independent non-executive Director	3	3	0
Mr. Wang Xuejun**	Executive Director	2	2	0
Mr. Wang Jun*	Non-executive Director	1	1	0
Mr. Lin Guiping*	Independent non-executive Director	1	1	0

* On 28 May 2021, Mr. Mao Fugen was appointed as the new independent non-executive Director of the Company and the chairman of the Audit and Risk Management Committee; Mr. Wang Jun was appointed as the new non-executive Director of the Company and the member of the Audit and Risk Management Committee; Mr. Lin Guiping was appointed as the new independent non-executive Director of the Company and the member of the Audit and Risk Management Committee; Mr. Wang Jianxin ceased to be the independent non-executive Director of the Company and the chairman of the Audit and Risk Management Committee; Mr. Liu Renhuai ceased to be the independent non-executive Director of the Company and the member of the Audit and Risk Management Committee.

** On 28 May 2021, Mr. Wang Xuejun ceased to be the member of the Audit and Risk Management Committee. Due to change in work arrangement, on 3 December 2021, Mr. Wang Xuejun applied to the Board for resignation from his position as the Chairman, executive Director.

EXTERNAL AUDITORS

In 2021, 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 and Risk Management 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 RMB3.90 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 129 to 130 of this annual report.

NOMINATION COMMITTEE

As at the date of the report, the Nomination Committee of the Company comprises the Directors, namely Mr. Zhang Minsheng, Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping. Mr. Zhang Minsheng 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.



Corporate Governance Report

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 five meetings in 2021. The Nomination Committee discussed the composition and size of the board and professional committees, approved resolutions relating to change of Directors and Supervisors and resolutions relating to the adjustment of members of the senior management team of the Company. The attendance record of the Nomination Committee members at the meetings is as follows:

Name of Director	Position	Times of meetings should attend	Times of attendance	Times of attendance by alternate director
Mr. Zhang Minsheng*	Chairman of the Nomination Committee, executive Director	0	0	0
Mr. Wang Xuejun**	Chairman of the Nomination Committee, executive Director	5	5	0
Mr. Liu Renhuai***	Independent non-executive Director	2	2	0
Mr. Liu Weiwu	Independent non-executive Director	5	5	0
Mr. Wang Jianxin***	Independent non-executive Director	2	2	0
Mr. Mao Fugen***	Independent non-executive Director	3	3	0
Mr. Lin Guiping***	Independent non-executive Director	3	3	0

* On 18 January 2022, Mr. Zhang Minsheng was appointed as an executive Director of the Company and the chairman of the Nomination Committee of the Board.

** Due to change in work arrangement, on 3 December 2021, Mr. Wang Xuejun applied to the Board for resignation from his position as the Chairman, executive Director and chairman of the Nomination Committee of the Company.

*** On 28 May 2021, Mr. Mao Fugen and Mr. Lin Guiping were appointed as the new independent non-executive Directors of the Company and the members of the Nomination Committee; Mr. Liu Renhuai and Mr. Wang Jianxin ceased to be the independent non-executive Directors of the Company and the members of the Nomination Committee.

COMPANY SECRETARY

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

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

INTERESTS HELD BY DIRECTORS AND SECURITIES TRANSACTIONS

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

Interests of the Company held by the Directors as at 31 December 2021 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 for Directors, supervisors, senior management and employees of the Company (the “Rules”) as its own guidelines for securities transactions by Directors, Supervisors and employees of the Company. The 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 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 2021 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 2021.

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 2021, the Directors have:

- selected appropriate accounting policies and applied them consistently;
- adopted all relevant standards in compliance with the China Accounting Standards for Business Enterprises; and
- made prudent and reasonable judgment and estimation and prepared the consolidated financial statements on a going concern basis.



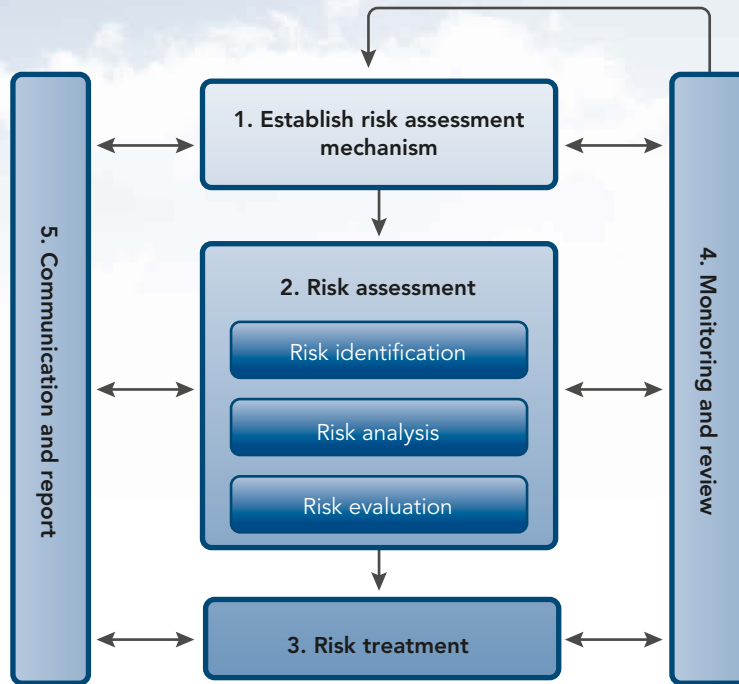
In accordance with the requirements of the Hong Kong Listing Rules, the Company has timely announced its annual and interim results within three and two months respectively after the end of the relevant financial periods.

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 and Risk Management 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 and Risk Management Committee.

The institution of the Company in charge of internal control and audit acts as a supporting institution of its Audit and Risk Management 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 and Risk Management 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 the Management Rules of Investor Relations and the Management Rules of Registration of Inside Information and Insiders 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 2021, 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 2021. 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 and Risk Management Committee and the Board. The Board reviewed through the Audit and Risk Management Committee the effectiveness of the risk management and internal control system of the Group for the year ended on 31 December 2021, 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 and Risk Management 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 seventh 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 2021, the Supervisory Committee held four meetings and considered and approved ten resolutions. It supervised, on behalf of shareholders of the Company, the financial position of the Group, the legality and compliance of the performance of duties by the Directors and senior management of the Company, attended the Board meetings and general meetings and fulfilled its duties diligently.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the China Accounting Standards for Business Enterprises 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 2021, the Company convened two general meetings, at which twenty-one 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. Zhang Minsheng*	0	0
Mr. Yan Lingxi**	1	1
Mr. Wang Xuejun***	2	2
Mr. Zhao Hongwei****	2	2
Mr. Lian Dawei	2	2
Mr. Li Xichuan*****	1	1
Mr. Xu Gang	2	2
Mr. Wang Jun*****	1	1
Mr. Liu Weiwu	2	2
Mr. Mao Fugen*****	1	1
Mr. Lin Guiping*****	1	1
Mr. Liu Renhuai*****	1	1
Mr. Wang Jianxin *****	1	1

* On 18 January 2022, Mr. Zhang Minsheng was appointed as an executive Director of the Company.

** On 28 May 2021, Mr. Yan Lingxi ceased to be an executive Director of the Company after the term of all Directors of the sixth session of the Board expired. On 18 January 2022, Mr. Yan Lingxi was appointed as an executive Director of the Company.

*** Due to change in work arrangement, on 3 December 2021, Mr. Wang Xuejun applied to the Board for resignation from his position as the Chairman, executive Director, chairman of the Development and Strategy Committee and chairman of the Nomination Committee of the Company.

**** Due to change in work arrangement, on 5 November 2021, Mr. Zhao Hongwei applied to the Board for resignation from his position as the executive Director of the Company.

***** On 28 May 2021, Mr. Li Xichuan, Mr. Wang Jun, Mr. Mao Fugen and Mr. Lin Guiping were appointed as non-executive Director, non-executive Director, independent non-executive Director and independent non-executive Director of the seventh session of the Board, respectively. Mr. Liu Renhuai and Mr. Wang Jianxin ceased to be independent non-executive Directors of the Company.



Corporate Governance Report

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 2021, 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 announcement of the Company dated 30 March 2021 and circular of the Company dated 27 April 2021.

The amended Articles of Association was uploaded on the website of the Company and the Hong Kong Stock Exchange on 28 May 2021.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

The Board secretary is responsible for information disclosure of the Company. The Company has formulated and enforced the Management Rules of Investor Relations and the Management Rules of Registration of Inside Information and Insiders 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 2021, 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. In 2021, the Company was awarded the "Golden Bauhinia --the Listed Company with the Best Investor Relations" and "2021 China's Top 100 Companies Award".



Environmental, Social & Governance Report

This report covers the ESG performance for the period from 1 January 2021 to 31 December 2021, part of which exceeds the aforesaid scope. The report follows the provisions of the Environmental, Social and Governance Reporting Guide (“**ESG Reporting Guide**”) of the Hong Kong Stock Exchange. Unless otherwise specified, the financial data quoted in this report are derived from the audited financial report. Other data are derived from the internal official 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 “Responsibility Management”.

Quantization: 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. Due to business restructuring, the Company completed the acquisition of 100% equity interest in AVIC Helicopter in December 2020, and AVIC Helicopter, Harbin Aircraft and Changhe Aircraft all became the wholly-owned subsidiaries of the Company, so the scope of information covered in this report is slightly different from previous years.

I RESPONSIBILITY MANAGEMENT

AviChina attaches great importance to sustainable development management matters, establishes an ESG governance structure with the Board of Directors as the highest responsible and decision-making body, maintains active communication with various stakeholders, emphasizes issues affecting stakeholders and ESG-related risk identification, continues to establish a sound anti-corruption and anti-bribery system, so as to improve the Group's business ethics.

1. ESG Statement of the Board

AviChina is committed to continuously improving its sustainable management system and ESG governance mechanism. It has made state-owned enterprise reform a strategic deployment and explored a new model of sustainable development that integrates environmental, social and governance with the Company's business. The Board of Directors highly values the sustainable development performance of AviChina, establishes an ESG governance structure with the Board of Directors as the ultimate leader, sets up an ESG management working group to coordinate and manage ESG matters, and reports regularly to the Board of Directors on ESG-related work. At the same time, the Group has formed an executive team consisting of the office of the Board of AviChina and the persons in charge of ESG-related matters of each subsidiary to implement the ESG work plan and ESG information disclosure, etc.

The Group regularly understands the expectations and requirements of stakeholders, identifies and assesses important ESG issues and priorities, the results of which are reviewed by the Board of Directors and adequately responded to through information disclosure. In 2021, the Board conducted targeted review and monitoring of ESG governance structure, climate change risk response and safety production priorities, and considered the ESG work plan for 2022.

This report discloses in detail the progress of the ESG work of the Group for 2021, which was considered and approved by the Board of Directors on 30 March 2022.



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2. Stakeholders Engagement

Stakeholders' expectations and feedback are important bases for the Group's decision making on responsibility management strategies and judgment of management effectiveness. The Group has established an effective stakeholder communication mechanism. In 2021, the Group actively communicated with a total of six groups of stakeholders including governmental and regulatory bodies, shareholders, 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.

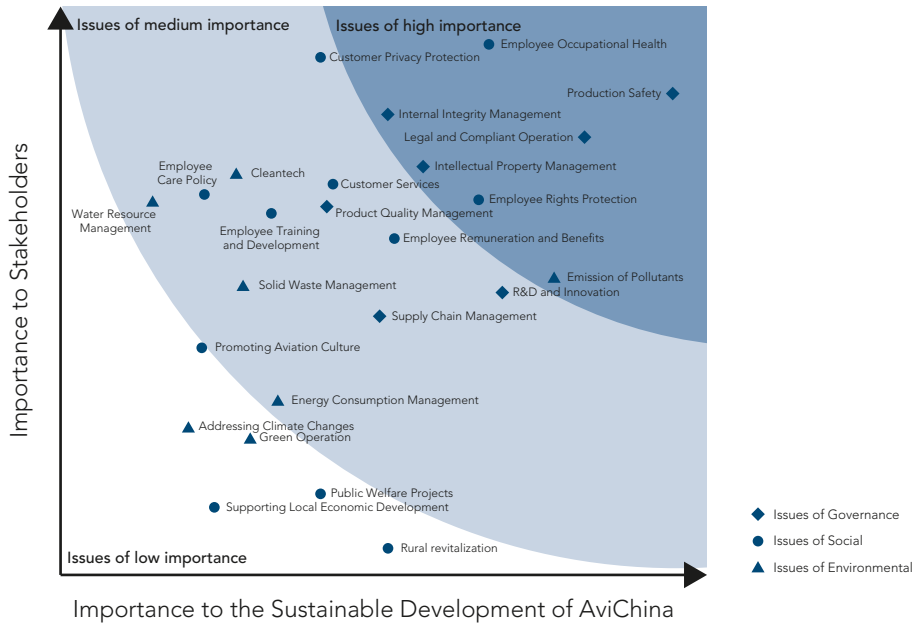
Stakeholders	Expectations and Requirements	Communication and Response Methods
Governmental and Regulatory Bodies	<ul style="list-style-type: none"> Implementation of national policies, laws and regulations Promotion of local economic development Improvement of local employment Promotion of industrial development 	<ul style="list-style-type: none"> Submission of documents Advice and suggestions Special report Negotiation and cooperation
Shareholders	<ul style="list-style-type: none"> Returns on investment Compliant operation Production safety 	<ul style="list-style-type: none"> Company announcements Telephone reception Visitor reception
Customers and Partners	<ul style="list-style-type: none"> Performance by law Business integrity Quality products and services 	<ul style="list-style-type: none"> Business communications Exchanges and seminars Capacity building
Environment	<ul style="list-style-type: none"> Compliant emissions Energy saving and emission reduction Ecological conservation 	<ul style="list-style-type: none"> Work report Report submissions Investigations and inspections
Employees	<ul style="list-style-type: none"> Protection of rights and interests Occupational health Compensation and benefits Career development 	<ul style="list-style-type: none"> Workers congress Collective bargaining Democratic communication platform
Community and the Public	<ul style="list-style-type: none"> Improvement of the community environment Participation in public welfare undertakings Provision of public and transparent information 	<ul style="list-style-type: none"> Company websites Company announcements Interviews and communications Public welfare activities

3. Determination of Material ESG Issues

The Company identifies the importance of ESG issues in accordance with the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange and with reference to the Sustainability Reporting Standards of the Global Reporting Initiative. To promote more accurate and complete ESG disclosures, the Company conducted an anonymous survey with 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 Company's ESG performance. According to the survey results and taking into account the industry development trend, the Company 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 Company in 2021 is presented below:

ESG Materiality Matrix of AviChina in 2021



4. Business Integrity and Anti-corruption

The Group strictly abides by the Criminal Law of the People's Republic of China, the Supervision Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China and other national laws and regulations, and establishes "Three Nos" to promote the strategic goal and ensure the integrity of the posts and the management of risk prevention and control by formulating and implementing the Discipline Inspection and Supervision Proposal, the Responsibility List and inspection mode.

On the basis of unified regulations on supervision and management policies, a number of documents such as the Requirements for Strictly Prohibiting Staff from Accepting Gifts, the Integrity Risk Prevention and Control Manual in the Field of International Cooperation Business, the Integrity Risk Prevention and Control Manual in the Field of Research Expense Management and the Practice Risk Prevention and Control Manual in the Field of Personnel Selection and Employment have been formulated respectively, taking into account the actual situation and different business fields of the subsidiaries. In the course of daily operation, the relevant supervisory departments are responsible for reviewing the Company's resolutions for disciplinary violations and supervising the selection of personnel for disciplinary violations. On the basis of inspection, the Group has set up key supervision projects around key areas, combined with compliance risk points and integrity prevention and control points, to promote the stable operation of long-term supervision mechanism.

For the petition report, the Group handles "prosecution and accusation", "complaint" and "suggestion and criticism" separately, providing a variety of reporting channels, including intranet reporting, e-mail reporting, fax, letter, telephone and other ways, and sets up internal report boxes in the field, so that employees of the Group and external units can provide clues to the internal corruption problems of the Group. Whistle-blower information is treated with strict confidentiality to prevent retaliation. After receiving the petition report, the Group convened a collective investigation meeting in accordance with the rules and decided whether to start the verification procedure according to the investigation situation, and if verification is needed, the problematic clues will be handled in strict accordance with the verification procedure, and the relevant personnel suspected of duty crimes will be transferred to the judicial authorities for handling. In 2021, the Group and employees did not have any corruption lawsuits.

On top of the anti-corruption policy in place, the Group has carried out various forms of anti-corruption education work, signed integrity pledges, widely opened special anti-corruption seminars, set up special courses for learning, regularly pushed anti-corruption education information. The various activities provide assurance for the establishment of corporate culture that values integrity for the Group and the clean development of the Company. In 2021, we organized a number of special training sessions on integrity education for members of the Board of Directors, the management of the Company and professional positions.

2021 Integrity Education of the Group

Convene all kinds of warning and education conferences and put forward integrity requirements to all employees.

Organize to watch warning education video sessions to promote employees to receive warning education inculcation.

Carry out training sessions for inspection staff and conduct business competency training sessions to improve the work of internal inspection staff.

Organize the knowledge test on the topic of integrity to improve the awareness of integrity of employees and shape the culture of integrity.

Carry out the responsibility meeting of integrity construction covering all levels of management, and organize to sign the Commitment of Integrity in Risky Positions to enhance the awareness of management in performing their duties.

II PRODUCT RESPONSIBILITY

In order to promote the market development of civil aviation products, the Group attaches great importance to independent innovation and product renewal and iteration. We continue to strengthen our R&D capabilities, vigorously promote cooperation between industry, academia and research institutes, devote ourselves to continuously improving product quality, actively build a civil aviation operation support system, and strive to build a world-class brand. In addition, we continue to enhance the protection of intellectual property rights, adhere to the protection of information security and customer privacy, continue to build a sustainable supply chain management, and improve customer satisfaction in all aspects and multiple dimensions.

1. Technology Innovation

The Group insists on independent innovation and research and development to continuously improve its competitiveness. We always take the innovation-driven development strategy as the entry point, continuously improve the technical capability and institutional mechanism of aviation ancillary system products, accelerate the intelligent manufacturing planning, and vigorously carry out the cooperation and exchange activities between industry, academia and research, actively promote the protection of intellectual property rights, and adhere to the power of science and technology to promote the prosperous development of aviation.



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1.1 R&D Innovation

The Group always insists on independent research and development as the main line, continues to break through the ability of scientific and technological innovation, increases the special investment in innovation and research and development year by year, and actively provides all-round and multi-dimensional technical support for each subsidiary, and is committed to creating value for customers with technology. In recent years, we have won numerous national, provincial and municipal science and technology awards, and mastered key core technologies and original scientific and technological achievements with independent intellectual property rights, thus promoting the development of international and domestic industry standards and promoting the sustainable development of the whole industry with the power of science and technology.

Table: Selected Scientific Research and Innovation Achievements of the Group in 2021

AVIC CAPDI	<ul style="list-style-type: none">• Declared successfully four external projects, such as the cooperation project “Production Digital Twin System” of AECC Chengdu Engine Co., Ltd. (中國航發成都發動機有限公司), and undertaking the scientific research project “Implementation Route of Digital Intelligent Aviation in Aviation Industry” of AVIC;• The company has won 58 awards, including one China Patent Award, one Beijing Invention Patent Award, one National Defense Science and Technology Award, etc.
Shenyang Xinghua	<ul style="list-style-type: none">• The company organized external appraisal of 6 scientific and technological achievements such as “High Reliable Structure Brushless DC Fan” and “High Precision Multi-Channel Synchronous Changeover Rotary Switch”, which were appraised by 7 industry experts and evaluated 3 items with international advanced level, 2 items with domestic leading level and 1 item with domestic advanced level;• The company participated in the development of a number of domestic industry standards, such as the completion of the preparation of national standards of “Detailed Specifications of the Series of Environmentally Resistant Circular Electrical Connectors (37 Items)”, etc.

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|-----------------------------|---|
| Lanzhou Aviation Electrical | <ul style="list-style-type: none">• The company has completed the motor laboratory and electric mechanism laboratory, which will soon become the key laboratories of Gansu Province;• The “High-Voltage High-Power Servo Motor and Drive System Research and Development and Industrialization” was successfully declared as one of the top ten science and technology innovation projects in Gansu Province;• “Key Technology Research and Application of Cargo Lifting System for Large Transport Aircraft” won the second prize of science and technology progress of the group in 2021. |
| JONHON Optronic | <ul style="list-style-type: none">• The company continues to strengthen its R&D capacity, with an annual R&D investment of approximately RMB1.35 billion, accounting for 10.47% of its sales revenue, and vigorously promotes the “Leading Innovation Power Project” to fight the battle of breaking through key core technologies;• The company actively undertakes a number of national, provincial and municipal science and technology projects, including major national science and technology projects, and has received award funds amounting to RMB15.27 million;• Achieved good results in the bidding process of electronic components research projects, successfully winning three research projects and being allocated research funds of RMB11.16 million;• The company has remarkable independent innovation results, with a total of 12 scientific and technological achievements receiving 18 awards from higher authorities, for example, “High-speed Connectors and Components for 5G Communication” won the second prize of Henan Province Science and Technology Progress Award; successfully established 85 standards in the field of new energy, communication, liquid cooling, etc., including one IEC standard and 60 national standards, laying the foundation for leading technology and product development and enhancing the company’s industry influence. |
| Taiyuan Instrument | <ul style="list-style-type: none">• The company’s invention patent “a 9mm piezoelectric actuators small vibration cylinder pressure sensor” won the second prize of Shanxi Provincial Patent Award;• In 2021, the company organized to apply the key laboratories in Shanxi Province, and now the airborne atmospheric data system and the key laboratory of atmospheric physics (environmental detection) in Shanxi Province have been approved for construction. |



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Case study: Taiyuan Instrument completed product series transformation and upgrade

In 2021, the total output value contributed by the company's new products accounted for approximately 40% of the company's total output value, which supported the rapid development of the company and successfully completed the iteration of the company's product series from mechanical and electromechanical-based to electronic and intelligent-based, and upgraded from low to high value-added-based, thus laying the foundation for the company to achieve leap-forward development during the "14th Five-Year Plan".

- In the professional field of atmospheric data and sensing measurement system, the company carried out multi-sensor data fusion algorithm to continuously improve the market competitiveness of the company's flying wing configuration embedded atmospheric data system; continuously promoted the research of laser omnidirectional atmospheric data technology to improve the technical maturity of the atmospheric data measurement under new principle and fill the domestic gaps.
- In the professional field of cockpit display and backup instrument system, the company continued to carry out the cockpit display product technology maturity improvement project, continuously improve product quality, reduce product cost, and further establish the status of mainstream display supplier; continued to carry out research on backup flight instrument system, and completed the establishment of inter-professional team, which provides strong support for the subsequent continuous efforts to realize national product technology level in domestic backup flight instrument.
- In the field of airborne sensors and high-precision sensing specialties, the company has improved the performance of miniaturized vibration cylinder pressure sensors and completed all qualification tests and reliability tests; high-precision silicon resonance pressure sensors have been applied to meteorological products and pressure equipment, and successfully completed the major instrumentation special projects of the Ministry of Science and Technology of China, while carrying out batch production line construction work, laying a solid foundation for the localization of high-precision pressure sensors.
- The company has maintained its position as a leading domestic supplier in pipeline compensation and thermal control through continuous efforts.

1.2 Industry Partnership

The Group has deepened the integrated cooperation model of industry-academia-research, entered into strategic cooperation agreements with internationally renowned enterprises, scientific research institutions and top universities, strengthened collaborative innovation, explored a long-term mechanism of cooperation between enterprises and universities, jointly promoted technology development and achievements in the aviation field, and laid the foundation for the continuous improvement of independent innovation capability.

Table: Selected cooperative R&D achievements of the Group in 2021

Huiyang Aviation	<ul style="list-style-type: none">The company carried out business cooperation with China Helicopter Research and Development Institute to promote the implementation and transformation of patents, and finally successfully licensed two patents to China Helicopter Research and Development Institute, and obtained a license patent implementation amount of RMB220,000;
Lanzhou Aviation Electrical	<ul style="list-style-type: none">The company set up the Miles of Vision Scholarship, and built internship bases with the School of Electrical Engineering of Xi'an Jiaotong University, continued to cultivate master students with Lanzhou University of Technology, and built teacher training bases and student internship bases with Lanzhou Institute of Technology;Cooperating with Northwestern Polytechnical University to develop stepper motor BY-KT1, detailed design report and drawings have been completed and published, and test samples are being produced;The company has completed the functional prototype of the DC motor converter and the integrated starter generator controller developed in cooperation with Beijing Institute of Technology, pending the subsequent joint test with the motor;
Tianjin Aviation	<ul style="list-style-type: none">The company has carried out 4 technology development cooperation projects with Tianjin University, Civil Aviation University of China, Hebei University of Technology and other local universities in Tianjin, tackled 10 key technologies, effectively improved the professional technology level of aviation power distribution system, ignition system, sensors, etc., and expanded the application scope of technologies of relevant universities.

1.3 Intellectual Property Management

The Group strictly complies with the Patent Law of the People's Republic of China, the Trademark Law of the People's Republic of China, the Anti-Unfair Competition Law of the People's Republic of China and other relevant laws and regulations, and each subsidiary has formulated relevant internal systems and policies, continuously established a sound intellectual property management system, and set up an Intellectual Property Management Committee with an Intellectual Property Office under it. Through hierarchical management and clear functions, intellectual property management is institutionalized and systematized to ensure the orderly and controlled development of intellectual property management in the Company.

In 2021, the subsidiaries of the Group have taken active measures to protect intellectual property.

- 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 and established an effective management structure to ensure the effective operation of the intellectual property system;
- Shenyang Xinghua established a system of rules and regulations for intellectual property including seven systems, such as the Intellectual Property Management System, the Patent Management Measures, the Company's Trade Secret Protection Management Regulations, the Company's Trademark Management Regulations, and the Copyright Management Measures, which has been continuously improved in operation;
- Revision of the original Patent Management Measures system by Xinghua Huayi, and determination of the principles of patent agency selection, optimization of patent application methods and incentive measures;
- JONHON Optronic established Patent Management and Protection Measures, Trademark Management and Protection Measures, drew up Copyright Management Measures, and at the same time promoted the implementation of intellectual property standards, with the goal of building a standardized intellectual property management system;

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- Shaanxi Huayan took respective measures including patent application, copyright registration, trade secret protection, and established Intellectual Property Protection Management Regulations of Huayan and other institutional provisions. Intellectual property supervisor regularly holds training for scientific researchers on intellectual property fundamentals and technical submission writing, pays annual patent fees in full and on time every year, and requires inventors to declare patents before conducting patentability searches. The patent agent company filed with the State Intellectual Property Office will report the patent specification after it is finalized, thus ensuring that the company's intellectual property protection is effective and controllable;
- Taiyuan Instrument established a comprehensive intellectual property management and dispute warning system.

On the basis of a sound intellectual property management system and system specification, each subsidiary actively promoted the transformation of intellectual property achievements and converted the achievements of corporate governance into market value reasonably and legally. Huiyang Aviation carried out business cooperation with China Helicopter Research and Development Institute to promote the implementation and transformation of patents, and successfully licensed two patents of the company to China Helicopter Research and Development Institute, and obtained a license patent implementation amount of RMB220,000; AVIC Lanfei formulated the Implementation Plan for the Project of High Quality Development of Intellectual Property Work of AVIC Lanfei, Intellectual Property Management Regulations of Lanzhou Flight Control Co., Ltd. and other related rules and regulations, and completed the acceptance and evaluation of the intellectual property "improvement project", actively carried out the transformation and application of patent achievements, signed patent license contracts, and continuously promoted more standardized, scientific and orderly management of intellectual property.

Table: Patent Applications of the Group

Indicator	Unit	Number in 2020	Number in 2021
Patent applications	Pieces	1,734	1,772
Patents granted	Pieces	984	1,288



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2. Products and Service

The Group adheres to the path of high-quality products, continuously improves the product quality management system, strictly implements policies related to quality inspection and certification, carries out product quality system certification, attaches great importance to customer privacy protection and trade secret management, ensures information security through internal system regulation, actively promotes the development of civil aviation business and provides high-quality products and services.

2.1 Product Quality

The Group strictly complies 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, and works together with its subsidiaries to establish a sound quality management system based on the process methods and standard requirements, such as AS9100D to ensure and improve the quality of aviation products. The quality management system has been continuously expanded and improved according to the requirements of the industry and customers.

The Group strengthens the improvement of product quality from both management and technical aspects. In terms of the management, it has established relevant policies and systems to ensure and improve product quality or quality inspection, improved and standardized product quality management processes and measures, and conducted regular evaluation and review to ensure the implementation of the Company's quality management system and its hierarchy. In the technical aspect, it relies on professional technical means to improve product quality, actively introduces external experience, and deepens the exploration of new processes, and participates in major scientific research cooperation projects to solve bottlenecks in product quality, so as to ensure product quality in the Group in a comprehensive and multi-dimensional manner. Each subsidiary actively carries out ISO 9001 quality management system certification, continuously maintains the effectiveness of the system, regularly arranges internal review and invites third-party to conduct review every year, and continuously improves and finds problems, always ensuring that the certificate is valid.

Each subsidiary has established internal 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, covering the whole life cycle management standards from product design, procurement, production, inspection, servicing and improvement. The systems clearly stipulate the product recall process, and establish the corrective and preventive measures to ensure product quality and safety. In 2021, the Group did not have any recall incidents due to health and safety.

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- AVIC CAPDI strengthened the supervision and inspection of project operation process and quality of finished products. Throughout the year, it organized a total of 256 spot checks on the process of consulting and design projects; 92 quality checks on finished design projects; and 40 on-site checks on general engineering contracting projects. Supervising the closure and improvement of the problems inspected to promote the continuous improvement of project and product quality;
- JONHON Optronics continued to establish a product quality management system that operates and proves to be fully compliant with the requirements, and continues to expand and improve according to industry or user requirements. In September 2021, the company passed the review of Equipment Contractor's Repair Qualification Extension;
- Hafei Aviation has prepared 4 copies of subcontracting and civil aircraft quality manuals and 90 copies of quality management system procedure documents, and conducts management assessment and internal review of the quality management system every year to continuously improve the weak points in the operation of the system and keep the quality management system running effectively;
- Qianshan Avionics attaches importance to the inspection and testing of the physical quality of products, and has a national laboratory (Qianshan Testing Center) accredited by the China National Accreditation Service for Conformity Assessment (CNAS) and a Level 3 metrology organization certified by the National Defense Industry Office of Shaanxi Province, and has established an appropriate quality management system for CNAS-accredited laboratories, which can independently carry out the corresponding testing and metrology work;
- Through continuous optimization and improvement of its own organizational structure and operation mechanism, Shanghai Aviation Electric implements whole-process management for product confirmation, development, production, testing, maintenance and service, etc. It has established Quality Manual, 39 procedure documents and more than 600 operation documents and related records for the 34 identified processes;
- Huiyang Aviation optimized the hierarchical structure of system documents, compiled the Regulations on the Preparation and Management of Quality Management System Documents, clarified the hierarchy, names and numbering principles of quality management system documents, refined the document approval process at each level, increased the requirements for document review and dissemination, and compiled and revised more than 120 new documents throughout the year; and carried out benchmarking reviews of system documents, formulated benchmarking and review plans for quality management system documents, and completed 33 reviews at corporate-level on schedule, with a 100% completion rate, identified problems such as poorly coordinated documents and unrefined regulations, opened up breakpoints and blockages in the process, and improved the operability of documents.



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The Group highly values customer feedback, establishes and improves customer complaint procedures and optimizes the complaint handling process. The Group requires each subsidiary to respond to customer complaints as soon as they are received, arranging for sales staff to visit, promptly inspect and report to management, and formulating quality improvement plans so as to further enhance product service reliability. In addition, we actively listen to customers' voices, open customer communication platforms, take into account the expectations and needs of new and existing customers, and devote ourselves to maximizing customer satisfaction and maintaining the Company's brand image.

2.2 Protection of Customer Privacy

The Group attaches great importance to information security and customer privacy, strictly complies with the Cybersecurity Law of the People's Republic of China, the Data Security Law of the People's Republic of China, Regulations on the Security Protection of Computer Information Systems of the People's Republic of China, Administrative Measures for the Security Protection of International Networking of Computer Information Networks and other relevant laws and regulations, builds a perfect customer management system, and is committed to providing more secure services to customers. Each subsidiary actively carries out information security and privacy protection work, strengthens system protection, process construction, technology application and awareness cultivation to effectively avoid the occurrence of bad acts such as illegal use, leakage and sale of customer information and privacy.

System Security

In order to meet the work related to the protection of customer privacy and information security with laws and regulations, each subsidiary of the Group has actively formulated relevant policy documents internally to realize institutionalized management and restraint. Shenyang Xinghua improved the Customer Management Control Procedures, standardized the management of customer information, clarified that the list and data of important customers and suppliers belongs to internal confidential information, and strengthened the management of customer information work; Lanzhou Aviation Electrical combined with the quality system change work, organized the preparation of Knowledge Management procedure documents, clarified the management department and management responsibilities, and specified in detail the various requirements in the transmission and application of customer information; JONHON Optronics prepared the Management Measures of the Company's Commercial Secrets, the Management Measures of Customer Information of Marketing Department, etc., and adopted strict system assessment for violations; Changhe Aviation formulated and released the Measures for Protection of Commercial Secrets, and established policies to prevent the occurrence of illegal use, leakage and sale of customer information and privacy, and to protect customer information and privacy security.

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Process Construction

Each subsidiary provides systematic and full-process guarantee construction for customer privacy and information security in combination with relevant system documents. Taiyuan Instrument guarantees the security of customer information and privacy in three dimensions: management of potential customer information, management of cooperative customer information, and management of communication between corporate executives and cooperative customers; Changhe Aviation combines the systems related to confidentiality management, classifies and grades information, manages customer information and privacy as internal sensitive information, and carries out the production, transmission and destruction of relevant information in the confidential information system to ensure the security of internal transmission of information; AVIC Lanfei has built a sound customer information management process, formulated customer information management regulations, determined the content of customer information to be collected, updated the customer information database in time and integrated and analyzed customer information, and finally archived the information.

Technology Applications

We continue to strengthen the informationization and intelligent control of customer privacy protection, and deepen the exploration of technology application to strengthen the protection. JONHON Optronic has strict control procedures for computer information systems and office automation equipment involving commercial secrets, implements network behavior auditing, automatic detection and statistical analysis for early warning to prevent illegal use, leakage and sale of customer information and privacy; AVIC CAPDI has established an independent commercial secrets network, disconnects the company's commercial secrets network from the Internet through logical isolation, and divides multiple security domains to prevent external attacks from directly accessing important systems and data.

Awareness Cultivation

The Group focuses on the cultivation of privacy and security awareness and requires each subsidiary to actively carry out training and dissemination. Lanzhou Aviation Electrical conducts special training on customer information security during the induction training of new employees, enhances employees' awareness of information security and protects customer information security in all details of daily work; JONHON Optronic conducts top-down training on commercial confidentiality management knowledge several times each year from time to time to strengthen employees' awareness of confidentiality and job authority responsibility; Taiyuan Instrument regularly conducts confidentiality training and warning education activities, and further ensures the security of customer information and privacy by signing confidentiality commitments and other control measures to strengthen awareness and clarify responsibilities.

In 2021, the Group did not have any information leakage incidents.

3. Supply Chain Management

The Group attaches great importance to the construction of a sustainable supply chain and always adheres to the supply chain management concept of honesty, mutual trust and win-win cooperation. We strictly comply with the Tendering and Bidding Law of the People's Republic of China and other relevant laws and regulations, has formulated and improved the Supplier Management Procedures, the Procurement and Supplier Management Procedures, the Outsourcing and Commission Quality Control Procedures and the External Supplier Evaluation Regulations and other related systems, established a Supply Chain Management Committee, and improved the supplier management system in a comprehensive and multi-dimensional manner. The Group strictly regulates the supply chain management procedures and adopts an online procurement management system to control the whole process and systematization of supplier approval and selection, review and evaluation. We implement the supplier approval and withdrawal mechanism based on the Supplier Management, the Supplier Performance Evaluation Management, the On-site Review of Suppliers and the Administrative Measures for Supplier Development and other administrative measures. We consider the environmental and social performance of prospective suppliers in the supplier approval, bidding and price comparison process, and conduct multi-dimensional review of suppliers in all aspects to strictly control supplier approval, control product quality from the source while encouraging suppliers to provide more green products and services.

Table: Distribution of the Group's suppliers

Number of suppliers by region	Unit	Data for 2020	Data for 2021
Domestic	company	7,402	7,523
Foreign	company	238	64

The Group actively organizes relevant departments to closely identify and timely respond to supply chain related risk items, carries out supply chain risk control in accordance with the Supplier Management Procedures and the Supplier Development Regulations, puts forward process risk control and control requirements for suppliers in terms of product quality, delivery schedule, price fluctuation, after-sales service and social and environmental performance, actively identifies risk points, formulates control measures, and requires new suppliers to conduct risk self-assessment and other assessments upon being approved, so as to identify and control cooperation risks as early as possible and avoid expanding risk impacts in a timely and effective manner.

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In order to deal with environmental and social risks in the supply chain, we have actively established baselines and policies for approval of new suppliers, and review various aspects such as business scope and quality management system to identify risks with relevant suppliers at the early cooperation stage. At the same time, each subsidiary gives priority to suppliers with ISO 14001 energy management system certification, OHSAS 18000 occupational health and safety management system certification, taking into account their own business characteristics, and signs supply guarantee agreements with suppliers. In addition, we rely on the ERP system, the national enterprise credit information inquiry system and other platforms to properly manage the validity of the supplier's business license, quality management system certification and a series of other qualifications, so as to ensure the validity of the supplier's qualifications and environmental sustainability, and further protect the Group's compliance and legal operation.

The Group insists on developing the sustainability of its supply chain and pays more attention to environmental protection in the selection of supply chain products, making "providing products that meet environmental standards" as one of the assessment indicators for supplier selection. Each subsidiary also actively incorporates sustainability into the conditions for consideration of supplier management.

- | | |
|-----------------------------|--|
| Lanzhou Aviation Electrical | <ul style="list-style-type: none">• Making the selection of environmentally friendly products one of the assessment criteria for supplier selection;• In the supplier approval stage, if the products provided by the supplier and its services process may cause pollution or have a certain impact on the environment, the supplier is required to obtain the relevant environmental protection qualifications. |
| JONHON Optronics | <ul style="list-style-type: none">• Developing production markings on products;• To pass the RoHS, W18, REACH and other international general environmental product control requirements to suppliers and require them to submit materials according to the production markings. The materials delivered must meet the corresponding environmental requirements;• The details of environmental control requirements and the corresponding default clauses are stipulated in the JONHON Optronics Supply Guarantee Agreement signed with suppliers. |
| Huiyang Aviation | <ul style="list-style-type: none">• Seeking more environmentally friendly alternatives for problematic products, and gradually applying alternatives to official products. |

Case study: Keeven Instrument prefers to choose more environmentally products

In recent years, Keeven Instrument has paid more attention to environmental protection in the selection of supply chain products and taken a series of measures to achieve sustainable development of the supply chain. For the suppliers to be included in the company's qualified supplier list, after determining the way of supplier inspection, the company clearly informs the suppliers through various channels that the selection of environmentally friendly products is one of the assessment criteria for the company's supplier inspection, and during the inspection process, the company is able to closely observe and identify whether the suppliers choose environmentally friendly products and urge the suppliers to choose environmentally friendly products and services. For the companies that have been included in the company's qualified supplier list, the company's procurement staff and supplier management personnel should inform them that the selection of environmentally friendly products and services is one of the aspects of the company's supplier assessment. And the company has been clearly defined environmental terms in the procurement contract, emphasizing the importance of the selection of environmentally friendly products to improve the supplier's environmental awareness and implementation of various environmental initiatives.

III GREEN OPERATION

In line with the core value of "green aviation", the Group takes the initiative to respond to the national call for low carbon and environmental protection, takes the harmonious development of energy and environment as its responsibility, undertakes environmental responsibility, insists on green operation and realizes the sustainability of its own development and operation. We always adhere to the green development concept of "efficient, clean and low-carbon", proactively identify and respond to the risks and opportunities brought about by climate change, standardize and improve the environmental management system, strengthen energy resources management, control pollutant emissions, and take practical actions to help the country achieve the "carbon peaking and carbon neutrality" goals.

1. Environmental Management System

The Group always adheres to the concept of "green development", actively assumes environmental responsibility, continuously establishes and improves the environmental management system, and updates the environmental management manual and procedure documents in a timely manner, so as to further promote the comprehensive implementation of environmental protection work.

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 relevant laws and regulations and takes into account its own development status and business characteristics to improve environmental management mechanisms and processes in all aspects and multi-dimension of production and operation, project construction and daily operation, and continuously establishes and improves environmental management systems and insists on its long-term stable operation. We require each subsidiary to build an environmental management system in accordance with its own business characteristics, and to promote and ensure the smooth development and implementation of environmental protection work in an institutionalized form. AVIC Lanfei has established an Environmental Protection Committee consisting of company leaders and heads of units to coordinate and deploy environmental protection work. Hongdu Aviation has established a leading group for environmental protection and emission reduction with the chairman of the board of directors as the leader and the main persons in charge of each unit as members to lead the supervision, guidance and assessment of the implementation of environmental protection and emission reduction work.

The Group adheres to the operation concept of energy conservation, environmental protection and green development, enhances the supervision of environmental management, relies on the national environmental management system ISO14001 certification to carry out the construction of environmental management system of each company, effectively improves the level of environmental management and energy resource utilization, and further strengthens the global, systematic and unified environmental management of the Group. In 2021, a number of subsidiaries including Lanzhou Aviation Electrical, Xinghua Huayi, Taixing Aviation Optoelectronic have successfully passed the ISO14001 on-site certification audit and review and obtained the relevant certification certificates.

1.2 *Environmental Compliance*

The Group continues to strengthen its efforts in low-carbon environmental protection, energy conservation and consumption reduction, increases capital investment in environmental protection year by year, scientifically plans and actively deploys environmental protection-related matters, proactively establishes and timely updates annual environmental protection targets, to ensure continuous and stable operation of environmental management. The Group strictly follows relevant laws and regulations including the Environmental Management Procedures for Construction Projects and fully implements the requirements of the “Three Simultaneous” system, which stipulates that environmental protection facilities must be designed, constructed and put into use at the same time as the main project for new construction, renovation and expansion projects, thus ensuring that pollutants generated in production can be discharged up to standards through environmental protection facilities. We strictly ensure the implementation and acceptance of environmental impact assessment, systematically analyze and evaluate the impact of project construction on the surrounding environment, and actively carry out research on the comprehensive utilization of resources and waste minimization, so as to reduce or avoid the trouble caused by environmental pollution.

We carry out environmental data monitoring, organize each subsidiary to conduct self-correction in accordance with standards and requirements, and carry out identification, monitoring and evaluation of pollution factors for environmental pollutants mainly involved in the production and operation process. In addition, we regularly invite qualified third-party monitoring institutions to conduct tests to further ensure the timeliness and accuracy of environmental data and achieve pollutant control.

The Group identifies and actively reduces various environmental risks occurring in the course of production and operation and construction in a timely manner, formulates relevant emergency measures and plans, and implements a hierarchical management system with responsibilities assigned to individuals. We adhere to regular safety drills for unexpected environmental pollution accidents, thereby avoiding environmental pollution risks and ensuring the continuity of the Group’s business operations.

2. Emission Management

The Group has always adhered to the concept of green operation and strictly complied with relevant 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 and local emission standards. Each subsidiary has improved and implemented the Environmental Protection Management System, Hazardous Waste Management Measures, Construction Project "Three Simultaneous" Management Measures and other related management systems, and carry out self-examination and self-correction in accordance with the Group's standards and requirements, and commission qualified third-party companies to conduct regular monitoring, so as to ensure the stable and standardized discharge of industrial "three types of wastes" and realize the comprehensive control of waste and pollutants, aiming to create an eco-friendly enterprise.

2.1 Emission Reduction

The Group promptly identifies and closely monitors the exhaust gas and wastewater pollutants generated by each subsidiary in its production operations, among which the exhaust gas pollutants mainly include sulfur dioxide, nitrogen oxides and soot. In this regard, we have adopted special treatment measures, constantly updated and applied advanced production and treatment processes, and are committed to reducing the generation of exhaust gas and wastewater at source to achieve comprehensive emission control in production and operation. In 2021, the Group aimed to reduce emissions of exhaust gas and pollutants and improve the recycling rate of wastewater, actively explored new innovative, open, clean and efficient energy solutions, developed and introduced new equipment for wastewater and exhaust gas treatment, and continuously optimized production technologies and processes.



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In 2021, each subsidiary's exhaust gas and wastewater reduction initiatives are as follows:

- JONHON Optronic introduced a wastewater reuse system for electroplating wastewater type I pollutant, with a monthly wastewater reuse volume of 2,000 tons. In addition, the company sealed and improved the disorganized emissions of five electroplating production lines and added four sets of electroplating exhaust gas purification systems, which effectively reduced the emissions of exhaust gas pollutants;
- Hafei Aviation newly built a 20t/h natural gas boiler to replace the coal-fired boiler, while increasing the use of clean energy, with two 10t/h natural gas boilers operating at full capacity and coal-fired boilers supplementing the heating, greatly reducing the emissions of soot, sulfur dioxide and nitrogen oxides in the boiler flue gas;
- AVIC Forstar has installed 6 sets of photo-oxidation activated carbon exhaust gas treatment facilities and regularly replaced the activated carbon of the equipment; installed a set of oil smoke purification facilities and a set of fresh air system, and purchased more than 50 sets of mobile soot collection equipment, thus effectively reducing the emission of exhaust gas;
- Huiyang Aviation organized the treatment of volatile organic exhaust gas and added active adsorption, desorption + catalytic combustion treatment equipment to reduce the concentration of volatile organic exhaust gas emissions, thereby reducing the emissions of volatile organic compounds;
- Changhe Aviation has adopted the low-pollution boron-sulfuric acid and phosphoric acid oxidation surface treatment process to replace the chromic acid oxidation production process, reducing the characteristic pollutant emissions by about 40%, while saving production costs and pollutant treatment costs;
- Shaanxi Huayan has equipped 56 soot extraction and purification devices for welding stations in West and Han areas, installed VOCS exhaust gas treatment facilities for the painting room in the hot meter center, and installed extraction and purification system equipment for the cleaning room in the general assembly center, effectively reducing exhaust gas emissions;
- AVIC Lanfei carried out the renovation of cyanide-containing exhaust gas treatment system, added cyanide-containing exhaust gas purification system and raised the cyanide-containing exhaust gas exhaust pipe, so that the cyanide-containing exhaust gas emission can meet the requirements of national and local government environmental protection standards, reducing the annual emission of hydrogen cyanide exhaust gas by 1.544Kg/year.

Table: Wastewater and Exhaust Gas Emission Data of the Group

Type of emissions	Unit	Data for 2020	Data for 2021
Total emission of exhaust gas	ten thousand standard cubic meters	738,459.3	939,393.4
Emission of sulphur dioxide	tons	61	86
Total emission of nitrogen oxides	tons	325	290
Total emission of soot	tons	23	16
Total emission of wastewater	tons	3,180,161	3,015,648
Emission of COD	tons	252	173

2.2 Waste Treatment

The Group adheres to the prevention and control principle of “reduction, recycling and decontamination”, strives to standardize the collection, storage and disposal management of solid waste in daily production, deepens the exploration of innovative technology and application of innovative process, and strives to continuously reduce waste generation, improve waste recycling rate and minimize environmental impact.

Our solid waste discharge mainly comes from general industrial waste and hazardous waste generated in the course of daily production and operation, as well as domestic waste generated in the office area of the plant, etc. The general waste types are mainly waste metal scraps, copper scraps, cables, waste processing shells, waste cartons, while hazardous waste is mainly waste paint residue, alcohol, lubricating oil, emulsion. We reduce waste generation and strengthen waste management by rationalizing production and actively improving processes.

For general industrial wastes and domestic wastes, the Group insists on the way of waste classification and recycling, and collects recyclable wastes such as waste metals, cables and waste cartons generated in the daily production and operation process, and sells them to qualified third parties for recycling, and entrusts municipal sanitation departments to handle non-recyclable wastes in a unified manner. JONHON Optronic has reduced the emission of general industrial solid waste by collecting, transferring and disposing of general industrial solid waste, and recycled a total of 856 tons of general industrial solid waste in 2021; Shenyang Xinghua conducted comprehensive assessment of general waste, and for waste that cannot be reused or recycled, the company will sell it to waste recyclers identified by the company using its own bidding method; Huiyang Aviation entered into waste disposal contracts with qualified units to regulate the disposal of general industrial solid waste and hazardous waste, and dispose of 116 tons of hazardous waste in 2021, representing a decrease of more than 20 tons than last year.

For hazardous wastes, the Group continued to improve the hazardous waste disposal plan, has established a hazardous waste management ledger and taken strict safety measures, and strictly classified and stored hazardous wastes in accordance with national standards, and pasted hazardous waste signs at more prominent locations in production workshops and other areas. In addition, we regularly invite third-party units with professional qualifications for transfer and disposal of hazardous waste. Hongdu Aviation further reduced the generation of hazardous waste by strengthening the maintenance of filter cotton and the regeneration of activated carbon for paint spraying environmental protection facilities; JONHON Optronics reduced the generation of hazardous waste from the source by reducing the water content of sludge through measures such as ultra-high pressure filter press and sludge drying, achieving the emission reduction of electroplating sludge by about 584.72 tons in 2021; Shaanxi Huayan has a waste gasoline purification and treatment facility, and requires each unit to collect the waste gasoline that can be purified and regularly deliver it to the Material Procurement Department for purification and treatment.

The Group's packaging materials mainly involve plastic, paper, metal and composite materials. We require our subsidiaries to limit excessive packaging of parts and components, avoid redundant packaging as far as possible when purchasing materials and promote recycling, and are committed to minimizing the utilization rate of packaging materials and improving the recycling rate of packaging materials. In 2021, Changfeng Avionics recycled and reused packaging boxes, with annual recycling of packaging boxes reaching more than 1,000 boxes and saving costs of RMB90,000.

Table: Waste Emission Data of the Group

Type of emissions	Unit	Data for 2020	Data for 2021
Total emission of general waste	tons	17,523	85,265¹
Emission intensity of general waste	kg per RMB10,000 revenue	3.50	14.14
Total emission of hazardous waste	tons	2,529	11,029²
Emission intensity of hazardous waste	kg per RMB10,000 revenue	0.50	1.83
Use of packaging materials	tons	2,751	2,967
Intensity of use of packaging materials	kg per RMB10,000 revenue	0.55	0.49

1 Due to the project expansion of the Company's subsidiary, AVIC CAPDI, its general waste emissions increased significantly compared with previous years.

2 Due to the project expansion of the Company's subsidiary, AVIC CAPDI, its hazardous waste emissions increased significantly compared with previous years.

3. Use of Resources

The Group grasps the strategic opportunity of national green development, standardizes and improves enterprise resource management measures, strictly complies with 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. Each subsidiary has implemented energy conservation and emission reduction related policies internally, including the Energy Management System, Energy Management Manual, Energy Management Responsibility System, to standardize the internal energy conservation and consumption reduction management of each company, ensure the development and implementation of daily energy use and environmental protection work, to build more detailed, more standardized and clearer process of energy management, and further create a model enterprise of resource conservation.

The Group actively responds to the idea of national ecological civilization construction and environmental protection and integrates it into the daily operation of the enterprise, and is committed to the institutionalization and systematization of energy resources management from the Group to the subsidiary level. We deepen the exploration of innovative technology-related applications, continuously strengthen the management of water resources use, establish Energy-saving Work Management Committees in some subsidiaries, deepen the construction of energy management systems, and incorporate energy performance into employee assessment standards, so as to effectively improve the efficiency of resource and energy utilization, gradually control and reduce carbon dioxide emissions, fully implement the concept of emission reduction, and promote green development.

3.1 Green Production

Based on the ideology of "green development", the Group continues to promote energy-saving scientific research and development and energy-saving technological transformation. The Group requires each subsidiary to actively adopt green processes in production and operation, voluntarily eliminate backward equipment and processes with high energy consumption and high emissions, promote the application of new technologies and materials for energy conservation and emission reduction, and deepen the exploration of the application of energy consumption monitoring systems to further improve the efficiency of resource use and the efficiency of research, production and operation, and reduce the energy consumption of production and operation.



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- JONHON Optronic adopts BOL mode and gradually expands the application scope in the company, carries out energy-saving transformation on the air compression station system of the old district molding branch factory, and the overall operation efficiency of the air compressor has been improved after the transformation; and carried out waste heat recovery transformation on the air compressor of the 38999 building in the old factory area, and the recovered hot water temperature can reach 65-70°C after the transformation, which can meet the heating use of the curing room on the fourth floor; in addition, carried out energy-saving transformation on the central air conditioner of the 38999 building in the old factory area, which improved the stability of the operation of the central air conditioning equipment of the manufacturing center building, while generating energy-saving benefits after the transformation; AVIC CAPDI carried out a full range of energy-saving and emission reduction practices for the research office building, installed LED lamps in the whole office building, and adopted intelligent lighting automatic control technology, VRV systems for air-conditioning rooms, important conference rooms, and non-negative pressure variable frequency technology for pumps. In addition, it has established an energy management system in the office building, thereby realizing Real-time monitoring of the use of water, electricity and gas in the office area to achieve further energy saving and consumption reduction;
- AVIC Lanfei continued to improve the process of green aviation standard system, completed the thorough investigation of the company's basic works in relation to carbon peaking and carbon neutrality, eliminated 16 sets of energy-consuming equipment, replaced 12 sets of LED street lights, replaced 223 sets of various energy-saving LED lamps in office buildings and workshops; and invested more than RMB3.5 million in the energy-saving and insulation renovation of the exterior wall of the company's 6A office building, No. 2 workshop and staff apartments;
- Lanzhou Aviation Electrical completed the upgrade of 1# and 6# substations and put them into use, eliminated and renewed oil-immersed transformers and old high- and low-voltage control cabinets, and improved the energy efficiency of energy-using equipment. In addition, the original aluminum-core cables were replaced with copper-core cables, thus reducing line losses;
- Shanghai Aviation Electric invested RMB40,000 to renovate the lighting in the factory, replacing the lighting with LED energy-saving lamps and eliminating and renewing 10 sets of old energy-consuming equipment; in addition, it invested approximately RMB390,000 to replace new air compressors, replacing the original fixed-frequency air compressors with inverter air compressors;

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- Taiyuan Instrument invested energy-saving transformation funds of RMB520,000, mainly involving three transformation projects, including replacement of electric skylight in 25# plant of RMB340,000 to enhance the plant insulation performance and reduce heat loss; replacement of LED mining lights of RMB60,000 to reduce power and improve the brightness of lighting; circulation pump transformation in 26# plant of RMB120,000, which would save energy and reduce consumption, with annual electricity savings of more than 100,000 degrees and water savings of 100 tons after the completion of this project;
- Hongdu Aviation actively organized special on-site inspections for "deflation, oozing, dripping and leaking", strictly implemented target responsibilities and deepens energy saving and efficiency in key areas.

Table: Energy Consumption of the Group

Indicator of energy consumption	Unit	2020	2021
Coal	tons	37,040	21,939
Gasoline	tons	801	913
Kerosene	tons	5,568	5,348
Diesel	tons	149	90
Natural gas	ten thousand standard cubic meters	1,377	1,579
Electricity	ten thousand kWh	32,685	48,326
Outsourcing thermal power	million kJ	199,753	419,441
Comprehensive energy consumption	ten thousand tons of standard coal	9.8	10.4 ³
Intensity of comprehensive energy consumption	tons of standard coal per RMB10,000 revenue	0.02	0.02

³ The integrated energy consumption data is calculated according to the conversion coefficients of various energy provided by the General Principles for Integrated Energy Consumption Calculation (GB/T 2589-2020) 《综合能耗计算通则》(GB/T 2589-2020).



Table: Greenhouse Gas Emission of the Group in 2021

Indicator of greenhouse gas emission	Unit	2020	2021
Total greenhouse gas emission	ten thousand tons of equivalent CO ₂ emissions	45.3	45.2 ⁴
Intensity of greenhouse gas emission	tons of equivalent CO ₂ emissions per RMB10,000 revenue	0.09	0.07

Controlling the use of water resources is an important measure of a company's green value. The Group strictly abides by the Water Law of the People's Republic of China and other relevant laws and regulations, and intensively researches and develops innovative water-saving technologies to improve the efficiency and recycling rate of water resources, aiming to become an exemplary water-saving enterprise.

In 2021, we strengthened the dynamic supervision of water consumption, regularly inspected the water supply system, closely monitored and solved water consumption problems in a timely manner, and resolutely avoided the occurrence of long flowing water, as well as deflation, oozing, dropping and leaking and various wasteful phenomena; in addition, we actively adopted initiatives related to multiple use of water and recycling of water, deepened the exploration of reclaimed water and rainwater consumption technology instead of using fresh water, and vigorously promoted water-saving appliances, so as to reduce unit water consumption.

4 The greenhouse gas data were calculated according to the coefficients provided in the General Principles for Integrated Energy Consumption Calculation (GB/T 2589-2020) (《綜合能耗計算通則》(GB/T 2589-2020)), Average CO₂ Emission Coefficients for China's Regional Power Grids in 2011 and 2012 (《2011年和2012年中國區域電網平均二氧化碳排放因數》) and 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

Table: Water Consumption of the Group in 2021

Indicator of water consumption	Unit	2020	2021
Total water consumption	tons	4,402,657	5,476,591
Water consumption intensity	tons per RMB10,000 revenue	0.9	0.9

Case study: AVIC Kaitian actively carries out initiatives related to water conservation

In 2021, AVIC Kaitian used and maintained a good cooling circulating water system, adopted cooling circulating water for all central air conditioners, experimental equipment, welding equipment, heat treatment, and adopted water-saving faucets for all sinks, sensor faucets, sensor urinals, low-level water tanks and time-delayed flushing valves for bathrooms, so as to achieve considerable water-saving effects.

Case study: JONHON Optronic water washing tank renovation project

In 2021, JONHON Optronic invested funds to renovate all water washing tanks of production lines including rack plating and barrel plating in hot meter branch factory. After the renovation, all water washing tanks can realize automatic water refilling and shutting off, which greatly reduces the amount of pure water and gives rise to obvious water saving effect. In 2021, the company's water consumption dropped by 26.9% on average, saving a total of 1,240 tons of water. The company has won the title of water-saving enterprise at municipal and provincial level for five consecutive years.

3.2 *Low-carbon Life*

The Group vigorously promotes green office initiatives and strives to achieve the goal of environmental protection and low carbonization of daily office. In order to raise employees' awareness of resource concern and green awareness, we encourage all subsidiaries to actively promote energy conservation and environmental protection related knowledge, carry out low-carbon emission reduction related training, rely on energy conservation and environmental protection theme week and knowledge competitions to drive employees to practice environmental protection and promote the Company's energy conservation and consumption reduction work.

In 2021, each subsidiary actively carried out low-carbon day activities to raise employees' awareness of green environment protection.

- AVIC Kaitian actively cooperated with Chengdu Water Conservation Supervision Center to carry out water conservation propaganda work, and combined with the actual situation of the company, jointly carried out the “National Urban Water Conservation Week” activities effectively with the Chenghang Community, hanging propaganda banners and posting propaganda posters at prominent locations in the factory and community to enhance the awareness of water conservation among employees and their families. In addition, the company organized and carried out “special training for part-time energy managers” during the “Energy Conservation Week”, so as to promote the company’s energy conservation and consumption reduction work, and actively advocate each employee to develop good habits and awareness of energy use;
- Taiyuan Instrument actively carried out energy-saving publicity week and low-carbon day publicity activities in accordance with the requirements of the group company and AVIC Airborne Systems, and compiled a report on the activities and the summary of the publicity week for submission to AVIC Airborne Systems;
- AVIC Lanfei organized the activities of energy-saving publicity week and low-carbon day publicity activities in 2021, produced 30 energy saving publicity wall charts and display boards, 3 energy saving and carbon reduction themed banners and slogans, which were pasted on the main research and production sites of the company, issued more than 500 energy saving and low carbon publicity pages to the employees, and used AVIC Lanfei public WeChat platform for publicity, advocated green low carbon production and life patterns, and raised the awareness of energy saving and low carbon among the employees of the company. In 2021, each subsidiary organized special study activities on energy saving and emission reduction as well as environmental protection training and dissemination;
- The Energy Conservation Office of AVIC Lanfei organized special learning activities on energy conservation and emission reduction, and all units actively participated in them, which improved the enthusiasm and initiative of employees in energy conservation and emission reduction work;
- Hongdu Aviation carried out energy-saving publicity weeks in an online and offline manner. During this period, the company used the public platform of WeChat to release energy-saving publicity videos and carry out prize-winning quizzes on energy-saving knowledge to publicize and popularize energy-saving knowledge;
- Taiyuan Instrument organized training on the implementation of energy review, and hired consultants from Beijing Aviation Association Certification Center to give training lectures on four aspects of energy review: overview of energy review, energy review planning, energy review implementation and energy review report.

4. Environmental impact

Ecological harmony and environmental balance are the long-term sustainable development pursued by all enterprises. The Group is aware of the high importance of biodiversity conservation and restoration of biological habitats, and strictly follows the relevant provisions of the Environmental Protection Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China, the Regulations on the Administration of Construction Project Environmental Protection, the Classification Management List of Environmental Impact Assessment of Construction Projects and other laws and regulations to improve the relevant policies internally and ensure the ecological environment can be protected systematically and institutionally. We combine our own business characteristics, strictly supervise the whole cycle of production and operation, and rely on the form of environmental and social impact assessment and the formulation of special protection measures to continuously reduce the interference and damage caused by the construction process to the surrounding land and the habitat of animals and plants, so as to minimize the impact of production and operation on the surrounding natural ecology and biodiversity.

The Group strictly complies with the Regulations on the Prevention and Control of Ambient Noise Pollution of the People's Republic of China and other relevant laws and regulations, and attaches great importance to the management and control of noise generated in the production and operation process. We encourage our subsidiaries to purchase low-noise and environmentally friendly production equipment and components while ensuring production quality, and actively promote the application of advanced technologies and techniques, and vigorously introduce noise abatement and noise reduction environmental protection facilities, so as to achieve noise within plant boundary meeting emission regulations. In addition, we require each subsidiary to carry out in-depth noise management, scientific planning of production work area settings, clear identification of noise points, strict control of noise sources, and regular organization of professional institutions to conduct noise emission testing, dedicated to minimizing the threat of noise pollution to the surrounding environment as well as the health and safety of employees. In 2021, Changhe Aviation eliminated high energy consumption and high noise piston air compressors, and adopted screw type air compressor to reduce the noise intensity by one third.



5. Addressing Climate Change

Climate change is a global challenge that transcends national borders. To address climate change, 197 countries adopted the Paris Agreement at the 21st session of the Conference of the Parties (COP 21) in Paris on December 12, 2015, aiming to significantly reduce global greenhouse gas emissions. In September 2020, President Xi Jinping made a solemn commitment to China’s carbon peaking and carbon neutrality targets at the 75th session of the UN General Assembly, pledging that China would strive to achieve carbon dioxide emissions peaking by 2030 and to achieve carbon neutrality by 2060. In order to help the country achieve its carbon peaking and carbon neutrality strategy goals, the Group has taken the initiative to identify climate change risks and opportunities by referring to the framework and recommendations of the Task Force on Climate Related Financial Disclosures (TCFD), and has carried out countermeasures to gradually establish a climate change response system and enhance its ability to adapt to climate change by taking into account its own business characteristics.

Table: Climate Change Transition Risks

Risk type	Specific risks	Risk description	Risk response
Transformation risk	Policy and legal risks	<ul style="list-style-type: none"> The country has put forward the 3060 Carbon Peaking And Carbon Neutrality Target, striving to achieve carbon peaking by 2030 and carbon neutrality by 2060, and relevant departments have issued administrative measures and action plans, including Opinions on the Complete and Accurate Implementation of the New Development Concept and Carbon Peaking And Carbon Neutrality Work and Action Plan to Achieve Carbon Peaking by 2030, which will further strengthen the dual control of energy consumption intensity and total amount, and energy conservation monitoring and enforcement may increase. The country has strengthened the management of carbon market, issued the Carbon Emissions Trading Management Measures (for Trial Implementation) and plans to include eight key emission industries, such as petrochemical, chemical, building materials, iron and steel, non-ferrous, paper, power and aviation, into the national carbon market one after another. If the Group is included in the carbon trading system in the future, it may need to spend additional costs due to insufficient carbon quotas. 	<ul style="list-style-type: none"> The Group has always grasped the opportunity of the national energy low-carbon transition and adjusted its energy consumption plan in a timely manner in accordance with the policy requirements, increasing the proportion of new energy utilization while continuously improving energy utilization efficiency and reducing compliance risks. The Group will continue to pay attention to changes in carbon market policies, strengthen communication with various regulatory authorities, and pay close attention to changes in its own carbon emission data to plan ahead for response.

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Risk type	Specific risks	Risk description	Risk response
	Technology risk	<ul style="list-style-type: none"> The national 14th Five-Year Plan has clearly proposed to implement green manufacturing projects, strengthen the upgrading of key industries and improve the green manufacturing system, which will lead to the continuous research and development of new clean technologies in the aerospace and manufacturing fields where the Group is located, and the Group may face the risk of technological obsolescence if it fails to keep up with the trend of technological innovation in the future. 	<ul style="list-style-type: none"> The Group pays close attention to new energy and clean energy power products and clean technologies, actively conducts relevant research in accordance with national policy requirements, and learns and introduces low-carbon process technologies in a timely manner in order to cope with technological risks.
	Reputational risk	<ul style="list-style-type: none"> The industry to which the Group belongs is a high carbon emission industry and its carbon emissions are closely monitored by various stakeholders. In the context of the global low carbon transition, any failure of compliance or over-emission by the Group will have a negative impact on the Group's brand image and reputation. 	<ul style="list-style-type: none"> The Group strictly follows national and industry laws and regulations related to carbon emissions, sets up a strict energy use management system, closely monitors its own carbon emissions and makes active responses.
Physical risk	Acute risk	<ul style="list-style-type: none"> The occurrence of extreme weather such as typhoons, extreme rainfall and floods may cause damage to production equipment, and in serious cases may even cause shutdowns, endangering the lives of employees. 	<ul style="list-style-type: none"> The Group formulates emergency response plans for extreme weather and strengthens daily emergency drills to raise the awareness of all staff on safety precautions to minimize the impact caused by extreme weather.
	Chronic risk	<ul style="list-style-type: none"> Continued average temperature increases may lead to water shortages in some areas, resulting in increased water costs and higher production and operating costs. 	<ul style="list-style-type: none"> The Group has been vigorously carrying out water-saving technology improvement of equipment, improving the recycling rate of water resources, developing new water-saving technologies and promoting daily water-saving actions.

IV PEOPLE-ORIENTED APPROACH

Based on the development concept of “talent is the foundation of an enterprise”, the Group always regards talent as the most valuable asset, values the development of talent and the well-being of employees, strives to protect the rights and interests of employees, provides both material and spiritual protection, aiming to realizing the common development of the enterprise and employees.

1. Employee Recruitment

The Group strictly abides by the Labor Law of the People’s Republic of China, the Labor Contract Law of the People’s Republic of China and other relevant laws and regulations, insists on legal employment, prohibition of child and forced labour, standardizes the implementation of the labor employment system, enters into labor contracts with employees through equal negotiation, and regulates the recruitment, working hours, promotion, remuneration and welfare of employees through the Management System for Staffing, the Rules for Implementation of Labor Contract, the Management Measures for Employee Separation and other institutional documents. The Group strictly implements equal employment and ensures that employees are not discriminated against on the basis of race, religion, gender and other factors; establishes the Prohibition of Child Labor, Work Requirements for Juvenile Workers and Remedial Procedures and the Recruitment Management System, which clearly stipulate prohibition of child and various forms of forced labour, and requirements for the strict review of the recruit identity information. Any such phenomenon will be dealt with seriously according to the law, and strictly protect the legal rights and interests of employees and human rights.

Table: Employee Employment

Type of employee	2021	
Total number of employees	46,428	
Number of employees by gender	Male employees	31,964
	Female employees	14,464
Number of employees by age	30 and below	15,580
	31~50	25,987
	51 and above	4,861
Number of employees by grade	Senior management	224
	Middle management	1,806
	General employees	44,398
Number of employees by region	Chinese Mainland employees	46,428
	Overseas and Hong Kong, Macau and Taiwan employees	0

Table: Employee turnover

Type of employee		2021
Employee turnover rate by gender	Male employees	6.2%
	Female employees	6.2%
Employee turnover rate by age	30 and below	14.0%
	31~50	2.4%
	51 and above	0.8%
Employee turnover rate by region	Chinese Mainland employees	6.2%

2. Employee Development and Training

The Group recognizes that talent is the first productivity of enterprise development and attaches great importance to the development and training of talents. Through a series of perfect training systems, we provide employees with lucrative growth opportunities to achieve a win-win situation for both employees and the Company.

2.1 Staff Training

The Group has always focused on the strategic development of the Company and the needs of the model tasks. In accordance with the overall deployment of the Company's 14th Five-Year Plan, it has been promoting the deep integration of training and scientific research and production tasks by carrying out management work such as training system improvement, training resource construction, training project management, skills competition and training management optimization, further cultivating a well-qualified and capable aviation personnel team, building up the core competitiveness of talents and establishing a highland of talent innovation to support the implementation and execution of the Company's strategic goals.

The Group attaches importance to the cultivation of talents, provides training opportunities for employees from different aspects, formulates the Staff Training Management Regulations to standardize the training management system, improve the quality of talents, optimize the talent structure, and empower the overall development of the Group. The Group's staff training is rich and diverse, including process knowledge, production management knowledge, quality, skills, safety and environmental protection, confidentiality, corporate culture, Party and mass work and other related knowledge training, new era equipment construction quality management system construction project training, intelligent production line construction management technology training, skills games, special skills competition, master studio, training personnel qualified for both technician and engineer, multi-skilled personnel training, composite material training road field trial run.



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- Based on the training policy of “facing the development needs of the company, facing the needs of the position and facing the needs of the growth of the staff”, AVIC Kaitian has set up a special Staff Education and Training Management Committee to formulate the long-term plan and annual plan of the company’s staff education and training and the key issues in the process of implementation. The company’s education and training is divided into company level and department level according to the management level. Company-level training refers to the training organized by the company’s education and training department or each business department according to the company’s business needs and the needs of professional development for each department of the company; department-level training refers to the training carried out by each department for its employees according to the strategic planning of the department, combined with the actual scientific research, production and operation of the department.
- JONHON Optronic has built a second-level training management network on the basis of integrated management, built a whole-process training and cultivation system, developed pre-service course outlines for front-line and non-front-line personnel according to job characteristics and classifications, further standardized job competence requirements and enhanced man-job matching; standardized the development framework of training materials with stratified and classified characteristics, optimized and improved the job-competency-quality-curriculum matching training course system; established the training administrator of each unit WeChat contact channel to improve the efficiency of training business communication; strengthened the construction of the trainer team, established a teacher expert pool, combined internal and external training to improve the professional capacity of training teachers, and formed a professional, highly qualified and comprehensive training teacher team.
- Hongdu Aviation has continuously formulated and improved training management-related system documents to provide effective support for training management. It has formulated and released the Management Measures for Employee Training to clarify the process requirements in terms of training contents, categories and forms, specific organization and implementation management, and regulate the daily management of training; formulated and released the Management Measures for Employee Training Faculty to further improve the number and level of the company’s training faculty, and regulate the management of internal teaching faculty, management of external faculty, assessment and incentive, and provide institutional support for the construction of professional faculty. On the basis of comprehensive analysis of the existing regulations and systems, combined with the changes in the actual needs of the company, it has revised and improved the Management Measures for Employees with Certificates, decoupled the vocational qualification certificate from the job training qualification certificate, reduced the difficulty of obtaining certificates for induction, improved the training of multi-talented personnel, and provided institutional support for the flexible employment of the company’s front-line production units.

Table: Employee Training

Projects	Category	2021
Percentage of trained employees by category	Senior management	92%
	Middle management	98%
	General employees	93%
Percentage of employees trained by gender	Male employees	93%
	Female employees	94%
Average training hours of employees by category	Senior management	65
	Middle management	51
	General employees	30
Average training hours of employees by gender	Male employees	31
	Female employees	32

Case study: Special training of AVIC CAPDI to enhance business capability

According to the strategic development and business development needs, the company carried out a series of special thematic training. It held special training courses on process intelligence, attended by 13 key process personnel, to enhance the ability of process professionals and technicians to solve practical problems through on-site learning, theory and case teaching, case sandbox simulation, etc.; The company also holds online and offline training for new employees, centralized training for front-line managers, online training for headquarters staff, online training for Party workers, training for interviewers, training for electronic file management, training for quality management team (QC team), AOS training, training for confidentiality system, etc. Focusing on the enhancement of the whole value chain, the company held training on various business topics such as EPC project management, project managers, safety production managers and whole process engineering consulting.

Case study: JONHON Optronic's all-round training to promote common development

JONHON Optronic innovated new employee induction training methods, carried out indoor activity expansion, standardized non-front-line staff induction practice, carried out "Four-One" training comprising "one week of training, one session of production practice, one period of internship and one year of mentorship"; continued to run business English training, opened up the second classroom to integrate learning and practice appreciation, cultivate and reserve excellent international talent team, support the company's international business expansion; continued to work with Northwestern Polytechnical University to open senior management training class, middle-level leadership class and the second phase of young and middle-aged backbone training class of JONHON Optronic's subsidiaries; took the study as an opportunity to strengthen the company's leading cadres and backbone team construction; organized the development and training of quality job qualification access courses. By opening classes, the company promoted the construction of a reserve team of talents in quality management category; combined with the epidemic prevention and control situation, it organized external special training programs in an orderly manner and carried out external teacher training including sales manager business skill enhancement series training, production operation management process training, wireless optical communication technology training, fiber optic sensing technology training to boost the business development of manufacturing production, project research and development, market development, etc.

2.2 Job Promotion

The Group continued to promote grade management, smoothed the path of job promotion for employees, optimized the salary allocation mechanism, effectively applied the incentive effect of salary and enhanced employee satisfaction. The Group provided strong protection for employees' career growth and development by formulating relevant management measures including the Measures for Employee Wage Management, the Measures for Attendance and Leave Management and the Rules for Implementation of Employee Rewards.

- AVIC Forstar: The company promulgated the Internal Competitive Recruitment Management Measures, which stipulates the talent selection system of internal competitive recruitment, adheres to the principles of openness, justice, fairness and voluntary application, two-way selection and merit-based employment, builds a multi-directional career development channel and creates a fair and just competitive environment, fully stimulate the enthusiasm of employees to achieve the goal of making various employees doing their best, and encourages employees to pursue self-improvement.

- Shanghai Aviation Electric: In order to establish and improve the medium and long-term incentive and restraint mechanism of participation in distribution according to contribution, promote the enterprise to release the vitality of sustainable development, and guide the majority of cadres and workers to transform into value creators, the company set up the Value Creation Fund; in order to fully encourage and mobilize the enthusiasm of all technical personnel, reflect science and technology is the first productive force, promote the improvement of the business level of scientific and technological personnel and the progress of the company's scientific research and production technology, and ensure the timely completion of the company's scientific research projects, the company established the Scientific Research Project Award.

3. Occupational Health and Safety

The Group adheres to the road of safe and scientific development, establishes advanced safety concepts, applies risk pre-control management systems, promotes the application of standardized operation processes, and always puts safety production in the forefront. The Group strictly abides by national laws and regulations, including the Production Safety Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases, establishes and implements a production safety responsibility system, continuously improves production safety rules and regulations, strengthens risk prevention and control at source and process control, organizes regular education and training and emergency drills, and continuously improves the level of production safety control.

In order to protect the occupational health and safety of employees, the Group has formulated several occupational health and safety management system manuals and procedural documents, including the 6S Management Code, the Responsibility System for Production Safety and Occupational Health, the Occupational Health Management System, the Interim Measures for the Management of Occupational Disease Hazard Post Allowance, the Production Site Safety Management System, the Implementation Measures for Occupational Health and Safety Training, covering various details on production safety, detection and management of hazards and hidden danger of occupational diseases, prevention and management of occupational diseases, as well as emergency management responsibilities and procedures.

Number and rate of work-related deaths in each of the past three years	Number of work-related fatalities in 2019	0
	Number of work-related fatalities in 2020	1
	Number of work-related fatalities in 2021	0
Number of working days lost due to work-related injuries	Hours lost due to work-related injuries in 2021	20,558



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The Group protects the health and safety of employees from various aspects, equips employees with work uniforms and labor protective equipment suitable for the corresponding positions, provides employees with welfare medical checkups and occupational health examinations every year; equips positions involving occupational disease hazards with corresponding protective facilities such as dust removal, air extraction, noise reduction isolation and warning signs, and commissions professional testing institutions to test occupational disease hazards in workplaces every year. All office premises of the Group are equipped with heating and cooling air conditioners, and the workplaces have been renovated with fresh air systems. Regular health lectures are organized to guide employees to live a healthy life.

Safety production inspection: According to the arrangement of safety production investment plan, JONHON Optronic withdrew safety production fees of RMB11,793,600 in 2021 and invested RMB7,523,700. Company leaders organized 7 times of special inspection and treatment activities for hidden dangers at all levels of dangerous points, key parts, warehouses, and personnel intensive work places, and found 31 problems, all of which have been rectified. The Safety, Environmental Protection and Mobility Department organized the activities of hidden danger inspection and management. A total of 21 copies of the Safety Production Inspection Bulletin were issued, and 472 hidden dangers or other problems were identified, all of which have been rectified.

Safety production training: JONHON Optronic organized a series of safety education and training activities and carried out “Three-Stage” education and training for new employees, including 54 times of training for new employees, covering 4,825 people, with a 100% training rate. During the “Safety Production Month”, a total of 287 training sessions were organized, with 17,585 participants. It conducted targeted safety training for dangerous operations and organized training for 573 people on climbing operations, 5 times training on limited space operations and training for 510 people on hot work operations. In October, the company invited experts from Emergency Management Department of Henan Province to conduct training on the new Production Safety Law, in which 172 leaders, leaders of each unit and safety management personnel participated. In December, the main person in charge, the leaders in charge of safety production and the chairmen of subsidiaries all participated in the online training on safety production organized by the Group and all of them passed the training.

Occupational health guardianship: Hafei Aviation scientifically applied occupational health testing technology, selected some noise occupational disease hazardous positions in 23 workshops as pilots, used individual acoustic exposure meter to dynamically monitor the noise exposure level of employees, identified the actual situation of noise intensity, distribution and exposure time through monitoring data, and combined it with the results of medical examination of contacted employees to facilitate early detection of health damage, timely prevention and treatment, so as to enhance occupational health guardianship. It determined the risk of poisoning during trichloroethylene oil removal operation through toxic and harmful testing, and promoted the process improvement of ultrasonic cleaning process instead of trichloroethylene oil removal together with the Engineering Technology Department to eliminate occupational disease hazard factors.

Case study: Changhe Aircraft establishes health records and implements early warning for occupational health

Changhe Aircraft constantly improves the standard management of "one person, one file" and the occupational health supervision file, organizing and summarizing more than 3,000 copies of file information, and implementing "one person, one file" dynamic management. The occupational health checkups for employees before they start work, during work and when they leave work are carried out by a dedicated person, and are included in the standard work of managers for control. The rate of occupational health checkups "before", "during" and "when leaving" reaches 100%. According to the results and recommendations of the occupational health checkups, the positions and types of work are adjusted in a timely manner for people with occupational contraindications, and the occupational health of employees is given early warning.

Case study: AVIC Forstar safeguards employee safety and health in many ways

In terms of injury prevention, AVIC Forstar provides employees working on positions with occupational hazards with labor protection supplies, including ear plugs, masks, insulated gloves/boots; provides a safe working environment, installs safety facilities and equipment, and ensures that the equipment purchased has safety interlock devices. The company arranges regular occupational health checkups for employees in positions with occupational hazards once a year, female workers once a year, and all employees once a year; and conducts occupational hazards testing once a year to ensure that the occupational hazards present in the positions meet national standards and protect personnel from harm. In terms of health promotion, the company ensures a healthy working environment, with fresh air systems and UV photolysis purification systems installed in Cable Workshop I, Jumper Workshop, Filling and Sealing Room and Printing Room. Ergonomic office facilities are installed in production lines and offices. The company cares for the health of its employees and exercises cervical exercises for ten minutes in the morning and ten minutes in the afternoon every day; sets up OHS employee representatives and conducts seminars and other communication channels with employees to facilitate employees to put forward suggestions and opinions on safety and health.



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4. Employee Caring

The Group attaches great importance to the physical and mental health and spiritual civilization of its employees and regards the improvement of their well-being as an important goal of the Group's development. We are committed to providing a healthy working environment, such as renovating the office fresh air system and equipping ergonomic office facilities; conducting mental health consultation services from time to time to guide a healthy lifestyle. According to specific positions, we provide employees with labor protective equipment that meet national standards; we organize occupational health checkups for employees exposed to toxic and harmful factors before, during and after work to ensure that we know the health situation of employees. We care for female employees and give them a half-day holiday and corresponding souvenirs on March 8 Women's Day every year. The Group promotes the development of physical and mental health of employees through various means, strives to create a happy, healthy and harmonious working atmosphere, and improves the sense of belonging and happiness of employees.

V SOCIAL RESPONSIBILITY

The Group attaches importance to the fulfillment of social responsibility and always takes serving the people and contributing to the society as its responsibility. The year of 2021 saw the Group continue to make efforts in three areas, namely common prosperity, passion for public welfare and emergency disaster relief, achieving fruitful results.

1. Rural revitalization

In 2021, the central government proposed to comprehensively promote the revitalization of the countryside and continue to march forward on the road of common prosperity. The Group actively responded to the call of the state, conscientiously fulfilled the social responsibility of a state-owned enterprise, consolidated the achievements made in poverty alleviation, and put forward the general requirement of "no change in helping policies, no reduction in helping funds, and no decrease in helping efforts". All subsidiaries combined their own advantages to carry out rural support activities and help the construction of rural revitalization.

Case study: JONHON Optronics targeted help has achieved remarkable results

In 2021, the company concentrated on purchasing agricultural products in Xixiang County, Shaanxi Province, the paired-up assistance county, with an amount of RMB524,700; jointly implemented the paired-up assistance project with Luoyang Military-Civilian Integration Office in Siling Village, Lianzhuang Town, Yiyang County, with a total investment of RMB20,000; helped 6 households in difficulty in the paired-up assistance village-Huangzhuang Town, Song County, with a total amount of RMB18,000, and 26 members of the company's Party assistance team visited 56 households in the village and sent rice, oil and other supplies totaling RMB9,400. Due to the solid and effective work of paired-up assistance, the company was evaluated as "good" in the "2020 assessment of the city's poverty alleviation work" in Luoyang City.

Case study: Taiyuan Instrument's Work Team Stationed at Village carried out "one-to-one" assistance

Taiyuan Instrument sent a poverty alleviation work team to carry out poverty alleviation work in Zhangjiayaowa Village, Yaogetai Town, Baode County, Xinzhou City. In 2021, the Work Team Stationed at Village and the two committees of the village visited each of the 48 registered poverty-stricken households to do practical things and solve problems and find solutions. During the epidemic prevention and control period, the Work Team Stationed at Village, together with the two committees of the village, conveyed the spirit of the documents on epidemic prevention and control and poverty alleviation work from the higher level at the first time, set up a working group, implemented the responsibility of epidemic prevention and control work in the village, identified and registered people returning to the village; perfected staff scheduling duty and implemented grid management; counted the industrial development needs of poverty-stricken households affected by the epidemic. According to the actual situation, it implemented one policy for one household, worked out ideas and solutions for poverty-stricken households, provided corresponding help, and invested poverty alleviation funds of RMB159,800. The company leaders and the Work Team Stationed at Village carried out on-site visits, 10 branch Party organizations cooperated for "one-to-one" assistance, organized thematic Party Day, consumer poverty alleviation, allocate drought funds of RMB50,000, so as to help paired-up assistance villages to complete the poverty alleviation.

2. Engaging in Public Welfare Activities

The Group is enthusiastic about charity and actively carries out rich and diverse public welfare activities. In order to make the fulfillment of social responsibility more standardized and orderly, the Group has formulated the Public Welfare Management Regulations, which stipulates the sources and management of public welfare funds, the main forms and principles of public welfare activities. In 2021, the Group's public welfare activities mainly focused on three areas, namely promoting aviation culture, supporting local construction and community services, with a total of 17,350 hours of volunteer services.



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2.1 Promotion of Aviation Culture

As one of the leading enterprises of AVIC, the Group regards the promotion of aviation culture and popularization of aviation knowledge as an important goal of the Group's development. After years of efforts, the Group has formed a multi-level and wide-field communication pattern with a wide range of communication targets and rich communication content.

Case study: Shanghai Aviation Electric conducted public lectures on science and technology

The Wu Dagan Volunteer Service Team of Shanghai Aviation Electric has carried out 5 public welfare lectures on "Aviation Science Popularization in Schools" throughout the year, continuously expanding the influence of the education area around the company, doing a good job of mobile science popularization service, making people feel the vigorous development of the new Chinese aviation industry, and helping children realize the "aviation dream" and the "dream of building a stronger country". The company supports the education of poor mountainous areas with the renowned brand of "Love•Aviation" and promotes aviation culture. It carried out education poverty alleviation with Ma'an Middle School in Ma'an Town, Yilong County, Sichuan Province by means of joint construction between school and enterprise.

Case study: "Love the Party, Love the Country, Love Aviation" Design Competition of AVIC CAPDI

In order to celebrate the 100th anniversary of the founding of the Party, the 70th anniversary of the establishment of the new Chinese aviation industry, and to promote aviation culture, AVIC held the first "Love the Party, Love the Country, Love Aviation" Mug Creative Design Competition, which was organized by the Youth League Committee of AVIC CAPDI. The competition covered 114 schools in 17 cities and received more than 3,000 pieces of creative works from young employees and students of various companies. The winning works were displayed at the Zhuhai Airshow and gained wide attention.

Case study: AVIC Kaitian passed aviation knowledge to primary school classrooms

AVIC Kaitian's league cadres and young volunteers went to Chengdu Dujiangyan Yutang Primary School and gave full play to their professional talents, bringing to the children aviation history lectures, aviation model knowledge lessons, aviation model handicraft lessons and aviation model performances, so that the children could strengthen their sense of love for the Party and the country in learning aviation knowledge and build up their ambition to serve the country with efforts in aviation.

2.2 *Supporting Local Development*

Relying on the office locations of each branch, the Group combines its development advantages and local characteristics, cooperates with local governments, schools and communities, and is committed to strengthening industry exchanges, improving infrastructure construction, helping regional development with its own development and promoting common prosperity.

Case study: AVIC Forstar established scientific cooperation projects to improve scientific research

The 6th China Mobile Communication Passive Intermodulation Symposium was held in Xi'an, Shaanxi Province, hosted by Xi'an Jiaotong University and co-organized by AVIC Forstar, with more than 150 experts from universities, research institutes and enterprises attending. The symposium focused on the mobile communication passive intermodulation problem and strengthened the communication and cooperation between the university and enterprises, which is of great significance to improve the scientific research and industrial development of passive intermodulation and find the solution to the communication system reliability problem. During the meeting, the participating scholars, experts and engineers exchanged and discussed the latest theoretical and technical breakthroughs in the field of passive intermodulation, and put forward some constructive opinions and suggestions. The participants said that the wonderful reports, on-site seminars and display sessions brought them a collision of ideas about industry-academia-research issues, and this symposium built a free and open platform for industry-academia-research exchanges to promote scientific research and independent technological innovation in passive intermodulation in China.



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Case study: Taiyuan Instrument promoted the construction of "government, industry, academia, research and application" exchange and cooperation platform

Relying on its leading position in the field of aviation airborne atmospheric data system and industry influence, with the goal of enhancing technical innovation capability and integrating industrial technology development, under the guidance of AVIC and AVIC Airborne Systems, the company jointly organized the first domestic "Advanced Sensors and Atmosphere/Meteorological Measurement Technology Forum" with Shanxi Provincial Government, Chinese Society of Aeronautics and Astronautics, Shanxi Aviation Industry Group, Shanxi Development and Reform Commission, Shanxi Meteorological Bureau and many other units. The forum was built around the theme of "promoting the development of aviation industry and enhancing aviation atmospheric data and sensor technology innovation" to build a platform for exchange and cooperation among government, industry, academia, research and application, which created a good atmosphere for promoting the integration of aviation industry and local strategies, stimulating the vitality of aviation science and technology innovation, and increasing the combination of aviation science and technology and economic development.

Case study: JONHON Optronics supports infrastructure construction

In August 2021, the company held a groundbreaking ceremony for JONHON Optronics Basic Industrial Park. The project is an important site for the construction of major projects in Henan Province and the phase II of "Three Batches" activities in Henan Province, covering an area of 212 mu. It includes a new research, production, storage and supporting facilities area of 290,000 square meters, and will add annual production capacity of 3.15 million sets of photoelectric active connection components and equipment, special fiber optic connectors and components in the future, so as to meet the needs of the rapid development of defense, industry and communication during the 14th Five-Year Plan period. After the completion of the project, it is expected that the annual sales revenue will be RMB3.7 billion and the profit tax will be more than RMB600 million.

2.3 *Community Services*

The Group organizes young employees to actively participate in various voluntary service activities, dedicate themselves to all walks of life, assume the social responsibility of aviation youth in the new era, and help the Company establish a good corporate image.

Case study: Young employees of AVIC Kaitian respond to blood donation initiative

Donate blood with great love. In October 2021, Kaitian youths responded to the blood donation initiative of the Youth League Committee of the company and came to Huangtianba Love Blood Donation Service Station in Qingyang District to participate in blood donation activities, doing practical things for the community and showing the social responsibility of Kaitian people. What Kaitian people donated was blood, and what they sent was hope; what they saved was life, what they passed was love, and what they showed was the power of youth and social responsibility. The company will continue to call on all Kaitian people to be the pioneers of selfless dedication to the society, to focus on innovative ways and methods to plan more attractive and infectious activities, and to continuously promote the practical activities of “I do practical things for the people” to expand in breadth and depth to ensure effective results.

Case study: Learn From Leifeng volunteer activities of Hafei Aviation

On the eve of the Lei Feng Memorial Day, the company’s volunteer service team jointly carried out the “Great Love of Aviation with True Feelings” volunteer service activity with Wanmi Community in Xinwei Street. The volunteers went to the community to explain the knowledge of garbage classification and distribute brochures; cleaned and disinfected the senior activity center and cleared the snow in the community; gave 500 masks to the community service personnel and garbage classification volunteers; and sent school bags, toys, food and charity money to the sick children in the community.

Case study: Bursary from Shaanxi Huayan

Since 2018, the company has financially supported six children of poor households in Ningqiang County who have been admitted to university, and donated bursary totaling RMB64,000 over the past four years, including the continuous assistance to two students in medical school until their graduation from university in 2022.

3. Emergency Response and Rescue

The Group gives full play to its advantages and actively participates in disaster relief throughout the country, has formulated the Emergency Rescue and Relief Measures and the Overall Emergency Rescue and Relief Plan while its each subsidiary has set up the deployment of emergency and disaster relief work according to the Group's requirements, holds regular emergency and disaster relief drills, cooperates with the local government to prepare for emergency and disaster relief, and actively assumes the responsibility of enterprises in various disasters.

- In July 2021, many places in Henan suffered from continuous extreme heavy rainfall, which caused flooding danger. AVIC CAPDI donated RMB100,000 under the unified deployment of AVIC to fully support the flood relief work, actively fulfilled the social responsibility of the military central enterprises and made donations to the disaster areas.
- In December 2021, the epidemic situation in Dalang Town, Dongguan City was extremely serious. Xiangtong Photoelectric actively cooperated with the government in the implementation of various epidemic prevention policies, organized the investigation and registration of colleagues living in Dalang Town, made daily telephone inquiries on the situation of quarantined personnel and ensured the demand and supply, immediately started the epidemic prevention and control plan and replenished prevention and control materials, organized the nucleic acid screening of all employees in an orderly manner, and mobilized functional departments to assist in the production line to complete production targets to ensure that normal operation and production activities would not be affected.
- In 2021, during the holidays of "May Day" and "National Day", the water outlet in Hanzhong Park was blocked by leaves due to heavy rainfall, and the water on the road reached 10cm, the Company's volunteer service team immediately participated in the first line of rescue and obstacle clearing activities, and eventually the water on the road all receded.

Auditor's Report



XYZH/2022BJAI20135

To the shareholders of AviChina Industry & Technology Company Limited

I. AUDIT OPINION

We have audited the financial statements of AviChina Industry & Technology Company Limited (hereinafter referred to as AviChina), which comprise the consolidated balance sheet and the balance sheet of the Company as at 31 December 2021, the consolidated income statement and the income statement of the Company, the consolidated cash flow statement and the cash flow statement of the Company, the consolidated statement of changes in shareholders' equity and the statement of changes in shareholders' equity of the Company for the year of 2021, and the corresponding notes to the consolidated financial statements.

In our opinion, the financial statements give a fair view of the consolidated financial position and the financial position of AviChina as at 31 December 2021, and of consolidated financial performance and consolidated cash flows and financial performance and cash flows of AviChina for the year of 2021 in accordance with Accounting Standards for Business Enterprises.

II. BASIS FOR AUDIT OPINION

We conducted our audit in accordance with Auditing Standards for the Chinese Certified Public Accountants. Our responsibilities under those standards are further described in the CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS section of our report. We are independent of AviChina in accordance with the Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. 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 financial statements as a whole, and in forming our audit opinion thereon and we do not provide a separate opinion on these matters.



Auditor's Report

The key audit matters identified in our audit are as follows:

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="178 517 502 549"><i>1. ECL of accounts receivable</i></p> <p data-bbox="178 560 798 636">See Note IV.12. Accounts receivable and Note VI.4. Accounts receivable to the financial statements.</p> <p data-bbox="178 668 798 786">As of 31 December 2021, the original book value of AviChina's accounts receivable was RMB22,233,218,800, with loss provision of RMB912,187,000.</p> <p data-bbox="178 819 798 1045">We identified the provision for ECL on accounts receivable as a key audit matter due to the complexity of applying the ECL model to determine the amount of the provision for losses and the fact that many of the indicators used in the model, such as forward-looking factors and historical loss rates, involve management's judgment.</p>	<p data-bbox="813 560 1471 1233">The major audit procedures we performed for key audit matter related to the provision for ECL on accounts receivable included: (1) understanding and testing the Company's policies, procedures, methods and related internal controls over the provision for ECL; (2) understanding the status of accounts receivable reconciliations and performing confirmation on accounts receivable, and performing alternative testing procedures for unreturned letter of confirmation; (3) communicating with the management about their estimates on the recoverability of accounts receivable, and examining, comparing and analyzing the conditions of the historical recoveries; (4) checking the accuracy of the aging of accounts receivable and selecting a sample to check with the original supporting documents; (5) asking the management about the main factors considered in judging the recoverability of significant or aged accounts receivable; and (6) examining the post-period recovery of accounts receivable.</p>

Auditor's Report

Key audit matter

How our audit addressed the key audit matter

2. Impairment of inventories

See Note IV.15. Inventories and Note VI.8. Inventories to the financial statements.

As of 31 December 2021, the original book value of AviChina's inventories was RMB32,914,771,000, and the provision for inventory impairment was RMB540,007,000.

AviChina's inventories at the end of the period were measured at the lower of cost or net realizable value, with net realizable value determined as the estimated selling price of the finished goods produced less the estimated costs to be incurred to completion, estimated selling expenses and related taxes.

The estimation of net realizable value of inventories involves management's critical judgment. Management's process of estimating net realizable value includes historical selling prices and future market trends, which have a significant impact on the financial statements. The adequacy and appropriateness of the provision for inventory impairment has a significant impact on the financial statements. For this reason, we identified the provision for inventory impairment as a key audit matter.

The major audit procedures we performed for key audit matter of inventory impairment included:

- (1) Evaluating and testing key internal controls related to inventory impairment;
- (2) Performing year-end inventory monitoring, with particular attention to obsolete and slow-moving inventories for impairment;
- (3) Obtain an inventory impairment test calculation sheet and review the reasonableness of the provision for inventory impairment;
- (4) Checking the changes in the current year of inventories for which impairment provision were made in previous years, and analyzing whether the provision for inventory impairment is adequate and so on.



Auditor's Report

IV. OTHER INFORMATION

The management of AviChina (hereinafter referred to as the Management) is responsible for the other information. The other information comprises the information included in the 2021 annual report of AviChina other than the financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 the other information, we are required to report that fact. We have nothing to report in this regard.

V. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises and for designing, implementing and maintaining internal control necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing AviChina's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and applying the going concern assumptions unless the Management either intend to liquidate AviChina or to cease operations or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing AviChina's financial reporting process.

Auditor's Report

VI. CERTIFIED PUBLIC ACCOUNTANTS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards 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 financial statements.

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

- (1) Identify and assess the risks of material misstatement of the 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 issuing audit 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.
- (2) 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 internal control.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- (4) Conclude on the appropriateness of the Management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on AviChina's ability to continue as a going concern. If we conclude that a material uncertainty exists, we shall draw attention in our auditor's report to the related disclosures in the financial statements as required by auditing standards or, if such disclosures are inadequate, we shall express a non-unqualified opinion. Our conclusions are based on the information obtained up to the date of our auditor's report. However, future events or conditions may cause AviChina to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within AviChina to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



Auditor's Report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies of concern in internal control that we have identified during our audit.

We also provide those charged with governance 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.

For the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

ShineWing Certified Public Accountant LLP

Chinese Certified Public Accountant: Shao Lixin
(Engagement partner)

Chinese Certified Public Accountant: Dai Hui

Beijing, the PRC

30 March 2022

Consolidated Balance Sheet

31 December 2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note VI	31 December 2021	31 December 2020 Restated
Current assets:			
Monetary funds	1	25,361,499,508	25,165,841,253
Settlement reserve			
Loans to banks and other financial institutions			
Financial assets held for trading	2	1,244,823,022	2,378,749,103
Derivative financial assets			
Notes receivable	3	9,929,754,416	8,739,588,328
Accounts receivable	4	21,321,031,800	16,370,626,796
Receivables financing	5	4,291,292	28,095,202
Prepayments	6	8,562,458,424	1,692,119,455
Premium receivable			
Reinsurance premium receivable			
Reinsurance contract provision receivable			
Other receivables	7	202,072,117	193,472,916
Including: Interest receivable			
Dividends receivable		37,500,000	309,300
Financial assets purchased under agreements to resell			
Inventories	8	32,374,764,020	30,713,010,487
Contract assets	9	5,149,456,300	4,542,892,460
Held-for-sale assets	10	48,656,246	57,424,372
Non-current assets due within one year	11	202,290,896	
Other current assets	12	711,173,574	703,181,566
Total current assets		105,112,271,615	90,585,001,938



Consolidated Balance Sheet (Continued)

31 December 2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note VI	31 December 2021	31 December 2020 Restated
Non-current assets:			
Loans and advances			
Debt investment			
Other debt investment			
Long-term receivables	13	6,134,844	1,566,033
Long-term equity investments	14	1,923,474,669	1,728,131,943
Other equity instrument investments	15	2,696,553,640	1,612,599,803
Other non-current financial assets	16	600,000,000	
Investment properties	17	346,546,113	385,773,505
Fixed assets	18	15,125,713,170	13,561,385,326
Construction-in-progress	19	3,023,560,156	3,235,117,559
Bearer biological assets			
Oil and gas assets			
Right-of-use assets	20	599,491,919	680,918,043
Intangible assets	21	3,235,508,206	2,788,721,640
Development expenditure			
Goodwill	22	69,121,895	69,121,895
Long-term deferred expenses	23	71,629,850	69,656,436
Deferred income tax assets	24	416,013,126	374,585,733
Other non-current assets	25	663,115,937	556,008,639
Total non-current assets		28,776,863,525	25,063,586,555
Total assets		133,889,135,140	115,648,588,493

Legal representative:

Zhang Minsheng

Person in charge of accounting:

Wang Jingmin

Person in charge of the accounting department:

Hu Wanlin

Consolidated Balance Sheet (Continued)

31 December 2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note VI	31 December 2021	31 December 2020 Restated
Current Liabilities:			
Short-term borrowings	26	3,057,762,250	4,380,394,913
Borrowings from the central bank			
Placements from banks and other financial institutions			
Financial liabilities held for trading	27	18,196,239	20,416,526
Derivative financial liabilities			
Notes payable	28	11,633,186,116	8,524,837,419
Accounts payable	29	27,365,848,151	23,543,839,392
Advances	30	10,260,976	1,376,814
Contract liabilities	31	21,306,958,451	17,136,185,913
Financial assets sold under agreements to repurchase			
Deposits and placements from other financial institutions			
Securities brokering			
Securities underwriting			
Employee compensation payable	32	2,002,883,877	1,758,896,280
Tax payable	33	454,114,039	348,306,952
Other payables	34	1,886,338,410	2,320,396,194
Including: Interest payable			
Dividends payable		6,194,055	362,540,213
Fees and commissions payable			
Reinsurance amounts payable			
Held-for-sale liabilities			
Non-current liabilities due within one year	35	1,225,299,857	1,563,839,121
Other current liabilities	36	622,306,803	786,182,362
Total current liabilities		69,583,155,169	60,384,671,886



Consolidated Balance Sheet (Continued)

31 December 2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note VI	31 December 2021	31 December 2020 Restated
Non-current liabilities:			
Insurance contract reserves			
Long-term borrowings	37	4,284,761,981	3,598,431,047
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities	38	559,212,830	636,374,789
Long-term payables	39	-548,941,454	-23,867,989
Long-term employee compensation payable	40	1,523,783,896	1,610,495,015
Estimated liabilities	41	645,506,219	574,768,260
Deferred income	42	846,324,736	792,831,734
Deferred income tax liabilities	24	351,913,854	146,758,508
Other non-current liabilities	43	1,876,914,653	1,778,121,661
Total non-current liabilities		9,539,476,715	9,113,913,025
Total liabilities		79,122,631,884	69,498,584,911
Shareholders' equity:			
Share capital	44	7,711,332,242	7,711,332,242
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserves	45	12,974,963,414	11,625,507,285
Less: treasury shares			
Other comprehensive income	46	112,507,999	-445,009,828
Special reserves	47	503,687,704	437,521,387
Surplus reserves	48	308,138,730	248,737,213
General risk reserve			
Undistributed profits	49	5,296,679,064	3,398,501,345
Total shareholders' equity attributable to parent company		26,907,309,153	22,976,589,644
Minority equity		27,859,194,103	23,173,413,938
Total shareholders' equity		54,766,503,256	46,150,003,582
Total liabilities and shareholders' equity		133,889,135,140	115,648,588,493

Legal representative:

Zhang Minsheng

Person in charge of accounting:

Wang Jingmin

Person in charge of the accounting department:

Hu Wanlin

Balance Sheet of the Company

31 December 2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note XVII	31 December 2021	31 December 2020
Current assets:			
Monetary funds		61,429,523	663,396,767
Financial assets held for trading		667,040,137	1,898,301,973
Derivative financial assets			
Notes receivable			
Accounts receivable	1	824,134	1,603,740
Receivables financing			
Prepayments			
Other receivables	2	227,505,857	9,337,463
Including: Interest receivable			
Dividends receivable			
Inventories			
Contract assets			
Held-for-sale assets			
Non-current assets due within one year		200,000,000	
Other current assets		352,675	
Total current assets		1,157,152,326	2,572,639,943
Non-current assets:			
Debt investment			
Other debt investment			
Long-term receivables		841,942	1,566,033
Long-term equity investments	3	11,852,954,759	11,319,748,796
Other equity instrument investments		1,474,452,704	602,644,529
Other non-current financial assets		600,000,000	
Investment properties		26,654,890	27,814,201
Fixed assets		649,174	998,533
Construction-in-progress			
Bearer biological assets			
Oil and gas assets			
Right-of-use assets		4,086,243	7,155,421
Intangible assets		896,009	1,377,832
Development expenditure			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets		1,842,194	5,922,446
Other non-current assets		10,000,000	10,000,000
Total non-current assets		13,972,377,915	11,977,227,791
Total assets		15,129,530,241	14,549,867,734

Legal representative:

Zhang Minsheng

Person in charge of accounting:

Wang Jingmin

Person in charge of the accounting department:

Hu Wanlin



Balance Sheet of the Company (Continued)

31 December 2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note XVII	31 December 2021	31 December 2020
Current liabilities:			
Short-term borrowings			
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable			
Accounts payable			
Advances			
Contract liabilities			
Employee compensation payable		9,282,473	10,082,663
Tax payable		10,518,572	22,768,868
Other payables		325,829,496	467,164,349
Including: Interest payable			
Dividends payable			
Held-for-sale liabilities			
Non-current liabilities due within one year		1,038,891	4,445,069
Other current liabilities			
Total current liabilities		346,669,432	504,460,949
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			
Long-term payables			
Long-term employee compensation payable			
Estimated liabilities			
Deferred income			
Deferred income tax liabilities		158,306,812	25,362,627
Other non-current liabilities			
Total non-current liabilities		158,306,812	25,362,627
Total liabilities		504,976,244	529,823,576
Shareholders' equity:			
Share capital		7,711,332,242	7,711,332,242
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserves		4,963,456,690	4,963,456,690
Less: treasury shares			
Other comprehensive income		461,576,470	34,493,107
Special reserves			
Surplus reserves		308,138,728	248,737,212
Undistributed profits		1,180,049,867	1,062,024,907
Total shareholders' equity		14,624,553,997	14,020,044,158
Total liabilities and shareholders' equity		15,129,530,241	14,549,867,734

Legal representative:

Zhang Minsheng

Person in charge of accounting:

Wang Jingmin

Person in charge of the accounting department:

Hu Wanlin

Consolidated Income Statement

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note VI	2021	2020 Restated
I. Total operating income		60,296,284,748	50,929,902,192
Including: Operating revenue	50	60,296,284,748	50,929,902,192
Interest income			
Earned premium			
Fee and commission income			
II. Total operating cost		55,635,785,241	47,579,968,621
Including: Operating cost	50	47,597,965,155	40,495,253,493
Interest expenses			
Fee and commission expenses			
Cash surrender amount			
Net expenses of claim settlement			
Net provision for insurance contract reserves			
Policyholder dividend expenses			
Reinsurance expenses			
Taxes and surcharges	51	137,635,434	110,069,382
Selling expenses	52	688,394,493	635,471,196
Administrative expenses	53	3,594,423,526	3,123,393,220
Research and development expenses	54	3,452,213,026	3,001,818,101
Finance costs	55	165,153,607	213,963,229
Including: Interest expense		397,113,009	517,544,968
Interest income		306,481,532	441,436,281
Add: Other income	56	275,272,348	267,592,474
Investment income (loss to be listed with "-")	57	474,448,476	522,785,647
Including: Income from investment in associates and joint ventures		265,683,437	162,129,849
Derecognition income of financial assets at amortised cost		-9,653,445	-12,776,437
Exchange gain (loss to be listed with "-")			
Net exposure hedging income (loss to be listed with "-")			
Income from changes in fair value (loss to be listed with "-")	58	5,024,934	184,726,192
Credit impairment loss (loss to be listed with "-")	59	-41,426,128	-4,163,885
Asset impairment loss (loss to be listed with "-")	60	-187,793,184	-167,989,243
Income from assets disposal (loss to be listed with "-")	61	76,297,341	120,004,337

Consolidated Income Statement (Continued)

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note VI	2021	2020 Restated
III. Operating profit (loss to be listed with "-")		5,262,323,294	4,272,889,093
Add: Non-operating income	62	90,308,664	46,659,301
Less: Non-operating expenses	63	37,732,376	51,060,028
IV. Profit before tax (loss before tax to be listed with "-")		5,314,899,582	4,268,488,366
Less: income tax expenses	64	480,004,533	470,226,251
V. Net profit (net loss to be listed with "-")		4,834,895,049	3,798,262,115
(I) Classified according to operating continuity			
1. Net profit from continuing operations (net loss to be listed with "-")		4,834,895,049	3,798,262,115
2. Net profit from discontinuing operations (net loss to be listed with "-")			
(II) Classified according to attribution of the ownership			
1. Net profit attributable to the owners of the parent company (net loss to be listed with "-")		2,369,276,265	1,932,994,008
2. Minority profit and loss (net loss to be listed with "-")		2,465,618,784	1,865,268,107
VI. Net of tax of other comprehensive income	65	540,232,266	-89,831,396
Net of tax of other comprehensive income attributable to the owner of the parent company		538,717,219	-135,152,254
(I) Other comprehensive income that cannot be reclassified into profit or loss		538,886,088	-105,002,447
1. Changes arising from re-measurement of the defined benefit plan		-17,794,276	-147,803,957
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method		320,660	
3. Changes in fair value of other equity instrument investments		556,359,704	42,801,510
4. Changes in fair value of the enterprise's credit risk			
5. Others			

Consolidated Income Statement (Continued)

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note VI	2021	2020 Restated
(II) Other comprehensive income that can be reclassified into profit or loss		-168,869	-30,149,807
1. Other comprehensive income that can be reclassified into profit or loss under the equity method			
2. Changes in fair value of other debt investments			
3. Amount charged into other comprehensive income arising from reclassification of financial assets			
4. Provision for credit impairment of other debt investments			
5. Reserves for cash flow hedge (effective parts of cash flow hedge profit or loss)			
6. Translation difference of foreign currency financial statements		-168,869	-30,149,807
7. Others			
Net of tax of other comprehensive income attributable to minority shareholders		1,515,047	45,320,858
VII. Total comprehensive income		5,375,127,315	3,708,430,719
Total comprehensive income attributable to shareholders of the parent company		2,907,993,484	1,797,841,754
Total comprehensive income attributable to minority shareholders		2,467,133,831	1,910,588,965
VIII. Earnings per share:			
(I) Basic earnings per share (RMB/share)		0.307	0.250
(II) Diluted earnings per share (RMB/share)		0.307	0.250

The business combinations under common control occurred in this year, the net profit realised by the acquired company before the acquisition is RMB-729,726. The net profit realised by the acquired company in the previous year is RMB615,947.

Legal representative:

Zhang Minsheng

Person in charge of accounting:

Wang Jingmin

Person in charge of the accounting department:

Hu Wanlin



Income Statement of the Company

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note XVII	2021	2020
I. Operating income	4	2,218,648	1,641,086
Less: Operating cost	4	1,389,598	1,156,673
Taxes and surcharges		1,786,945	4,739,443
Selling expenses			
Administrative expenses		44,314,208	34,981,589
Research and development expenses		446,753	612,023
Finance costs		1,827,869	-9,577,152
Including: Interest expense			
Interest income		8,685,946	30,854,899
Add: Other income		211,253	391,736
Investment income (loss to be listed with "-")	5	662,812,077	426,309,203
Including: Income from investment in associates and joint ventures		32,390,286	17,684,131
Derecognition income of financial assets at amortised cost			
Net exposure hedging income (loss to be listed with "-")			
Income from changes in fair value (loss to be listed with "-")		-883,218	13,967,373
Credit impairment loss (loss to be listed with "-")		-3,490,880	-208,038
Asset impairment loss (loss to be listed with "-")			
Income from assets disposal (loss to be listed with "-")			
II. Operating profit (loss to be listed with "-")		611,102,507	410,188,784
Add: Non-operating income		947,551	1,660,015
Less: Non-operating expenses		200,200	1,045,795
III. Profit before tax (loss before tax to be listed with "-")		611,849,858	410,803,004
Less: income tax expenses		17,834,692	33,307,540
IV. Net profit (net loss to be listed with "-")		594,015,166	377,495,464
(I) Net profit from continuing operations (net loss to be listed with "-")		594,015,166	377,495,464
(II) Net profit from discontinuing operations (net loss to be listed with "-")			

Income Statement of the Company (Continued)

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note XVII	2021	2020
V. Net of tax of other comprehensive income		396,061,285	21,411,453
(I) Other comprehensive income that cannot be reclassified into profit or loss		396,061,285	21,411,453
1. Changes arising from re-measurement of the defined benefit plan			
2. Other comprehensive income that cannot be reclassified into profit or loss under the equity method		320,660	
3. Changes in fair value of other equity instrument investments		395,740,625	21,411,453
4. Changes in fair value of the enterprise's credit risk			
5. Others			
(II) Other comprehensive income that can be reclassified into profit or loss			
1. Other comprehensive income that can be reclassified into profit or loss under the equity method			
2. Changes in fair value of other debt investments			
3. Amount charged into other comprehensive income arising from reclassification of financial assets			
4. Provision for credit impairment of other debt investments			
5. Reserves for cash flow hedge (effective parts of cash flow hedge profit or loss)			
6. Translation difference of foreign currency financial statements			
7. Others			
VI. Total comprehensive income		990,076,451	398,906,917

Legal representative:

Zhang Minsheng

Person in charge of accounting:

Wang Jingmin

Person in charge of the accounting department:

Hu Wanlin



Consolidated Cash Flow Statement

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note VI	2021	2020 Restated
I. Cash flow from operating activities:			
Cash received from sales of goods or rendering of services		59,976,813,751	41,062,176,726
Net increase in deposits and placements from financial institutions			
Net increase of borrowings from the central bank			
Net increase in placements from other financial institutions			
Cash received from premiums of original insurance contract			
Net amount of reinsurance business			
Net increase in deposits from policyholders			
Cash received from interests, fees and commissions			
Net increase in placement from banks and other financial institutions			
Net increase in repurchasing			
Net cash received from securities brokering			
Refund of taxes and surcharges		141,018,858	126,811,589
Other cash received relating to operating activities	66	3,120,443,141	3,844,088,947
Subtotal of cash inflows from operating activities		63,238,275,750	45,033,077,262
Cash paid for purchase of goods and receipt of services		45,219,215,398	30,389,668,356
Net increase in loans and advances			
Net increase in deposits with the central bank and other banks			
Cash paid for claim settlements on original insurance contract			
Net increase in financial assets held for trading			
Net increase in loans to banks and other financial institutions			
Cash paid for interests, fees and commissions			
Cash paid for policy dividends			
Cash paid to and for employees		10,565,792,240	8,441,894,043
Taxes and surcharges cash payments		1,038,984,169	863,433,939
Other cash paid relating to operating activities	66	4,169,695,563	4,477,296,802
Subtotal of cash outflow from operating activities		60,993,687,370	44,172,293,140
Net cash flow from operating activities		2,244,588,380	860,784,122

Consolidated Cash Flow Statement (Continued)

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	Note VI	2021	2020 Restated
II. Cash flows from investing activities:			
Cash received from return of investment		4,677,380,998	6,830,292,973
Cash received from investment income		521,027,094	707,896,158
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		86,676,763	176,823,004
Net cash received from disposal of subsidiaries and other business entities		11,136,524	102,874,055
Other cash received relating to investing activities	66	1,000,000,000	3,849,243,283
Subtotal of cash inflows from investing activities		6,296,221,379	11,667,129,473
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		2,857,821,578	2,388,983,037
Cash paid to acquire investments		4,983,353,990	5,927,140,678
Net increase in pledge loans			
Net cash paid for acquisition of subsidiaries and other business entities		53,476,190	
Other cash paid relating to investing activities	66	344,000,000	1,023,426,488
Subtotal of cash outflows from investing activities		8,238,651,758	9,339,550,203
Net cash flows from investing activities		-1,942,430,379	2,327,579,270
III. Cash flows from financing activities:			
Cash received from absorbing investment		3,327,270,391	1,017,085,739
Including: Cash received from minority shareholders' investment in subsidiaries		134,070,400	19,668,280
Cash received from borrowings		6,544,472,045	9,584,465,804
Cash received from bond issue			
Other cash received relating to financing activities	66	1,055,487,041	3,123,339,470
Subtotal of cash inflow from financing activities		10,927,229,477	13,724,891,013
Cash paid for repayments of debts		7,471,834,580	9,763,737,256
Cash paid for distribution of dividends, profits or interest repayment		1,663,101,330	810,211,069
Including: Dividends and profits paid to minority shareholders by subsidiaries		860,107,534	8,223,678
Other cash paid relating to financing activities	66	1,368,486,176	1,961,018,634
Subtotal of cash outflow from financing activities		10,503,422,086	12,534,966,959
Net cash flow from financing activities		423,807,391	1,189,924,054
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-23,720,758	-82,011,350
V. Net increase in cash and cash equivalents		702,244,634	4,296,276,096
Add: Opening balance of cash and cash equivalents	66	22,836,476,891	18,540,200,795
VI. Closing balance of cash and cash equivalents	66	23,538,721,525	22,836,476,891

Legal representative:

Zhang Minsheng

Person in charge of accounting:

Wang Jingmin

Person in charge of the accounting department:

Hu Wanlin



Cash Flow Statement of the Company

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	2021	2020
I. Cash flows from operating activities:		
Cash received from sales of goods or rendering of services		1,099,926
Refund of taxes and surcharges		
Other cash received relating to operating activities	11,541,403	232,748,903
Subtotal of cash inflows from operating activities	11,541,403	233,848,829
Cash paid for purchase of goods and receipt of services		981,000
Cash paid to and for employees	22,334,638	18,638,432
Taxes and surcharges cash payments	33,918,373	38,253,554
Other cash paid relating to operating activities	143,226,757	16,913,186
Subtotal of cash outflows from operating activities	199,479,768	74,786,172
Net cash flows from operating activities	-187,938,365	159,062,657
II. Cash flows from investing activities:		
Cash received from return of investment	3,113,090,448	889,752,261
Cash received from investment income	640,199,222	313,027,286
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		
Net cash received from disposal of subsidiaries and other business entities		17,002,124
Other cash received relating to investing activities		
Subtotal of cash inflows from investing activities	3,753,289,670	1,219,781,671
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	203,890	265,340
Cash paid to acquire investments	3,769,684,612	1,658,079,779
Net cash paid for acquisition of subsidiaries and other business entities		
Other cash paid relating to investing activities		
Subtotal of cash outflows from investing activities	3,769,888,502	1,658,345,119
Net cash flows from investing activities	-16,598,832	-438,563,448

Cash Flow Statement of the Company (Continued)

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	2021	2020
III. Cash flows from financing activities:		
Cash received from absorbing investment		
Cash received from borrowings		
Cash received from bond issue		
Other cash received relating to financing activities		
Subtotal of cash inflows from financing activities		
Cash paid for repayments of debts		
Cash paid for distribution of dividends, profits or interest repayment	385,566,612	187,353,655
Other cash paid relating to financing activities	5,660,890	126,207,903
Subtotal of cash outflows from financing activities	391,227,502	313,561,558
Net cash flows from financing activities	-391,227,502	-313,561,558
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-6,202,545	-7,069,294
V. Net increase in cash and cash equivalents	-601,967,244	-600,131,643
Add: Opening balance of cash and cash equivalents	663,396,767	1,263,528,410
VI. Closing balance of cash and cash equivalents	61,429,523	663,396,767

Legal representative:

Zhang Minsheng

Person in charge of accounting:

Wang Jingmin

Person in charge of the accounting department:

Hu Wanlin

Consolidated Statement of Changes in Shareholders' Equity

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

2021

Items	Equity attributable to shareholders of the parent company						Minority equity	Total shareholders' equity						
	Share capital	Preferred shares	Other equity instrument	Capital reserve	Less: treasury shares	Other comprehensive income			Special reserves	Surplus reserves	General risk reserve	Undistributed profit	Others	Subtotal
I. Closing balance of the previous year	7,711,332,242	-	-	11,625,507,285	-	445,009,828	437,521,387	246,737,213	-	3,398,501,345	-	22,976,589,644	23,173,413,938	46,150,003,582
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Error correction of previous period	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance of the current year	7,711,332,242	-	-	11,625,507,285	-	445,009,828	437,521,387	246,737,213	-	3,398,501,345	-	22,976,589,644	23,173,413,938	46,150,003,582
III. Change in increase or decrease of the current year (decrease to be listed with "-")														
(I) Total comprehensive income	-	-	-	1,349,456,129	-	557,517,827	66,166,317	59,401,517	-	1,898,177,719	-	3,930,719,509	4,685,780,165	8,616,499,674
(II) Capital invested and decreased by shareholders	-	-	-	-	-	538,717,219	-	-	-	2,349,276,265	-	2,907,993,484	2,467,133,831	5,375,127,315
1. Ordinary shares invested by shareholders	-	-	-	1,349,417,773	-	-	-	-	-	-	-	1,349,417,773	2,749,320,311	4,098,738,084
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-	-	-	259,011,804	259,011,804	259,011,804
3. Amount of share-based payment recognized as shareholders' equity	-	-	-	82,816,311	-	-	-	-	-	-	-	82,816,311	86,818,477	169,634,728
4. Others	-	-	-	1,266,601,462	-	-	-	59,401,517	-	-442,269,405	-	1,266,601,462	2,366,940,090	3,635,541,552
(III) Profit distribution	-	-	-	-	-	-	-	59,401,517	-	-59,401,517	-	-386,867,888	-556,616,778	-943,484,666
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	59,401,517	-	-59,401,517	-	-	-	-
2. Appropriation to general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal carry-over in shareholders' equity	-	-	-	-	-	18,800,608	-	-	18,800,608	-	-	-	-	-
1. Transfer from capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Recovery of losses by surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Retained earnings carried over from changes in defined benefit plans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Retained earnings carried over from other comprehensive income	-	-	-	-	-	18,800,608	-	-	18,800,608	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserves	-	-	-	-	-	-	66,595,870	-	-	-	-	-	66,595,870	32,944,446
1. Appropriation in the current year	-	-	-	-	-	-	191,516,708	-	-	-	-	-	191,516,708	82,781,510
2. Use in the current year	-	-	-	-	-	-	124,920,838	-	-	-	-	-	124,920,838	49,837,064
(VI) Others	-	-	-	38,356	-	-	-429,553	-	-	-6,028,533	-	-6,419,730	-7,001,645	-13,421,375
IV. Closing balance of the current year	7,711,332,242	-	-	12,974,963,414	-	112,507,999	503,687,704	308,138,730	-	5,296,679,064	-	26,907,309,153	27,859,194,103	54,766,593,256

Legal representative:
Zhang Minsheng

Person in charge of accounting:
Wang Jingmin

Person in charge of the accounting department:
Hu Wanlin

Consolidated Statement of Changes in Shareholders' Equity (Continued)

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

2020
Restated

Items	Share capital	Preferred shares	Other equity instrument	Perpetual bonds	Others	Equity attributable to shareholders of the parent company				Subtotal	Minority equity	Total shareholders' equity			
						Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserves				General risk reserve	Undistributed profit	Others
I. Closing balance of the previous year	6,245,121,836	-	-	-	192,098,021	12,266,566,285	-	-318,575,179	380,365,801	210,987,666	-	1,699,009,381	20,675,574,011	19,572,353,511	40,247,927,522
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	45,346,487	-	-142,500	-	-	-	967,410	46,171,397	-	46,171,397
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance of the current year	6,245,121,836	-	-	-	192,098,021	12,311,912,772	-	-318,717,679	380,365,801	210,987,666	-	1,699,976,991	20,721,745,408	19,572,353,511	40,294,098,919
III. Change in increase or decrease of the current year (decrease to be listed with "+")	1,466,210,406	-	-	-	-192,098,021	-686,405,487	-	-126,292,149	57,155,586	37,749,547	-	1,696,524,354	-2,254,844,236	3,601,040,427	5,855,904,663
(I) Total comprehensive income	1,466,210,406	-	-	-	-192,098,021	-686,457,048	-	-135,152,254	-	-	-	1,932,994,008	1,797,841,754	1,910,588,965	3,708,430,719
(II) Capital invested and decreased by shareholders	1,466,210,406	-	-	-	-192,098,021	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares invested by shareholders	1,466,210,406	-	-	-	-192,098,021	-	-	-	-	-	-	-	-	-	-
2. Capital invested by other equity instrument holders	-	-	-	-	-	-1,688,332,369	-	-	-	-	-	-	-122,121,963	360,280,261	238,158,298
3. Amount of share-based payment recognized as shareholders' equity	-	-	-	-	-192,098,021	779,102,524	-	-	-	-	-	-	587,004,503	1,608,891,470	2,195,895,973
4. Others	-	-	-	-	-	85,287,336	-	-	-	-	-	-	85,287,336	189,675,702	274,963,038
(III) Profit distribution	-	-	-	-	-	37,485,461	-	-	-	-	-	-	-	-	-
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Appropriation to general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal carry-over in shareholders' equity	-	-	-	-	-	-	-	8,860,105	-	-	-	-	-	-	-
1. Transfer from capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Recovery of losses by surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Retained earnings carried over from changes in defined benefit plans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Retained earnings carried over from other comprehensive income	-	-	-	-	-	-	-	8,860,105	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current year	-	-	-	-	-	-	-	-	57,155,586	-	-	-	57,155,586	24,382,397	81,537,983
2. Use in the current year	-	-	-	-	-	-	-	-	166,577,353	-	-	-	166,577,353	71,092,604	237,669,957
(VI) Others	-	-	-	-	-	51,561	-	-109,421,767	-	-	-	-	-109,421,767	-46,710,207	-156,131,974
IV. Closing balance of the current year	7,711,332,242	-	-	-	-	11,625,507,285	-	-445,009,828	437,521,387	246,737,213	-	3,398,501,345	22,976,589,644	23,173,413,988	46,150,003,582

Legal representative:
Zhang Minsheng

Person in charge of accounting:
Wang Jingmin

Person in charge of the accounting department:
Hu Wanlin

Statement of Changes in Shareholders' Equity of the Company

2021

Prepared by: AviChina Industry & Technology Company Limited

Unit: RMB

Items	2021						Total shareholders' equity					
	Share capital	Other equity instrument Preferred shares	Perpetual bonds	Others	Capital reserves	Less: treasury shares		Other comprehensive income	Special reserves	Surplus reserves	Undistributed profit	Others
I. Closing balance of the previous year	7,711,332,242	-	-	-	-	4,963,456,690	-	34,493,107	248,737,212	1,062,024,907	-	14,020,044,158
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Error correction of previous period	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance of the current year	7,711,332,242	-	-	-	-	4,963,456,690	-	34,493,107	248,737,212	1,062,024,907	-	14,020,044,158
III. Change in increase or decrease of the current year (decrease to be listed with "-")	-	-	-	-	-	-	-	427,083,363	59,401,516	118,024,960	-	604,519,839
(I) Total comprehensive income	-	-	-	-	-	-	396,061,285	-	594,015,166	-	-	990,076,451
(II) Capital invested and decreased by shareholders	-	-	-	-	-	-	-	-	-	-	-	-
1. Ordinary shares invested by shareholders	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment recognized as shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation to surplus reserve	-	-	-	-	-	-	-	-	59,401,516	444,968,128	-	-385,566,612
2. Distribution to shareholders	-	-	-	-	-	-	-	-	59,401,516	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-385,566,612	-	-385,566,612
(IV) Internal carry-over in shareholders' equity	-	-	-	-	-	-	-	31,022,078	-	-31,022,078	-	-
1. Transfer from capital reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-	-	-
3. Recovery of losses by surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
4. Retained earnings carried over from changes in defined benefit plans	-	-	-	-	-	-	-	-	-	-	-	-
5. Retained earnings carried over from other comprehensive income	-	-	-	-	-	-	-	31,022,078	-	-31,022,078	-	-
6. Others	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current year	-	-	-	-	-	-	-	-	-	-	-	-
2. Use in the current year	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-
IV. Closing balance of the current year	7,711,332,242	-	-	-	-	4,963,456,690	-	461,576,470	308,138,728	1,180,049,867	-	14,624,563,997

Legal representative:

Zhang Minsheng

Person in charge of accounting:

Wang Jingmin

Person in charge of the accounting department:

Hu Wanlin



Statement of Changes in Shareholders' Equity of the Company (Continued)

2021

Prepared by: AviChina Industry & Technology Company Limited

Items	2020						Total shareholders' equity			
	Share capital	Preferred shares	Other equity instrument	Capital reserves	Less: treasury shares	Other comprehensive income				
			Perpetual bonds	Others		Special reserves	Surplus reserves	Undistributed profit	Others	
I. Closing balance of the previous year	6,245,121,836	-	-	-	3,365,403,895	-	210,987,665	916,303,934	-	10,750,898,984
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
II. Opening balance of the current year	6,245,121,836	-	-	-	3,365,403,895	-	210,987,665	916,303,934	-	10,750,898,984
III. Change in increase or decrease of the current year (decrease to be listed with "-")	1,466,210,406	-	-	-	1,598,052,795	-	37,749,547	145,720,973	-	3,249,145,174
(I) Total comprehensive income	-	-	-	-	-	21,411,453	-	377,495,464	-	398,906,917
(II) Capital invested and decreased by shareholders	1,466,210,406	-	-	-	1,598,052,795	-	-	-	-	3,064,263,201
1. Ordinary shares invested by shareholders	1,466,210,406	-	-	-	1,598,052,795	-	-	-	-	3,064,263,201
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-	-
3. Amount of share-based payment recognized as shareholders' equity	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
(III) Profit distribution	-	-	-	-	-	-	-	-	-	-
1. Appropriation to surplus reserves	-	-	-	-	-	-	37,749,547	-225,103,202	-	-187,353,655
2. Distribution to shareholders	-	-	-	-	-	-	37,749,547	-37,749,547	-	-
3. Others	-	-	-	-	-	-	-	-187,353,655	-	-187,353,655
(IV) Internal carry-over in shareholders' equity	-	-	-	-	-	-	-	-	-	-
1. Transfer from capital reserves to share capital	-	-	-	-	-	-	-	-	-	-
2. Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-	-
3. Recovery of losses by surplus reserves	-	-	-	-	-	-	-	-	-	-
4. Retained earnings carried over from changes in defined benefit plans	-	-	-	-	-	-	-	-	-	-
5. Retained earnings carried over from other comprehensive income	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-
(V) Special reserves	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current year	-	-	-	-	-	-	-	-	-	-
2. Use in the current year	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
IV. Closing balance of the current year	7,711,332,242	-	-	-	4,963,456,690	-	248,737,212	1,062,024,907	-	14,020,044,158

Legal representative:
Zhang Minsheng

Person in charge of accounting:
Wang Jingmin

Person in charge of the accounting department:
Hu Wanlin



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

I. BASIC INFORMATION OF THE COMPANY

(I) Basic Information

AviChina Industry & Technology Company Limited (hereinafter referred to as the Company, together with its subsidiaries, the Group) was restructured by a subsidiary of the former China Aviation Industry Corporation II (hereinafter referred to as AVIC II), and was incorporated in Beijing in the People's Republic of China (hereinafter referred to as the PRC) on 30 April 2003 as a joint stock company with limited liability. The Company has obtained the business license with the unified social credit code of 91110000710931141J issued by Beijing Administration for Industry and Commerce. The registered capital of the Company is RMB7,711,332,242. The legal representative is Zhang Minsheng. The address of its registered office is 2nd Floor, Building 27, No. 26 Xihuan South Street, Beijing Economic Technological Development Area, Beijing. It was listed on The Stock Exchange of Hong Kong Limited (the Hong Kong Stock Exchange) on 30 October 2003.

The registered capital of the Company at the time of establishment is RMB3,116,518,500, the Company was initiated by AVIC II (as the lead promoter) together with China Huarong Asset Management Co., Ltd. (formerly known as China Huarong Asset Management Company, hereinafter referred to as Huarong Asset Management), China Cinda Asset Management Co., Ltd. (formerly known as China Cinda Asset Management Corporation, hereinafter referred to as Cinda Asset Management) and China Orient Asset Management Co., Ltd. (formerly known as China Orient Asset Management Company, hereinafter referred to as Orient Asset Management). On October 2003, the Company was listed on the Main Board of the Hong Kong Stock Exchange and issued state-owned overseas listed foreign invested shares (H shares). The former state-owned shareholders shall reduce their shareholdings of state-owned shares according to 10% of the amount raised by issuing overseas listed foreign invested shares (H shares). After the issuance of overseas listed foreign invested shares (H shares), the share capital of the Company increased to RMB4,643,608,500.

In 2008, Aviation Industry Corporation of China, Ltd. (formerly known as Aviation Industry Corporation of China, hereafter as AVIC) was newly established on the basis of the merger of enterprises and institutions owned by China Aviation Industry Corporation I and AVIC II. The shareholder of the Company was changed from AVIC II to AVIC.

In 2010, the Company raised funds by placing overseas listed foreign invested shares. After the capital increase, the share capital of the Company increased to RMB4,949.0245 million.

In 2012, the Company issued 342,000,000 additional overseas listed foreign invested shares (H shares) to foreign investors, increasing the share capital by RMB342.00 million. In the same year, the Company issued 183,404,667 Domestic Shares to AVIC Airborne Systems Company Limited (hereinafter as AVIC Airborne). As of 31 March 2012, due to additional issuance of overseas listed foreign invested shares (H shares) and additional issuance of Domestic Shares, the share capital of the Company was changed to RMB5,474.4292 million.

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

I. BASIC INFORMATION OF THE COMPANY (Continued)

(I) Basic Information (Continued)

In 2016, the Company issued 491,692,669 Domestic Shares to AVIC. After the additional issuance of Domestic Shares, the share capital of the Company was changed to RMB5,966.1218 million.

In 2018, 3,609,687,934 existing shares of the Company held by AVIC, AVIC Airborne, Huarong Asset Management, Cinda Asset Management and Orient Asset Management, the shareholders of the Company, were fully converted into overseas listed foreign invested shares (H shares) which were listed on the Hong Kong Stock Exchange. In the same year, the Company issued 279,000,000 overseas listed foreign invested shares (H shares). After the capital increase, the share capital of the Company was changed to RMB6,245.1218 million.

In 2020, the Company repurchased and cancelled 34,459,000 overseas listed foreign invested shares (H shares). After the repurchase, the share capital of the Company was changed to RMB6,210.6628 million. In the same year, the Company issued 1,250,899,906 and 249,769,500 Domestic Shares to AVIC and Tianjin Free Trade Zone Investment Company Limited* (天津保稅區投資有限公司) (hereinafter as Tianjin Free Trade Zone Investment Company), respectively. After the targeted issuance of Domestic Shares, the share capital of the Company was changed to RMB7,711.3322 million.

(II) Nature of business and main business of the enterprise

The Group is 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.

(III) Name of parent company and group headquarters

The controlling shareholder of the Company is AVIC, and the ultimate controller is the State-owned Assets Supervision and Administration Commission of the State Council. The Company has a Board of Directors, which manages and controls the Company's major decisions and daily operation.

(IV) Approval of financial reports

These financial statements were approved for issue by the Board on 30 March 2022.

II. SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

The scope of the Group's consolidated financial statements includes 10 second-tier subsidiaries, including AVICOPTER PLC (中航直升機股份有限公司), and 65 third-tier and fourth-tier subsidiaries, including Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司).

For details of the Group's scope of consolidation and its changes, please refer to the relevant contents of Note "VII. CHANGES IN CONSOLIDATION SCOPE" and Note "VIII. INTERESTS IN OTHER ENTITIES".



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

III. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

The Company has previously adopted the International Financial Reporting Standards in preparing the financial statements for information disclosure at the Hong Kong Stock Exchange. According to the Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong published by the Hong Kong Stock Exchange in December 2010, the Company has resolved, starting from the current financial period, to prepare its financial statements for information disclosure at the Hong Kong Stock Exchange pursuant to the Accounting Standard for Business Enterprises issued by the Ministry of Finance of the PRC and other relevant requirements.

The financial statements has been prepared on the going-concern basis and based on the transactions and events actually occurred in accordance with the Accounting Standards for Business Enterprises promulgated by the Ministry of Finance of the PRC and relevant requirements, as well as based on the accounting policies and accounting estimates as stated in "IV. Significant Accounting Policies and Accounting Estimates" under the notes.

During the preparation of the financial statements, the Company has fully evaluated its ability to continue operating in the next 12 months from the balance sheet date. The Company has a record of profitable operation recently and adequate financial resource to support its operation, and considers it is reasonable to prepare the financial statements on a going concern basis.

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Specific accounting policies and accounting estimates are formulated by the Group based on actual manufacturing and operating characteristics including business cycle, recognition and measurement of provision for bad debts of accounts receivable, inventory cost flow assumptions, measurement of net realizable value of inventory, classification and depreciation method of fixed assets, amortization of intangible assets, capitalization of research and development expenses, recognition and measurement of revenue, etc.

1. Declaration on compliance with the accounting standard for business enterprises

The Company complied with the requirements of Accounting Standard for Business Enterprises in preparing its financial statements, which give a true and full view of the financial position, operating results and cash flows of the Group and the Company.

2. Accounting period

The Group's accounting period is from 1 January to 31 December.

3. Business cycle

The business cycle of particular business of the Group exceeds 12 months, and the classification of current and non-current assets and liabilities of the particular business follows the business cycle; otherwise, the Group treats 12 months as a business cycle and the criteria for classifying current and non-current assets and liabilities.

4. Recording currency

Renminbi has been adopted by the Group as its recording currency.

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

5. Accounting treatments for business combinations involving and not involving entities under common control

Assets and liabilities acquired by the Group, as the combining party, in business combinations involving entities under common control are measured at the carrying amount of the combined party in the consolidated statements of the ultimate controller as at the date of combination. The difference between the carrying amount of the net assets acquired and the carrying amount of the consideration of combination paid shall be adjusted against the capital reserves. If the capital reserves are insufficient to offset the difference, any excess shall be adjusted against the retained earnings.

The identifiable assets, liabilities and contingent liabilities of the acquiree acquired in business combinations not involving entities under common control are measured at fair value as at the acquisition date. The cost of combination is the sum of the fair value of cash or non-cash assets paid, liabilities issued or assumed and equity securities issued by the Group to obtain the control of the acquiree as at the acquisition date, and various directly related expenses incurred in the business combination (for business combination achieved through multiple transactions by phases, the combination cost of which is the sum of the cost of each individual transaction). Where the cost of combination exceeds the fair value attributable to the net identifiable assets of the acquiree acquired in the combination, the difference is recognized as goodwill, where the cost of combination is less than the fair value attributable to the net identifiable assets of the acquiree acquired in the combination, the fair value of each identifiable assets, liabilities and contingent liabilities acquired in the combination and the fair value of the non-cash assets or equity securities issued in the consideration of the combination shall be reassessed first, where the cost of combination is still less than the fair value attributable to the net identifiable assets of the acquiree acquired in the combination after reassessment, the difference is included in the consolidated non-operating income for the current period.

6. Preparation methods of consolidated financial statements

The Group includes all subsidiaries and structured entities under its control into the consolidated financial statements.

When preparing the consolidated financial statements, if the accounting policies and the accounting period that subsidiaries adopted are inconsistent with the Company, necessary adjustments are made to the financial statements of those subsidiaries according to the accounting policies or accounting period of the Company.

When preparing consolidated financial statements, all significant internal transactions, current balances and unrealised profits within the scope of combination shall be offset. The portion of owner's equity of the subsidiaries which does not belong to the parent company, and the portion of net profit or loss, other comprehensive income and total comprehensive income for the current period which belongs to the equity of minority shareholders, shall be listed under "minority equity, minority profit and loss, other comprehensive income attributable to minority shareholders and total comprehensive income attributable to minority shareholders" items in the consolidated financial statements, respectively.



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

6. Preparation methods of consolidated financial statements (Continued)

For subsidiaries acquired through business combinations involving entities under common control, its operating results and cash flows shall be included in the consolidated financial statements since the beginning of the period of combination. When preparing comparative consolidated financial statements, adjustment shall be made to the related items in the financial statements for the last year, as if the reporting subject which was formed after combination had been in existence since the ultimate controlling party gains control.

For shareholding of the investee under common control through different transactions in stages which ultimately results in business combination, when preparing consolidated financial statements, it shall be adjusted as if it had been in existence in the current state since the ultimate controlling party gains control. When preparing comparative financial statements, time limit is the time not earlier than the Group and the combined party are both under the control of the ultimate controlling party, related assets and liabilities of the combined party shall be included into the comparative statements of the consolidated financial statements of the Group, and net assets added due to combination shall be adjusted against the related items under owner's equity in the comparative statements. In order to prevent double calculation of the value of net assets of the combined party, for long-term equity investment held by the Group before combination, from the date of obtaining original shareholding and the date on which the Group and the combined party are under the same ultimate control, whichever is later, to the date of combination, the related profit or loss recognized, other comprehensive income and other changes in net assets, shall be offset against the retained earnings at the beginning of the period and profit or loss for the current period in the comparative statements, respectively.

For subsidiaries acquired through business combinations not involving entities under common control, the operating results and cash flows shall be included in the consolidated financial statements since the Group obtained its control. When preparing consolidated financial statements, adjustment shall be made to financial statements of the subsidiaries using the fair values of each identifiable assets, liabilities and contingent liabilities as basis, which were determined on date of acquisition.

For shareholding of the investee not under common control through different transactions in stages which ultimately results in business combination, when preparing consolidated financial statements, shareholding of the acquiree held before the date of acquisition shall be remeasured according to the fair value of such shareholding on the date of acquisition, difference between the fair value and the carrying value shall be included in the investment income for the current period; the relevant shareholding of the acquiree held before the date of acquisition involving other comprehensive income under the equity method as well as changes in other shareholder's equity excluding net profit or loss, other comprehensive income and profits appropriation will be converted to investment profit or loss in the period in which the acquisition date falls, excluding other comprehensive income arising from changes arising from the investee's remeasurement of the net liabilities or net assets in the defined benefit plans.

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

6. Preparation methods of consolidated financial statements (Continued)

For disposal of the Group's long-term equity investment in a subsidiary in part without losing control, in the consolidated financial statements, the difference between the disposal consideration and the portion of net assets attributable to the disposed long-term equity investment in the subsidiary as accrued from the date of acquisition or combination, is adjusted against the share capital premium. If the capital reserves are insufficient to offset the difference, any excess shall be adjusted against the retained earnings.

Where control right over the investee is lost due to the disposal of partial equity investment of the Group or other reasons, the residual equity will be re-calculated based on the fair value thereof on the day the control is lost when preparing the consolidated financial statements. The balance from the sum of the consideration obtained from the equity disposal and the fair value of the residual equity minus the net assets of the original subsidiaries calculated continuously in proportion to the original holdings from the date of acquisition or combination shall be recorded into the investment profit or loss of the current period in which the control right is lost, with goodwill written off simultaneously. Other comprehensive income related with the equity investment of the original subsidiaries shall be accounted for on the same basis as the investee's direct disposal of the relevant assets or liabilities when control is lost.

For disposal of the Group's equity investment in a subsidiary realised by two or more transactions until loss of control, if the transactions fall under a package deal, those transactions shall be accounted for as a deal under which the subsidiary is disposed of and control is lost. However, before losing control over the subsidiary, the balance between each disposal consideration and the corresponding share of the subsidiary's net assets entitled from the disposal of the investment shall be recognized as other comprehensive income in the consolidated financial statements and when control is lost, converted into investment profit or loss for the period in which control is lost. Other comprehensive income related with the equity investment of the original subsidiaries shall be accounted for on the same basis as the investee's direct disposal of the relevant assets or liabilities.

7. Classification of joint arrangements and accounting treatment method for joint operations

The joint arrangements of the Group are comprised of joint operations and joint ventures. For joint operation items, the Group, as a joint operator to the joint operation, shall recognize assets held and liabilities assumed individually, and recognize its share of attributable assets held and liabilities assumed and recognize income and expenses on individual basis or in proportion to its attributable share as agreed. For purchase and sale incurred in the joint operation which does not constitute an asset transaction of the operation, only the portion of the profit or loss attributable to the other participating parties of the joint operation arising from such transaction is recognized.



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

8. Cash and cash equivalents

Cash shown in the cash flow statement of the Group refers to both cash on hand and the deposit held in bank available for payment at any time. Cash equivalent in the cash flow statement refers to the investment with a term not more than 3 months and high liquidity, easily converted to known amounts of cash and subject to insignificant risk of change in value.

9. Foreign currency transactions and translation of foreign currency financial statements

(1) Foreign currency transaction

The amount of the Group's foreign currency transactions shall be translated into that in RMB at the spot exchange rate on the transaction date. On the balance sheet date, monetary items in foreign currency are translated into RMB at spot rate of such date, and translation balance arising from which is directly included in the current profit or loss, except for exchange balances resulting from specific borrowings in foreign currency for purchasing and constructing or producing assets that conforms to capitalization conditions, and such exchange balances shall be treated as per the principles of capitalization.

(2) Translation of foreign currency financial statements

Items in assets and liabilities of balance sheet in foreign currency are translated at the spot rate of the balance sheet date; except for "undistributed profits", items in owner's equity are translated at the spot rate when transactions occur; and income and expenses in income statements are translated at the spot rate of the date when transactions occur. Translation balance in the foreign currency statements arising from above translations shall be presented in items of other comprehensive income. Foreign currency cash flow shall be translated at the spot rate on the date that cash flow occurs. Amount affected by change in exchange rate on cash shall be listed in the cash flow statement separately.

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities

The Group will recognize a financial asset or financial liability at the time when it becomes one party to the contract of the financial instruments.

(1) Financial assets

1) Classification, recognition basis and measurement method of financial assets

According to the business mode of financial assets management and the contractual cash flow characteristics of financial assets, the Group classifies financial assets into financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss.

i. Financial assets at amortised cost

The Group shall classify the financial assets that meet the following conditions simultaneously into the financial assets measured at amortized cost: ① the business mode of the financial assets management takes the collection of contractual cash flow as the objective. ② The contract terms of the financial asset stipulate that, the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount. Such financial assets shall be initially measured at the fair value, and the relevant transaction expenses shall be included in the initially recognized amount; and the subsequent measurement will be conducted at the amortized cost. The difference between the initial amount and due amount shall be amortized by the effective interest method, unless designated as the hedged items, and the gain or loss arising from its amortization, impairment, exchange gain or loss and derecognition shall be included in the current profit or loss.

ii. Financial assets at fair value through other comprehensive income

The Group shall classify the financial assets that meet the following conditions simultaneously into the financial assets at fair value through other comprehensive income: ① the business mode of the financial assets management takes the collection of contractual cash flow and disposal of such financial assets as the objective. ② The contract terms of the financial asset stipulate that, the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount. Such financial assets shall be initially measured at the fair value, and the relevant transaction expenses shall be included in the initially recognized amount. The gains or losses of such financial assets, other than the credit impairment loss or gain, exchange gain or loss and interest of such financial assets calculated by the effective interest method, shall be included in other comprehensive income, unless designated as the hedged items. When the financial assets are derecognized, the accumulative gain or loss previously included in other comprehensive income shall be transferred from other comprehensive income, and included in the current profit or loss.



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities (Continued)

(1) Financial assets (Continued)

1) Classification, recognition basis and measurement method of financial assets (Continued)

ii. Financial assets at fair value through other comprehensive income (Continued)

The Group recognizes the interest income by the effective interest method. The interest income shall be determined by multiplying the book balance of financial assets by the effective interest rate, except for the following circumstances: ① for the purchased or originated financial assets that the credit impairment has occurred, their interest income shall be determined at their amortized costs and by the credit-adjusted effective interest rate from the initial recognition. ② For purchased or originated financial assets that the credit impairment has not occurred but the credit impairment has occurred in the subsequent period, their interest incomes shall be determined at their amortized costs and by the effective interest rate during the subsequent period.

The Group shall designate the non-trading equity instrument investment as the financial assets at fair value through other comprehensive income. This designation shall not be revoked once made. The non-trading equity instrument investment at fair value through other comprehensive income that the Group designates shall be initially measured at the fair value, and the relevant transaction expenses shall be included in the initially recognized amount; and other relevant gains and losses (including the exchange gain or loss) shall be included in other comprehensive income, and shall not be transferred in the current profit or loss subsequently, but the obtained dividends (except for those belonging to the investment cost recovered). When it is derecognized, the accumulated gains or losses previously included in other comprehensive income shall be transferred from other comprehensive incomes and included in retained earnings.

iii. Financial assets at fair value through profit or loss

The Group will classify the financial assets other than the above financial assets measured at the amortized cost and the financial assets at fair value through other comprehensive income into the financial assets at fair value through profit or loss. Such financial assets shall be initially measured at the fair value, and the relevant transaction expenses shall be included in the current profit or loss directly. The gain or loss of such financial assets shall be included in the current profit or loss.

The financial assets will be classified as the financial assets at fair value through profit or loss if they are recognized by the Group in the business combination not involving entities under common control and constituted by the contingent consideration.

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From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities (Continued)

(1) *Financial assets* (Continued)

2) *Recognition basis and measurement method of transfer of financial assets*

The Group will derecognize the financial assets that meet one of the following conditions: ① the contractual right of collecting the cash flow of such financial assets is terminated; ② the financial assets are transferred, and the Group has transferred almost all risks and rewards related to the ownership of the financial assets; and ③ the financial assets are transferred, and the Group neither transfers nor retains almost all risks and rewards related to the ownership of the financial assets, as well as the control over such financial assets.

If the entire transfer of the financial assets meets derecognition conditions, the difference between the book value of transferred financial asset and the sum of consideration received from the transfer and the amount originally included in other comprehensive income directly and the accumulative amount of change in fair value corresponds to the derecognized part (the contract terms involving the transferred financial assets stipulate that, the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount) shall be included in the current profit or loss.

If the partial transfer of the financial assets meets derecognition conditions, the entire book value of the transferred financial assets shall be amortized at their own relative fair values between the derecognized part and the underecognized part, and the difference between the sum of consideration received from the transfer and the amount which should be amortized to the derecognized part, originally included in other comprehensive income directly and the accumulative amount of change in fair value corresponds to the derecognized part (the contract terms involving the transferred financial assets stipulate that, the cash flow generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount) and the entire book value of the aforesaid financial assets amortized shall be included in the current profit or loss.



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities (Continued)

(1) Financial assets (Continued)

3) *Expected credit losses*

The Group recognizes loss provision on financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income on the basis of expected credit losses.

For accounts receivable arising from transactions regulated by income standards, the Group shall measure the loss provision according to the amount equivalent to the expected credit loss during the whole duration.

For other financial instruments, except for the purchased or generated financial assets with credit impairment, the Group shall evaluate the changes in credit risk of relevant financial instruments since initial recognition on each balance sheet date. If the credit risk of the financial instrument has increased significantly since the initial recognition, the Group shall measure its loss provision according to the amount equivalent to the expected credit loss of the financial instrument in the whole duration; if the credit risk of the financial instrument has not increased significantly since the initial recognition, the Group shall measure its loss provision according to the amount equivalent to the expected credit loss of the financial instrument in the next 12 months. The increase or reversal amount of credit loss provision shall be included in the current profit or loss as impairment losses or gains, except for financial assets classified as measured at fair value through other comprehensive income. For financial assets classified as measured at fair value through other comprehensive income, the Group shall recognize its credit loss provision in other comprehensive income, and include impairment losses or gains in current profit or loss without reducing the carrying value of the financial assets listed in the balance sheet.

In the previous accounting period, the Group has measured the loss provision according to the amount equivalent to the expected credit loss during the whole duration of the financial instruments. But if there is no significantly increased credit risk of the financial instrument since initial recognition at the current balance sheet date, the Group shall measure the loss provision of the financial instruments on the current balance sheet date according to the amount equivalent to the expected credit loss in the next 12 months, and the reversal amount of the loss provision thus formed shall be included in the current profit or loss as impairment gains.

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From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities (Continued)

(1) *Financial assets* (Continued)

3) *Expected credit losses* (Continued)

The Group uses reasonable and well-founded prospective information available to determine whether the credit risk of financial instruments has increased significantly since initial recognition by comparing the risk of default on the balance sheet date with the risk of default on the initial recognition date.

In the case of the Group expects the occurrence of one or more events that have a negative effect on the future cash flow of financial assets, such financial assets has undergone credit impairment.

When the Group no longer reasonably expects the contractual cash flow of a financial asset to be fully or partially recovered, the balance of the financial asset shall be directly written down. This write-down constitutes the derecognition of relevant financial assets.

(2) *Financial liabilities*

1) *Classification, recognition basis and measurement method of financial liabilities*

Financial liabilities of the Group are classified, at the time of initial recognition, into financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities at fair value through profit or loss, the relevant transaction costs are directly included in current profit or loss; for other financial liabilities, the relevant transaction costs are recognized in their initial recognition amount.

i. Financial liabilities at fair value through profit or loss

The financial liabilities at fair value through profit or loss, including financial liabilities held for trading and financial liabilities designated at fair value through profit or loss when initially recognizing, are measured subsequently at fair value, the profit or loss occurred from change in the fair value and the relevant dividend and interest expenditure of such financial liability are included in the current profit or loss.



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities (Continued)

(2) Financial liabilities (Continued)

1) Classification, recognition basis and measurement method of financial liabilities (Continued)

ii. Other financial liabilities

Other financial liabilities are subsequently measured at the amortized cost according to the effective interest method, with gains or losses arising from derecognition or amortization recorded in profit or loss. Except for the following items, the Group classifies the financial liabilities as the financial liabilities measured at amortized cost: ① financial liabilities at fair value through profit or loss, including the financial liabilities held for trading (including derivative instruments belonging to the financial liabilities) and financial liabilities designated as at fair value through profit or loss. ② Financial liabilities formed by the transfer of financial assets that do not meet the conditions for derecognition or continue to involve in the transferred financial assets. ③ Financial guarantee contracts that do not fall under the above circumstances ① or ②, and loan commitments that do not fall under the above circumstance ① and lend at a rate lower than market interest rates.

The financial liabilities recognized by the Group as the acquirer in the business combination not involving entities under common control and constituted by the contingent consideration shall be subjected to the accounting treatment at fair value through profit or loss.

2) Derecognition conditions of financial liabilities

Where the current obligation of financial liability has been terminated entirely or partially, the financial liability or obligation that has been terminated shall be derecognized. Where the Group enters into an agreement with a creditor, so as to substitute the existing financial liabilities by way of any new financial liability, and if the contractual stipulations regarding the new financial liability is substantially different from that regarding the existing financial liability, it shall stop the recognition of the existing financial liability, and shall at the same time recognize the new financial liability. Substantial adjustments by the Group to all or partial terms in contracts related to existing financial liabilities shall be considered as derecognition for all or parts of existing financial liabilities, and such financial liabilities after modification shall be deemed as new financial liabilities.

When a financial liability is derecognized in full or in part, the difference between its carrying amount and the consideration paid (including any non-cash assets transferred or liabilities assumed) is included by the Group in profit or loss for the period.

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities (Continued)

(3) *Determination methods for fair values of financial assets and financial liabilities*

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. Quoted price in the active market represents quoted price which can be easily obtained periodically from exchange market, brokers, industry associations or pricing services agency, etc., which is the transactions amount in arm's length transactions. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, discounted cash flow analysis and option pricing models, etc. At the time of valuation, the Group adopts valuation techniques that are applicable in the current circumstances and are sufficiently supported by data and other information to select inputs that are consistent with the characteristics of the assets or liabilities that market participants would take into account in a transaction for the asset or liability, and maximises the use of relevant observable inputs. Unobservable inputs shall be used if the relevant observable inputs are not available or are not practicable.

The investment of the Group in the equity investment shall be measured at the fair value. However, under the limited circumstances, if the recent information for determining the fair value is insufficient, or the possible estimated amount of fair value is widely distributed, and the cost represents the best estimate for the fair value within this range, such cost could represent its appropriate estimate for the fair value within this distribution range.

(4) *Offsetting of financial assets and financial liabilities*

Financial assets and financial liabilities of the Group shall be presented separately in the balance sheet and be not mutually offset. However, the net amount is presented in the balance sheet after being offset, when the following conditions are met at the same time: (1) The Group has a legal right to offset the recognized amount and that such legal rights are currently enforceable; and (2) The Group plans to settle by the net assets or sell off financial assets and liquidate the financial liabilities at the same time.



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

10. Financial assets and financial liabilities (Continued)

(5) *Distinction between financial liabilities and equity instruments and related treatment method*

The Group distinguishes financial liabilities and equity instruments according to the following principles:

(1) If the Group fails to unconditionally perform one contractual obligation by delivering cash or other financial assets, the contractual obligation satisfies the definition of financial liability. While some financial instruments do not expressly include the terms and conditions for the obligation to deliver cash or other financial assets, it is possible to form contractual obligations indirectly through other terms and conditions.

(2) If one financial instrument must or may be settled by the Group's own equity instrument, the Group's own equity instrument used for settling such instrument shall be considered as an substitute of cash or other financial assets, or as residual equity in the issuer's assets that the instrument holder enjoys after deducting all the liabilities. If it is the former one, this instrument is the financial liability of the issuer. If it is the latter, the instrument is the equity instrument of the issuer. Under certain circumstances, a financial instrument contract requires that the Group must or may settle the financial instrument with its own equity instruments, where the amount of contractual rights or contractual obligations is equal to the number of own equity instruments available or to be delivered multiplied by the fair value upon its settlement. In this case, regardless of whether the amount of the contractual right or obligation is a fixed value or changes based in whole or in part on changes in variables other than the market price of the Group's own equity instrument, the contract is classified as financial liability.

When classifying a financial instrument (or its components) in the consolidated statements, the Group takes into consideration all the terms and conditions agreed between members of the Group and holders of financial instruments. If the Group as a whole has assumed the obligation to deliver cash, other financial assets or settle it by other means of rendering the instrument a financial liability, the instrument should be classified as a financial liability.

Where the financial instruments or their components are classified as financial liabilities, the related interest, stock dividends (or dividends), gains or losses, gains or losses arising from redemption or refinancing, etc., are included in the current profit or loss.

Where the financial instruments or their components are classified as equity instruments, its issue (including refinancing), repurchase, sale or cancellation is treated as a change in equity, and the change in fair value of the equity instrument is not recognized.

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From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

11. Notes receivable

For notes receivable formed by the Group's external sales of goods or provision of labor services specified by the Accounting Standards for Business Enterprises No. 14 – Revenue, whether it contains significant financing components, the Group measures loss provision in accordance with the expected credit losses for the entire life period, and the increase or reversal of the loss provision resulting therefrom is included into the current profit or loss as an impairment loss or gain.

Notes receivable are divided into different portfolios and the accounting estimation policies for the expected credit loss thereof are determined by the Group based on the shared characteristics of acceptors' credit risks.

The Group considered its experience of historical credit loss, the current situation and its forecast of the future economic condition in compiling a table which compares the rate of the expected credit loss of the duration to calculate the expected credit loss. Credit losses actually incurred by the Group, and notes receivable not being accepted at maturity are transferred to accounts receivable for disclosure.

12. Accounts receivable

Accounts receivable arising from the Group's external sales of goods or provision of labor services specified by the Accounting Standards for Business Enterprises No. 14 – Revenue is initially recognized at the fair value of contract or agreement price receivable from the purchaser. For accounts receivable, whether it contains significant financing components, the Group measures loss provision in accordance with the expected credit losses for the entire life period, and the increase or reversal of the loss provision resulting therefrom is included into the current profit or loss as an impairment loss or gain.

For the accounts receivable with objective evidence of impairment, and other accounts receivable subject to separate assessment, impairment tests are individually conducted by the Group on balance sheet date to recognise the expected credit loss and to provide an individual impairment allowance. For the accounts receivable without objective evidence of impairment or the expected credit loss cannot be estimated for an individual financial asset at a reasonable cost, the Group grouped accounts receivable in accordance with credit risk characteristics and calculated the expected credit loss based on groups.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

13. Accounts receivable financing

In managing the liquidity, the Group discounts or endorses part of the notes receivable before their maturity, and derecognises the discounted or endorsed notes receivable when the Group has transferred substantially all the risks and rewards of such notes receivable to relevant counterparty. The Group's business model for the management of notes receivable is aimed at both the collection of contractual cash flow and the sale of the financial assets. Therefore, it is classified as financial assets at fair value through other comprehensive income, which are listed in the accounts receivable financing.

The financial assets at fair value through other comprehensive income, except for credit impairment losses or gains and exchange gains or losses, all other gains or losses generated shall be recorded in other comprehensive income, until the financial assets are derecognized or reclassified.

When the recognition of the financial assets is terminated, the accumulated gains or losses previously recorded in other comprehensive income shall be transferred out from other comprehensive income and recorded in the current profit or loss.

14. Other receivables

The Group shall measure loss provision for other receivables according to the following situations: ① for financial assets whose credit risk has not increased significantly since the initial recognition, the Group shall measure the loss provision according to the amount of the expected credit loss in the next 12 months; ② for financial assets whose credit risk has increased significantly since the initial recognition, the Group shall measure the loss provision according to the amount equivalent to the expected credit loss of the financial instrument in the whole duration; and ③ for the purchased or originated financial assets that have suffered credit impairments, the Group shall measure the loss provision according to the amount equivalent to the expected credit loss in the whole duration.

For other accounts receivable, the Group, in the aspect of individual instrument, cannot obtain sufficient evidence about credit risk increased significantly at a reasonable cost, and it is feasible to assess whether there is a significant increase in credit risk on the basis of portfolio. Therefore, taking financial instrument type, credit risk rating, type of collateral, initial recognition date, remaining contract term, industry of debtors, geographical location of debtors, and the value of collateral relative to financial assets as the common risk characteristics, the Group groups other accounts receivable, considers whether credit risk increases significantly on a portfolio basis, and calculates expected credit losses on a portfolio basis.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

14. Other receivables (Continued)

On the balance sheet date, the Group calculates the expected credit loss of other receivables. If such expected credit loss is greater than the current book value of the impairment provision for other receivables, the Group recognizes the difference as an impairment loss of other receivables. In contrast, the Group recognizes the difference as impairment gains.

Where the Group actually suffers credit loss, and determines that the relevant other receivables cannot be recovered, the receivables shall be written off.

Based on actual credit losses in previous years, and the prospective information in the current year, the Group calculates the expected credit loss by exposure to default risk and the expected credit loss rate for the next 12 months or the whole life period.

15. Inventories

The Group's inventory mainly includes raw materials, products in progress, finished goods, and turnover materials.

The perpetual inventory system is adopted for inventories. Inventories are valued based on their actual cost when obtained. The raw materials in the entire aircraft business segment are calculated at the planned cost, the difference between the planned cost and the actual cost is calculated through the item of material cost difference, and the cost difference assumed for the inventories will be pay by instalment so as to adjust the planned cost to the actual cost. Other inventories are priced according to the weighted average method when receiving and dispatching. Turnover materials include low-value consumables, packaging materials, and special tooling. Low-value consumables and packaging materials are amortized using the immediate write-off method, and special tooling is amortized in installments according to the output quota.

For the finished goods, products in progress, materials for sale and other merchandise inventories directly for sale, the net realizable values thereof shall be recognized at the balance after the estimated selling price of such inventories deducts the estimated sales expenses and relevant taxes. For the material inventories held for production, the net realizable values thereof shall be recognized at the balance after the estimated selling price of the finished product deducts the estimated costs to be incurred upon completion, estimated sales expenses and related taxes.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

16. Contract assets

(1) *Recognition methods and standards for contract assets*

Contract assets refer to the right of the Group who transferred the commodity to the customer to receive the consideration, and the right depends on other factors excluding the passage of time. If the Group sells two clearly distinguishable commodities to the customer, due to the delivery of one of the commodities, it has the right to receive payment, but the collection of such payment shall also depend on the delivery of the other commodity, and the Group shall have the right to receive such payment as the contractual asset.

(2) *Determination method and accounting treatment of expected credit loss of contract assets*

In terms of method of determining the expected credit loss of contract assets, for contract assets arising from the normal performance of contracts by the Group, the Group recognises provision for impairment of contract assets at the lifetime expected credit loss of contract assets. The method of determination shall refer to Note IV. 12. Accounting policies applicable to the impairment of accounts receivable.

17. Contract cost

(1) *Determination method of assets related to contract costs*

The Group's assets related to contract costs include contract performance cost and contract acquisition cost.

If the contract performance cost, namely, the cost incurred by the Group for the implementation of the contract, is not in the scope of the accounting standards for other enterprises and simultaneously meets the following conditions, it shall be recognized as an asset as the contract performance cost: the cost is directly related to a current or anticipated contract, including direct labor, direct materials, manufacturing costs, costs clearly borne by the customer, and other costs incurred solely as a result of the contract; the cost increases the Group's resources for future using for performance of obligations; and the cost is expected to be recovered.

If the contract acquisition cost, namely, the incremental cost incurred by the Group for the acquisition of the contract, is expected to be recovered, it shall be recognized as an asset as the contract acquisition cost; and if the amortization period of the asset does not exceed one year, it is included in the current profit and loss when it occurs. Incremental cost refers to the cost that would not have occurred if the Group had not obtained the contract. Other expenses incurred by the Group for the acquisition of the contract, excluding the incremental costs expected to be recovered, include in the current profit and loss when it occurs, however, except costs clearly borne by the customer.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

17. Contract cost (Continued)

(2) *Amortization of assets related to contract costs*

The assets related to the contract costs of the Group are amortized on the same basis as the recognized sales revenue related to the assets and include in the current profit and loss.

(3) *Impairment of assets related to contract costs*

When determining the impairment losses of assets related to contract costs, the Group shall first determine the impairment losses of other assets related to the contract and recognized in accordance with the accounting standards of other relevant enterprises; and then, according to the difference between the book value and the remaining consideration that the Group is expected to obtain due to the transfer of the commodities related to the asset, and the difference between the book value and the estimated costs due to the transfer of the relevant commodity, the impairment provision shall be made for the excess and recognized as asset impairment loss.

If the factors of impairment in the previous period change later, making the aforesaid difference higher than the book value of the asset, the originally made asset impairment provision shall be reversed and included in the current profit or loss, but the book value of the reversed asset shall not exceed the book value of the asset on the reversal date assuming that no impairment provision is made.

18. Long-term equity investments

The long-term equity investment of the Group is mainly aimed to subsidiaries, associates and joint ventures.

The Group judges the common control based on the point that all the participants or group of participants collectively control the arrangement, and that the policies for the activities related to the arrangement must be agreed by participants who collectively control the arrangement.

It is generally considered that the Group, when holding, directly or through subsidiaries, more than 20% (included) but less than 50% of the voting right of the investee, has a significant influence on the investee. When the Company holds less than 20% voting right of the investee, it shall comprehensively consider the facts and conditions that whether a representative has been sent to the board of directors or similar authority body in the investee, or whether participating in formulation of financial and operating policies of the investee, significant transaction happened with the investee, dispatching managers to the investee or providing key technical data to the investee, etc., to judge whether the Company has significant influence to the investee.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

18. Long-term equity investments (Continued)

The investee under the control of the Group shall be deemed as a subsidiary of the Group. If the long-term equity investment is obtained from the business combinations involving entities under common control, the share of book value of owners' equity of the merged party in consolidated financial statements of the ultimate controlling party on the date of merger shall be deemed as the initial investment cost of the long-term equity investment. If the book value of the net asset of the combined party on the combining date is negative, the cost of long-term equity investment shall be determined as zero.

As to equity of the investee under common control acquired step by step through multiple transactions and business combination finally completed, which belongs to a package deal, the Group performs accounting treatment by regarding all transactions as a transaction for acquiring control right. If the transactions do not belong to a package deal, the share of book value of net asset of the combined party in consolidated financial statements of the ultimate controlling party on the combining date shall be deemed as the initial investment cost of the long-term equity investment. The balance between the initial investment cost and the sum of the book value of long-term equity investment which has reached the amount before the combination and the book value of new payment consideration obtained on the combining date shall be applied to adjust capital reserve. If the capital reserve is insufficient to set it off, the retained earnings shall be written down.

For long-term equity investment obtained through business combination not involving entities under common control, consolidated cost shall be recognized as initial investment cost.

As to equity of the investee not under common control obtained step by step through multiple transactions and business combination finally completed, which belongs to a package deal, the Group performs accounting treatment by regarding all transactions as a transaction for acquiring control right. If it is not a package deal, the sum of book value of equity investment originally held and new investment cost is taken as the initial investment cost calculated by the cost method. If the equity held before the purchase date is calculated by equity method, other related comprehensive income calculated by the original equity method shall not be adjusted; and the accounting treatment shall be conducted as per the same basis as that of disposing related assets or liabilities of the investee when disposing the investment. Where the equity held before the purchase date is calculated by fair value in other equity instruments, and then accumulative change of the fair value originally included in other comprehensive income shall be transferred into current investment profit or loss on the purchase date.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

18. Long-term equity investments (Continued)

Except long-term equity investment obtained through business combination, for those obtained by cash, purchase amount actually paid shall be used as the investment cost; for those obtained through issuing equity security, the fair value of equity security issued shall be used as the investment cost; and for those obtained through contribution by the investor, the value agreed as per the investment contract or agreement shall be used as the investment cost; and for those obtained through debt restructuring, non-monetary assets exchange, etc., then investment cost shall be recognized as per related accounting standards for enterprises.

The Group calculates the investment to the subsidiaries by cost method, with equity method adopted for joint ventures and associates.

Long-term equity investment subsequently measured by cost method shall be calculated at fair value of cost paid for the additional investment and book value of the cost of the long-term equity investment added through related transaction fees incurred. Cash dividends or profits that the investee declares to distribute shall be recognized as the current investment profits as per the amount enjoyed.

For long-term equity investment subsequently measured by equity method, the book value of long-term equity investment shall be accordingly increased or decreased as the owner's equity of the investee changes. Wherein, the Group shall, when recognizing the shares of the net losses of the investee that shall be enjoyed by the Group, calculate the portion that belongs to the investing enterprise based on the fair value of each identifiable asset of the investee upon acquisition as well as the Group's accounting policies and accounting period in accordance with the shareholding ratio by offsetting profit or loss of internal transaction incurred between the joint venture and associate, then recognize the net profits of the investee after adjustment.

When disposing of long-term equity investment, the balance between the book value and actual price for acquisition shall be included in the current investment income. If the long-term equity investment calculated by equity method is included in the shareholders' equity due to other change of the owner's equity of the investee other than net profit or loss, the portion previously included in the shareholders' equity shall, when disposing of a long-term equity investment, go through accounting treatment on the same basis on which the investee directly disposes the related assets or liabilities according to a certain proportion.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

18. Long-term equity investments (Continued)

Where the Company's joint control or significant influence over the investee is lost due to the disposal of partial equity investment, the residual equity after disposal will be calculated as per other equity instruments, the balance between the fair value and book value thereof on the date the joint control or significant influence is lost shall be included in the current profit or loss. Other comprehensive income recognized by calculating original equity investment by equity method shall go through accounting treatment on the same basis on which the investee directly disposes the related assets or liabilities when ceasing to use equity method.

For loss of control in the investee due to partly disposed long-term equity investment, for remaining shareholding which can apply common control or impose significant influence to the investee after disposal, it shall be accounted for under equity method. Difference between the carrying value of equity disposal and the disposal consideration shall be included as investment income. Such remaining shareholding shall be treated as accounting for under equity method since the shareholding is obtained and make adjustment. For remaining shareholding which cannot apply common control or impose significant influence to investee after disposal, it can be accounted as under investment in other equity instruments, and difference between carrying value of equity disposal and the disposal consideration shall be included as investment income, difference between fair value and the carrying value of remaining shareholding on the date loss of control shall be included in the investment profit or loss for such period.

Various transactions of the Group from step-by-step equity disposal to loss of control right do not belong to the package deal, and every transaction is separately subject to accounting treatment. If the transactions belong to "package deal", then the Group shall conduct accounting treatment to the transaction which shall be taken as a transaction for disposing subsidiaries with control right lost; and however, before loss of control right, the balance between each price disposal and the book value of long-term equity investment correspondingly in equity disposed shall be recognized as other comprehensive income and then wholly transferred into the current profit or loss when losing control right. Other comprehensive income related with the equity investment of the original subsidiaries shall go through accounting treatment on the same basis on which the investee directly disposes the related assets or liabilities.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

19. Investment properties

Investment properties of the Group include plant, buildings and land use rights, which shall be subject to subsequent measurement on a cost basis.

The Group's investment properties shall be depreciated or amortized by the straight-line method. The estimated useful life, net residuals rate and annual rate of depreciation (amortization) of various investment properties are as follows:

Category	Estimated useful life	Estimated net residuals rate	Annual rate of depreciation (amortization)
Land use right	30-50 years	0%	2% to 5%
Plant & buildings	20-45 years	0% to 5%	2.11% to 5%

At least at the end of each year, the Group reviews the useful life, estimated net residual value, and depreciation or amortization methods of investment properties, and makes adjustments if necessary.

When an investment property is disposed of, or it is expected that no economic benefits will be generated through use or disposal, the investment property shall be derecognised. The disposal income from the sale, transfer, scrapping or destruction of investment properties and the amount deducted from its book value and related taxes are included in the current profit or loss.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

20. Fixed assets

The fixed assets of the Group feature the following characteristics: tangible assets held for the sake of producing goods, rendering services, renting (excluding rented plant and buildings) or operating management, with a useful life in excess of one year.

No fixed asset may be recognized unless it simultaneously meets the conditions as follows: The economic benefits pertinent to the fixed asset are likely to flow into the Group; and the cost of the fixed asset can be measured reliably. Fixed assets of the Group include plant and buildings, machinery equipment, office facilities, electronic equipment, transportation equipment and other equipment.

Except for the fully depreciated fixed assets that are still in use, all the fixed assets of the Group shall be depreciated. Straight line method shall be adopted for calculating depreciation. The depreciation life by category, estimated net residuals rate and depreciation rate of the fixed assets of the Group are as follows:

No.	Category	Depreciation life (year)	Estimated residuals (%)	Annual depreciation rate (%)
1	Plant & buildings	10-40	0 to 5	2.38 to 10.00
2	Machinery equipment	3-20	0 to 5	4.75 to 33.33
3	Transportation equipment	4-10	0 to 5	9.50 to 25.00
4	Electrical equipment	3-10	0 to 5	9.50 to 33.33
5	Office facilities	3-8	0 to 5	11.88 to 33.33
6	Other equipment	3-30	0 to 5	3.17 to 33.33

The Group will review the estimated useful life, estimated net residual value and depreciation method for fixed assets at the end of each year. In case of change, it shall be treated as change of accounting estimates.

A fixed asset is derecognized on disposal or when no economic benefits are expected from its use or disposal. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and relevant taxes is included in profit or loss for the period.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

21. Construction in progress

Construction in progress ready for intended use shall be carried over to fixed assets based on the estimated value according to construction budget, project cost or actual project cost. The depreciation shall be drawn from the next month. After going through procedures of completion settlement, the difference of the original value of the fixed assets shall be adjusted.

22. Borrowing costs

Borrowing costs are interest and other related costs arising from the Group's borrowings. Borrowing costs include interest, amortisation of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

The borrowing costs directly belonging to fixed assets, investment properties and inventories that require more than one year of acquisition or construction to be ready for intended use or selling shall be capitalized when the expenditures of the assets and the borrowing costs incurred and acquisition or construction activities necessary for making the assets be ready for intended use or selling begin. When the assets meeting the capitalization requirements are acquired or constructed to be ready for intended use or selling, the capitalization shall be terminated, and the borrowing costs incurred subsequently shall be included in the current profit or loss. If assets satisfying capitalization conditions are suddenly suspended in acquisition or construction for more than three months continuously, the capitalization of the borrowing costs shall be suspended until the restart of acquisition or construction of the assets.

The actually incurred interest costs of special borrowings in current period shall be capitalized after the interest income from deposits in banks or investment income from temporary investment with the unused borrowings is deducted from it. The capitalized amount of general borrowings shall be obtained by multiplying the weighted average of the excess of the accumulated asset expenditures over the asset expenditures of special borrowings with the capitalization rate of general borrowings used. The capitalization rate shall be calculated and determined in light of the weighted average interest rate of the general borrowing.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

23. Right-of-use assets

A right-of-use asset refers to the right of the Group as the lessee to use the leased asset during the lease term.

(1) Initial measurement

At the commencement date of the lease term, the Group initially measures the right-of-use assets at cost. The cost includes the following four items: ① initial measurement amount of lease liabilities; ② deducted amount related to the enjoyed lease incentive if there is a lease incentive for the lease payment made on or before the commencement date of the lease term; ③ initial direct cost incurred, i.e. incremental cost incurred to reach the lease; ④ costs expected to be incurred for dismantling and removing the leased asset, restoring the site where the leased asset is located or restoring the leased asset to the state agreed in the leasing terms, except those incurred for the production of inventory.

(2) Subsequent measurement

After the commencement date of the lease term, the Group uses the cost model to carry out subsequent measurement on the right-of-use asset, i.e. the right-of-use assets is measured by the cost minus accumulated depreciation and accumulated impairment loss.

If the Group remeasures the lease liabilities in accordance with the relevant provisions of the leasing standards, the book value of the right-of-use asset shall be adjusted accordingly.

(3) Depreciation of right-of-use assets

Starting from the commencement date of the lease term, the Group will depreciate the right-of-use asset. The right-of-use asset is usually depreciated from the current month that the lease term starts. The depreciation amount for provision is included in the cost of underlying assets or the current profit or loss according to the use of the right-of-use asset.

When determining the depreciation method for the right-of-use asset, the Group makes a decision based on the expected consumption mode of economic benefits related to the right-of-use asset, and depreciates the right-of-use asset by the straight-line method.

When determining the depreciation life of right-of-use asset, the Group follows the following principles: if the ownership of leased asset can be reasonably confirmed to be acquired at the expiration of lease term, the depreciation shall be carried out within the remaining useful life of leased asset; otherwise, the depreciation shall be carried out within the lease term or the remaining useful life of leased asset, whichever is shorter.

(4) Impairment of right-of-use assets

If the right-of-use asset is impaired, the Group will carry out subsequent depreciation according to the book value of the right-of-use asset after deducting the impairment loss.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

24. Intangible assets

The intangible assets of the Group include land use right, software, patent right, trademark right, franchise, customer resources, etc., which shall be measured at actual cost when being obtained; for the intangible assets purchased, price actually paid and related other expenditure shall be deemed as actual cost; and for the intangible assets invested by the investor, value agreed in accordance with investment contract or agreement is recognized as actual cost, except value agreed in the contract or agreement is unfair, in such case, the actual cost shall be recognized at fair value. The intangible asset, which is owned by the acquiree in a business combination not involving entities under common control but has not been recognised in its financial statement, shall be recognised as an intangible asset at its fair value upon the initial recognition on the acquiree's assets. The intangible assets contributed by State shareholders at the reorganization of the Company into a corporation entity are recognized based on the revalued amounts approved by the state-owned assets administration department.

The useful life of an intangible asset is determined according to the period over which it is expected to generate economic benefits for the Group. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

Land use rights that are purchased by the Group are normally accounted for as intangible assets. Self-developed and constructed buildings such as plants, the relevant land use rights and buildings are accounted for as intangible assets and fixed assets, respectively. If the purchase costs of land use rights and buildings located thereon cannot be reliably allocated between the land use rights and buildings, they are all recognised as fixed assets.

Intangible assets with a definite useful life are amortised on a straight-line basis over their useful lives. The Group reviews the useful lives and the amortisation method of intangible assets with finite useful lives, and adjusts if necessary, at least at each year end.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

25. Research and development

The Group divides expenses for internal research and development projects into expenses in the research phase and expenses in the development phase. Expenses in the research phase are included in current profit or loss as incurred. Expenses in the development phase may only be capitalized if the following conditions are satisfied simultaneously: the completion of such intangible assets for use or sale is technically feasible; the Company has the intention to use or sell the intangible assets upon completion; the way in which the intangible assets bring economic benefits shows that there exists a consumption market for the products with use of these intangible assets or the intangible assets themselves, or that they are useful in case of internal utilization; the Company has sufficient technological, financial and other resources to complete the development of the intangible assets and the ability to make them available for use or sale; and the expenses attributable to such intangible assets can be measured reliably at the development stage. Development expenses not satisfying all above conditions are included in current profit or loss as incurred.

The expenditures in the planned investigation, evaluation and selection phases for researching products are expenditures in the research phase, which are included in the current profit or loss when they occur; before mass production, the expenditures in the design and testing phases for the final application of the product are expenditures in the development phase, and if the following conditions are met at the same time, shall be capitalized:

- (1) The development of the product has been sufficiently proved by the technical team;
- (2) The budget relating to the product development has been approved by the management;
- (3) It can be demonstrated that the products due to development have potential market from previous marketing investigation;
- (4) There are adequate technical and financial resources for the development of products and subsequent large-scale production;
- (5) The expenditure attributable to the product during its development phase can be liable measured.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

26. Long-term deferred expenses

Long-term deferred expenses of the Group include renovation costs, leasehold improvements and other expenses. Such expenses shall be equally amortized in the benefit period. If the long-term deferred expenses items will not benefit the future accounting period, the amortized value of unamortized items shall be all transferred to the current profit or loss.

27. Goodwill

Goodwill is the amount at the acquisition date or purchasing date of the investment cost or cost of business combination not involving entities under common control, that exceeds the acquirer's interest in the fair value of the investees' or acquirer's identifiable net assets.

Goodwill related with subsidiaries is presented in consolidated financial statements as a separate item. Goodwill related with joint ventures and associates are included in the carrying amount of long-term equity investment.

28. Impairment of non-financial long-term assets

The Company reviews items such as long-term equity investments, investment properties, fixed assets, construction in progress and right-of-use assets measured by the cost model, intangible assets with definite useful life, etc. on each balance sheet date. The Group conducts impairment test when there is any indication of impairment. Goodwill and intangible assets with indefinite useful life are tested at the end of each period for impairment, whether indication of impairment exists or not.

If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset. The recoverable amount shall be the higher of the net amount after deducting the cost of disposal from the fair value of an asset and the present value of the future cash flow of the asset. The Group estimated the recoverable amount on the basis of individual assets. If the recoverable amount of an individual asset is hard to be estimated, the recoverable amount of an asset group shall be determined based on the asset group where the asset belongs. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

28. Impairment of non-financial long-term assets (Continued)

For the purpose of impairment testing, the carrying amount of goodwill acquired in a business combination is allocated from the purchase date on a reasonable basis, to each of the related asset groups; if it is impossible to allocate to the related asset groups, it is allocated to each of the related sets of asset groups. Each of the related asset groups or sets of asset groups is an asset group or set of asset group that is able to benefit from the synergies of the business combination and shall not be larger than a reportable segment determined by the Company.

In testing an asset group or a set of asset group to which goodwill has been allocated for impairment, if there is any indication of impairment, the Group firstly tests the asset group or set of asset groups excluding the amount of goodwill allocated for impairment, calculates the recoverable amount and recognises impairment loss if any. After that, the Group tests the asset group or set of asset groups including goodwill for impairment. The carrying amount of the related asset group or set of asset groups is compared to its recoverable amount. If the carrying amount of the asset group or set of asset groups is higher than its recoverable amount, the amount of the impairment loss shall firstly charge against the carrying amount of the goodwill allocated to the asset group or set of asset groups, and then charge against the carrying amount of other assets (other than the goodwill) within the asset group or set of asset groups, on a pro rata basis of the carrying amount of each asset.

If the impairment test shows that the book value of the asset is greater than its recoverable amount, the difference between the two is recognized as impairment loss.

Such impairment loss, once recognized, should not be reversed in later accounting period.

29. Contract liabilities

The contract liabilities reflect the Group's obligations to transfer commodities to the customer due to customer consideration received or receivable. If the customer has paid the contract consideration or the Group has obtained the right to receive the contract consideration unconditionally before the transfer of the commodities to the customer, the contract liability shall be confirmed according to the amount received or receivable at the earlier of the date of actual payment from the customer and the due date of payment. Contract assets and contract liabilities of same contract are presented in net amount.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

30. Employee compensation

Employee compensation of the Group includes short-term compensation, post-employment welfare, dismissal welfare and other long-term welfares.

Short-term compensation mainly includes employee salary, bonus, allowance and subsidy, employee benefit, social insurance premium, housing provident fund, etc. The Group shall recognize the short-term compensation actually incurred as liability and include it in the current profit or loss or related asset cost based on the beneficiaries during the accounting period when employees provide services.

Post-employment welfare mainly includes basic pension insurance, unemployment insurance, annuity payments, etc., which shall be classified into defined contribution plan and defined benefit plan as per the risk and obligation assumed by the Company. Contribution that paid to individual subject for the services provided by the employees in the accounting period on the balance sheet date as per the defined contribution plan shall be recognized as liabilities, and included in the current profit or loss or related asset cost as per the benefit object. Some subsidiaries of the Group operate a defined benefit pension plan. No funds are injected in the plan. The measurement of the obligations arising from the defined benefit pension plan is estimated with the projected unit credit method, and the vesting period of the related obligations is determined. The actuarial gains or losses arising from the remeasurement of the defined benefit pension plan shall be immediately recognized in the balance sheet, and shall be included in the owner's equity through other comprehensive income during the period of occurrence, and shall not be transferred back to the profit or loss in the subsequent period. The past service cost caused by the modification of the defined benefit pension plan shall be recognized as the current expenses at the earlier of the date when the defined benefit plan is modified by the relevant subsidiary or when the relevant restructuring expenses or the termination benefits are confirmed. The net interest of the defined benefit pension plan is calculated by multiplying the net debt of the defined benefit pension plan by the discount rate. The Group recognizes changes in net liabilities of the defined benefit plan under administrative expenses and finance expenses in the income statement, which include current service cost, past service cost and gains or losses on settlement, and net interest.

Termination benefits are incurred when the Company terminates the employment relationship with employee before the expiry of the employment contracts or provides compensation as an offer to encourage employee to accept voluntary redundancy. If the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a provision for the compensation payable arising from the termination of employment relationship with employees is recognized with a corresponding charge to the profit or loss for the period.

Other long-term welfare refers to all employee benefits except for short-term remuneration, post-employment welfare, and dismissal welfare.



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(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

31. Lease liabilities

(1) Initial measurement

The Group initially measures the lease liabilities according to the present value of the lease payment which is not made at the commencement of the lease term.

1) Lease payment

Lease payment refers to the amount paid by the Group to the lessor relating to the right to use the leased asset during the lease term, including: ① fixed payment and substantial fixed payment, of which the amount related to lease incentive shall be deducted if there is lease incentive; ② variable lease payment depending on index or ratio, which is determined according to the index or ratio at the commencement date of the lease term during initial measurement; ③ exercise price of purchase option when the Group reasonably determines to exercise purchase option; ④ payment made for exercising the option to terminate the lease when the lease term reflects that the Group exercises such option; and ⑤ amount expected to be paid according to the guaranteed residual value provided by the Group.

2) Discount rate

In calculating the present value of the lease payment, the Group adopts the incremental borrowing rate as the discount rate. The incremental borrowing rate refers to the interest rate that the Group should pay to borrow funds under similar mortgage conditions during a similar period in order to obtain assets with a value close to the value of the right-of-use assets under similar economic circumstances. The interest rate is related to the following matters: ① the Group's own situation, namely, the Group's solvency and credit status; ② term of "borrowing", namely the lease term; ③ the amount of "borrowed" funds, namely, the amount of lease liabilities; ④ "mortgage conditions", namely, the nature and quality of the underlying assets; and ⑤ economic environment, including the jurisdiction where the lessee is located, pricing currency, contract signing time, etc. Based on the Group's the average interest rate of the borrowing rate during the same period, the Group makes adjustment by considering the above factors to obtain the incremental borrowing rate.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

31. Lease liabilities (Continued)

(2) Subsequent measurement

After the commencement date of the lease term, the Group will carry out subsequent measurement of the lease liabilities according to the following principles: ① increase the carrying amount of the lease liabilities when confirming the interest on the lease liabilities; ② reduce the carrying amount of lease liabilities when making the lease payment; ③ remeasure the book value of the lease liabilities when the lease payment changes due to revaluation or lease change.

The interest expenses of the lease liabilities within each lease term shall be calculated according to the fixed periodic rate, and included in the current profit or loss, except for those should be capitalized. Periodic rate refers to the discount rate adopted by the Group when initially measuring the lease liabilities, or the revised discount rate adopted by the Group when the lease liabilities need to be remeasured according to the revised discount rate due to changes in the lease payment or lease changes.

(3) Remeasurement

After the commencement date of the lease term, in case of the following circumstances, the Group shall remeasure the lease liabilities according to the changed lease payment and the present value calculated by the revised discount rate, and adjusts the book value of the right-of-use asset accordingly. If the book value of the right-of-use asset has been reduced to zero, but the lease liabilities still need to be further reduced, the Group shall include the remaining amount in the current profit or loss. ① The substantial fixed payment changes; ② the expected payable amount of the guaranteed residual value changes; ③ the index or ratio used to determine the lease payment changes; ④ the evaluation result of purchase option changes; and ⑤ the evaluation result of renewal option or option to terminate the lease or actual exercise changes.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

32. Share-based payment

The share-based payment settled by equity for obtaining services of employees shall be measured according to the fair value on the date when granting the equity instrument to employees. In situations where the amount of fair value is only vested after completing services in waiting period or reaching specific performance conditions, the amount fair value calculated by the method of line based on the optimal estimation of the quantity of vesting equity instruments in waiting period shall be included in relevant cost or expense, with capital reserves increased correspondingly.

Share-based payment settled by cash shall be measured at the fair value of liabilities recognized based on shares or other equity instruments assumed by the Group. For the share-based payment with immediate vesting after it is granted, its relevant cost or expenditure shall be included on the date when it is vested with increasing the liabilities correspondingly; for the share-based payment vesting only after the services in the waiting period is completed or the specified performance conditions are satisfied, the services obtained in the current period shall be recorded into costs or expenditures based on the optimal estimation of the vesting and at the fair value of the liabilities assumed by the Company on each balance sheet date within the waiting period, and the liabilities shall be adjusted correspondingly.

On each balance sheet date and settlement date before settlement of relevant liabilities, the fair value of liabilities shall be remeasured, and its changes shall be included in the current profit or loss.

If the Group cancels the equity instruments granted in the waiting period (except for those canceled due to failing to meet the vesting conditions), such a cancellation shall be treated as accelerated vesting as that stock payment plan in the remaining waiting period has fully met the vesting conditions; and the Group will recognize all expenses in the remaining waiting period on the current period of canceling vested equity instrument.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

33. Estimated liabilities

Where the business related to foreign guarantee, commercial acceptance discount, pending litigations or arbitrations, product quality assurance, etc. meets the following conditions, the Group will recognize it as liabilities: current obligation borne by the Group; great possibility of economic benefit outflow because of performing the obligations; reliable measurement for the amount of the obligations.

Estimated liabilities are initially measured at the best estimate required to be paid when performing relevant current obligations, with comprehensive consideration of such factors as risks, uncertainties and time value of money related to contingencies. On each balance sheet date, the book value of the estimated liabilities shall be reviewed. Where there is clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount is adjusted to the current best estimate.

34. Recognition principles and measuring methods of revenue

At the effective date of contract, the Group shall assess the contract, identify each of the performance obligations in the contract, as well as ensure whether each of the performance obligations is to be fulfilled over time or at a particular point in time, and subsequently confirm the revenue accordingly upon the complete fulfilment of each of the performance obligations.

If the contract contains two or more performance obligations, the Group shall, at the beginning of the contract, apportion the transaction price to each performance obligation according to the relative proportion of the individual selling price of the commodities or services promised by each performance obligation, and measure the revenue according to the transaction price apportioned to each performance obligation.

The transaction price is the amount of consideration that the Group is expected to be entitled to receive for the transfer of commodities or services to the customer, excluding payments received on behalf of third parties. The transaction price confirmed by the Group shall not exceed the amount of accumulative confirmed revenue that will most likely not be great reverse when the relevant uncertainty is removed. The amount expected to be refunded to the consumer shall not be included in the transaction price as the liabilities. Where there is a material financing element in the contract, the Group determines the transaction price on the basis of the amount payable in cash assuming that the customer acquired control of the goods or services at the time of acquisition. The difference between the transaction price and the contract consideration shall be amortized over the contract period using the effective interest rate method. By the commence date of the contract, if the Group estimates that the interval between customer's control rights of goods or services and the payments of the customer is not more than one year, the significant financing components existing in the contract shall not be considered.



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(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

34. Recognition principles and measuring methods of revenue (Continued)

In case one of the following conditions is met, the Group will perform the performance obligations within a period of time. Otherwise, it will perform the performance obligations at a time point:

- (1) The customer obtains and consumes the economic benefits brought by the Group while performing the contract;
- (2) The customer can control the goods under construction during the Group's performance;
- (3) The goods generated during the performance of the Group are irreplaceable, and the Group is entitled to collect the amount for the performance accumulatively completed so far throughout the term of the contract.

For the performance obligations performed within a certain period of time, the Group shall confirm the revenue according to the performance progress during that period and determine the performance progress according to the proportion of the cost incurred to the estimated total cost. If the performance progress cannot be reasonably confirmed, and the costs incurred by the Group can be expected to be compensated, the revenue shall be confirmed according to the amount of costs incurred until the performance progress can be reasonably confirmed.

For performance obligations performed at a certain time point, the Group shall confirm the revenue at the time point when the customer gains control rights of the relevant commodities or services. In determining whether a customer has obtained the control rights of the goods or services, the Group shall take the following indications into consideration:

- (1) The Group enjoys the current collection right in regard to such goods or services;
- (2) The Group has transferred the legal ownership of such goods to the customer;
- (3) The Group has transferred the physical goods to the customer;
- (4) The Group has transferred the main risk and rewards of such goods in terms of ownership to the customer;
- (5) The customer has accepted such goods or services, etc;
- (6) Other signs that the customer has obtained control of the product.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

34. Recognition principles and measuring methods of revenue (Continued)

The right that the Group has the right to collect the consideration because it has transferred such goods or services to the customer shall be presented as the contractual asset, and the contract assets take the expected credit loss as the base to make the impairment. The Group's unconditional right to collect consideration from customers shall be presented as receivables. The Group's obligations to transfer goods or services to the customer due to customer consideration received or receivable shall be presented as the contract liabilities.

35. Government grants

The asset-related government grants of the Group refer to those obtained by the Group and used for the acquisition or construction of long-term assets or obtainment of such assets by other forms. The revenue-related government grants refer to those other than the asset-related government grants. If no assistance object is specified in the government documents, the Group shall determine it based on the above identifying principles. For those hard to be identified, the Group classify them totally in the revenue-related government grants.

Where the government grants belong to monetary asset, it shall be measured at the amount actually received; for subsidy granted as per the fixed quota standard, when there are unambiguous evidences showing that related conditions as stipulated in the financial supporting policies are met and it is expected that the financial supporting assets can be obtained, such subsidy shall be measured as per the receivable amount; where the government grants do not belong to non-monetary asset, it shall be measured at the fair value; if the fair value cannot be obtained, then it shall be measured at its nominal amount (RMB1).

The asset-related government subsidies are used to write down the book value of the related assets or recognized as deferred income. Asset-related government subsidies recognized as deferred income are equally charged to profit or loss over the useful life of the relevant asset.

When the related assets are sold, assigned, scraped or damaged before the end of useful life, the balance of undistributed deferred income shall be transferred to the profit or loss of the current period of assets disposal.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

35. Government grants (Continued)

Government grants relating to income applied in compensating related costs and expenses or losses in subsequent periods are recognized as deferred income and included in profit or loss or offset against the relevant costs for the current period in which the related costs and expenses or losses are recognized. Government grants, applied in compensating related costs and expenses or losses already incurred, are directly included in profit or loss or offset against the relevant costs for the current period.

Where government grants relate to the daily business operations, such grants shall be included to other gains or offset against the relevant costs and expenses based on the economic business nature. Government grants irrelevant to the daily business operations shall be included to non-operating income and expenses.

The Group accounts for interest subsidies of policy-based preferential loans it obtains on the following principles and under two circumstances:

1. Where the finance allocates the interest subsidy to the lending bank and the lending bank loans to the Group at the policy-based preferential interest rate, the Group records the amount of loan it actually receives as the entry value of the loan, and calculates the related borrowing costs based on the principal amount of the loan and the policy-based preferential interest rate.
2. Where the finance allocates the interest subsidy to the Group directly, the Group offsets the related borrowing costs with the subsidy.

When the Group has to return government grants it has already recognised, such grants are accounted for in the period in which they are required to be returned under different circumstances:

- (1) If the carrying value of the related assets is offset upon initial recognition, the carrying value of the assets is adjusted.
- (2) If there is related deferred income, the book balance of deferred income is offset, and the excess is included in the current profit or loss.
- (3) In other cases, the returned grants are directly included in the current profit or loss.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

36. Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and deferred income tax liabilities of the Group shall be calculated and recognized according to the difference (temporary difference) between the tax base and the carrying amount thereof. As to taxable income with deductible loss and tax deduction that can be deducted in the future as specified by tax laws, corresponding deferred income tax assets shall be recognized. For temporary difference from initial recognition of goodwill, relevant deferred tax liabilities will not be recognized. For the temporary difference from initial recognition of assets or liabilities incurred in transaction which is not business combination and the occurrence of which has no impact on the accounting profits and the taxable income (or deductible losses), relevant deferred income tax assets and deferred income tax liabilities will not be recognized. Deferred income tax assets and deferred income tax liabilities shall be measured at applicable tax rate during the anticipated period for recovering such assets or paying off such liabilities on the balance sheet date.

The Group recognizes the deferred income tax assets to the extent of any future taxable income that are likely to be obtained to deduct temporary differences, deductible losses and tax deduction.

37. Lease

The leasing business of the Group includes plant and buildings, land use rights, equipment leasing, etc.

(1) Identification of lease

Lease refers to a contract that the lessor transfers the right to use the asset to the lessee for acquiring consideration within a certain period of time. On the commencement date of contract, the Group evaluates whether the contract is a lease or includes a lease. If one party to the contract abalienates the right to control the use of one or more identified assets within a certain period of time in exchange for consideration, the contract is a lease or includes a lease. In order to determine whether one party to the contract has abalienated the right to control the use of the identified assets within a certain period of time, the Group evaluates whether the customers in the contract are entitled to obtain almost all the economic benefits arising from the use of the identified assets during the use period and to dominate the use of the identified assets during the use period.

If the contract contains multiple separate leases at the same time, the Group will split the contract and carry out accounting treatment for each separate lease. If the contract includes both lease and non-lease parts, the Group will split the lease and non-lease parts and then carry out accounting treatment.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

37. Lease (Continued)

(2) The Group as the lessee

1) Initial measurement lease confirmation

At the commencement date of the lease term, the Group recognizes the right-of-use asset and lease liabilities for the lease. The right-of-use asset is initially measured at the cost, including the initial measurement amount of the lease liabilities, the lease payment made at or before the commencement date of the lease term (deducting the amount related to the lease incentive already enjoyed), the initial direct expenses incurred and the costs expected to be incurred for dismantling and removing the leased assets, restoring the site where the leased assets are located or restoring the leased assets to the state agreed in the leasing terms.

The right-of-use asset and lease liabilities are recognized by the Group as lessee.

2) Lease change

Lease change refers to the change of lease scope, lease consideration and lease term beyond the original contract terms, including adding or terminating the right to use one or more leased assets, extending or shortening the lease term stipulated in the contract, etc. The effective date of lease change refers to the date when both parties reach an agreement on lease change.

If the lease changes and meets the following conditions at the same time, the Group will take the lease change as a separate lease for the accounting treatment: ① the lease change expands the lease scope by increasing the right to use one or more leased assets; and ② the increased consideration is equivalent to the amount by adjusting the separate price of the expanded lease scope according to the contract.

If the lease change is not taken as a separate lease for the accounting treatment, the Group will, on the effective date of the lease change, apportion the consideration of the changed contract in accordance with the relevant provisions of the leasing standards, and redetermine the changed lease term; and use the revised discount rate to discount the changed lease payment to remeasure the lease liabilities. In calculating the present value of the changed lease payment, the Group adopts the interest rate implicit in lease in the remaining lease term as the discount rate. If it is impossible to determine the interest rate implicit in lease in the remaining lease term, the Group will adopt the lessee's incremental borrowing rate at the effective date of the lease change as the discount rate. As for the impact of the above adjustment of lease liabilities, the Group carries out the accounting treatment according to the following circumstances: ① if the lease scope is reduced or the lease term is shortened due to the lease change, the lessee shall reduce the book value of the right-of-use asset and include the relevant gains or losses from the partial termination or complete termination of the lease into the current profit or loss. ② If the lease liabilities are remeasured due to the other lease changes, the lessee shall adjust the book value of the right-of-use asset accordingly.

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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

37. Lease (Continued)

(2) The Group as the lessee (Continued)

3) Short-term lease and low-value asset lease

For the short-term lease with a lease term of not more than 12 months and low-value asset lease with a lower value when a single leased asset is brand new, the Group chooses not to recognize the right-of-use asset and lease liabilities. The Group will include the lease payment for short-term lease and low-value asset lease into the related asset cost or current profit or loss by the straight-line method or other systematic and reasonable methods during each lease term.

(3) The Group as the lessor

On the basis that the contract evaluated is the lease or includes the lease, the Group, as the lessor, divides the lease into financial lease and operating lease on the lease commencement date.

If a lease substantially transfers almost all the risks and rewards related to the ownership of the leased asset, the lessor shall classify the lease as a financial lease and other leases other than the financial lease as an operating lease.

In each lease term, the Group will recognize the lease amount of operating lease as the rental income by the straight-line method.

The fixed assets in the assets under operating lease will be depreciated according to the depreciation policies applied by the Group for similar assets; and other assets under operating lease shall be amortized in a systematic and reasonable way.

The Group's variable lease payment which is related to operating lease and not included in lease receipts is included in the current profit or loss when it is actually occurs.

If there is a change in the operating lease, the Group will take it as a new lease for accounting treatment from the effective date of change, and the lease receipts received in advance or receivable related to the lease before the change will be regarded as the receipts for the new lease.

At the commencement date of the lease term, the Group recognizes the financial lease receivables for financial lease and derecognizes the financial leasing assets. When the Group initially measures the financial lease receivables, the net investment in a lease is taken as the entry value of the financial lease receivables.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

38. Held-for-sale

The Group classifies the non-current assets or disposal groups meeting the following conditions as the held-for-sale assets: (1) the non-current assets or disposal groups can be immediately sold under current conditions pursuant to general terms for selling such assets or disposal groups in a similar transaction; and (2) the sales are very likely to occur, i.e., a resolution has been made on a sales plan and a definitive purchase commitment has been obtained, and the sales are expected to be completed within one year. Relevant regulations require that the relevant approval needs to be obtained for those available for sale after approval by relevant authorities or regulators. Before the non-current assets or disposal groups are classified as the held-for-sale assets for the first time, the Group shall measure the book value of each asset and liability in the non-current assets or disposal groups in accordance with the relevant accounting standards. When the non-current assets or disposal groups held for sale are measured initially or remeasured on the balance sheet date, if the book value is higher than the net amount obtained by deducting the selling expenses from the fair value, the book value shall be reduced to the net amount obtained by deducting the selling expenses from the fair value, and the write-down amount shall be recognized as the asset impairment losses and shall be included in the current profits or losses and the impairment provision of held-for-sale assets shall be made at the same time.

The Group classifies the non-current assets or disposal groups that are acquired exclusively for resale, meet the conditions of “the sales are expected to be completed within one year” on the purchase date and are likely to meet other conditions for held-for-sale assets in a short time (usually three months) as the held-for-sale assets on the purchase date. In the initial measurement, the initial measurement amount assuming they are not classified as the held-for-sale assets and the net amount obtained by deducting the selling expenses from the fair value are compared, whichever is less. Except for the non-current assets or disposal groups acquired in the business merger, the difference arising from the net amount obtained by deducting the selling expenses from the fair value in the non-current assets or disposal groups as the initial measurement amount shall be included in the current profits or losses.

If the Group loses control over its subsidiaries due to the sales of investment in subsidiaries and other reasons, whether the Group reserves some of its equity investments after the sales or not, when the investment in subsidiaries to be sold meets the conditions for the held-for-sale assets, the investment in subsidiaries will be classified as the held-for-sale assets as a whole in the individual financial statements of the parent company and all the assets and liabilities of subsidiaries will be classified as the held-for-sale assets in the consolidated financial statements.

If the net amount obtained by deducting the selling expenses from the fair value of non-current assets held for sale on the subsequent balance sheet date increases, the previous write-down amount shall be recovered and reversed from the asset impairment losses recognized after being classified as the held-for-sale assets, and the reversed amount shall be included in the current profits or losses. The asset impairment losses recognized before being classified as the held-for-sale assets shall not be reversed.

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(The notes to the financial statements are presented in RMB, except as otherwise noted)

IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

38. Held-for-sale (Continued)

For the asset impairment losses recognized in the disposal group held for sale, the book value of the goodwill in the disposal group shall be deducted, and then the book value shall be deducted proportionately based on the proportion of the book value of each non-current asset.

If the net amount obtained by deducting the selling expenses from the fair value of disposal groups held for sale on the subsequent balance sheet date increases, the previous write-down amount shall be recovered and reversed from the asset impairment losses recognized in the non-current assets applicable to the relevant measurement rules after being classified as the held-for-sale assets, and the reversed amount shall be included in the current profits or losses. The book value of goodwill deducted and the asset impairment losses recognized in the non-current assets before being classified as the held-for-sale assets shall not be reversed.

For the subsequently reversed amount of asset impairment losses recognized in the disposal group held for sale, the book value shall be increased proportionately based on the proportion of the book value of each non-current asset other than the goodwill in the disposal group.

No depreciation or amortization is provided for non-current assets held for sale or non-current assets in the disposal group. The interest of liabilities and other expenses in the disposal group held for sale shall be recognized continuously.

When the non-current assets or disposal groups held for sale are not further classified as the held-for-sale assets or the non-current assets are removed from the disposal groups held for sale due to failure to meet the conditions for the held-for-sale assets, the measurement shall be conducted based on the lower of the following two: (1) book value before being classified as the held-for-sale assets based on the amount of depreciation, amortization or impairment after adjustment that should be recognized in the case that assuming they are not classified as the held-for-sale assets; (2) recoverable amount.

When the non-current assets or disposal groups held for sale are derecognized, the unrecognized gains or losses shall be included in the current profits or losses.

39. Segment information

The Group determines operating segments based on internal organisational structure, management requirements, and internal reporting systems, and determines reporting segments based on operating segments, and discloses such segment information.

An operating segment is a component of the Company that meets the following conditions simultaneously: (1) the component is able to generate revenues and incur expenses from its ordinary activities; (2) its operating results are regularly evaluated by the Company's management to make decisions about resources to be allocated to the segment and to assess its performance; (3) the accounting information on financial position, operating results and cash flows of the component is available to the Company. Two or more operating segments may be aggregated into a single operating segment if they have similar economic characteristics and meet specified conditions.



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IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

40. Discontinued operation

Discontinued operation refers to a constituent part which has been disposed by the Group or is classified as the one held for sale by the Group and can be separately distinguished, and meets one of the following conditions: (1) such constituent part represents an independent main business or a separate main operation region; (2) such constituent part is a part of an associated plan to dispose an independent main business or a separate main operation region; (3) such constituent part is a subsidiary acquired exclusively for resale.

41. Safety production expenses

The safety production expenses drawn by the Group in accordance with national regulations is included in the cost of related products or the current profit or loss, and also included in the special reserve.

When the withdrew safety expenses are being used by the Group, if the expenditure is being expensed, the special reserve shall be directly written off. For fixed assets which have been generated therefrom, the expenses incurred in the collection of the construction-in-progress shall be recognized as fixed assets when the safety project is completed and ready for its intended use; at the same time, the special reserve shall be offset by the cost of forming the fixed assets, and recognise the same amount of accumulated depreciation. Such fixed assets are no longer depreciated in subsequent periods.

42. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

There is no change in accounting policies during the year.

(2) Changes in significant accounting estimates

There is no change in accounting estimates during the year.

(3) Correction of significant previous errors and the effect

There is no matter of correction of significant previous errors during the year.

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V. TAXES

1. Main taxes and tax rates

Tax category	Taxation basis	Tax rate
Mainland China		
– Value-added tax	Taxable sales; revenue from processing and repair, fitting and labour services; revenue from modern service businesses; export revenue from sales	13%,9%,6%,5%,3%,0%
– City maintenance and construction tax	Actual amount of payable turnover tax	7%,5%
– Education surcharge	Actual amount of payable turnover tax	3%
– Local education surcharge	Actual amount of payable turnover tax	2%
– Corporate income tax	Taxable income	12.5%,15%,20%,25%
– Property tax	Taxable property value, rental income	1.2%,12%
Hong Kong profits tax		16.5%
China Macau Income Tax		3%-12%
Profits tax in other countries/ regions		31.696%



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V. TAXES (Continued)

1. Main taxes and tax rates (Continued)

Description of taxpayers at different corporate income tax rates:

Name of taxable entity	Income tax rate	Note
AviChina Industry & Technology Company Limited	25%	
AVICOPTER PLC* (中航直升機股份有限公司)	25%	
Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司)	15%	①
Tianjin Helicopter Company Limited. (天津直升機有限責任公司)	25%	
Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司)	15%	①
Jingdezhen Changhang Aviation High-tech Co., Ltd. (景德鎮昌航航空高新技術有限責任公司)	15%	①
Harbin Hafei Aviation Industry Co., Ltd. (哈爾濱哈飛航空工業有限責任公司)	15%	①
Harbin General Aircraft Industry Co., Ltd. (哈爾濱通用飛機工業有限責任公司)	25%	
Harbin Aviation Industry (Group) Co., Ltd.* (哈爾濱航空工業(集團)有限公司)	25%	
AVIC Helicopter Co., Ltd. (中航直升機有限責任公司)	25%	
Changhe Aircraft Industry (Group) Corporation Ltd. (昌河飛機工業(集團)有限責任公司)	25%	
Harbin Aircraft Industry Group Co., Ltd. (哈爾濱飛機工業集團有限責任公司)	15%	①
Harbin Hafei Aviation Maintenance Engineering Co., Ltd. (哈爾濱哈飛航空維修工程有限責任公司)	25%	
Tianjin AVIC Jinjiang Aviation Maintenance Engineering Co., Ltd. (天津中航錦江航空維修工程有限責任公司)	25%	
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	15%	①
Jiangxi Changjiang General Aviation Co., Ltd. (江西長江通用航空有限公司)	20%	③
AVIC JONHON Optronics Technology Co., Ltd.* (中航光電科技股份有限公司)	15%	①
AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限責任公司)	15%	①
AVIC Optoelectronics Huayi (Shenyang) Electronic Technology Co., Ltd. (中航光電華億(瀋陽)電子科技有限公司)	15%	①
AVIC Forstar S&T Company Limited* (中航富士達科技股份有限公司)	15%	①
Xi'an TST Testing Technique co.,Ltd (西安泰斯特檢測技術有限公司)	20%	③
Xi'an Forstar Cable Co., Ltd. (西安富士達線纜有限公司)	15%	①
Forstar Technology (Hong Kong) Co., Ltd. (富士達科技(香港)有限公司)	16.50%	
AVIC Optoelectronic (Luoyang) Co., Ltd. (中航光電(洛陽)有限責任公司)	20%	③
Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司)	15%	①
Dongguan Xiangtong Photoelectric Technology Co., Ltd. (東莞市翔通光電技術有限公司)	15%	①
AVIC Optoelectronic Precision Electronics (Shenzhen) Co., Ltd. (中航光電精密電子(深圳)有限公司)	15%	①

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From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

V. TAXES (Continued)

1. Main taxes and tax rates (Continued)

Description of taxpayers at different corporate income tax rates: (Continued)

Name of taxable entity	Income tax rate	Note
Taixing Aviation Optoelectronic Technology Co., Ltd. (泰興航空光電技術有限公司)	15%	①
AVIC Optoelectronic (Guangdong) Co., Ltd. (中航光電(廣東)有限公司)	25%	
AVIC Optoelectronics (Germany) Co., Ltd. (中航光電(德國)有限責任公司)	31.696%	
AVIC Optoelectronic (Shanghai) Co., Ltd. (中航光電(上海)有限公司)	25%	
China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司) *	25%	
Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司)	15%	①
Shanghai Hanghao Auto Parts Co., Ltd. (上海航浩汽車零部件有限公司)	15%	①
AVIC Guohua (Shanghai) Laser Display Technology Co., Ltd. (中航國畫(上海)激光顯示科技有限公司)	15%	①
Shanghai Hangkai Electronic Technology Co., Ltd. (上海航鎧電子科技有限公司)	25%	
Shanghai Super Champion Machinery & Electrical Equipment Co., Ltd. (上海越冠機電設備有限公司)	15%	①
Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司)	15%	②
Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司)	15%	②
Lanzhou Lanfeiweishi Measurement and Control Technology Co., Ltd. (蘭州蘭飛唯實測控技術有限責任公司)	20%	③
AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司)	15%	①
AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司)	15%	②
AVIC Xi'an Huayan Aero-Instrument Co., Ltd. (西安華燕航空儀錶有限公司)	20%	③
AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司)	15%	②
Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司)	15%	②
Chengdu Chenghang Vehicle Instrument Co., Ltd. (成都成航車輛儀錶有限責任公司)	15%	②
Chengdu CAIC Feihao Data Communication Technology Co., Ltd. (成都凱天飛昊數據通信技術有限責任公司)	20%	③
Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司)	15%	①
Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司)	15%	②
Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司)	15%	①
Beijing Keeven Avionics Technology Co., Ltd. (北京青雲航電科技有限公司)	25%	
China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究院有限公司)	15%	①
China Aviation Integration Equipment Co., Ltd. (中航工程集成設備有限公司)	15%	①
China Aviation Engineering Supervision (Beijing) Co., Ltd. (中航工程監理(北京)有限公司)	25%	



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From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

V. TAXES (Continued)

1. Main taxes and tax rates (Continued)

Description of taxpayers at different corporate income tax rates: (Continued)

Name of taxable entity	Income tax rate	Note
AVIC CAPDI Engineering Consulting (Beijing) Co., Ltd. (中航工程諮詢(北京)有限公司)	20%	③
China Aviation International Construction and Investment Co., Ltd. (中國航空國際建設投資有限公司)	15%	①
AVIC CAPDI (Macau) Company Limited (中航院設計諮詢(澳門)有限公司)	25%	
AVIC Renewable Energy Investment Co., Ltd. (中國航空工業新能源投資有限公司)	25%	
Shenzhen AVIC Architectural Design Co., Ltd. (深圳市中航建築設計有限公司)	25%	
China Aviation Engineering Supervision (Hunan) Co., Ltd. (中航工程監理(湖南)有限公司)	20%	③
AVIC Construction Investment Energy Technology (Beijing) Co., Ltd. (中航建投能源科技(北京)有限公司)	25%	
AVIC Construction Investment Energy Technology Jiangsu Co., Ltd. (中航建投能源科技江蘇有限公司)	20%	③
Jilin AVIC Construction Investment Energy Technology Co., Ltd. (吉林中航建投能源科技有限公司)	20%	③
Shanghai AVIC Construction Investment Energy Technology Co., Ltd. (上海中航建投能源科技有限公司)	20%	③
Shaanxi AVIC Construction Investment Energy Technology Co., Ltd. (陝西中航建投能源科技有限公司)	20%	③
Jinzhou (Baotou) Renewable Energy Co., Ltd. (金州(包頭)可再生能源有限公司)	15%	②
AVIC Nanchong Renewable Energy Co., Ltd. (中航工業南充可再生能源有限公司)	15%	②
AVIC Bai'an New Energy Power Co., Ltd. (中航百安新能源電力有限公司)	25%	
AVIC Shenxin Wind Power Co., Ltd. (中航申新風力發電有限公司)	12.5%	
Xiangzhou Avionics New Energy Co., Ltd. (象州航電新能源有限公司)	25%	
Changchun Hangju Biomass Energy Co., Ltd. (長春航聚生物質能有限公司)	25%	
Beijing Yinyan Industrial Co., Ltd. (北京銀燕實業有限公司)	25%	
Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司)	15%	①
Tianjin Tianli Aviation Mechanical and Electrical Co., Ltd. (天津天利航空機電有限公司)	25%	
AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司)	25%	
AviChina Hong Kong Limited. (中航科工香港有限公司)	16.50%	

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

V. TAXES (Continued)

2. Preferential tax policies

(1) *Preferential value-added tax policy*

According to the Notice on the Value-Added Tax Policy for Military Products of the Ministry of Finance and the State Taxation Administration (Cai Shui [2014] No. 28) and the Notice on Issuing the 'Implementation Measures for Exemption from Value-Added Tax on Military Products' of the State Administration of Science, Technology and Industry for National Defense (Ke Gong Cai Shen [2014] No. 1532), the military products produced by the Group are exempt from value-added tax.

(2) *High-tech enterprise income tax preferential policies*

According to Article 28 of the Enterprise Income Tax Law of the People's Republic of China, high-tech enterprises that require great support from the state are subject to a reduced corporate income tax rate of 15%. For details of the Group's subsidiaries that are subject to the preferential tax rate for high-tech enterprises in the current year, please refer to the companies in Note ① in the above table "Description of taxpayers at different corporate income tax rates".

(3) *Income tax preferential policies for enterprises in the Western Development*

According to the Announcement on the Continuation of the Enterprise Income Tax Policy for the Western Development of the Ministry of Finance, the State Taxation Administration and the National Development and Reform Commission (Announcement No.23 [2020] of the Ministry of Finance), enterprises specified in the Catalogue of Enterprises in Encouraged Industries in the Western Region enjoy 15% preferential enterprise income tax rate from 1 January 2021 to 31 December 2030. For details of the subsidiaries of the Group enjoying such preferential tax rates in the current year, please refer to the companies in Note ② in the above table "Description of taxpayers at different corporate income tax rates".



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

V. TAXES (Continued)

2. Preferential tax policies (Continued)

(4) *Income tax preferential policies for small and micro enterprises*

According to the Notice on Applying Inclusive Tax Relief Policies to Small and Micro Enterprises of the Ministry of Finance and the State Taxation Administration (Cai Shui [2019] No.13), pursuant to which for the period from 1 January 2019 to 31 December 2021, for small and micro enterprises, the upper limit of the annual taxable income has increased from RMB500,000 to 1 million; the portion of annual taxable income not exceeding RMB1 million is subject to a corporate tax rate of 20% on the basis of 25% of this portion of its taxable income, and the portion of annual taxable income exceeding RMB1 million but not exceeding RMB3 million is subject to corporate tax rate of 20% on the basis of 50% of this portion of its taxable income. According to Article 1 of Announcement on the Implementation of Preferential Income Tax Policies for Small and Micro Enterprises and Individual Businesses of the State Taxation Administration (Announcement No. 12 of 2021 of the Ministry of Finance and the State Taxation Administration), on top of the preferential policies stipulated in Article 2 of Cai Shui [2019] No. 13, for the period from 1 January 2021 to 31 December 2022, for small and micro enterprises, the portion of annual taxable income not exceeding RMB1 million is subject to a corporate tax rate of 12.5% on the basis of 20% of this portion of its taxable income. For details of the subsidiaries of the Group enjoying such preferential tax rates in the current year, please refer to the companies in Note ③ in the above table “Description of taxpayers at different corporate income tax rates”.

(5) *Corporate income tax preferential policies for public infrastructure projects and environmental protection, energy and water saving projects*

On 7 December 2017, AVIC Shenxin Wind Power Co., Ltd. obtained the Notice of Leigao Guoshui Shuitong [2017] No. 1446 on Application for Enterprise Income Tax Reduction and Exemption issued by Leigao Taxation Branch of State Taxation Administration of Leizhou City, Guangdong Province, and was permitted to enjoy the preferential income tax policy of three exemptions and three half reductions from 2017 when it recorded the power generation income.

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

For the statistic of the financial statements disclosed below, unless otherwise specified, "opening" or "at the beginning of the year" refers to 1 January 2021, "closing" or "at the end of the year" refers to 31 December 2021, and the "current year" or "the year" refers to 1 January to 31 December 2021, the "previous year" refers to the period from 1 January to 31 December 2020, and the currency unit is RMB.

1. Monetary funds

Item	Closing balance	Opening balance
Cash on hand	653,718	646,134
Bank deposits	24,609,269,245	24,376,787,643
Other monetary funds	751,576,545	788,407,476
Total	25,361,499,508	25,165,841,253
Including: total amount deposited abroad	35,439,723	427,041,898

Note: There is no limit on the remittance of the Group's overseas deposits.

Restricted use of monetary funds at the end of the year

Item	Closing balance	Opening balance
Term deposits over three months	1,240,597,972	1,549,518,636
Note deposit	484,628,972	695,904,063
Letter of credit deposit	9,501,344	44,050,819
Guarantee deposit	62,276,951	28,480,046
Employee housing related fund account	9,960,887	8,446,705
Other restricted funds	15,811,857	2,964,093
Total	1,822,777,983	2,329,364,362



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Financial assets held for trading

Item	Closing balance	Opening balance
Financial assets at fair value through profit or loss	1,244,823,022	2,378,749,103
Including: Debt instrument investments		159,001
Equity instrument investments	323,566,567	483,491,092
Bank wealth management and trust products	921,256,455	1,895,099,010
Total	1,244,823,022	2,378,749,103

Note: The Group's equity instrument investments included in financial assets held for trading are mainly ETF funds and equity investments in other companies.

3. Notes receivable

(1) Classified presentation of notes receivable

Item	Closing balance	Opening balance
Banker's acceptance bill	3,667,548,775	3,011,566,610
Commercial acceptance bill	6,262,205,641	5,728,021,718
Total	9,929,754,416	8,739,588,328

(2) Notes receivable pledged

Item	Amount pledged at the end of the year
Banker's acceptance bill	273,457,320
Commercial acceptance bill	1,632,449,651
Total	1,905,906,971

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes receivable (Continued)

(3) Notes receivable that have been endorsed or discounted and are not yet due on the balance sheet date

Item	Amount derecognized at the end of the year	Amount not derecognized at the end of the year
Banker's acceptance bill	819,687,073	107,929,952
Commercial acceptance bill	–	248,197,228
Total	819,687,073	356,127,180

(4) Notes transferred to accounts receivable due to non-performance by the drawer

Item	Amount transferred to accounts receivable at the end of the year
Commercial acceptance bill	39,797,414
Total	39,797,414

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes receivable (Continued)

(5) Classified presentation by bad debt accrual method

Category	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Bad debt provision made individually					
Bad debt provision made as per portfolio	9,997,546,814	100.00	67,792,398	0.68	9,929,754,416
Including: Banker's acceptance bill	3,668,053,656	36.69	504,881	0.01	3,667,548,775
Commercial acceptance bill	6,329,493,158	63.31	67,287,517	1.06	6,262,205,641
Total	9,997,546,814	100.00	67,792,398	0.68	9,929,754,416

Category	Book balance		Opening balance		Book value
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Bad debt provision made individually					
Bad debt provision made as per portfolio	8,770,978,531	100.00	31,390,203	0.36	8,739,588,328
Including: Banker's acceptance bill	3,012,018,167	34.34	451,557	0.01	3,011,566,610
Commercial acceptance bill	5,758,960,364	65.66	30,938,646	0.54	5,728,021,718
Total	8,770,978,531	100.00	31,390,203	0.36	8,739,588,328

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes receivable (Continued)

(5) Classified presentation by bad debt accrual method (Continued)

1) Bad debt provision of notes receivable made as per portfolio

Name	Closing balance		Provision proportion (%)
	Book balance	Bad debt provision	
Banker's acceptance bill	3,668,053,656	504,881	0.01
Commercial acceptance bill	6,329,493,158	67,287,517	1.06
Total	9,997,546,814	67,792,398	—

(6) Provisions for bad debt accrued, recovered and reversed for notes receivable in the year

Category	Changes in the current year					Closing balance
	Opening balance	Accrued	Recovered or reversed	Written back or written off	Other decrease	
Notes receivable subjected to provision for expected credit losses on portfolio basis	31,390,203	56,887,143	20,439,948	—	45,000	67,792,398
Total	31,390,203	56,887,143	20,439,948	—	45,000	67,792,398

Note: The reason for other decrease is that Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司), a subsidiary of the Company, disposed of 50% of the equity of its holding subsidiary Jiangxi Hongdu International Mechanical & Electrical Co., Ltd.* (江西洪都國際機電有限責任公司) in the current year, which was therefore no longer included in the consolidation at the end of the year, resulting in a reduction of RMB45,000 in bad debt provision for notes receivable.

(7) The Group had no notes receivable that were actually written-off in the year.

(8) The ageing of the notes receivable at the end of the year

The ageing of the Group's notes receivable at the end of the year mentioned above is within 365 days.



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable

Item	Closing balance	Opening balance
Accounts receivable	22,233,218,824	17,289,290,092
Less: Impairment provision	912,187,024	918,663,296
Net accounts receivable	21,321,031,800	16,370,626,796

(1) Classified presentation of accounts receivable by bad debt accrual method

Category of portfolio	Original book value	Closing balance		Book value
		Proportion of bad debt provision (%)	Bad debt provision	
Bad debt provision made individually	178,874,498	91.74	164,107,133	14,767,365
Bad debt provision made as per portfolio	22,054,344,326	3.39	748,079,891	21,306,264,435
Including: Accounts receivable whose credit risk has not increased significantly since the initial recognition	22,054,344,326	3.39	748,079,891	21,306,264,435
Total	22,233,218,824	–	912,187,024	21,321,031,800

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable

(1) *Classified presentation of accounts receivable by bad debt accrual method* (Continued)

Category of portfolio	Original book value	Opening balance		Book value
		Proportion of bad debt provision (%)	Bad debt provision	
Bad debt provision made individually	215,006,331	72.40	155,660,407	59,345,924
Bad debt provision made as per portfolio	17,074,283,761	4.47	763,002,889	16,311,280,872
Including: Accounts receivable whose credit risk has not increased significantly since the initial recognition	17,074,283,761	4.47	763,002,889	16,311,280,872
Total	17,289,290,092	–	918,663,296	16,370,626,796



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable (Continued)

(1) Classified presentation of accounts receivable by bad debt accrual method (Continued)

1) Bad debt provision of accounts receivable made individually

Name	Book balance	Closing balance		Reasons for provision
		Bad debt provision	Provision proportion (%)	
Company 1	24,600,000	9,840,000	40.00	Part of it is expected to be unable to recover
Company 2	20,260,000	20,260,000	100.00	Expected to be unable to recover due to project termination
Company 3	13,595,425	13,595,425	100.00	The payments is expected to be unable to recover
Company 4	12,250,000	12,250,000	100.00	Unable to recover due to termination of cooperation
Company 5	11,701,493	11,701,493	100.00	Expected to be unable to recover
Other customers	96,467,580	96,460,215	99.99	Part of it is expected to be unable to recover
Total	178,874,498	164,107,133	— —	

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable (Continued)

(1) Classified presentation of accounts receivable by bad debt accrual method (Continued)

2) Bad debt provision of accounts receivable made by portfolio

Aging	Closing balance		Provision proportion (%)
	Book balance	Bad debt provision	
Within 1 year	18,299,091,896	117,205,896	0.64
1-2 years	2,513,719,375	198,893,725	7.91
2-3 years	587,159,715	130,927,847	22.30
3-4 years	256,210,467	101,034,117	39.43
4-5 years	135,802,758	56,632,268	41.70
Over 5 years	262,360,115	143,386,038	54.65
Total	22,054,344,326	748,079,891	—

(2) Based on the date of transaction, ageing of accounts receivable is as follows

Aging	Closing balance		Proportion of bad debt provision (%)
	Accounts receivable	Bad debt provision	
Within 1 year	18,311,199,040	132,044,973	0.72
1-2 years	2,522,703,932	204,764,940	8.12
2-3 years	624,533,148	153,385,668	24.56
3-4 years	282,860,997	129,976,917	45.95
4-5 years	168,079,959	86,514,337	51.47
Over 5 years	323,841,748	205,500,189	63.46
Total	22,233,218,824	912,187,024	4.10



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable (Continued)

(2) Based on the date of transaction, ageing of accounts receivable is as follows (Continued)

Aging	Opening balance		Proportion of bad debt provision (%)
	Accounts receivable	Bad debt provision	
Within 1 year	13,976,812,177	204,804,157	1.47
1-2 years	1,894,233,113	186,457,279	9.84
2-3 years	734,222,640	172,963,047	23.56
3-4 years	264,836,067	98,830,184	37.32
4-5 years	161,885,566	99,838,277	61.67
Over 5 years	257,300,529	155,770,352	60.54
Total	17,289,290,092	918,663,296	5.31

Certain of the Group's domestic sales are made on advance payment, while the remaining sales are paid by letters of credit or banker's acceptances or customers are granted a credit period of 180-360 days.

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable (Continued)

(3) Bad debt provision of accounts receivable in the current year

Category	Opening balance	Amount changed in the current year				Closing balance
		Provision	Accounts recovered or transferred back	Amounts written back or written off	Other decrease	
Bad debt provision made individually	155,660,407	21,770,133	8,199,454	1,630,497	3,493,456	164,107,133
Bad debts provision made on the group of credit risk characteristics	763,002,889	-3,806,219	2,085,397	7,115,766	1,915,616	748,079,891
Total	918,663,296	17,963,914	10,284,851	8,746,263	5,409,072	912,187,024

Note: The reasons for other decrease are that ① a subsidiary of the Company, AVIC JONHON Optronics Technology Co., Ltd.* (中航光電科技股份有限公司), entered into a debt restructuring agreement with a customer with a single accrual for expected credit losses at the end of the year, which agreed to receive the financial assets held for trading, resulting in a decrease of RMB3,493,456 in the bad debt provision due to derecognition of the book value of accounts receivable; ② Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司), a subsidiary of the Company, disposed 50% of the equity of Jiangxi Hongdu International Mechanical & Electrical Co., Ltd.* (江西洪都國際機電有限責任公司) during the year, a subsidiary of the company, which was therefore no longer included in the consolidation at the end of the year, resulting in a reduction of RMB1,915,616 in bad debt provision for accounts receivable.

(4) Accounts receivable actually written-off in the current year

Item	Write-off amount
Accounts receivable actually written-off	8,757,259



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Accounts receivable (Continued)

(5) Details of top five trade receivables with the closing balances classified by the borrowers

The aggregate amount of the top five trade receivables with the closing balances classified by the borrowers was RMB7,112,025,022, accounting for 32.00% of the total closing balance of accounts receivable, and the corresponding provision for bad debts at the end of the year was RMB72,107,586.

(6) Accounts receivable derecognized due to transfer of financial assets

Item	Transfer method of financial assets	Amount derecognized	Gains and losses related to derecognition (losses are presented as "-")
Company 6	Factoring without recourse	218,267,313	-4,173,580
Company 7	Factoring without recourse	179,610,000	-2,397,568
Company 8	Factoring without recourse	45,169,000	-1,670,312
Company 9	Factoring without recourse	30,000,000	-728,000
Company 10	Factoring without recourse	13,998,600	-5,522
Company 11	Factoring without recourse	6,160,000	-166,440
Company 12	Factoring without recourse	-	-150,080
Company 13	Factoring without recourse	-	-78,487
Company 14	Factoring without recourse	-	-31,340
Company 15	Factoring without recourse	4,004,051	-144,118
Company 16	Factoring without recourse	3,000,538	-107,999
Total	-	500,209,502	-9,653,446

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Receivables financing

Item	Closing balance	Opening balance
Notes receivable	4,291,292	28,095,202
Total	4,291,292	28,095,202

Note: The Group has no banker's acceptance bills for which impairment provision is individually accrued. At the end of the year, the Group measures the provision for bad debts based on the lifetime expected credit losses. The Group believes that the banker's acceptance bills issued by the banks with high credit ratings do not have significant credit risks and will not cause significant losses due to bank defaults.

6. Prepayments

(1) Aging of prepayments

Item	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	8,349,994,754	97.53	1,436,985,011	84.92
1-2 years	142,634,546	1.67	140,561,752	8.31
2-3 years	31,751,727	0.37	62,901,360	3.72
Over 3 years	38,077,397	0.43	51,671,332	3.05
Total	8,562,458,424	100.00	1,692,119,455	100.00



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Prepayments (Continued)

(2) Prepayments with significant balances aged over 1 year at the end of the year

Debtor company	Closing balance	Aging	Reason for being unsettled	Proportion of the closing balance of prepayments (%)
Company 1	30,990,925	1-2 years	Undue	0.36
Company 2	26,320,382	1-2 years	Undue	0.31
Company 3	15,819,000	1-2 years	Undue	0.18
Company 4	10,000,000	1-2 years	Undue	0.12
Company 5	9,946,918	Over 5 years	Some materials returned and the goods did not arrive	0.12
Total	93,077,225	--		1.09

(3) Details of top five prepayments with the closing balances classified by the subject receiving prepayments

The aggregate amount of the top five prepayments with the closing balances classified by the subject receiving prepayments was RMB5,160,907,889, accounting for 60.23% of the total closing balance of the prepayments.

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Other receivables

Item	Closing balance	Opening balance
Dividends receivable	37,500,000	309,300
Other receivables	164,572,117	193,163,616
Total	202,072,117	193,472,916

7.1 Dividends receivable

Investee	Closing balance	Opening balance
Harbin DongAn Automotive Engine Manufacturing Co., Ltd. (哈爾濱東安汽車發動機製造有限公司)	37,500,000	–
Avic Shaanxi Baocheng Aviation Instrument Co., Ltd (陝西寶成 航空儀表有限責任公司)	–	309,300
Total	37,500,000	309,300

7.2 Other receivables

(1) Classification of other receivables by nature

Nature of amount	Closing book value	Opening book value
Intercourse funds	138,945,360	67,007,627
Deposit and security	119,035,172	156,428,620
Pretty cash and personal loan	30,635,251	26,725,514
Receivables and payables on behalf of other parties (Funds disbursed for others)	10,845,407	63,825,744
Equipment engineering cost	2,000,000	2,000,000
Tax refund and subsidy receivable	900,106	3,782,104
Borrowings	245,295	4,650,728
Others	6,878,063	18,617,628
Total	309,484,654	343,037,965

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Other receivables (Continued)

7.2 Other receivables (Continued)

(2) Bad debt provision of other receivables

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	Expected credit loss in the future 12 months	Lifetime expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	
Opening balance		13,877,440	135,996,909	149,874,349
Opening book balance of other receivables during the year	-	-	-	-
-Be transferred to Stage 2	-	-	-	-
-Be transferred to Stage 3	-	-	-	-
-Be transferred back to Stage 2	-	-	-	-
-Be transferred back to Stage 1	-	-	-	-
Provision made in the current year	17,174,011	-1,345,381	-18,889,593	-3,060,963
Amount transferred back in the current year	-	-	-	-
Amount written back in the current year	-	-	-100,000	-100,000
Amount written off in the current year	15,819	68,907	1,905,354	1,990,080
Other changes	-	10,541	228	10,769
Closing balance	17,158,192	12,452,611	115,301,734	144,912,537

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Other receivables (Continued)

7.2 Other receivables (Continued)

(3) Other receivables listed as per aging

Aging	Closing book value	Opening book value
Within 1 year (including 1 year)	112,593,040	75,356,093
1-2 years	36,971,018	51,663,477
2-3 years	16,640,184	14,327,322
3-4 years	7,399,972	42,759,190
4-5 years	37,603,706	15,627,948
Over 5 years	98,276,734	143,303,935
Subtotal	309,484,654	343,037,965
Less: Bad debt provision	144,912,537	149,874,349
Total	164,572,117	193,163,616

Note: For details of other receivables with a single significant amount aged more than three years, please refer to Note VI. 7.2 (6) Details of top five other receivables with the closing balances classified by the borrowers.

(4) Bad debt provision of other receivables

Category	Opening balance	Provision	Amount changed in the current year			Closing balance
			Accounts recovered or transferred back	Amounts written back or written off	Other decrease	
Other receivables	149,874,349	-3,060,963	-	1,890,080	10,769	144,912,537
Total	149,874,349	-3,060,963	-	1,890,080	10,769	144,912,537

Note: The main reason for other decrease is that Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司), a subsidiary of the Company, disposed of 50% of the equity of its holding subsidiary Jiangxi Hongdu International Mechanical & Electrical Co., Ltd.* (江西洪都國際機電有限責任公司) in the current year, which was therefore no longer included in the consolidation scope of the Group at the end of the year, resulting in a reduction of RMB10,541 in bad debt provision for other receivables.



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Other receivables (Continued)

7.2 Other receivables (Continued)

(5) Other receivables actually written-off in the current year

Item	Write-off amount
Other receivables written-off	2,034,180

(6) Details of top five other receivables with the closing balances classified by the borrowers

Name	Nature of amount	Closing balance	Aging	Proportion to the total closing balance of other receivables (%)	Closing balance of bad debt provision
Company 1	Intercourse funds	50,000,000	Over 5 years	16.16	50,000,000
Company 2	Security deposit	24,000,000	4-5 years	7.75	24,000
Company 3	Intercourse funds	16,034,548	Within 1 year, 1-2 years	5.18	785,556
Company 4	Intercourse funds	13,500,000	Over 5 years	4.36	13,500,000
Company 5	Intercourse funds	4,653,320	Within 1 year, 1-2 years	1.50	77,775
Total	—	108,187,868	—	34.95	64,387,331

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Inventories

(1) Inventory classification

Item	Book balance	Closing balance	Book value
		Inventory falling price reserves/ impairment provision of contract performance costs	
Raw materials	9,654,982,728	248,039,808	9,406,942,920
Self made semi-finished goods and products			
in progress	17,066,723,385	61,095,010	17,005,628,375
Finished goods	5,260,814,396	215,816,219	5,044,998,177
Turnover materials	457,403,861	553,052	456,850,809
Contract performance costs	100,864,573	–	100,864,573
Others	373,982,066	14,502,900	359,479,166
Total	32,914,771,009	540,006,989	32,374,764,020

Item	Book balance	Opening balance	Book value
		Inventory falling price reserves/impairment provision of contract performance costs	
Raw materials	7,595,149,459	219,575,854	7,375,573,605
Self made semi-finished goods and products in			
progress	19,098,089,840	78,482,101	19,019,607,739
Finished goods	3,950,694,203	187,711,957	3,762,982,246
Turnover materials	457,560,285	–	457,560,285
Contract performance costs	29,498,908	–	29,498,908
Others	76,868,179	9,080,475	67,787,704
Total	31,207,860,874	494,850,387	30,713,010,487



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Inventories (Continued)

(2) Inventory falling price reserves/impairment provision of contract performance costs

Item	Opening balance	Increase in the year		Decrease in the year			Closing balance
		Provision	Other	Accounts transferred back	Amount written back	Other	
Raw materials	219,575,854	64,919,505	-	13,054,750	14,009,751	9,391,050	248,039,808
Self made semi-finished goods and products in progress	78,482,101	20,177,560	-	408,159	23,852,796	13,303,696	61,095,010
Finished goods	187,711,957	107,616,347	-	615,066	65,571,017	13,326,002	215,816,219
Turnover materials	-	553,052	-	-	-	-	553,052
Others	9,080,475	5,422,425	-	-	-	-	14,502,900
Total	494,850,387	198,688,889	-	14,077,975	103,433,564	36,020,748	540,006,989

Note: Other decrease represents inventories written off in the current year by AVIC JONHON Optronic Technology Co., Ltd.* (中航光電科技股份有限公司), a subsidiary of the Company.

(3) No capitalized amount of borrowing costs is included in the inventory balance of the Group at the end of the year.

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Contract assets

(1) Contract assets

Item	Book balance	Closing balance	Book value
		Impairment provision	
Aviation entire aircraft	2,008,239,570	8,091,382	2,000,148,188
Aviation engineering services	3,125,561,506	5,449,431	3,120,112,075
Aviation ancillary system and related business	29,273,608	77,571	29,196,037
Total	5,163,074,684	13,618,384	5,149,456,300

Item	Book balance	Opening balance	Book value
		Impairment provision	
Aviation entire aircraft	2,395,513,934	7,034,677	2,388,479,257
Aviation engineering services	2,157,814,640	3,401,437	2,154,413,203
Total	4,553,328,574	10,436,114	4,542,892,460

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Contract assets (Continued)

(2) Impairment provision of contract assets in the current year

Category	Opening balance	Provision	Amount changed in the current year		Closing balance
			Accounts recovered or transferred back	Amounts written back or written off	
Aviation entire aircraft	7,034,677	4,555,148	3,498,443	–	8,091,382
Aviation engineering services	3,401,437	2,049,902	1,908	–	5,449,431
Aviation ancillary system and related business	–	77,571	–	–	77,571
Total	10,436,114	6,682,621	3,500,351	–	13,618,384

10. Held-for-sale assets

Item	Book balance	Closing balance		Fair value	Estimate disposal fee	Estimated disposal time
		Impairment provision	Book value			
Fixed assets	48,656,246	–	48,656,246	273,773,862	–	2022
Total	48,656,246	–	48,656,246	273,773,862	–	–

Note: Held-for-sale assets at the end of the year are building assets of Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工业股份有限公司), a subsidiary of the Company, such as the relocated branch factory buildings, material warehouses that need to be transferred and are expected to receive compensation.

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Non-current assets due within one year

Item	Closing balance	Opening balance
Other non-current financial assets due within one year	200,000,000	–
Long-term receivables due within one year	2,290,896	–
Total	202,290,896	–

12. Other current assets

Item	Closing balance	Opening balance
Input tax to be deducted, input tax to be certified and prepayment of value added tax	631,664,389	480,935,616
Prepayment of corporate income tax	61,133,697	210,755,686
Interest on term deposits	11,255,556	5,426,700
Others	7,119,932	6,063,564
Total	711,173,574	703,181,566

13. Long-term receivables

Item	Closing balance			Opening balance			Discount rate range
	Book balance	Bad debt provision	Book value	Book balance	Bad debt provision	Book value	
Financial lease payments	5,292,901	–	5,292,901	–	–	–	10%
Including: Unrealized financing income	807,579	–	807,579	–	–	–	–
Others	1,202,776	360,833	841,943	1,566,033	–	1,566,033	–
Total	6,495,677	360,833	6,134,844	1,566,033	–	1,566,033	–

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Long-term receivables (Continued)

(2) Bad debt provision of long-term receivables

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	Expected credit loss in the future 12 months	expected credit loss (not credit impaired)	Lifetime expected credit loss (credit impaired)	
Opening balance				
Opening book balance of other receivables during the year	-	-	-	-
-Be transferred to Stage 2				
-Be transferred to Stage 3				
-Be transferred back to Stage 2				
-Be transferred back to Stage 1				
Provision made in the current year	360,833	-	-	360,833
Amount transferred back in the current year				
Amount written back in the current year				
Amount written off in the current year				
Other changes				
Closing balance	360,833	-	-	360,833

(3) Bad debt provision of long-term receivables

Category	Opening balance	Provision	Amount changed in the current year			Closing balance
			Accounts recovered or transferred back	Amounts written back or written off	Other decrease	
Long-term receivables	-	360,833	-	-	-	360,833
Total	-	360,833	-	-	-	360,833

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Long-term equity investments

Investees	Opening balance (Book value)	Added investment	Decreased investment	Investment profit or loss recognized under equity method	Movement for the year					Closing balance (Book value)	Closing balance of impairment provision
					Adjustment to other comprehensive income	Other changes in equity	Distribution of cash dividend or profit declared	Impairment provision	Others		
I. Joint ventures											
Qingdao Xinghang Photoelectric Technology Co., Ltd. (青島興航光電技術有限公司)	144,888,321	-	-	84,279,439	-	-	50,000,000	-	-	179,167,760	-
Others	25,317,925	-	-	1,132,659	-	191,953	-	-	-	26,642,537	-
Subtotal	170,206,246	-	-	85,412,098	-	191,953	50,000,000	-	-	205,810,297	-
II. Associates											
AVIC Nanjing Servo Control System Co., Ltd.* (中航工業南京伺服控制系統有限公司)	162,862,373	-	-	27,937,870	-	-	-	-	-	190,800,243	-
Aviation Gyro (Beijing) PhotoElectricity Technology Co., Ltd.* (中航捷銳(北京)光電技術有限公司)	77,453,910	-	-	9,487,505	-	-	1,172,500	-	-	85,768,915	-
Beijing Hangwei High Technology Connection Technology Co., Ltd.* (北京航為高科技連接技術有限公司)	96,579,407	-	-	3,356,641	-	-	332,484	-	-	99,603,564	-
AVIC Air Traffic Management System Equipment Co., Ltd.* (中航空管系統裝備有限公司)	34,867,517	65,000,000	-	-3,403,561	-	-	-	-	-	96,463,956	-
AVIC Jincheng Unmanned System Co., Ltd.* (中航金城無人系統有限公司)	50,092,946	-	-	218,486	-	-	-	-	-	50,311,432	-
AVIC Rongfu Fund Management Company Limited* (中航融富基金管理有限公司)	57,665,206	-	-	-5,181,740	320,660	-	-	-	-	52,804,126	-
Schneider Merlin Gerin Low Voltage (Tianjin) Co., Ltd.* (施耐德梅蘭日蘭低壓(天津)有限公司)	69,073,014	-	-	7,167,310	-	-	9,445,671	-	-	66,794,653	-
Schneider Shanghai Low Voltage Terminal Apparatus Co., Ltd.	140,184,033	-	-	130,959,406	-	-	107,189,138	-	-	163,954,301	-
Jiangxi Hongdu Commercial Aircraft Corporation Limited* (江西洪都商用飛機股份有限公司)	309,766,322	-	-	-684,035	-	-	1,020,000	-	1,109,614	309,171,901	-
AVIC Yuehai Wind Power Generation Co., Ltd.* (中航粵海風力發電有限公司)	56,423,842	-	-	2,050,957	-	-	-	-	-	58,474,799	-
Others	139,145,286	5,950,000	-	8,362,500	-	-73,242	5,064,650	-	40,456,703	188,776,597	-
Subtotal	1,194,113,856	70,950,000	-	180,271,339	320,660	-73,242	124,224,443	-	41,566,317	1,362,924,487	-
III. Share floating right											
	363,811,841	-	-	-	-	-	-	-	-9,071,956	354,739,885	-
Subtotal	363,811,841	-	-	-	-	-	-	-	-9,071,956	354,739,885	-
Total	1,728,131,943	70,950,000	-	265,683,437	320,660	118,711	174,224,443	-	32,494,361	1,923,474,669	-



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Other equity instrument investments

(1) Other equity instrument investments

Item	Closing balance	Opening balance
AVIC Heavy Machinery Co., Ltd.* (中航重機股份有限公司)	591,910,881	–
Harbin DongAn Automotive Engine Manufacturing Co., Ltd. (哈爾濱東安汽車發動機制造有限公司)	424,200,000	76,650,000
AVIC Cabin System Co., Ltd. (中航客艙系統有限公司)	372,485,600	528,439,800
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))	196,231,358	89,862,224
AVIC Huabei Aircraft Industry Co., Ltd.* (中航通飛華北飛機工業有限公司)	183,600,000	180,240,000
Chengdu RMI Technology Co., Ltd.* (成都雷電微力科技股份有限公司)	168,228,900	–
AVIC Industry-Finance Holdings Co., Ltd.* (中航工業產融控股股份有限公司)	147,299,569	162,511,867
Zhonghang Electronic Measuring Instruments Co., Ltd.* (中航電測儀器股份有限公司)	124,530,565	105,301,582
Harbin Hafei Airbus Composite Manufacturing Centre Co., Ltd. (哈爾濱哈飛空客複合材料製造中心有限公司)	118,418,583	130,792,199
Sichuan Chengfei Integration Technology Corporation Limited* (四川成飛集成科技股份有限公司)	113,361,838	99,262,942
Tianjin Zhongtian Aviation Industry Investment Co., Ltd.* (天津中天航空工業投資有限責任公司)	113,202,129	117,368,235
AVIC Guizhou Anji Aviation Investment Casting Co., Ltd.* (貴州安吉航空精密鑄造有限責任公司)	58,661,500	54,442,938
CALB Co., Ltd.* (中創新航科技股份有限公司)	57,525,379	–
Others	26,897,338	67,728,016
Total	2,696,553,640	1,612,599,803

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Other equity instrument investments (Continued)

(2) Non-trading equity instrument investment in the year

Item	Dividend income recognized in the current year	Accumulated gains	Accumulated losses	Amount transferred from other comprehensive income to retained earnings	Reasons for designating at fair value through other comprehensive income	Reasons for transfer from other comprehensive income to retained earnings
AVIC Heavy Machinery Co., Ltd.* (中航重機股份有限公司)	-	391,910,888	-	-	Non-trading equity investments	-
Harbin DongAn Automotive Engine Manufacturing Co., Ltd. (哈爾濱東安汽車發動機製造有限公司)	39,048,530	349,200,000	-	-	Non-trading equity investments	-
AVIC Cabin System Co., Ltd. (中航客艙系統有限公司)	-	-	168,639,633	-	Non-trading equity investments	-
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))	-	10,261,134	-	-	Non-trading equity investments	-
AVIC Huabei Aircraft Industry Co., Ltd.* (中航通飛華北飛機工業有限公司)	-	3,600,000	-	-	Non-trading equity investments	-
Chengdu RMI Technology Co., Ltd.* (成都雷電微力科技股份有限公司)	-	126,387,300	-	-	Non-trading equity investments	-
AVIC Industry-Finance Holdings Co., Ltd.* (中航工業產融控股股份有限公司)	4,155,555	-	50,315,603	-	Non-trading equity investments	-
Zhonghang Electronic Measuring Instruments Co., Ltd.* (中航電測儀器股份有限公司)	354,998	65,953,061	-	-	Non-trading equity investments	-
Harbin Hafei Airbus Composite Manufacturing Centre Co., Ltd. (哈爾濱哈飛空客複合材料製造中心有限公司)	-	-	9,599,974	-	Non-trading equity investments	-
Sichuan Chengfei Integration Technology Corporation Limited* (四川成飛集成科技股份有限公司)	314,264	109,458,352	487,814	-	Non-trading equity investments	-
Tianjin Zhongtian Aviation Industry Investment Co., Ltd.* (天津中天航空工業投資有限責任公司)	-	53,202,129	-	-	Non-trading equity investments	-
AVIC Guizhou Anji Aviation Investment Casting Co., Ltd.* (貴州安吉航空精密鑄造有限責任公司)	-	8,661,500	-	-	Non-trading equity investments	-
CALB Co., Ltd.* (中創新航科技股份有限公司)	-	6	-	-	Non-trading equity investments	-
Others	-	24,909,931	81,152,884	-7,821,491	Non-trading equity investments	Equity swaps/disposal
Total	43,873,347	1,143,544,301	310,195,908	-7,821,491	-	-

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(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Other non-current financial assets

Item	Closing balance	Opening balance
Long-term trust wealth management products	600,000,000	–
Total	600,000,000	–

17. Investment properties

(1) Investment properties measured at cost

Item	Plant & buildings	Land use right	Total
I. Original book value			
1. Opening balance	411,192,170	124,598,610	535,790,780
2. Increase in the current year	25,828,524	115,757	25,944,281
(1) External purchase	–	115,757	115,757
(2) Transferred from fixed assets	8,996,398	–	8,996,398
(3) Transferred from construction in progress	16,832,126	–	16,832,126
3. Decrease in the current year	82,837,496	18,079,127	100,916,623
(1) Transferred to fixed assets	80,737,212	–	80,737,212
(2) Transferred to intangible assets	–	18,079,127	18,079,127
(3) Exchange rate adjustment	2,100,284	–	2,100,284
4. Closing balance	354,183,198	106,635,240	460,818,438
II. Accumulated depreciation and accumulated amortization			
1. Opening balance	117,305,110	32,712,165	150,017,275
2. Increase in the current year	21,661,283	1,996,229	23,657,512
(1) Provision or amortisation	14,169,013	1,996,229	16,165,242
(2) Transferred from fixed assets	7,492,270	–	7,492,270
3. Decrease in the current year	50,965,536	8,436,926	59,402,462
(1) Transferred to fixed assets	50,173,141	–	50,173,141
(2) Transferred to intangible assets	–	8,436,926	8,436,926
(3) Exchange rate adjustment	792,395	–	792,395
4. Closing balance	88,000,857	26,271,468	114,272,325
III. Impairment provision			
1. Opening balance	–	–	–
2. Increase in the current year	–	–	–
3. Decrease in the current year	–	–	–
4. Closing balance	–	–	–
IV. Book value			
1. Closing book value	266,182,341	80,363,772	346,546,113
2. Opening book value	293,887,060	91,886,445	385,773,505

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Investment properties (Continued)

(2) Investment properties for which the certificate of title has not been obtained at the end of the year

Item	Book value	Reason for not completing the title certificate
Shunyi Industrial Park properties	111,753,363	Still in process
Hongdu Aviation Industrial Park Joint Plant	16,592,463	To complete the title certificate successively
Total	128,345,826	–

18. Fixed assets

Item	Closing book value	Opening book value
Fixed assets	15,122,190,937	13,560,003,734
Fixed assets in liquidation	3,522,233	1,381,592
Total	15,125,713,170	13,561,385,326

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(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Fixed assets (Continued)

18.1 Fixed assets

(1) Details of fixed assets

Item	Plant & buildings	Machinery equipment	Transportation vehicles	Electronic equipment	Office equipment	Others	Total
I. Original book value							
1. Opening balance	10,123,983,693	10,267,144,525	167,281,625	2,695,220,371	345,423,918	1,250,463,788	24,849,517,920
2. Increase in the current year	1,477,053,929	1,121,104,147	21,631,591	348,498,935	9,993,551	165,147,173	3,143,429,326
(1) Purchase	43,741,176	238,227,677	18,329,154	138,474,234	9,139,840	46,496,780	494,408,861
(2) Transferred from construction in progress	1,350,716,815	636,630,396	3,302,437	210,024,701	853,711	118,650,393	2,320,178,453
(3) Transferred from right-of-use assets	-	246,246,074	-	-	-	-	246,246,074
(4) Transferred from investment properties	80,737,212	-	-	-	-	-	80,737,212
(5) Acquired from debt restructuring	1,858,726	-	-	-	-	-	1,858,726
3. Decrease in the current year	30,824,482	206,064,009	12,661,948	80,447,652	2,954,695	19,887,028	352,839,814
(1) Disposal or scrapping	11,025,970	165,187,480	11,371,925	80,447,652	2,954,695	19,605,505	290,593,227
(2) Transferred to construction in progress	9,535,964	9,903,723	-	-	-	-	19,439,687
(3) Transferred to investment properties	8,996,398	-	-	-	-	-	8,996,398
(4) Transferred out due to disposal of subsidiary	-	30,961,910	1,290,023	-	-	281,523	32,533,456
(5) Translation differences of foreign currency statements	1,266,150	10,896	-	-	-	-	1,277,046
4. Closing balance	11,570,213,140	11,182,184,663	176,251,268	2,963,271,654	352,462,774	1,395,723,933	27,640,107,432
II. Accumulated depreciation							
1. Opening balance	2,754,651,668	5,353,900,411	127,964,633	2,053,765,255	284,986,485	675,845,394	11,251,113,846
2. Increase in the current year	418,487,570	750,726,312	20,299,141	221,760,471	11,944,635	75,236,071	1,498,454,200
(1) Provision	368,314,429	736,732,171	20,299,141	221,760,471	11,944,635	75,236,071	1,434,286,918
(2) Transferred from right-of-use assets	-	13,994,141	-	-	-	-	13,994,141
(3) Transferred from investment properties	50,173,141	-	-	-	-	-	50,173,141

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Fixed assets (Continued)

18.1 Fixed assets (Continued)

(1) Details of fixed assets (Continued)

Item	Plant & buildings	Machinery equipment	Transportation vehicles	Electronic equipment	Office equipment	Others	Total
3. Decrease in the current year	16,111,390	145,577,622	10,518,830	76,618,311	2,801,028	17,888,401	269,515,582
(1) Disposal or scrapping	4,434,680	124,824,186	10,292,422	76,618,311	2,801,028	17,620,954	236,591,581
(2) Transferred to construction in progress	3,633,452	59,848	-	-	-	-	3,693,300
(3) Transferred to investment properties	7,492,270	-	-	-	-	-	7,492,270
(4) Transferred out due to disposal of subsidiary	-	20,682,692	226,408	-	-	267,447	21,176,547
(5) Translation differences of foreign currency statements	550,988	10,896	-	-	-	-	561,884
4. Closing balance	3,157,027,848	5,959,049,101	137,744,944	2,198,907,415	294,130,092	733,193,064	12,480,052,464
III. Impairment provision							
1. Opening balance	3,341,635	34,942,868	-	115,837	-	-	38,400,340
2. Increase in the current year	-	-	-	-	-	-	-
3. Decrease in the current year	-	536,309	-	-	-	-	536,309
(1) Disposal or scrapping	-	536,309	-	-	-	-	536,309
4. Closing balance	3,341,635	34,406,559	-	115,837	-	-	37,864,031
IV. Book value							
1. Closing book value	8,409,843,657	5,188,729,003	38,506,324	764,248,402	58,332,682	662,530,869	15,122,190,937
2. Opening book value	7,365,990,390	4,878,301,246	39,316,992	641,339,279	60,437,433	574,618,394	13,560,003,734



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From 1 January 2021 to 31 December 2021

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Fixed assets (Continued)

18.1 Fixed assets (Continued)

(2) Temporarily idle fixed assets

Item	Original book value	Accumulated depreciation	Impairment provision	Book value
Machinery equipment	7,158,100	6,846,618	–	311,482
Electronic equipment	71,600	69,452	–	2,148
Total	7,229,700	6,916,070	–	313,630

(3) Fixed assets leased out through operating leases

Item	Closing book value
Plant & buildings	17,572,047
Machinery equipment	99,944,378
Total	117,516,425

(4) Fixed assets for which the certificate of title has not been obtained

Item	Book value	Reason for not completing the title certificate
Plant & buildings	2,083,045,652	To complete the title certificate successively

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Fixed assets (Continued)

18.2 Fixed assets in liquidation

Item	Closing balance	Opening balance
Plant & buildings	132,587	132,587
Machinery equipment	3,121,465	1,083,596
Transportation vehicles	3,936	–
Electronic equipment	135,975	53,549
Office equipment	42,520	40,111
Other	85,750	71,749
Total	3,522,233	1,381,592

19. Construction in progress

Item	Closing balance	Opening balance
Construction in progress	3,023,163,691	3,233,326,513
Construction materials	396,465	1,791,046
Total	3,023,560,156	3,235,117,559

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Construction in progress (Continued)

19.1 Construction in progress

(1) Details of construction in progress

Item	Closing balance			Opening balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Infrastructure technical transformation projects	770,662,020	-	770,662,020	801,485,740	-	801,485,740
Baizhang wind farm project in						
Xiangzhou	372,623,890	-	372,623,890	323,627,061	-	323,627,061
SAPC project	175,561,096	-	175,561,096	75,852,696	-	75,852,696
ZMPC project	168,562,254	-	168,562,254	101,754,419	-	101,754,419
Project of Shunyi New District	168,046,678	-	168,046,678	128,187,325	-	128,187,325
Convertible bond fundraising project	162,185,914	-	162,185,914	343,184,000	-	343,184,000
Leizhou Leigao Wind Farm Project	147,157,023	-	147,157,023	5,044,511	-	5,044,511
Dingkunchi industrial base (phase I of AVIC Forstar Industrial Base project)	139,397,376	-	139,397,376	84,781,569	-	84,781,569
Optoelectronic technology industrial base project (phase II)	107,592,685	-	107,592,685	146,580,670	-	146,580,670
Dingkunchi industrial base (phase II of AVIC Forstar Industrial Base project)	102,058,931	-	102,058,931	30,789,938	-	30,789,938
Research construction project 3	51,042,201	-	51,042,201	37,882,482	-	37,882,482
Huanan Industry Base Project	38,487,357	-	38,487,357	-	-	-
Aircraft data management construction project	35,416,568	-	35,416,568	55,764,745	-	55,764,745
Lvmeng sewage treatment station	20,519,799	-	20,519,799	15,989,378	-	15,989,378
Tianjin Helicopter industrial base	21,210,446	-	21,210,446	20,480,421	-	20,480,421
Huiyang technology park	119,383	-	119,383	74,440,591	-	74,440,591
Aviation City Plant Construction Project	-	-	-	200,006,282	-	200,006,282
Taihang production and construction guarantee project	-	-	-	31,076,168	-	31,076,168
New technology industrial base project of AVIC JONHON						
Optronic	-	-	-	191,325,595	-	191,325,595
Optoelectronic technology industrial base project	-	-	-	1,820,435	-	1,820,435
Aviation parts industrial park	-	-	-	33,897,062	-	33,897,062
Others	542,820,070	300,000	542,520,070	529,655,425	300,000	529,355,425
Total	3,023,463,691	300,000	3,023,163,691	3,233,626,513	300,000	3,233,326,513

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Construction in progress (Continued)

19.1 Construction in progress (Continued)

(2) Changes of major construction in progress in the current year

Project name	Opening balance	Increase in the current year	Decrease in the current year		Closing balance
			Transferred to fixed assets	Other decreases	
Infrastructure technical transformation projects	801,485,740	327,735,678	315,317,776	43,241,622	770,662,020
Baizhang wind farm project in Xiangzhou	323,627,061	48,996,829	–	–	372,623,890
SAPC project	75,852,696	117,484,700	17,776,300	–	175,561,096
ZMPC project	101,754,419	69,726,752	2,918,917	–	168,562,254
Project of Shunyi New District	128,187,325	66,161,243	7,186,284	19,115,606	168,046,678
Convertible bond fundraising project	343,184,000	283,825,588	429,232,211	35,591,463	162,185,914
Leizhou Leigao Wind Farm Project	5,044,511	142,112,512	–	–	147,157,023
Dingkunchi industrial base (phase I of AVIC Forstar Industrial Base project)	84,781,569	54,615,807	–	–	139,397,376
Optoelectronic technology industrial base project (phase II)	146,580,670	428,429,335	462,836,300	4,581,020	107,592,685
Dingkunchi industrial base (phase II of AVIC Forstar Industrial Base project)	30,789,938	71,268,993	–	–	102,058,931
Research construction project 3	37,882,482	31,557,431	5,750,512	12,647,200	51,042,201
Huanan Industry Base Project	–	309,649,878	1,162,521	270,000,000	38,487,357
Aircraft data management construction project	55,764,745	16,238,177	20,692,629	15,893,725	35,416,568
Lvmeng sewage treatment station	15,989,378	4,530,421	–	–	20,519,799
Tianjin Helicopter industrial base	20,480,421	2,249,443	1,519,418	–	21,210,446
Huiyang technology park	74,440,591	282,133	74,603,341	–	119,383
Aviation City Plant Construction Project	200,006,282	12,870,756	212,877,038	–	–
Taihang production and construction guarantee project	31,076,168	7,172,529	38,248,697	–	–
New technology industrial base project of AVIC JONHON Optronics	191,325,595	29,552,634	216,630,189	4,248,040	–
Optoelectronic technology industrial base project	1,820,435	–	1,820,435	–	–
Aviation parts industrial park	33,897,062	1,703,785	35,600,847	–	–
Total	2,703,971,088	2,026,164,624	1,844,173,415	405,318,676	2,480,643,621

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Construction in progress (Continued)

19.1 Construction in progress (Continued)

(2) Changes of major construction in progress in the current year (Continued)

Project name	Budget	Cumulative investment in the project as a percentage of the budget (%)	Project progress (%)	Accumulated amount of interest capitalized	Including: capitalized amount of interest for the year	Interest capitalization rate for the current year (%)	Sources of funds
Infrastructure technical transformation projects	N/A	N/A	N/A	13,347,722	4,447,084	4	State funding, self-financing, loan
Baizhang wind farm project in Xiangzhou	933,940,000	40	97	33,220,582	10,586,656	5	Self-financing, loan
SAPC project	722,600,000	29	29	-	-	-	State funding, self-financing
ZMPC project	241,600,000	79	79	-	-	-	State funding, self-financing
Project of Shunyi New District	250,000,000	56	56	4,636,814	1,604,377	4	Self-financing, loan
Convertible bond fundraising project	1,816,000,000	86	86	16,220,693	-	-	Convertible bonds
Leizhou Leigao Wind Farm Project	486,000,000	31	70	23,837,191	7,130,203	2	Self-financing, loan
Dingkunchi industrial base (phase I of AVIC Forstar Industrial Base project)	190,000,000	86	98	-	-	-	Self-financing
Optoelectronic technology industrial base project (phase II)	1,006,640,000	84	91	-	-	-	Self-financing, raised funds
Dingkunchi industrial base (phase II of AVIC Forstar Industrial Base project)	306,690,000	33	40	-	-	-	Raised funds
Research construction project 3	279,100,000	34	34	-	-	-	State funding, self-financing
Huanan Industry Base Project	2,255,448,700	14	16	-	-	-	Self-financing, raised funds
Aircraft data management construction project	118,200,000	61	61	-	-	-	State funding
Lvmeng sewage treatment station	42,000,000	69	69	-	-	-	Self-financing
Tianjin Helicopter industrial base	760,524,000	99	99	-	-	-	Self-financing
Huiyang technology park	671,840,000	99	99	-	-	-	Self-financing
Aviation City Plant Construction Project	1,036,079,731	91	91	6,726,933	-	-	Self-financing, raised funds
Taihang production and construction guarantee project	73,400,000	100	100	-	-	-	State funding
New technology industrial base project of AVIC JONHON Optronics	1,012,800,000	100	100	19,976,102	-	-	Self-financing, raised funds, loan
Optoelectronic technology industrial base project	850,000,000	100	100	43,805,573	-	-	Self-financing, raised funds, loan
Aviation parts industrial park	50,000,000	71	100	-	-	-	Self-financing
Total	13,102,862,431	-	-	161,771,610	23,768,320	-	-

(3) The Group did not make provision for impairment of construction in progress in the current year.

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Construction in progress (Continued)

19.2 Construction materials

Item	Book balance	Closing balance		Book balance	Opening balance	
		Impairment provision	Book value		Impairment provision	Book value
Special-purpose equipment	396,465	-	396,465	1,791,046	-	1,791,046
Total	396,465	-	396,465	1,791,046	-	1,791,046

20. Right-of-use assets

Item	Plant & buildings	Machinery equipment	Others	Total
I. Original book value				
1. Opening balance	184,704,821	631,513,314	13,428,064	829,646,199
2. Increase in the current year	221,482,700	6,343,513	-	227,826,213
3. Decrease in the current year	37,325,863	233,806,240	13,428,064	284,560,167
4. Closing balance	368,861,658	404,050,587	-	772,912,245
II. Accumulated depreciation				
1. Opening balance	77,745,732	67,083,626	3,898,798	148,728,156
2. Increase in the current year	48,592,401	22,078,055	434,256	71,104,712
3. Decrease in the current year	32,418,401	9,661,087	4,333,054	46,412,542
4. Closing balance	93,919,732	79,500,594	-	173,420,326
III. Impairment provision				
1. Opening balance	-	-	-	-
2. Increase in the current year	-	-	-	-
3. Decrease in the current year	-	-	-	-
4. Closing balance	-	-	-	-
IV. Book value				
1. Closing book value	274,941,926	324,549,993	-	599,491,919
2. Opening book value	106,959,089	564,429,688	9,529,266	680,918,043

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Intangible assets

(1) Details of intangible assets

Item	Software	Land use right	Patent right	Non-patented technology	Trademark right	Concession	Customer resources and sales channel	Total
I. Original book value								
1. Opening balance	1,217,956,091	2,503,173,909	96,171,037	79,153,400	8,241,300	594,588,260	19,302,200	4,518,586,197
2. Increase in the current year	194,462,105	384,021,700	-	120,000	-	98,920,499	-	677,524,304
(1) Purchase	69,669,851	95,666,804	-	120,000	-	-	-	165,456,655
(2) Transferred from construction in progress	124,792,254	270,275,769	-	-	-	98,920,499	-	493,988,522
(3) Transferred from investment properties	-	18,079,127	-	-	-	-	-	18,079,127
3. Decrease in the current year	15,284,778	-	-	-	-	-	-	15,284,778
(1) Disposal	15,284,778	-	-	-	-	-	-	15,284,778
4. Closing balance	1,397,133,418	2,887,195,609	96,171,037	79,273,400	8,241,300	693,508,759	19,302,200	5,180,825,723
II. Accumulated amortization								
1. Opening balance	809,556,607	578,964,719	91,868,585	62,416,714	8,228,759	119,714,911	17,291,554	1,688,041,849
2. Increase in the current year	132,980,253	63,786,632	876,665	4,334,267	6,840	26,690,372	2,010,646	230,685,675
(1) Provision	132,980,253	55,349,706	876,665	4,334,267	6,840	26,690,372	2,010,646	222,248,749
(2) Transferred from investment properties	-	8,436,926	-	-	-	-	-	8,436,926
3. Decrease in the current year	15,232,715	-	-	-	-	-	-	15,232,715
(1) Disposal	15,232,715	-	-	-	-	-	-	15,232,715
4. Closing balance	927,304,145	642,751,351	92,745,250	66,750,981	8,235,599	146,405,283	19,302,200	1,903,494,809
III. Impairment provision								
1. Opening balance	519,208	-	-	275,000	-	41,028,500	-	41,822,708
2. Increase in the current year	-	-	-	-	-	-	-	-
3. Decrease in the current year	-	-	-	-	-	-	-	-
4. Closing balance	519,208	-	-	275,000	-	41,028,500	-	41,822,708
IV. Book value								
1. Closing book value	469,310,065	2,244,444,258	3,425,787	12,247,419	5,701	506,074,976	-	3,235,508,206
2. Opening book value	407,880,276	1,924,209,190	4,302,452	16,461,686	12,541	433,844,849	2,010,646	2,788,721,640

There are no intangible assets formed through internal R&D in the Group at the end of the year.

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Intangible assets (Continued)

(2) Land use right for which the title certificate has not been obtained

Item	Book value	Reason for not completing the title certificate
Land use right of Hongdu	8,310,260	To complete the title certificate successively
Total	8,310,260	

22. Goodwill

(1) Original value of goodwill

Name of investee	Opening balance	Increase in the year	Decrease in the year	Closing balance
Formed through merger of AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司) not under common control	15,871,971	–	–	15,871,971
Formed through merger of Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司) not under common control	53,249,924	–	–	53,249,924
Total	69,121,895	–	–	69,121,895

(2) Impairment provision of goodwill

As of 31 December 2021, the Group has not made any provision for impairment of goodwill.



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Goodwill (Continued)

(3) Information about the asset group or asset group portfolio where the goodwill belongs

The main components of the goodwill asset group	Book value of goodwill (RMB0'000)	Book value of asset group (RMB0'000)	Recognition method of goodwill asset group portfolio	Is there any change in this year
The group of assets related to the formation of goodwill by AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司)	1,587	52,763	There is an active market for the products produced by the asset group in which the goodwill belongs, which can bring independent cash flow and can be identified as a separate asset group.	No
The group of assets related to the formation of goodwill by Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司)	5,325	48,342	There is an active market for the products produced by the asset group in which the goodwill belongs, which can bring independent cash flow and can be identified as a separate asset group.	No

The asset group business related to the formation of goodwill by Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司) has the same connotation and consistency as the initial recognition of goodwill and the asset group business during the impairment test in subsequent years.

The asset group portfolio related to the formation of goodwill by AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司) include asset group of AVIC Forstar S&T Company Limited, asset group of Xi'an Forstar Cable Co., Ltd. (西安富士達線纜有限公司), asset group of Xi'an TST Testing Technique co.,Ltd. and asset group of Forstar Technology (Hong Kong) Co., Ltd. (富士達科技(香港)有限公司).

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Goodwill (Continued)

(4) The goodwill impairment test process, key parameters and the recognition method of goodwill impairment loss

1) Key assumptions for using the discounted future cash flow method:

The weighted average growth rate used by the investee's management is generally consistent with the development plans, operating budgets and sales plans of the asset groups. The management of the investee determined the budgeted gross margin based on historical experience and forecasts of market development, and used a pre-tax rate that reflects the specific risks of the relevant asset groups and asset group combinations as the discount rate. The discounted free cash flow method was used in this evaluation to analyze the recoverable amounts of each asset group and asset group combination within this business segment.

2) Goodwill impairment test results

Beijing Zhonglin Asset Appraisal Co., Ltd. (北京中林資產評估有限公司) assessed AVIC Forstar S&T Company Limited* (中航富士達科技股份有限公司) using the income method and used the present value of the expected future cash flows of the assets of the asset group as its recoverable amount, and issued Zhonglin Ping Zi No. [2022] 63-2 Asset Appraisal Report on the Proposed Impairment Testing of the Goodwill Related Assets Group in the Consolidation of Equity Interests in AVIC Forstar S&T Company Limited by AVIC JONHON Optronics Technology Co., Ltd.* (中航光電科技股份有限公司) on 10 March 2022, which was based on the condition at 31 December 2021, pursuant to which, the recoverable amount of the asset group of AVIC Forstar was RMB637,440,000, the carrying value of the asset group was RMB494,680,000, the consolidated goodwill of the Company was RMB15,871,971, the goodwill of minority shareholders was RMB17,069,732, and the carrying value of the asset group containing goodwill was RMB527,630,000, and the recoverable amount of the asset group was greater than the carrying value of the asset group containing goodwill; therefore, the goodwill formed upon consolidation of AVIC Forstar S&T Company Limited was not impaired at the end of 2021.

The major assessment assumptions are as follows:

Major basic assumptions	2022	2023	2024	2025	2026	Perpetuity
Revenue growth rate	11.92%	5.13%	2.97%	0.00%	0.00%	0.00%
Gross profit margin	34.40%	31.51%	28.85%	27.17%	27.17%	27.17%
Discount rate	12.14%	12.14%	12.14%	12.14%	12.14%	12.14%



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Goodwill (Continued)

(4) *The goodwill impairment test process, key parameters and the recognition method of goodwill impairment loss* (Continued)

2) *Goodwill impairment test results* (Continued)

Beijing Zhonglin Asset Appraisal Co., Ltd. (北京中林資產評估有限公司) assessed Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司) using the income method and used the present value of the expected future cash flows of the assets of the asset group as its recoverable amount, and issued Zhonglin Ping Zi No. [2022] 63-1 Asset Appraisal Report of AVIC JONHON Optronic Technology Co., Ltd. (中航光電科技股份有限公司) on 10 March 2022 Involved in Goodwill Impairment Test for Financial Reporting, which is related to Items Containing Recoverable Amount of Goodwill Asset formed by merger of Shenzhen Xiangtong Photoelectric Technology Co., Ltd., which was based on the condition at 31 December 2021, pursuant to which, the recoverable amount of the asset group of Shenzhen Xiangtong Photoelectric Technology Co., Ltd. was RMB493,150,000, the carrying value of the asset group was RMB379,000,000, the consolidated goodwill of the Company was RMB53,249,924, the goodwill of minority shareholders was RMB51,161,692, and the carrying value of the asset group containing goodwill was RMB483,420,000, and the recoverable amount of the asset group was greater than the carrying value of the asset group containing goodwill; therefore, the goodwill formed upon consolidation of Shenzhen Xiangtong Photoelectric Technology Co., Ltd. was not impaired at the end of 2021.

The major assessment assumptions are as follows:

Major basic assumptions	2022	2023	2024	2025	2026	Perpetuity
Revenue growth rate	9.16%	6.17%	3.79%	1.65%	0.60%	0.00%
Gross profit margin	25.33%	25.81%	26.11%	26.25%	26.33%	26.33%
Discount rate	14.48%	14.48%	14.48%	14.48%	14.48%	14.48%

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Long-term deferred expenses

Item	Opening balance	Increase in the current year	Amortization in the current year	Other decrease in the current year	Closing balance
Renovation costs	56,122,210	15,975,052	17,544,480	502,240	54,050,542
Technical transformation project	8,706,912	7,939,393	3,005,334	26,436	13,614,535
Lvmeng Airport land compensation fee	1,184,150	–	36,623	–	1,147,527
Planning Phase I land compensation	435,167	–	87,033	–	348,134
Others	3,207,997	–	662,179	76,706	2,469,112
Total	69,656,436	23,914,445	21,335,649	605,382	71,629,850

Note: The reason for other decrease in the current year is that Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司), a subsidiary of the Company, disposed of 50% of the equity of its controlling subsidiary Jiangxi Hongdu International Mechanical & Electrical Co., Ltd.* (江西洪都國際機電有限責任公司) in the current year, which was therefore no longer included in the consolidation scope of the Group at the end of the year, resulting in a reduction of RMB502,240 in renovation costs and a decrease of RMB76,706 in other items.

24. Deferred income tax assets and deferred income tax liabilities

(1) Deferred income tax assets before offsetting

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for asset impairment	1,558,303,914	235,106,505	1,501,716,765	230,209,555
Estimated liabilities	429,626,219	64,443,933	358,888,260	53,833,239
Employee payable	224,315,269	34,650,124	204,852,669	32,655,509
Share-based payment	329,939,147	49,490,872	176,983,036	26,547,455
Changes in fair value of other equity instrument investments	554,614	83,192	31,857,253	4,778,588
Deductible losses	18,032,361	2,602,641	38,487,798	5,773,170
Others	195,959,826	29,635,859	137,107,699	20,788,217
Total	2,756,731,350	416,013,126	2,449,893,480	374,585,733



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Deferred income tax assets and deferred income tax liabilities (Continued)

(2) Deferred income tax liabilities before offsetting

Item	Closing balance		Opening balance	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Depreciation of fixed assets	785,493,604	117,418,114	451,412,829	67,711,924
Changes in fair value of other equity instrument investments	1,072,331,286	222,343,092	206,159,894	39,031,525
Changes in fair value of financial instruments held for trading	18,293,262	4,573,315	199,724,021	31,996,114
Assets appraisal appreciation	32,807,760	7,579,333	32,075,782	8,018,945
Total	1,908,925,912	351,913,854	889,372,526	146,758,508

(3) Details of unrecognized deferred income tax assets

Item	Closing balance	Opening balance
Deductible temporary differences	506,420,297	289,594,510
Deductible loss	1,335,676,692	1,753,463,289
Total	1,842,096,989	2,043,057,799

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Deferred income tax assets and deferred income tax liabilities (Continued)

(4) *The deductible losses of unrecognized deferred income tax assets will expire in the following years*

Year	Closing balance	Opening balance	Note
2021	–	180,060,007	
2022	93,449,613	166,948,782	
2023	177,074,680	288,338,892	
2024	530,820,730	605,824,627	
2025	71,589,783	203,098,975	
2026	153,549,880	–	
2028	99,122,491	99,122,491	
2030	210,069,515	210,069,515	
Total	1,335,676,692	1,753,463,289	—

25. Other non-current assets

Item	Closing balance			Opening balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Prepaid equipment fees	262,012,984	–	262,012,984	231,415,318	–	231,415,318
Term deposit and interest for more than one year	173,661,192	–	173,661,192	–	–	–
Contract assets	104,548,470	–	104,548,470	233,792,968	–	233,792,968
Prepaid construction fees	66,962,637	–	66,962,637	49,789,733	–	49,789,733
Prepaid investment fees	33,473,293	–	33,473,293	–	–	–
Advance payment for collaborative R&D projects	10,000,000	–	10,000,000	10,000,000	–	10,000,000
Project upfront expenditure	8,221,279	–	8,221,279	26,774,538	–	26,774,538
Land use rights pending disposal	4,236,082	–	4,236,082	4,236,082	–	4,236,082
Total	663,115,937	–	663,115,937	556,008,639	–	556,008,639



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Short-term borrowings

Category	Closing balance	Opening balance
Credit borrowings	3,047,388,505	4,203,220,466
Secured borrowings	10,373,745	12,053,616
Guaranteed borrowings	–	165,120,831
Total	3,057,762,250	4,380,394,913

Note: There were no overdue short-term borrowings at the end of the year.

27. Financial liabilities held for trading

Item	Closing balance	Opening balance
Financial liabilities at fair value through profit or loss	18,196,239	20,416,526
Including: gold leasing	18,196,239	20,416,526
Total	18,196,239	20,416,526

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28. Notes payable

(1) Classification of notes payable

Category	Closing balance	Opening balance
Banker's acceptance bill	6,201,218,821	3,199,148,001
Commercial acceptance bill	5,431,967,295	5,325,689,418
Total	11,633,186,116	8,524,837,419

(2) Aging of notes payable

The ageing of the Group's notes payable at the end of the year mentioned above was from 20 days to 354 days.

29. Accounts payable

(1) Presentation of accounts payable

Item	Closing balance	Opening balance
Materials costs payable	22,246,824,882	16,782,771,879
Construction costs payable	3,811,330,908	3,723,584,847
Equipment costs payable	244,268,241	208,540,458
Others	1,063,424,120	2,828,942,208
Total	27,365,848,151	23,543,839,392



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29. Accounts payable (Continued)

(2) The ageing of accounts payable based on their transaction dates is analyzed as below

Aging	Closing balance	Opening balance
Within 1 year (including 1 year)	22,122,950,520	18,810,244,837
1-2 years (including 2 years)	2,826,862,697	2,332,144,625
2-3 years (including 3 years)	1,068,400,209	968,725,550
Over 3 years	1,347,634,725	1,432,724,380
Total	27,365,848,151	23,543,839,392

(3) Important accounts payable aged over 1 year

Name of the company	Closing balance	Reasons for outstanding or carry-over
Company 1	575,152,152	Not due for settlement
Company 2	120,917,519	Outstanding contract final payment
Company 3	96,115,316	Outstanding contract final payment
Company 4	95,313,023	Outstanding contract final payment
Company 5	77,085,854	Outstanding contract final payment
Company 6	75,550,425	Payment conditions not met
Company 7	63,354,462	Not due for payment
Company 8	45,402,645	Outstanding contract final payment
Company 9	41,266,066	Unsettled
Company 10	40,490,046	Outstanding contract final payment
Total	1,230,647,508	—

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30. Advances

Item	Closing balance	Opening balance
Advance rent	10,260,976	1,376,814
Total	10,260,976	1,376,814

31. Contract liabilities

(1) Details of contract liabilities

Item	Closing balance	Opening balance
Aviation entire aircraft	16,091,589,297	14,831,879,967
Aviation ancillary system and related business	3,380,400,580	710,374,392
Aviation engineering services	1,834,968,574	1,593,931,554
Total	21,306,958,451	17,136,185,913

(2) Significant change in book value of contract liabilities in the current year

Item	Amount changed	Reasons for change
Aviation entire aircraft	1,259,709,330	Increase in orders on hand
Aviation ancillary system	2,670,026,188	and increase in customer
Aviation engineering services	241,037,020	prepayments
Total	4,170,772,538	—



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Employee compensation payable

(1) Classification of employee compensation payable

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Short-term compensation	1,630,600,848	10,185,531,688	9,862,036,021	1,954,096,515
Post-employment welfare-defined contribution plan	127,918,136	1,159,340,646	1,238,702,752	48,556,030
Dismissal	377,296	1,979,985	2,125,949	231,332
Total	1,758,896,280	11,346,852,319	11,102,864,722	2,002,883,877

(2) Short-term compensation

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Salary, bonus, allowance and subsidy	1,238,932,061	7,509,128,971	7,234,349,623	1,513,711,409
Employee benefit	2,432,406	538,322,093	538,359,297	2,395,202
Social insurance premium	38,179,985	490,265,325	491,168,148	37,277,162
Including: medical insurance premium	27,432,415	446,949,577	445,143,735	29,238,257
Work-related injury insurance premium	3,039,695	32,166,237	34,694,132	511,800
Maternity insurance premium	7,707,875	11,149,511	11,330,281	7,527,105
Housing provident fund	15,379,819	623,588,687	611,961,800	27,006,706
Union funds and staff education funding	332,902,365	244,655,923	207,523,051	370,035,237
Other short-term compensation	2,774,212	779,570,689	778,674,102	3,670,799
Total	1,630,600,848	10,185,531,688	9,862,036,021	1,954,096,515

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

32. Employee compensation payable (Continued)

(3) Defined contribution plan

The Group participates in social insurance plans established by government agencies as required. According to the plans, the Group pays fees to these plans in accordance with the relevant regulations of the local government. Except for the above contributions, the Group will not undertake any further payment obligations. Corresponding expenses are included in the current profit and loss or related asset costs when incurred.

The Group's contributions to the pension, annuity and unemployment insurance plans for the year, respectively, are as follows

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Basic pension insurance	88,492,091	817,675,819	896,462,132	9,705,778
Unemployment insurance	15,791,633	28,971,881	33,459,681	11,303,833
Annuity payments	23,634,412	312,692,946	308,780,939	27,546,419
Total	127,918,136	1,159,340,646	1,238,702,752	48,556,030

The Group has a contribution fee of RMB1,159,340,646 (2020: RMB686,936,951) payable to the participating defined contribution plans for the current year. As at 31 December 2021, the Group had RMB48,556,030 (31 December 2020: RMB127,918,136) of deposit fees payable which were due and unpaid during the current reporting period and such deposit fees payable were paid after the reporting period.

For each of the two financial years ended 31 December 2020 and 2021, there are no forfeited contributions under the Group's defined contribution plans (which are made by employers on behalf of employees who leave the plans prior to the full vesting of such contributions) available to the Group to reduce the existing level of contributions.



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33. Tax payable

Item	Closing balance	Opening balance
Value-added tax	102,972,664	73,622,772
City maintenance and construction tax	6,382,376	5,386,780
Education surcharge	4,650,484	4,782,090
Corporate income tax	256,572,508	177,636,456
Individual Income Tax	57,192,263	62,564,465
Property tax	8,512,309	6,192,655
Land use tax	1,325,070	943,476
Land value-added tax	11,520,757	11,520,757
Other taxes and fees	4,985,608	5,657,501
Total	454,114,039	348,306,952

34. Other payables

Item	Closing balance	Opening balance
Dividends payable	6,194,055	362,540,213
Other accounts payable	1,880,144,355	1,957,855,981
Total	1,886,338,410	2,320,396,194

34.1 Dividends payable

Item	Closing balance	Opening balance
Dividends on ordinary shares	6,194,055	362,540,213
Total	6,194,055	362,540,213

Note: There was no significant dividends payable outstanding for more than one year at the end of the year.

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Other payables (Continued)

34.2 Other accounts payable

(1) Classification of other accounts payable by nature

Nature of amount	Closing balance	Opening balance
Intercourse funds	207,822,723	186,908,506
Receivables and payables on behalf of other parties	161,949,325	183,502,374
Payables on behalf of employee	266,456,341	234,952,189
Restricted stock repurchase obligations	709,718,032	782,399,244
Pension provision	96,619,388	212,600,388
Outstanding fees	51,195,812	52,833,034
Security and deposit	82,734,245	52,230,958
Housing maintenance fund	4,278,704	4,581,134
Party organization funds	73,199,764	19,752,600
Others	226,170,021	228,095,554
Total	1,880,144,355	1,957,855,981

(2) Significant other accounts payable aged over 1 year

Name of the unit	Closing balance	Reasons for outstanding or not being carried forward
Restricted stock repurchase obligation and its stock dividends	709,470,939	Not due
Salary surcharges	82,337,916	Special funds have not been used
Party organization working funds	65,348,207	Use in installments
Special funds of 1230 Project	54,995,400	Special funds have not been used
Company 1	27,035,319	Unspecified repayment period
Company 2	14,725,287	Unspecified repayment period
Company 3	14,133,309	Not settled
Company 4	13,326,827	Project not settled
Company 5	13,113,165	Project not settled
Company 6	10,000,000	Unspecified repayment period
Total	1,004,486,369	—



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Long-term borrowings due within one year	837,980,893	1,459,030,017
Long-term payables due within one year	27,741,574	–
Lease liabilities due within one year	73,550,048	104,809,104
Non-financial institution borrowings due within one year	286,027,342	–
Total	1,225,299,857	1,563,839,121

36. Other current liabilities

(1) Classification of other current liabilities

Item	Closing balance	Opening balance
Borrowings from other non-financial institutions	256,850,711	593,000,000
Tax pending for written back	199,745,186	150,856,415
Notes endorsed for transfer without derecognition at the end of the year	126,162,427	–
Accruals on complete set of aircraft accessories and initial assembly processing fees	39,496,204	39,496,204
Accruals	52,275	2,829,743
Total	622,306,803	786,182,362

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Long-term borrowings

(1) Classification of long-term borrowings

Category	Closing balance	Opening balance
Credit borrowings	3,503,992,498	2,517,391,805
Secured borrowings	411,302,483	428,092,242
Guaranteed borrowings	369,467,000	652,947,000
Total	4,284,761,981	3,598,431,047

The principal of the above borrowings shall be repaid within the following periods:

Item	Closing balance	Opening balance
Within one year	837,980,893	1,459,030,017
More than one year after the balance sheet date, but not more than two years	1,462,744,148	1,440,775,805
More than two year after the balance sheet date, but not more than five years	2,022,326,784	1,341,208,000
More than five year after the balance sheet date	799,691,049	816,447,242
Less: amounts due within one year under current liabilities	837,980,893	1,459,030,017
Amount under non-current liabilities	4,284,761,981	3,598,431,047

Note 1: The interest rate range of the Group's long-term borrowings at the end of the year was 1.08% to 5.90% (1.08% to 5.00% at the beginning of the year).

Note 2: For details of the Group's secured borrowings at the end of the year, see Note VI.68.



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38. Lease liabilities

Item	Closing balance	Opening balance
Lease payment	846,194,707	876,919,755
Less: Unrecognized financing costs	213,431,829	135,735,862
Reclassification to leasing liabilities due within one year	73,550,048	104,809,104
Total	559,212,830	636,374,789

Note: The Group's cash flow payments for other leases except for short-term and low-value leases in the current year totaled RMB93,396,077.

The carrying amounts of the above lease liabilities shall be repaid within the following periods:

Item	Closing balance
Within one year	73,550,048
More than one year after the balance sheet date, but not more than two years	73,372,008
More than two year after the balance sheet date, but not more than five years	173,884,405
More than five year after the balance sheet date	311,956,417
Total	632,762,878
Less: lease liabilities due within one year under current liabilities	73,550,048
Lease liabilities under non-current liabilities	559,212,830

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Long-term payables

Item	Closing balance	Opening balance
Long-term payables	227,621,245	2,440,480
Special payables	-776,562,699	-26,308,469
Total	-548,941,454	-23,867,989

39.1 Long-term payables

(1) Classification of long-term payables by nature

Nature of the amount	Closing balance	Opening balance
Financial leasing	261,591,522	526,980
Less: Unrecognized financing costs	8,142,203	–
Others	1,913,500	1,913,500
Less: long-term payables due within one year	27,741,574	–
Total	227,621,245	2,440,480

(2) The carrying amounts of the long-term payables shall be repaid within the following periods

Category	Closing balance	Opening balance
Within one year	27,741,574	–
More than one year after the balance sheet date, but not more than two years	29,216,060	–
More than two year after the balance sheet date, but not more than five years	89,526,831	2,440,480
More than five year after the balance sheet date	108,878,354	–
Less: long-term payables due within one year under current liabilities	27,741,574	–
Amounts under non-current liabilities	227,621,245	2,440,480



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Long-term payables (Continued)

39.2 Special payables

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Research fees	-1,764,373,805	2,357,176,768	3,248,202,290	-2,655,399,327
Technical renovation infrastructure project	1,738,065,336	368,014,907	227,243,615	1,878,836,628
Total	-26,308,469	2,725,191,675	3,475,445,905	-776,562,699

40. Long-term employee compensation payable

(1) Classification of Long-term employee compensation payable

Item	Closing balance	Opening balance
Post-employment welfare – net debt of the defined benefit plan	1,495,365,544	1,576,153,031
Dismission welfare	28,418,352	34,341,984
Total	1,523,783,896	1,610,495,015

(2) Changes in the defined benefit plan--the present value of the obligations of the defined benefit plan

Item	Amount in the current year	Amount in the previous year
Opening balance	1,576,153,031	1,526,596,572
Defined benefit cost included in current profit and loss	49,642,000	55,191,146
1. Current service cost	126,000	–
2. Past service cost	860,000	4,346,240
3. Settlement gains (losses are indicated by “-”)	–	620,000
4. Net interest	48,656,000	50,224,906
Defined benefit cost included in other comprehensive income	-21,381,380	-134,409,509
1. Actuarial gains (losses are indicated by “-”)	-21,381,380	-134,409,509
Other changes	-151,810,867	-140,044,196
1. Consideration paid at settlement	–	–
2. Benefits paid	-151,810,867	-155,434,196
3. Provision for reserve fee	–	15,390,000
4. Disposal of a subsidiaries	–	–
Closing balance	1,495,365,544	1,576,153,031

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40. Long-term employee benefits payable (Continued)

(3) Changes in the defined benefit plan--the net debt of the defined benefit plan (net assets)

Item	Amount in the current year	Amount in the previous year
Opening balance	1,576,153,031	1,526,596,572
Defined benefit cost included in current profit and loss	49,642,000	55,191,146
Defined benefit cost included in other comprehensive income	-21,381,380	-134,409,509
Other changes	-151,810,867	-140,044,196
Closing balance	1,495,365,544	1,576,153,031

Note: The Group recognizes the defined benefit obligation as a liability. The Group's liabilities are determined by relying on actuarial estimates with various assumptions and conditions. The assumptions used in the actuarial valuation report include discount rates, mortality rates, benefit growth rates, and other factors.

The present value of the Group's defined benefit plan obligations for the year was calculated by Towers Watson Consulting (Shenzhen) Co., Ltd.. The principal actuarial assumptions used in actuarial report for the current year are as follows:

- (1) the discount rate to determine the defined benefit obligation: 2.75%;
- (2) mortality rate: China Life Insurance Mortality Table (2010-2013);
- (3) supplemental/extra-integrated medical benefits annual growth rate: 6.00%;
- (4) annual growth rate of basic salary, allowance, basic social insurance and housing fund contributions for formerly retired staff who left their jobs: 3.50%-6.00%.

The deviations between actual results and actuarial results will affect the accuracy of the related accounting estimates. Even if the management considers the above assumptions to be reasonable, any changes in the assumptions will still affect the amount of the liability. All assumptions are reviewed at the reporting date.



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

41. Estimated liabilities

Item	Closing balance	Opening balance
Product quality assurance	429,626,219	358,888,260
Principal amount of Orient Asset Bonds converted to shares	215,180,000	215,180,000
Others	700,000	700,000
Total	645,506,219	574,768,260

42. Deferred income

(1) Classification of deferred income

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance	Reasons for formation
Government grants	792,831,734	131,474,092	77,981,090	846,324,736	Government grants
Total	792,831,734	131,474,092	77,981,090	846,324,736	—

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42. Deferred income (Continued)

(2) Government grants projects

Government grants projects	Opening balance	Amount of new subsidy this year	Amount included in non-operating income this year	Amount included in other income this year	Amount of offsetting costs and expenses this year	Other changes	Closing balance	Asset-related/ Income-related
Land relocation compensation	426,014,268	-	-	14,627,782	-	-	411,386,486	Asset-related
Special funds for central enterprises to enter Hebei and special funds for industrial development	66,087,500	-	-	1,930,000	-	-	64,157,500	Asset-related
High Speed Connector Project (Research and development and industrialization project of a connector)	21,453,605	47,420,000	-	8,920,631	-	-	59,952,974	Asset-related
Relocation compensation subsidy	45,780,834	-	-	2,409,518	-	-	43,371,316	Asset-related
Project of Nanchang aviation industry city construction and development of large aircraft	42,918,759	-	-	1,036,053	-	-	41,882,706	Asset-related
Government grants for land in the new Lvmeng district	37,931,349	-	-	842,919	-	-	37,088,430	Asset-related
Underwater plugging and unplugging of optoelectronic mixers	-	30,000,000	-	-	-	-	30,000,000	Asset-related
MIIT projects	35,799,673	-	-	5,085,297	-	-3,830,000	26,884,376	Asset-related
High-performance cable industrialization project	10,100,000	10,000,000	-	281,392	-	-	19,818,608	Asset-related
Flight instrument production capacity enhancement project	-	14,000,000	-	-	-	-	14,000,000	Asset-related
Land grant subsidies	12,533,973	-	-	338,756	-	-	12,195,217	Asset-related
Kaitong relocation compensation	11,422,891	-	-	443,182	-	-	10,979,709	Asset-related
Special fund subsidy for gymnasium	11,608,333	-	-	700,000	-	-	10,908,333	Asset-related
Special funds for the development of southern Shaanxi cycle project subsidies	7,158,600	1,000,000	-	1,113,162	-	-	7,045,438	Asset-related
Intelligent electric servo control system industrialization construction project subsidies	6,928,000	-	-	500,000	-	-	6,428,000	Asset-related
Lanzhou City coal to gas boiler subsidies	6,491,199	-	-	1,075,000	-	-	5,416,199	Asset-related
Electric actuation and transmission system industry construction project subsidies	5,000,000	-	-	-	-	-	5,000,000	Asset-related
Other grants	45,602,750	29,054,092	-	34,847,398	-	-	39,809,444	Asset-related/ Income-related
Total	792,831,734	131,474,092	-	74,151,090	-	-3,830,000	846,324,736	-



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43. Other non-current liabilities

Item	Closing balance	Opening balance
Borrowings and interest of AVIC Airborne Systems Co., Ltd. (中航機載系統有限公司)	1,787,971,263	1,636,506,410
Borrowings and interest of China Huarong Asset Management Co., Ltd.	67,467,738	67,467,738
Contract liabilities	21,475,652	–
Proposed debt-to-equity borrowings and interest	–	74,147,513
Total	1,876,914,653	1,778,121,661

44. Share capital

Item	Opening balance	Increase and decrease in change for the year				Subtotal	Closing balance
		Issuance of new shares	Bonus issue	Conversion from reserves	Other		
Total shares	7,711,332,242	–	–	–	–	–	7,711,332,242

45. Capital reserves

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Share capital premium	1,005,768,527	–	–	1,005,768,527
Other capital reserves	10,619,738,758	1,426,733,475	77,277,346	11,969,194,887
Total	11,625,507,285	1,426,733,475	77,277,346	12,974,963,414

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45. Capital reserves (Continued)

- Note: 1. The Company's subsidiary, Harbin Aviation Industry (Group) Co., Ltd., disposed of its 1.50% equity in AVICOPTER PLC this year. The difference between the disposal price and the corresponding share of net assets continuously calculated from the date of purchase is RMB348,829,969. This resulted in an increase of RMB348,829,969 in other capital reserves.
- Note: 2. The amortization of share-based payment of AVIC JONHON Optron Technology Co., Ltd., a subsidiary of the Company, during the year resulted in an increase in other capital reserves of RMB65,641,788; the third batch A shares under the Restricted Share Intensive Scheme (Phase I) was unlocked during the year, resulting in an increase in other capital reserves of RMB17,174,523.
- Note: 3. AVIC JONHON Optron Technology Co., Ltd., a subsidiary of the Company, in accordance with the resolution of the 13th meeting of the 6th Board of Directors held on 9 July 2021, the resolution of the 2nd Extraordinary General Meeting of 2021 held on 23 August 2021 and the provisions of the amended Articles of Association, and as approved by China Securities Regulatory Commission's document Zheng Jian Xu Ke [2021] No. 3707 "Approval for the Non-public Issuance of Shares by AVIC JONHON Optron Technology Co., Ltd.", successfully issued 35,576,016 shares of ordinary shares (A shares) during the year, resulting in an increase in other capital reserves of RMB995,023,337.
- Note: 4. China Aviation Planning and Design Institute Co., Ltd., a subsidiary of the Company, acquired 100.00% equity of Beijing Yinyan Industrial Co., Ltd. (北京銀燕實業有限公司) held by AVIC Construction and Development (Beijing) Technology Co., Ltd.* (中航建發(北京)科技有限公司), a subsidiary of AVIC. The acquisition was completed on 31 December 2021. This acquisition is a business combination under common control, and for the purpose of preparing comparative financial statements, it is deemed that Beijing Yinyan Industrial Co., Ltd. existed in its current state at the time the ultimate controlling party began to exercise control, resulting in a decrease in other capital reserves of RMB77,209,824.
- Note: 5. The effect of the equity method accounting for changes in equity in investees of AVICOPTER PLC, a subsidiary of the Company, resulted in an increase in other capital reserves of RMB63,858. The effect of the equity method accounting for changes in equity in investees of China Avionics Systems Co., Ltd., a subsidiary of the Company, resulted in a decrease in other capital reserves of RMB25,501. The minority shareholder of AVIC Optoelectronics Huayi (Shenyang) Electronic Technology Co., Ltd.* (中航光電華億(沈陽)電子科技有限公司), a subsidiary of the Company, increased its capital, resulting in a decrease in other capital reserves of RMB42,021.

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46. Other comprehensive income

Item	Opening balance	Amount before income tax for the current year	Less: included in other comprehensive income in the previous period and transferred to profit or loss in the current year	Amount for the current year		Less: income tax expenses	Attributable to the parent company after tax	Attributable to minority shareholders after tax	Closing balance
				Less: included in other comprehensive income in the previous period and transferred to retained earnings in the current period	Less: included in other comprehensive income in the previous period and transferred to retained earnings in the current period				
(I) Other comprehensive income that cannot be reclassified into profit or loss	-456,593,362	728,618,740	-	-7,821,491	188,006,963	557,686,696	-9,253,428	101,093,334	
Including: Changes arising from re-measurement of the defined benefit plan	-505,529,029	-21,381,380	-	-	-	-17,794,276	-3,587,104	-523,323,305	
Other comprehensive income that cannot be reclassified into profit or loss under the equity method	-	320,660	-	-	-	320,660	-	320,660	
Changes in fair value of other equity instrument investments	48,935,667	749,679,460	-	-7,821,491	188,006,963	575,160,312	-5,666,324	624,095,979	
(II) Other comprehensive income reclassified into the profit or loss	11,583,534	-379,511	-	-	-	-168,869	-210,642	11,414,665	
Including: Translation difference of foreign currency financial statements	-8,650,269	-379,511	-	-	-	-168,869	-210,642	-8,819,138	
Others	20,233,803	-	-	-	-	-	-	20,233,803	
Total other comprehensive income	-445,009,828	728,239,229	-	-7,821,491	188,006,963	557,517,827	-9,464,070	112,507,999	

47. Special reserves

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Safety production expenses	437,521,387	191,516,708	125,350,391	503,687,704
Total	437,521,387	191,516,708	125,350,391	503,687,704

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

48. Surplus reserves

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Statutory surplus reserve	248,737,213	59,401,517	–	308,138,730
Total	248,737,213	59,401,517	–	308,138,730

49. Undistributed profits

Item	Amount in the current year	Amount in the previous year
Balance at the end of last year	3,398,501,345	1,699,009,581
Add: Adjustment of retained earnings at the beginning of the year	–	–
Including: Change in the scope of combination under common control	–	967,410
Balance at the beginning of the current year	3,398,501,345	1,699,976,991
Add: Net profit for the year attributable to owners of the parent company	2,369,276,265	1,932,994,008
Retained earnings carried over from other comprehensive income	-18,800,608	-8,860,105
Less: Withdrawal of statutory surplus reserve	59,401,517	37,749,547
Dividends payable on ordinary shares	386,867,888	187,453,655
Other decrease	6,028,533	406,347
Balance at the end of the current year	5,296,679,064	3,398,501,345



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49. Undistributed profits (Continued)

Note 1: Details of dividends declared and paid and proposed in prior periods are as follows: ① For the year ended 31 December 2020, pursuant to the resolutions of meeting of the Board held on 30 March 2020 and the resolutions of the annual general meeting held on 22 May 2020 for the year ended 31 December 2019, the Group declared the final dividend for 2019 on the basis of RMB0.03 per share (including tax) to each shareholder, amounting to RMB187,353,655.08 in aggregate. The Group has paid the above dividends to each shareholder in August 2020. ② For the year ended 31 December 2021, pursuant to the resolution of meeting of the Board held on 30 March 2021 and the resolution of the annual general meeting held on 28 May 2021 for the year ended 31 December 2020, the Group declared a final dividend for 2020 on the basis of RMB0.05 (including tax) per share to each shareholder, amounting to RMB385,566,612.10 in aggregate. The Group has paid the above dividends to each shareholder in July 2021.

Note 2: The Group proposes a final dividend of RMB0.08 (including tax) per share. The proposed final dividend is proposed by the directors at the meeting to be held on the date of approval of these financial statements and is subject to approval by the shareholders of the Company at the annual general meeting.

Note 3: Other decreases in undistributed profits for the year were due to the transfer of "Water/Electricity/Gas Supply and Property Management" of China Avionics Systems Co., Ltd.* (中航航空電子系統股份有限公司) and AVICOPTER PLC (中航直升機股份有限公司), both the Company's subsidiaries, and the book value of the transferred assets offset the undistributed profits.

50. Operating revenue and operating costs

(1) Details of operating revenue and operating costs

Item	Amount for the current year		Amount for the previous year	
	Revenue	Cost	Revenue	Cost
Main businesses	59,187,308,556	46,639,856,553	50,152,146,372	39,832,635,611
Other businesses	1,108,976,192	958,108,602	777,755,820	662,617,882
Total	60,296,284,748	47,597,965,155	50,929,902,192	40,495,253,493

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50. Operating revenue and operating costs (Continued)

(2) Revenue from contracts

Contract classification	Aviation entire aircraft	Aviation ancillary system and related business	Aviation engineering services	Total
By operation region				
Including: Mainland China	20,388,178,726	32,122,619,371	6,719,681,637	59,230,479,734
Other region	–	1,058,197,968	7,607,046	1,065,805,014
By contract type				
Including: Sales contract	20,388,178,726	32,794,724,631	1,826,263,984	55,009,167,341
Service contract	–	386,092,708	4,901,024,699	5,287,117,407
By time of goods transfer				
Including: Performance in a period of time	20,172,543,295	185,746,219	4,585,377,838	24,943,667,352
Performance at a point in time	215,635,431	32,995,071,120	2,141,910,845	35,352,617,396
Total	20,388,178,726	33,180,817,339	6,727,288,683	60,296,284,748



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

50. Operating revenue and operating costs (Continued)

(3) Information related to performance obligations

The types of transactions involving performance obligations of the Group are sales of goods and rendering of services. The Group recognizes revenue when it has fulfilled its performance obligations under the contract, i.e., when the customer obtains control of the related goods or services.

The Group determines that the contracts of aviation entire aircraft, the helicopter maintenance contracts in the aviation ancillary system and related business, and the engineering contracting contracts and consulting and design contracts in the aviation engineering services are performance obligations to be performed within a certain period of time. The time of the performance obligations is basically consistent with the completion progress. The Group determines the time and proportion of progress payment according to the nodes in the contract with the customer and performs the corresponding obligations in strict accordance with the terms of the contract. If any party in the process breaches the contract or fails to perform its contractual obligations in a timely manner, in case of being the responsibility of the enterprise, it is required to refund the amount paid in advance by the customer or deduct the contract price payable, and compensate for the reasonable loss that has also been incurred.

Generally, the warranty period for contracts of aviation entire aircraft and helicopter maintenance contracts is 2 years or the contracted number of flight hours, and the Group provides repair services free of charge for defects caused by unintentional, navigational risks, natural damage, etc.; engineering contracts stipulate warranty responsibility for the works within the contracted quality warranty period, which is usually between 2 to 5 years; consulting and design contracts provide quality assurance as agreed in the contract.

(4) Information related to the transaction price allocated to the remaining performance obligations

At the end of the year, the amount of revenue corresponding to performance obligations contracted but not yet performed or completed was RMB18,483,844,611, of which RMB18,272,926,573 is expected to be recognized as revenue in 2022.

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51. Taxes and surcharges

Item	Amount for the current year	Amount for the previous year
Property tax	60,365,286	55,435,959
City maintenance and construction tax	29,660,675	16,942,730
Stamp duties	14,047,415	14,674,956
Education surcharge	13,206,417	12,123,597
Land use tax	9,013,526	7,384,906
Local education surcharge	8,445,592	11,887
Vehicle usage tax	357,155	340,023
Resource tax	354,592	181,993
Land value-added tax	39,298	—
Others	2,145,478	2,973,331
Total	137,635,434	110,069,382

52. Selling expenses

Item	Amount for the current year	Amount for the previous year
Employee compensation	352,654,045	304,361,004
After-sales service charges	91,266,381	82,188,920
Business travel costs	77,728,058	67,511,249
Three guarantees loss and quality claim fees	56,672,889	30,331,657
Advertising and publicity expenses	10,870,981	8,940,783
Office fees	7,939,850	5,654,576
Packing charges	7,180,789	6,536,155
Transportation costs	6,584,382	52,904,624
Exhibition fees	5,303,627	4,686,993
Sample and product losses	5,212,253	8,791,537
Depreciation and amortization costs	2,494,380	2,360,420
Others	64,486,858	61,203,278
Total	688,394,493	635,471,196



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From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

53. Administrative expenses

Item	Amount for the current year	Amount for the previous year
Employee compensation	2,117,502,717	1,730,481,223
Depreciation and amortization costs	360,461,250	332,306,133
Maintenance and repair costs	211,345,147	247,286,394
Amortization of equity incentives in the current period	169,771,576	163,177,062
Property afforestation fees	71,439,402	73,783,385
Office fees	70,446,863	47,069,987
Business entertainment expenses	69,673,480	50,030,609
Labor protection costs	53,605,835	50,104,353
Business travel costs	52,889,886	36,810,963
Professional service fees	45,764,489	27,407,944
Power and fuel expenses	27,315,449	35,655,059
Rental	23,898,841	23,980,511
Audit fee	16,772,666	11,664,936
Including: Auditor's fees for the annual report	2,800,000	2,800,000
Other audit fees	13,972,666	8,864,936
Publicity expenses	11,947,094	13,126,567
Conference expenses	11,189,836	10,303,469
Insurance premium	8,583,900	14,502,208
Others	271,815,095	255,702,417
Total	3,594,423,526	3,123,393,220

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

54. Research and development expenses

Item	Amount for the current year	Amount for the previous year
Employee compensation	1,391,259,913	1,174,507,989
Materials expenses	1,114,770,211	1,029,083,282
Experimental and special fees	404,869,073	412,048,748
External negotiation fee	123,757,214	88,949,410
Depreciation and amortization costs	105,701,268	106,384,143
Transportation and business travel costs	59,576,677	43,566,532
Administrative expense	50,653,952	43,435,023
Power and fuel expenses	20,948,492	10,215,390
Design fee	15,886,364	28,158,593
Others	164,789,862	65,468,991
Total	3,452,213,026	3,001,818,101

55. Finance costs

Item	Amount for the current year	Amount for the previous year
Interest expenses	397,113,009	517,544,968
Less: Interest incomes	306,481,532	441,436,281
Add: Exchange losses	63,834,931	119,814,122
Add: Other expenditures	10,687,199	18,040,420
Total	165,153,607	213,963,229



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From 1 January 2021 to 31 December 2021

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

56. Other income

Sources of other income	Amount for the current year	Amount for the previous year
Employment subsidy	61,106,115	26,949,524
High-tech allowance	30,529,250	29,081,293
National major science and technology project	29,400,320	17,170,289
Subsidies for research and development	21,522,706	13,456,038
Government relocation compensation	17,480,481	22,700,460
Instant value-added tax refund	12,327,575	14,007,006
Subsidies for research and development and industrialization project of a connector	9,424,689	2,142,699
Science and technology innovation awards for enterprise	8,981,150	2,435,000
Special subsidies for scientific research funds	5,262,418	5,095,004
MIIT project	5,085,297	4,153,979
Refund of individual tax handling fee	3,517,123	6,550,172
Training subsidies	2,353,845	6,169,800
Land compensation	2,217,728	2,217,728
Technical transformation	2,124,267	2,699,167
Financial allocations	2,030,000	3,178,200
Subsidies of boiler retrofitting	1,075,000	4,195,000
Subsidies for other projects	60,834,384	105,391,115
Total	275,272,348	267,592,474

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

57. Investment income

Item	Amount for the current year	Amount for the previous year
Long-term equity investment incomes calculated at equity method	265,683,437	162,129,849
Investment income from disposal of long-term equity investments	6,591,790	498,169
Investment income from holding financial assets held for trading	10,172,114	11,927,647
Investment income from disposal of financial assets held for trading	109,397,630	225,831,033
Dividend income from holding other equity instrument investments	43,873,347	109,517,639
Gain on revaluation of remaining equity at fair value after losing control	3,082,789	-1,088
Gain on debt restructuring	12,698,213	-224,003
Investment income from holding other non-current financial assets	32,465,753	25,068,493
Investment income from disposal of financial liabilities held for trading	-	2,199,233
Gain on derecognition of financial assets measured at amortized cost	-9,653,445	-12,776,437
Others	136,848	-1,384,888
Total	474,448,476	522,785,647

58. Income from changes in fair value

Source of income from changes in fair value	Amount for the current year	Amount for the previous year
Financial assets held for trading	179,821	184,680,281
Including: Gain from changes in fair value of derivative financial instruments	-	-
Financial liabilities held for trading	4,845,113	45,911
Total	5,024,934	184,726,192



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

59. Credit impairment loss

Item	Amount for the current year	Amount for the previous year
Loss on bad debts of accounts receivable	-7,679,063	-10,875,221
Loss on bad debts of notes receivable	-36,447,195	-25,593,485
Loss on bad debts of other receivables	3,060,963	17,206,242
Others	-360,833	15,098,579
Total	-41,426,128	-4,163,885

60. Assets impairment loss

Item	Amount for the current year	Amount for the previous year
Inventory depreciation loss and contract performance cost impairment losses	-184,610,914	-128,100,133
Contract asset impairment losses	-3,182,270	-10,436,114
Loss from fixed assets impairment	-	-29,595,540
Loss from intangible assets impairment	-	-275,000
Prepayments impairment losses	-	417,544
Total	-187,793,184	-167,989,243

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

61. Income from assets disposal

Item	Amount for the current year	Amount for the previous year	Amount included in non-recurring profit or loss for the current year
Income from disposal of non-current assets	76,297,341	120,004,337	76,297,341
Including: Income from disposal of non-current assets classified as held-for-sale	74,239,175	114,149,532	74,239,175
Including: Income from disposal of fixed assets	74,239,175	114,149,532	74,239,175
Income from disposal of non-current assets not classified as held-for-sale	2,058,166	5,854,805	2,058,166
Including: Income from disposal of fixed assets	2,058,166	5,568,315	2,058,166
Income from disposal of intangible assets	-	286,490	-
Total	76,297,341	120,004,337	76,297,341

Note 1: The income from disposal of assets during the year was mainly due to the land resumption by the Nanchang Municipal Government for the factory area of Jiangxi Hongdu Aviation Industry Group Co., Ltd. and the housing buildings of Jiangxi Hongdu Aviation Industry Co., Ltd., a subsidiary of the Company, located within the scope of the project were classified as removal and expropriation. In this year, Jiangxi Hongdu Aviation Industry Co., Ltd. and Nanchang Qingyunpu State-owned Land Expropriation and Compensation Office signed the Nanchang City State-owned Land Expropriation and Compensation Agreement. Pursuant to which, a total of 15 buildings, including Plant No. 15, Plant No. 26 and Plant No. 80, were expropriated. The demolition of the above-mentioned buildings was completed this year, and a relocation compensation of RMB80,764,801 was received, resulting in a income from disposal of assets of RMB74,239,470 after deducting the book value of the relevant housing buildings.

Note 2: Included in the income from disposal of assets of the Group for the year was a profit on disposal of properties of RMB76,091,773.

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

62. Non-operating income

(1) Details of non-operating income

Item	Amount for the current year	Amount for the previous year	Amount included in non-recurring profit or loss for the current year
Gains on damaged and retired non-current assets	1,245,925	2,277,430	1,245,925
Government grants irrelevant to the daily business operations	1,909,551	1,721,889	1,909,551
Unpayable payments	19,039,805	6,336,000	19,039,805
Income from compensation, liquidated damages and fines	38,477,377	27,301,918	38,477,377
Policy-based relocation income	–	2,797,618	–
Liquidation income	25,160,946	–	25,160,946
Others	4,475,060	6,224,446	4,475,060
Total	90,308,664	46,659,301	90,308,664

(2) Details of government grants

Item	Amount for the current year	Amount for the previous year	Source and basis	Asset-related/ Income-related
Financial allocations	907,551	1,660,015	Development Zone Finance Bureau Support Fund	Income-related
Government grants	1,002,000	61,874	Notice of Local Financial Supervision Administration of Guangxi Zhuang Autonomous Region on Issuing the First Batch of Cross-border Credit Financing Subsidy Funds in 2021	Income-related
Total	1,909,551	1,721,889	–	–

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

63. Non-operating expenses

Item	Amount for the current year	Amount for the previous year	Amount included in non-recurring profit or loss for the current year
Losses on damaged and retired non-current assets	24,862,835	20,999,889	24,862,835
External donation expenditure	3,845,278	5,322,216	3,845,278
Obsolescence losses of inventories	1,789,467	11,656,377	1,789,467
Expenses on compensation, liquidated damages and fines	3,511,767	1,441,183	3,511,767
Relocation expenses	–	964,796	–
Others	3,723,029	10,675,567	3,723,029
Total	37,732,376	51,060,028	37,732,376

64. Income tax expenses

(1) Income tax expenses

Item	Amount for the current year	Amount for the previous year
Current income tax calculated in accordance with tax laws and related regulations	504,780,520	435,259,547
Deferred income tax expenses	-24,775,987	34,966,704
Total	480,004,533	470,226,251



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From 1 January 2021 to 31 December 2021

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

64. Income tax expenses (Continued)

(2) Adjustment process of accounting profits and income tax expenses

Item	Amount for the current year
Total consolidated profit before tax for the year	5,314,899,582
Income tax expenses at statutory/applicable rates	1,328,724,895
The impact of different tax rates applied to subsidiaries	-371,135,483
The impact of adjustments to income taxes in previous periods	-4,417,890
The impact of non-taxable revenue	-93,168,692
The impact of non-deductible costs, expenses and losses	48,472,977
The impact of deductible losses on the use of deferred income tax assets not recognized in previous periods	-125,548,825
The impact of deductible temporary differences or deductible losses on deferred income tax assets not recognized in the current year	85,718,794
Tax effect of surplus deduction	-388,477,866
Others	-163,377
Income tax expenses	480,004,533

65. Other comprehensive income

For details, please refer to the relevant content of “VI. 46 Other comprehensive income” in this note.

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From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

66. Items of cash flow statement

(1) Other cash received/paid related to operating/investing/financing activities

1) Other cash received related to operating activities

Item	Amount for the current year	Amount for the previous year
Intercourse funds	1,138,680,977	1,797,836,308
Research project grants	1,125,659,403	800,481,380
Government grants income	320,087,722	537,215,565
Financial interest income	268,760,199	470,779,408
Security deposit	118,120,924	102,292,402
Income from compensation, liquidated damages and fines	38,477,377	27,301,918
Income tax settlement refund	22,584,323	39,220
Other operating income	8,551,018	8,088,780
Others	79,521,198	100,053,966
Total	3,120,443,141	3,844,088,947

2) Other cash paid related to operating activities

Item	Amount for the current year	Amount for the previous year
Intercourse funds	2,015,599,158	2,846,755,494
Expenses for each item	1,788,836,194	1,354,860,224
Overall cost of employees who officially retired	176,646,103	20,789,191
Guarantee deposit and security deposit	54,220,267	36,167,270
Donations	3,845,278	5,322,216
Fines and compensation expenses	3,592,442	1,068,195
Others	126,956,121	212,334,212
Total	4,169,695,563	4,477,296,802



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

66. Items of cash flow statement (Continued)

(1) Other cash received/paid related to operating/investing/financing activities (Continued)

3) Other cash received related to investing activities

Item	Amount for the current year	Amount for the previous year
Term deposits	1,000,000,000	3,000,000,000
Consideration for asset swap	–	801,799,714
Previous undistributed dividends and investment income received on disposal of equity investments	–	10,199,195
Others	–	37,244,374
Total	1,000,000,000	3,849,243,283

4) Other cash paid related to investment activities

Item	Amount for the current year	Amount for the previous year
Term deposits	344,000,000	1,000,000,000
Others	–	23,426,488
Total	344,000,000	1,023,426,488

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

66. Items of cash flow statement (Continued)

(1) Other cash received/paid related to operating/investing/financing activities (Continued)

5) Other cash received related to financing activities

Item	Amount for the current year	Amount for the previous year
Notes and letter of credit deposit	519,091,559	183,790,530
Borrowings from non-financial institutions	275,890,699	2,714,172,514
Special allocation	123,926,810	203,237,177
Collection and payment of factoring receivables	93,676,409	–
Received interest refunds on bank loan replacements	25,793,370	–
Leaseback financing	10,000,000	–
Finance lease borrowings	5,000,000	–
Others	2,108,194	22,139,249
Total	1,055,487,041	3,123,339,470

6) Other cash paid related to financing activities

Item	Amount for the current year	Amount for the previous year
Notes and letter of credit deposit	517,477,527	101,656,556
Repayment of borrowings from non-financial institutions	505,245,234	1,221,963,955
Collection and payment of factoring receivables	175,025,619	–
Financial lease payments	107,823,904	444,096,908
Lease payments for right-to-use assets	38,986,214	41,740,502
Stock repurchase	23,582,301	122,122,000
Convertible bonds redemption	–	12,085,000
Others	345,377	17,353,713
Total	1,368,486,176	1,961,018,634



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

66. Items of cash flow statement (Continued)

(2) Supplementary information to consolidated cash flow statement

Item	Amount for the current year	Amount for the previous year
1. Adjust net profit to cash flow from operating activities:		
Net profit	4,834,895,049	3,798,262,115
Add: Provision for asset impairment	187,793,184	167,989,243
Credit impairment losses	41,426,128	4,163,885
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of bearer biological assets	1,450,452,160	1,361,007,393
Depreciation of right-of-use assets	71,104,712	55,366,657
Amortization of intangible assets	222,248,749	221,704,424
Amortization of long-term deferred expenses	21,335,649	18,038,137
Losses on disposal of fixed assets, intangible assets and other long-term assets (incomes are listed with "-")	-76,297,341	-120,004,337
Loss on scrapping of fixed assets (gains are listed with "-")	23,616,910	19,379,956
Losses from changes in fair value (incomes are listed with "-")	-5,024,934	-184,726,192
Financial costs (gains are listed with "-")	413,741,965	574,492,371
Investment losses (incomes are listed with "-")	-461,448,722	-522,785,647
Decrease in deferred income tax assets (increase are listed with "-")	-46,122,789	-18,810,198
Increase in deferred tax liabilities (decreases are listed with "-")	21,843,778	53,668,861
Decrease in inventory (increase are listed with "-")	-1,716,165,907	-1,504,050,725
Decrease in operating receivable items (increase are listed with "-")	-9,403,071,041	-4,519,809,861
Increase in operating payable items (decreases are listed with "-")	6,598,094,513	-1,054,548,453
Others	66,166,317	2,511,446,493
Net cash flow from operating activities	2,244,588,380	860,784,122
2. Significant investing and financing activities that do not involve cash receipts and payments:		
Conversion of debt to capital	-	-
Convertible corporate bonds due within one year	-	-
Financing leased fixed assets	-	-
3. Net change in cash and cash equivalents:		
Closing cash balance	23,538,721,525	22,836,476,891
Less: opening cash balance	22,836,476,891	18,540,200,795
Add: closing balance of cash equivalents	-	-
Less: opening balance of cash equivalents	-	-
Net increase in cash and cash equivalents	702,244,634	4,296,276,096

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

66. Items of cash flow statement (Continued)

(3) Net cash paid to acquire subsidiaries during the year

Item	Amount for the current year
Cash or cash equivalents paid in the current year for business combinations that occurred in the current year	77,209,824
Including: Beijing Yinyan Industrial Co., Ltd.	77,209,824
Less: cash and cash equivalents held by the company at the date of combination	23,733,634
Including: Beijing Yinyan Industrial Co., Ltd.	23,733,634
Add: cash or cash equivalents paid in the current year for business combinations that occurred in previous periods	–
Net cash paid to acquire subsidiaries	53,476,190

(4) Net cash received from disposal of subsidiaries this year

Item	Amount for the current year
Cash or cash equivalents received during the current year from disposal of subsidiaries this year	57,500,000
Including: Jiangxi Hongdu International Mechanical & Electrical Co., Ltd.	57,500,000
Less: cash and cash equivalents held by the company on the date of loss of control	46,363,476
Including: Jiangxi Hongdu International Mechanical & Electrical Co., Ltd.	46,363,476
Add: cash or cash equivalents received in the current year on disposals of subsidiaries in previous periods	–
Net cash received from disposal of subsidiaries	11,136,524

(5) Cash and cash equivalents

Item	Closing balance	Opening balance
Cash	23,538,721,525	22,836,476,891
Including: Cash on hand	653,718	646,134
Bank deposits readily available for payment	23,374,671,274	22,827,269,007
Other monetary funds readily available for disbursement	163,396,533	8,561,750
Cash equivalents	–	–
Cash and cash equivalents balance at the end of the year	23,538,721,525	22,836,476,891



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

67. Items of statement of changes in Shareholders' equity

- (1) *The Group has no "Other" items for the current year to adjust the amount at the end of the previous year.*
- (2) *There are no significant "Other" items in the statement of changes in shareholders' equity of the Group for the current year.*

68. Assets with restricted ownership or right to use

Item	Closing book value	Reasons for restriction
Monetary funds	1,822,777,983	For details, see Note VI. 1. Monetary funds
Notes receivable	1,905,906,971	Note pool business and secured borrowings
Accounts receivable	397,105,074	Secured borrowings
Fixed assets	344,494,099	Leaseback and secured borrowings
Intangible assets	3,003,103	Leaseback
Total	4,473,287,230	—

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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

69. Monetary items in foreign currency

Item	Closing balance of foreign currency	Conversion rate	Converted RMB balance at the end of the year
Monetary funds			
Including: USD	245,129,352	6.3757	1,562,871,210
EUR	8,821,635	7.2197	63,689,558
HKD	29,138,294	0.8176	23,823,469
MOP	369,790	0.7936	293,465
TND	13,545,825	0.0458	620,399
Accounts receivable			
Including: USD	44,695,393	6.3757	284,964,417
EUR	3,199,358	7.2197	23,098,405
Other receivables			
Including: MOP	15,706	0.7936	12,464
Accounts payable			
Including: USD	2,724,746	6.3757	17,372,163
EUR	7,100	7.2197	51,260
Other payables			
Including: EUR	2,518	7.2197	18,179
HKD	1,407,485	0.8176	1,150,760
MOP	82,400	0.7936	65,393
Long-term borrowings			
Including: HKD	110,000,000	0.8176	89,936,000



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VI. NOTES TO MAIN ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (Continued)

70. Government grants

Category	Amount received in the current year	Presentation items	Amount included in current profit or loss
Government grants included in deferred income	131,474,092	Deferred income	74,151,090
Government grants included in other income	201,121,258	Other income	201,121,258
Government grants included in non-operating income	1,909,551	Non-operating income	1,909,551
Total	334,504,901	–	277,181,899

VII. CHANGES IN CONSOLIDATION SCOPE

1. Business combination involving entities not under common control

The Group had no business combination involving entities not under common control during the current year.

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VII. CHANGES IN CONSOLIDATION SCOPE (Continued)

2. Business combinations involving entities under common control

(1) Business combination involving entities under common control in the current year

Name of the merged party	Proportion of equity acquired in business combination	Basis for constituting a business combination involving entities under common control	Combination date	Basis for determination of combination date	Income of the merged party from the beginning of the combination year to the date	The net profit of the merged party from the beginning of the combination year to the date	Income of the merged party during the comparative period	Net profit of the merged party during the comparative period
Beijing Yinyan Industrial Co., Ltd.	100%	Controlled by Aviation Industry Corporation of China, Ltd.	31 December 2021	Enjoyed the corresponding benefits and assumed the corresponding risks	12,974,366	-729,726	13,009,355	615,947

(2) Combination cost

Item	Beijing Yinyan Industrial Co., Ltd.
Cash	44,093,841
Total combination Costs	44,093,841



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VII. CHANGES IN CONSOLIDATION SCOPE (Continued)

2. Business combinations involving entities under common control (Continued)

(3) *The book value of the assets and liabilities of the merged party on the combination date*

Item	Beijing Yinyan Industrial Co., Ltd.	
	Combination date (31 December 2021)	31 December 2020
Assets:		
Monetary funds	24,858,278	27,352,036
Accounts receivable	1,709,468	–
Other current assets	288,856	189,233
Total current assets	26,856,602	27,541,269
Investment properties	9,545,998	11,225,402
Fixed assets	415,294	465,252
Intangible assets	20,730,973	21,473,157
Other non-current assets	1,178,823	1,379,770
Total other non-current assets	31,871,088	34,543,581
Total assets	58,727,690	62,084,850

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VII. CHANGES IN CONSOLIDATION SCOPE (Continued)

2. Business combinations involving entities under common control (Continued)

(3) *The book value of the assets and liabilities of the merged party on the combination date* (Continued)

Item	Beijing Yinyan Industrial Co., Ltd.	
	Combination date	
	(31 December 2021)	31 December 2020
Liabilities:		
Receivables in advance	839,893	1,376,814
Employee compensation payable	546,189	407,352
Other payables	1,857,940	1,771,368
Other current liabilities	242,030	641,637
Total current liabilities	3,486,052	4,197,171
Long-term employee compensation payable	4,502,375	4,745,906
Deferred income tax liabilities	6,645,422	7,016,929
Total non-current liabilities	11,147,797	11,762,835
Total liabilities	14,633,849	15,960,006
Net assets	44,093,841	46,124,844
Less: minority interests		
Net assets acquired	44,093,841	46,124,844

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(The notes to the financial statements are presented in RMB, except as otherwise noted)

VII. CHANGES IN CONSOLIDATION SCOPE (Continued)

3. Disposal of subsidiaries

Name of subsidiary	Price of equity disposal	Proportion of equity disposed (%)	Method of equity disposal	Timing of control loss	Basis to determine the timing of control loss	Difference between the disposal price and the share in net assets of the subsidiary in consolidated financial statements corresponding to the investment disposed	Proportion of the residual equity on the date of losing the control right	Book value of the residual equity on the date of losing the control right	Fair value of the residual equity on the date of losing the control right	Gains or losses arising from the measurement of residual equity at fair value	Methods to determine and major assumptions of the fair value of residual equity on the date of losing the control	Amount of other comprehensive income related to the original subsidiary's equity investment transferred to investment gains or losses
Jiangxi Hongdu International Mechanical & Electrical Co., Ltd* (江西洪都國際機電有限公司)	57,500,000	50%	Disposal	2021-6-1	The purchaser has actually controlled the financial and operating policies of International M&E, and enjoys the corresponding benefits and bears the corresponding risks	4,403,983	35%	37,167,211	40,250,000	3,082,789	Recent trading price of the equity of International M&E	-

4. Changes in consolidation scope for other reasons

AVIC JONHON Optronics Technology Co., Ltd., a subsidiary of the Company, newly established wholly-owned subsidiaries AVIC Optoelectronics (Guangdong) Co., Ltd. (中航光電(廣東)有限公司), AVIC Optoelectronics (Germany) Co., Ltd. (中航光電(德國)有限責任公司) and AVIC Optoelectronics (Shanghai) Co., Ltd. (中航光電(上海)有限公司) in the current year, resulting in the change of the scope of consolidation.

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VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

(1) The composition of the enterprise group

Name of the subsidiary	Principal place of business	Place of registration	Business nature	Issued paid up/Registered capital	Type of legal entity	Shareholding ratio (%)		Acquisition method	Remark
						Direct	Indirect		
Harbin Aviation Industry (Group) Co., Ltd.* (哈爾濱航空工業(集團)有限公司) ("Harbin Aviation Group")	Harbin	Harbin	Manufacturing	1,437,000,000	Limited Liability Company	100	-	Business combinations under common control	
AviChina Hong Kong Limited. (中航科工香港有限公司) ("AviChina Hong Kong")	Hong Kong	Hong Kong	Investment	HKD1,000	Limited Liability Company	100	-	Investment set-up	
Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司) ("Tianjin Mechanical and Electrical")	Tianjin	Tianjin	Manufacturing	293,163,439	Limited Liability Company	100	-	Business combinations under common control	
AVIC Helicopter Co., Ltd. (中航直升機有限責任公司) ("AVIC Helicopter")	Harbin	Tianjin	Manufacturing	7,800,000,000	Limited Liability Company	100	-	Business combinations under common control	
China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究總院有限公司) ("AVIC CAPDI")	Beijing	Beijing	Construction Industry	1,050,000,000	Limited Liability Company	100	-	Business combinations under common control	
AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司) ("Industrial Investment")	Shanghai	Shanghai	Investment	200,000,000	Limited Liability Company	100	-	Investment set-up	
Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司) ("Hongdu Aviation")	Nanchang	Nanchang	Manufacturing	717,114,512	Joint Stock Company Limited	43.77	-	Business combinations under common control	1
China Avionics Systems Co., Ltd.* (中航航空電子系統股份有限公司) ("AVIC Avionics")	Shanghai, Chengdu, etc.	Beijing	Manufacturing	1,928,214,265	Joint Stock Company Limited	39.43	-	Business combinations under common control	2



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(The notes to the financial statements are presented in RMB, except as otherwise noted)

VIII. INTERESTS IN OTHER ENTITIES (Continued)

1. Interests in subsidiaries (Continued)

(1) The composition of the enterprise group (Continued)

Name of the subsidiary	Principal place of business	Place of registration	Business nature	Issued paid up/Registered capital	Type of legal entity	Shareholding ratio (%)		Acquisition method	Remark
						Direct	Indirect		
AVIC JONHON Optronic Technology Co., Ltd. ("JONHON Optronic")	Luoyang	Luoyang	Manufacturing	1,135,521,069	Joint Stock Company Limited	37.68	–	Business combinations under common control	1
AVICOPTER PLC (中航直升機股份有限公司) ("AVICOPTER")	Harbin	Harbin	Manufacturing	589,476,716	Joint Stock Company Limited	6.56	42.74	Business combinations under common control and others	1
Jiangxi Changjiang General Aviation Co., Ltd. (江西長江通用航空有限公司)	Nanchang	Nanchang	General Aviation Services	10,500,000	Limited Liability Company	–	33.35	Business combinations under common control	1
Tianjin Tianli Aviation Electromechanical Co., Ltd. (天津天利航空機電有限公司)	Tianjin	Tianjin	Manufacturing	181,864,200	Limited Liability Company	–	75	Business combinations under common control	1
AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限責任公司)	Shenyang	Shenyang	Manufacturing	80,856,400	Limited Liability Company	–	23.69	Business combinations under common control	1
AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司)*	Xi'an	Xi'an	Manufacturing	187,728,000	Joint Stock Company Limited	–	17.57	Business combinations not under common control	1
AVIC Optoelectronic (Luoyang) Co., Ltd. (中航光電(洛陽)有限責任公司)	Luoyang	Luoyang	Manufacturing	10,000,000	Limited Liability Company	–	37.68	Investment set-up	1

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VIII. INTERESTS IN OTHER ENTITIES (Continued)

1. Interests in subsidiaries (Continued)

(1) The composition of the enterprise group (Continued)

Name of the subsidiary	Principal place of business	Place of registration	Business nature	Issued paid up/Registered capital	Type of legal entity	Shareholding ratio (%)		Acquisition method	Remark
						Direct	Indirect		
Shenzhen Xiangtong Photoelectric Technology Co., Ltd. (深圳市翔通光電技術有限公司)	Shenzhen	Shenzhen	Manufacturing	2,360,000	Limited Liability Company	-	19.22	Business combinations not under common control	1
AVIC Optoelectronic Precision Electronics (Shenzhen) Co., Ltd. (中航光電精密電子(深圳)有限公司)	Shenzhen	Shenzhen	Manufacturing	50,000,000	Limited Liability Company	-	37.68	Investment set-up	1
Taixing Aviation Optoelectronic Technology Co., Ltd. (泰興航空光電技術有限公司)	Taixing	Taixing	Manufacturing	50,000,000	Limited Liability Company	-	19.22	Investment set-up	1
AVIC Optoelectronics Huayi (Shenyang) Electronic Technology Co., Ltd. (中航光電華億(瀋陽)電子科技有限公司)	Shenyang	Shenyang	Manufacturing	100,000,000	Limited Liability Company	-	17.26	Business combinations under common control	1
AVIC Optoelectronics (Guangdong) Co., Ltd. (中航光電(廣東)有限公司)	Dongguan	Dongguan	Manufacturing	100,000,000	Limited Liability Company	-	37.68	Investment set-up	1
AVIC Optoelectronics (Germany) Co., Ltd. (中航光電(德國)有限責任公司)	Germany	Germany	Manufacturing	EUR 1,200,000	Limited Liability Company	-	37.68	Investment set-up	1
AVIC Optoelectronic (Shanghai) Co., Ltd. (中航光電(上海)有限公司)	Shanghai	Shanghai	Manufacturing	100,000,000	Limited Liability Company	-	37.68	Investment set-up	1
Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司)	Shanghai	Shanghai	Manufacturing	680,000,000	Limited Liability Company	-	39.43	Business combinations under common control	2
AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司)	Taiyuan	Taiyuan	Manufacturing	330,000,000	Limited Liability Company	-	39.43	Business combinations under common control	2



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VIII. INTERESTS IN OTHER ENTITIES (Continued)

1. Interests in subsidiaries (Continued)

(1) The composition of the enterprise group (Continued)

Name of the subsidiary	Principal place of business	Place of registration	Business nature	Issued paid up/ Registered capital	Type of legal entity	Shareholding ratio (%)		Acquisition method	Remark
						Direct	Indirect		
Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司)	Suzhou	Suzhou	Manufacturing	279,632,782	Limited Liability Company	–	39.43	Business combinations under common control	2
Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司)	Beijing	Beijing	Manufacturing	343,432,216	Limited Liability Company	–	39.43	Business combinations under common control	2
Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限公司)	Lanzhou	Lanzhou	Manufacturing	610,000,000	Limited Liability Company	–	39.43	Business combinations under common control	2
Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限公司)	Lanzhou	Lanzhou	Manufacturing	460,000,000	Limited Liability Company	–	39.43	Business combinations under common control	2
AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司)	Hanzhong	Hanzhong	Manufacturing	450,000,000	Limited Liability Company	–	31.54	Business combinations under common control	2
AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限公司)	Xi'an	Xi'an	Manufacturing	552,000,000	Limited Liability Company	–	39.43	Business combinations under common control	2
Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司)	Chengdu	Chengdu	Manufacturing	376,897,007	Joint Stock Company Limited	–	34.82	Business combinations under common control	2

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VIII. INTERESTS IN OTHER ENTITIES (Continued)

1. Interests in subsidiaries (Continued)

(1) The composition of the enterprise group (Continued)

Name of the subsidiary	Principal place of business	Place of registration	Business nature	Issued paid up/Registered capital	Type of legal entity	Shareholding ratio (%)		Acquisition method	Remark
						Direct	Indirect		
Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司)	Hanzhong	Hanzhong	Manufacturing	250,000,000	Limited Liability Company	-	39.43	Business combinations under common control	2
Harbin Hafei Aviation Industry Co., Ltd. (哈爾濱哈飛航空工業有限責任公司)	Harbin	Harbin	Manufacturing	1,571,325,200	Limited Liability Company	-	49.3	Investment set-up	1
Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司)	Jingdezhen	Jingdezhen	Manufacturing	1,170,422,696	Limited Liability Company	-	49.3	Business combinations under common control	1
Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司)	Baoding	Baoding	Manufacturing	86,838,030	Limited Liability Company	-	49.3	Business combinations under common control	1
Changhe Aircraft Industry (Group) Corporation Ltd. (昌河飛機工業(集團)有限責任公司)	Jingdezhen	Jingdezhen	Manufacturing	442,591,999	Limited Liability Company	47.96	52.04	Business combinations under common control	
Harbin Aircraft Industry Group Co., Ltd. (哈爾濱飛機工業集團有限責任公司)	Harbin	Harbin	Manufacturing	1,184,958,700	Limited Liability Company	10.21	89.79	Business combinations under common control	
China Aviation Integration Equipment Co., Ltd. (中航工程集成設備有限公司)	Beijing	Beijing	Manufacturing	61,000,000	Limited Liability Company	-	100	Business combinations under common control	

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VIII. INTERESTS IN OTHER ENTITIES (Continued)

1. Interests in subsidiaries (Continued)

(1) The composition of the enterprise group (Continued)

Name of the subsidiary	Principal place of business	Place of registration	Business nature	Issued paid up/Registered capital	Type of legal entity	Shareholding ratio (%)		Acquisition method	Remark
						Direct	Indirect		
China Aviation Engineering Supervision (Beijing) Co., Ltd. (中航工程監理(北京)有限公司)	Beijing	Beijing	Technology Services	6,000,000	Limited Liability Company	–	100	Business combinations under common control	
AVIC CAPDI Engineering Consulting (Beijing) Co., Ltd. (中航工程諮詢(北京)有限公司)	Beijing	Beijing	Technology Services	3,000,000	Limited Liability Company	–	100	Business combinations under common control	
China Aviation International Construction and Investment Co., Ltd. (中國航空國際建設投資有限公司)	Beijing	Beijing	Business Services	130,000,000	Limited Liability Company	–	100	Business combinations under common control	
AVIC CAPDI (Macau) Company Limited (中航院設計諮詢(澳門)有限公司)	Macau	Macau	Technology Services	MOP600,000	Limited Liability Company	–	100	Investment set-up	
AVIC Renewable Energy Investment Co., Ltd. (中國航空工業新能源投資有限公司)	Beijing	Beijing	Business Services	329,687,591	Limited Liability Company	–	69.31	Business combinations under common control	
Beijing Yinyan Industrial Co., Ltd. (北京銀燕實業有限公司)	Beijing	Beijing	Manufacturing	15,000,000	Limited Liability Company	–	100	Business combinations under common control	

Note: 1 Although the Company's shareholding and voting rights in the above companies are less than 50%, they are still considered to be controlled by the Group because the remaining other shareholdings are more dispersed and the other shareholders are not consolidated their equity in such a way as to enable them to exercise more voting rights than the Group.

2 Although the Company's shareholding in the above companies is less than 50%, directly or indirectly, the Group's statements consolidate the above-mentioned companies because the Company is able to obtain more than half of the voting rights through agreements with other investors.

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VIII. INTERESTS IN OTHER ENTITIES (Continued)

1. Interests in subsidiaries (Continued)

(2) Important non-wholly owned subsidiaries

Name of subsidiary	Minority shareholding ratio	Profit or loss attributable to minority shareholders in the current year	Dividends distributed to minority shareholders in the current year	Balance of minority shareholders' equity at the end of the year
Hongdu Aviation	56.23%	85,341,596	24,070,334	2,947,372,267
AVIC Avionics	60.57%	502,784,314	122,066,601	7,222,570,257
JONHON Optronic	62.32%	1,375,595,387	291,223,677	10,317,567,518
AVICOPTER	50.70%	458,755,476	112,526,210	5,197,430,089

(3) Main financial information of important non-wholly-owned subsidiaries

Item	Hongdu Aviation	AVIC Avionics	JONHON Optronic	AVICOPTER
2021:				
Current assets	15,929,045,682	19,411,416,181	22,726,523,438	23,589,870,240
Non-current assets	1,971,627,975	6,857,211,206	4,331,570,244	3,425,575,395
Total assets	17,900,673,658	26,268,627,387	27,058,093,682	27,015,445,635
Current liabilities	12,603,796,996	12,038,065,887	10,004,568,565	16,107,575,342
Non-current liabilities	56,006,265	2,579,483,145	1,086,034,524	992,002,350
Total liabilities	12,659,803,261	14,617,549,032	11,090,603,089	17,099,577,692
Operating income	7,214,281,277	9,839,298,854	12,866,862,661	21,789,854,719
Net profit	151,612,953	817,722,463	2,125,755,449	904,560,980
Total comprehensive income	168,847,547	804,488,909	2,126,104,580	904,472,418
Net cash flows from operating activities	220,649,909	1,549,833,364	2,061,859,204	1,449,729,092
2020:				
Current assets	7,691,213,017	18,425,133,965	16,035,391,097	23,207,555,883
Non-current assets	1,981,112,975	6,306,171,170	3,252,093,300	3,095,454,097
Total assets	9,672,325,992	24,731,305,135	19,287,484,397	26,303,009,980
Current liabilities	3,940,290,693	11,127,179,822	8,365,229,991	16,260,851,985
Non-current liabilities	601,542,984	2,576,766,380	358,554,459	876,968,284
Total liabilities	4,541,833,677	13,703,946,202	8,723,784,450	17,137,820,269
Operating income	5,068,597,572	8,746,614,182	10,305,222,374	19,654,751,084
Net profit	133,829,926	655,339,400	1,531,372,795	756,057,671
Total comprehensive income	160,054,508	663,711,865	1,541,908,107	789,276,055
Net cash flows from operating activities	-142,080,850	809,572,496	1,266,944,658	-684,791,967



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VIII. INTERESTS IN OTHER ENTITIES (Continued)

1. Interests in subsidiaries (Continued)

(4) *The Group has no major restrictions on using the assets of the enterprise group and paying off the debts of the enterprise group*

(5) *The Group does not provide financial support or other support to structured entities included in the scope of the consolidated financial statements*

2. The share of owner's equity in the subsidiary has changed and the subsidiary is still under control

In 2021, due to the non-public issuance of 35,576,016 A shares (of which 2,092,706 shares were subscribed by Company and the consideration paid for the subscription of non-public offering shares was RMB200,000,000) by JONHON Optronic, a subsidiary of the Company, the capital reserves in the consolidated financial statements increased by RMB995,023,337. The Company's shareholding in JONHON Optronic was reduced from 38.67% to 37.68% of its direct shareholding at the beginning of the year.

In 2021, as a result of two reductions in the shareholding of AVICOPTER by Harbin Aviation Group, a subsidiary of the Company, with consideration received for the disposal of equity interest of RMB507,764,726, Harbin Aviation Group's shareholding in AVICOPTER changed from 28.21% to 26.71% of its direct shareholding at the beginning of the year, resulting in a 1.5% decrease in the Company's indirect shareholding in AVICOPTER at the end of the year and a change in its final shareholding to 49.3% and the increase of RMB348,829,969 in capital reserves in the consolidated financial statements.

In 2021, the Company's shareholding in AVIC Optoelectronics Huayi (Shenyang) Electronic Technology Co., Ltd. (中航光電華億(瀋陽)電子科技有限公司) decreased from 29.30% to 17.26% of its indirect shareholding at the beginning of the year due to the capital increase by the minority shareholder of AVIC Optoelectronics Huayi (Shenyang) Electronic Technology Co., Ltd. (中航光電華億(瀋陽)電子科技有限公司). JONHON Optronic paid the consideration of RMB14,470,400 and the transaction resulted in a decrease in capital reserves in the consolidated financial statements of RMB42,021.

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VIII. INTERESTS IN OTHER ENTITIES (Continued)

3. Interests in joint ventures or associates

(1) *The Group has no significant joint ventures or associates.*

(2) *Aggregated financial information of unimportant joint ventures and associates*

Item	31 December 2021/2021	31 December 2020/2020
Joint ventures	–	–
Total book value of investments	205,810,297	170,206,246
Total of the following in proportion to shareholdings	–	–
– Net profit	85,412,098	26,591,013
– Other comprehensive income		
– Total comprehensive income	85,412,098	26,591,013
Associates	–	–
Total book value of investments	1,362,924,487	1,194,113,856
Total of the following in proportion to shareholdings	–	–
– Net profit	180,271,339	135,538,836
– Other comprehensive income	320,660	–
– Total comprehensive income	180,591,999	135,538,836

(3) *There are no significant restrictions on the ability of the Group's joint ventures or associates to transfer funds to the Company.*

(4) *No excess losses incurred by the Group's joint ventures or associates.*

(5) *The Group has no unrecognized commitments related to investments in joint ventures.*

(6) *The Group has no contingent liabilities related to investments in joint ventures or associates.*

4. The Group has no significant joint operations

5. The Group has no structured entities that are not included in the scope of the consolidated financial statements



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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The main financial instruments of the Group include monetary funds, borrowings, accounts receivable, accounts payable, bonds payable and financial assets held for trading. Please refer to Note VI for the detailed description of each financial instrument. The risks associated with these financial instruments and the risk management policies adopted by the Group to mitigate these risks are described below. The management of the Group manages and monitors these risk exposures to ensure that the above risks are controlled within a limited range.

(I) Risk management objectives and policies

The Group's risk management objectives are to achieve a proper balance between risks and yield, minimize the adverse impacts of risks on the Group's operation performance, and maximize the benefits of the shareholders and other stakeholders. Based on these risk management objectives, the Group's basic risk management strategy is to identify and analyze the Group's exposure to various risks, establish an appropriate maximum tolerance to risk, implement risk management, and monitors regularly and effectively these exposures to ensure the risks are monitored at a certain level.

1. Market risk

(1) Exchange rate risk

The Group's exposure to exchange rate risk is mainly related to the USD, EUR, HKD, MOP and TND. Except for the purchase and sales made by several subsidiaries of the Group were dominated in US dollars, other major business activities of the Group are denominated and settled in RMB. As at 31 December 2020 and 31 December 2021, except for the foreign currency balances of assets and liabilities as described in the table below, the Group's assets and liabilities are all RMB balances. The exchange rate risk arising from the assets and liabilities of such foreign currency balances may have an impact on the Group's operating results.

Item	31 December 2021	31 December 2020
Monetary funds – USD	245,129,352	182,566,841
Monetary funds – EUR	8,821,635	7,921,061
Monetary funds – HKD	29,138,294	506,598,964
Monetary funds – MOP	369,790	369,790
Monetary funds – TND	13,545,825	5,154,038
Accounts receivable – USD	44,695,393	12,366,592
Accounts receivable – EUR	3,199,358	10,257,594
Other receivables – HKD	–	17,690
Other receivables – MOP	15,706	–
Accounts payable – USD	2,724,746	1,696,053
Accounts payable – EUR	7,100	–
Other payables – USD	–	10,909,229
Other payables – EUR	2,518	–
Other payables – HKD	1,407,485	–
Other payables – MOP	82,400	–
Long-term borrowings – HKD	110,000,000	230,000,000

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

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(The notes to the financial statements are presented in RMB, except as otherwise noted)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

1. Market risk (Continued)

(2) Interest rate risk

The Group's interest rate risk arises from interest-bearing debt such as bank borrowings. Financial liabilities with floating interest rates expose the Group to cash flow interest rate risk and financial liabilities with fixed interest rates expose the Group to fair value interest rate risk. The Group determines the relative proportion of fixed-rate and floating-rate contracts based on the prevailing market conditions. As at 31 December 2021, the Group's interest-bearing debts are mainly RMB-denominated floating rate borrowing contracts with an aggregate amount of RMB2,527,228,625 (31 December 2020: RMB2,438,727,804) and RMB-denominated fixed rate contracts with an amount of RMB8,051,593,554 (31 December 2020: RMB9,228,634,583).

The Group's exposure to changes in the fair value of financial instruments due to changes in interest rates relates primarily to fixed-rate bank borrowings. For fixed rate borrowings, the Group's objective is to maintain its floating interest rate.

The Group's exposure to changes in cash flows from financial instruments due to changes in interest rates relates primarily to floating rate bank borrowings. The Group's policy is to maintain floating interest rates on these borrowings to eliminate the fair value risk of changes in interest rates.

(3) Price risk

The Group's primary exposure to security price risk arises from investments held by the Group (classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income). Some of these financial assets are publicly tradable on recognized stock exchanges. At 31 December 2021, if the fair value of financial assets held by the Group at fair value through profit or loss and the fair value of financial assets at fair value through other comprehensive income had been 10% (2020: 10%) higher or lower, assuming other variables had remained unchanged, the Group's net profit would have increased or decreased by approximately RMB93.36 million (2020: RMB178.4 million) and the Group's net other comprehensive income after tax would increase or decrease by approximately RMB202.24 million (2020: RMB120.94 million).

The Group sells products such as connectors at market prices and is therefore subject to fluctuations in these prices.



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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

2. Credit risk

As at 31 December 2021, the largest exposure to credit risk that could give rise to financial losses for the Group arises mainly from losses incurred on the Group's financial assets as a result of the failure of the other party to the contract to perform its obligations and from the financial guarantees assumed by the Group, specifically:

The carrying amount of recognized financial assets in the consolidated balance sheet; for financial instruments measured at fair value, the carrying amount reflects the exposure, but not the maximum exposure, which will change with future changes in fair value.

In order to reduce credit risk, the Group only deals with approved and reputable third parties. In accordance with the Group's policy, credit audits are required for all customers who request the use of credit. In addition, the Group monitors notes receivable and accounts receivable balances on an ongoing basis to ensure that the Group is not exposed to significant risk of bad debts. For foreign transactions, the Group does not provide credit terms for transactions unless specifically approved by the Group's credit control department. Therefore, the Group's management believes that the credit risk assumed by the Group has been significantly reduced.

The Group's liquidity is placed with the AVIC Finance Co., Ltd. and banks with high credit ratings, so the credit risk of liquidity is low.

As part of the Group's credit risk asset management, the Group uses expected credit losses to assess impairment losses on accounts receivable and other receivables. The Company's accounts receivable and other receivables involve a large number of customers, and expected credit losses reflect the solvency and bad debt risk of these customers with respect to accounts receivable and other receivables. The Company calculates the historical actual bad debt ratio for different aging periods based on historical data and adjusts the expected loss ratio by considering the current and the forecast of future economic conditions, such as the national GDP growth rate, total infrastructure investment, national monetary policy and other forward-looking information.

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

2. Credit risks (Continued)

As of 31 December 2021, the book balances of the related assets and expected credit impairment losses are as follows:

Aging	Book balances	Impairment provision
Notes receivable	9,997,546,814	67,792,398
Accounts receivable	22,233,218,824	912,187,024
Other receivables	309,484,654	144,912,537
Total	32,540,250,292	1,124,891,959

The Group has adopted the necessary policies to ensure that all sales customers have good credit histories and the Group has significant related party balances with low credit risk and no significant credit concentration risk.

3. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by ensuring that it has sufficient financial liquidity to meet its obligations as they fall due without incurring unacceptable losses or causing damage to its corporate reputation. The Group regularly analyzes the structure and maturity of its liabilities to ensure that sufficient funds are available. The Group's management monitors the use of bank borrowings and ensures compliance with borrowing agreements. It also negotiates financing with financial institutions in order to maintain a certain credit limit and reduce liquidity risk.

The Group uses bank borrowings as its main source of funding. As at 31 December 2021, the Group's unused bank borrowings amounted to RMB20,944 million, (31 December 2020: RMB21,359 million) of which the Group's unused short-term bank borrowings amounted to RMB14,075 million (31 December 2020: RMB17,223 million).



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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(I) Risk management objectives and policies (Continued)

3. Liquidity risk (Continued)

An analysis of the Group's financial assets and financial liabilities held as of 31 December 2021, based on the maturity of the undiscounted remaining contractual obligations, is as follows:

Item	Within one year	1 to 2 years	2 to 5 years	Over 5 years	Total
Financial assets					
Monetary funds	25,361,499,508	–	–	–	25,361,499,508
Financial assets held for trading	1,244,823,022	–	–	–	1,244,823,022
Notes receivable	9,997,546,814	–	–	–	9,997,546,814
Accounts receivable	22,233,218,824	–	–	–	22,233,218,824
Other receivables	309,484,654	–	–	–	309,484,654
Long-term receivables	–	2,520,277	3,975,400	–	6,495,677
Financial liabilities					
Short-term borrowings	3,057,762,250	–	–	–	3,057,762,250
Financial liabilities held for trading	18,196,239	–	–	–	18,196,239
Notes payable	11,633,186,116	–	–	–	11,633,186,116
Accounts payable	27,365,848,151	–	–	–	27,365,848,151
Other payables	1,880,144,355	–	–	–	1,880,144,355
Dividends payable	6,194,055	–	–	–	6,194,055
Employee compensation payable	2,002,883,877	–	–	–	2,002,883,877
Non-current liabilities due within one year	1,225,299,857	–	–	–	1,225,299,857
Long-term borrowings	–	1,462,744,148	2,022,326,784	799,691,049	4,284,761,981
Long-term payables	–	29,216,060	89,526,831	108,878,354	227,621,245

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(The notes to the financial statements are presented in RMB, except as otherwise noted)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(II) Sensitivity analysis

The Group uses sensitivity analysis techniques to analyze the possible impact of reasonable and probable changes in risk variables on current profit or loss or shareholders' equity. Since changes in any risk variable rarely occur in isolation and the correlation that exists between variables will have a significant effect on the amount of the ultimate impact of a change in a risk variable, the following is performed under the assumption that changes in each variable are independent.

1. Foreign exchange risk sensitivity analysis

Foreign exchange risk sensitivity analysis assumes that all hedges of net investment in foreign operations and cash flow hedges are highly effective.

On the basis of the above assumptions, the after-tax effect on current profit or loss and equity of a reasonable possible change in exchange rates, with all other variables held constant, is as follows:

Item	Exchange rate changes	2021		2020	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
USD	10% appreciation against RMB	137,284,760	137,284,760	94,564,094	94,564,094
USD	10% depreciation against RMB	-137,284,760	-137,284,760	-94,564,094	-94,564,094
EUR	10% appreciation against RMB	6,503,889	6,503,889	10,941,278	10,941,278
EUR	10% depreciation against RMB	-6,503,889	-6,503,889	-10,941,278	-10,941,278
HKD	10% appreciation against RMB	-5,044,747	-5,044,747	16,771,453	16,771,453
HKD	10% depreciation against RMB	5,044,747	5,044,747	-16,771,453	-16,771,453
MOP	10% appreciation against RMB	18,040	18,040	22,664	22,664
MOP	10% depreciation against RMB	-18,040	-18,040	-22,664	-22,664
TND	10% appreciation against RMB	46,530	46,530	27,020	27,020
TND	10% depreciation against RMB	-46,530	-46,530	-27,020	-27,020



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(The notes to the financial statements are presented in RMB, except as otherwise noted)

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(II) Sensitivity analysis (Continued)

2. Interest rate risk sensitivity analysis

The interest rate risk sensitivity analysis is based on the following assumptions:

Changes in market interest rates affecting interest income or expense on variable rate financial instruments;

For fixed-rate financial instruments measured at fair value, changes in market interest rates affect only their interest income or expense;

Changes in the fair value of derivative financial instruments and other financial assets and liabilities are calculated using the discounted cash flow method based on market interest rates at the balance sheet date.

Based on the above assumptions, the after-tax impact on current profit or loss and equity of a reasonable possible change in interest rates, with all other variables held constant, is as follows:

Item	Interest rate changes	2021		2020	
		Impact on net profit	Impact on shareholders' equity	Impact on net profit	Impact on shareholders' equity
Floating-rate borrowings	Increase by 0.5%	-9,477,107	-9,477,107	-9,145,229	-9,145,229
Floating-rate borrowings	Decrease by 0.5%	9,477,107	9,477,107	9,145,229	9,145,229

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X. DISCLOSURE OF FAIR VALUE

1. Financial instruments measured at fair value

The Group presents the carrying value of financial asset instruments measured at fair value at 31 December 2021 by the three levels of fair value. The overall classification of fair value into the three levels is based on the lowest of the three levels to which each significant input used in measuring fair value belongs. The three levels are defined as follows:

Level 1: is the unadjusted quoted price in an active market for identical assets or liabilities that is available at the measurement date;

Level 2: is an input other than a Level 1 input that is directly or indirectly observable for the relevant asset or liability;

Level 2 inputs include: 1) quoted prices for identical assets or liabilities in active markets; 2) quoted prices for the same or identical assets or liabilities in inactive markets; 3) observable inputs other than quoted prices, including interest rates and yield curves, implied volatilities and credit spreads that are observable during normal quotation intervals; and 4) inputs for market validation, etc.

Level 3: is the unobservable input value of the related asset or liability.

2. The fair value of assets and liabilities measured at fair value at the end of the year

Item	Fair value at the end of the year			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
I. Continuous fair value measurement				
(I) Financial assets held for trading	94,638,567	1,150,184,455	–	1,244,823,022
1. Financial assets at fair value through profit or loss	94,638,567	1,150,184,455	–	1,244,823,022
(1) Equity instrument investments	94,638,567	228,928,000	–	323,566,567
(2) Others	–	921,256,455	–	921,256,455
(II) Other equity instrument investments	1,146,073,797	1,550,479,843	–	2,696,553,640
(III) Receivables financing	–	4,291,292	–	4,291,292
Total assets continuously measured at fair value	1,240,712,364	2,704,955,590	–	3,945,667,954
(IV) Financial liabilities held for trading	18,196,239	–	–	18,196,239
1. Financial liabilities at fair value through profit or loss	18,196,239	–	–	18,196,239
Including: others	18,196,239	–	–	18,196,239
Total liabilities continuously measured at fair value	18,196,239	–	–	18,196,239
II. Non-continuous fair value measurement				
(I) Held-for-sale assets	–	273,773,862	–	273,773,862
Total assets not continuously measured at fair value	–	273,773,862	–	273,773,862



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X. DISCLOSURE OF FAIR VALUE (Continued)

3. Basis for determining the market price of items continuously and not continuously measured with fair value at level 1

For financial instruments that are traded in an active market, the Group determines their fair value using their quoted prices in the active market.

4. For items continuously and not continuously measured with fair value at level 2, qualitative and quantitative information on valuation technique and important parameters used

For financial instruments that are traded in similar active markets, the Group uses valuation techniques to determine their fair value. The valuation techniques used are the market approach and the cost approach. The inputs to the valuation techniques mainly include transaction dates, trading conditions, regional factors, individual factors, etc.

5. For items continuously and not continuously measured with fair value at level 3, qualitative and quantitative information on valuation technique and important parameters used

The equity investment of 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 Optronics, in Jinan Qingqi Motorcycle Co., Ltd. is classified as financial assets at fair value through other comprehensive income, and represented as investment in other equity instruments. As impairment provision has been fully made for the equity investment in Jinan Qingqi Motorcycle Co., Ltd., the fair value of the equity investment is identified as 0.

6. Ongoing fair value measurement items for which translation between levels occurred during the year

During the year, there was no swap between Level 1 and Level 2, or conversion to or from Level 3 for the Group's financial assets and financial liabilities fair value measurement methods.

7. Changes in valuation techniques during the year and the reasons for the changes

During the year, the Group did not have any changes in valuation techniques.

8. The Group has no assets and liabilities that are not measured at fair value but disclosed at fair value.

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) Relationship of related parties

1. Controlling shareholder and ultimate controlling party

(1) Controlling shareholder and ultimate controlling party

Name of controlling shareholder and ultimate controlling party	Registration place	Nature of business	Registered capital	Shareholding proportion to the Company (%)	Proportion of voting right to the Company (%)
AVIC	Beijing	Development, production and sales of aircraft and related engines, airborne equipment and other aviation products	64,000,000,000	61.60	61.60

Note: The ultimate controller of the Company is the State-owned Assets Supervision and Administration Commission of the State Council.

(2) Registered capital of controlling shareholder and the changes

Controlling shareholder	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
AVIC	64,000,000,000	–	–	64,000,000,000

(3) Shareholding or equity of controlling shareholder and the changes

Controlling shareholder	Amount of shareholding		Shareholding proportion (%)	
	Closing balance	Opening balance	Ending proportion	Beginning proportion
AVIC (directly holding)	4,548,680,808	4,548,680,808	58.99	58.99
AVIC (indirectly holding)	201,750,667	201,750,667	2.61	2.61
Total	4,750,431,475	4,750,431,475	61.60	61.60



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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(I) Relationship of related parties (Continued)

2. Subsidiaries

For details of the subsidiaries, see “VIII.1.(1) Composition of the enterprise group” in this note.

3. Joint ventures and associates

Please refer to note VI.14. Long-term equity investments for details of joint ventures and associates.

4. Other related parties

Other related parties of the Group are mainly other subsidiaries and associates and joint ventures within the scope of consolidation of AVIC.

(II) Related party transactions

1. Related party transactions of purchasing or selling goods, rendering and receiving services

(1) Purchasing goods/receiving services

Related party	Content of related transactions	Amount for the current year	Amount for the previous year
Subsidiaries of AVIC*	Purchasing goods	10,567,258,037	8,680,246,236
Associates of the Group	Purchasing goods	58,947,082	56,732,920
Joint ventures of the Group	Purchasing goods	414,608,125	177,561,977
Associates of AVIC	Purchasing goods	4,763,580	484,206,468
Joint ventures of AVIC*	Purchasing goods	–	49,406
AVIC*	Receiving services	960,000	4,000,000
Subsidiaries of AVIC*	Receiving services	371,227,961	338,193,472
Associates of the Group	Receiving services	22,895,910	21,327,499
Associates of AVIC	Receiving services	–	32,528,482
Total	–	11,440,660,695	9,794,846,460

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

1. Related party transactions of purchasing or selling goods, rendering and receiving services (Continued)

(2) Selling goods/rendering services

Related party	Content of related transactions	Amount for the current year	Amount for the previous year
Subsidiaries of AVIC*	Sales of goods	15,674,166,240	10,727,459,893
Associates of the Group	Sales of goods	71,805,732	48,538,732
Joint ventures of the Group	Sales of goods	5,488,480	3,272,835
Associates of AVIC	Sales of goods	13,286,246	56,254,676
AVIC*	Rendering services	928,648	1,642,984
Subsidiaries of AVIC*	Rendering services	2,602,116,584	2,142,868,204
Associates of the Group	Rendering services	551,502	902,925
Associates of AVIC	Rendering services	–	470,823
Total	–	18,368,343,432	12,981,411,072

2. Related party trustee management

Name of the trustor	Name of the trustee	Type of assets entrusted	Trustee start date	Trustee termination date	Trustee income pricing basis	Custody income recognized in the current year
AVIC Airborne Systems Co., Ltd.* (中航機載系統有限公司)	AVIC Avionics	Other asset custody	2021-1-1	2021-12-31	Note 1	50,377,357
Beijing Qingyun Aviation Equipment Co., Ltd.* (北京青雲航空設備有限公司)	Beijing Qingyun Avionics Technology Co., Ltd. (北京青雲航電科技有限公司)	Other asset custody	2021-1-1	2021-12-31	Note 2	8,797,081

Note 1: According to the Equity Trusteeship Agreement signed between AVIC Avionics and AVIC Airborne Systems Co., Ltd., it is agreed that AVIC Airborne Systems Co., Ltd. will entrust the management of 14 enterprises and institutions under its control to AVIC Avionics. For the enterprises in the trustee unit that made profits in the current year, the trustee fee for the current year is 2% of the audited operating income of the target enterprise for the current year calculated in accordance with the equity ratio entrusted to AVIC Avionics (i.e.: the amount of operating income of a target company for the current year × the equity ratio entrusted to the management × 2%); for the units in the target enterprise that recorded losses in the current year, the trustee fee for the current year is RMB200,000.

Note 2: Beijing Qingyun Avionics Technology Co., Ltd. (北京青雲航電科技有限公司), a subsidiary of AVIC Avionics, is entrusted by Beijing Qingyun Aviation Equipment Co., Ltd. (北京青雲航空設備有限公司) to manage the relevant business of Beijing Qingyun Aviation Equipment Co., Ltd. (北京青雲航空設備有限公司) and reached an entrusted management service agreement on entrusted management matters. The management fees to be paid by Beijing Qingyun Aviation Equipment Co., Ltd. (北京青雲航空設備有限公司) include but are not limited to labor wages, welfare fees and other service fees.

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

3. Related lease

(1) Operating lease as lessor

Name of lessor	Name of the lessee	Types of leased assets	Rental income recognized in the current year	Rental income recognized in the previous year
AVIC Forstar S&T Company Limited (中航富士達科技股份有限公司)	AVIC Xi'an Forstar Microwave Technology Co., Ltd.	Plant & buildings	612,414	558,129
Changhe Aircraft Industry (Group) Corporation Ltd. (昌河飛機工業(集團)有限責任公司)	Jiangxi Changhe Agusta Helicopter Co., Ltd.	Land	102,514	102,514
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	Jiangxi Hongdu Aviation Industry Group Co., Ltd.* (江西洪都航空工業集團有限責任公司)	Machinery equipment	457,142	1,150,895
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	Jiangxi Hongdu International Mechanical & Electrical Co., Ltd.* (江西洪都國際機電有限責任公司)	Plant & buildings	234,608	-
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	Jiangxi Aerospace Haihong Measurement and Control Technology Co., Ltd.* (江西航天海虹測控技術有限責任公司)	Plant & buildings	262,712	-
Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司)	Beijing Qingyun Aviation Equipment Co., Ltd.* (北京青雲航空設備有限公司)	Plant & buildings	4,530,686	4,530,693
Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司)	AVIC Xi'an Flight Automatic Control Research Institute* (中國航空工業集團公司西安飛行自動控制研究所)	Machinery equipment	665,841	-
Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司)	Lanzhou Lanfei Medical Equipment Co., Ltd. (蘭州蘭飛醫療器械有限公司)	Plant & buildings	121,600	-
AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司)	AVIC Xi'an Aeronautics Computing Technique Research Institut* (中國航空工業集團公司西安航空計算技術研究所)	Plant & buildings	740,740	-
Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司)	AVIC Composite Co., Ltd.* (中航複合材料有限責任公司)	Plant & buildings	3,879,429	3,253,714
Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司)	AVIC Manufacturing Technology Institute* (中國航空製造技術研究院)	Plant & buildings	5,003,107	-
Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司)	Jingdezhen Changfei Industrial Co., Ltd.* (景德鎮昌飛實業有限公司)	Plant & buildings	183,531	152,943
AviChina Hong Kong Limited. (中航科工香港有限公司)	AVIC Cabin System Co., Ltd.* (中航客艙系統有限公司)	Plant & buildings	1,094,676	1,113,816
Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司)	Shanghai Heli General Aviation Co., Ltd.* (上海和利通用航空有限公司)	Machinery equipment	891,027	2,417,699
Harbin Aircraft Industry Group Co., Ltd. (哈爾濱飛機工業集團有限責任公司)	China Longfei General Aviation Co., Ltd.* (中國飛龍通用航空有限公司)	Plant & buildings	-	6,606
Harbin Aircraft Industry Group Co., Ltd. (哈爾濱飛機工業集團有限責任公司)	AVIC Harbin Aircraft Industry Group Co., Ltd. (哈爾濱哈飛工業有限責任公司)	Plant & buildings	-	1,233,028
Harbin Aircraft Industry Group Co., Ltd. (哈爾濱飛機工業集團有限責任公司)	Harbin Construction and Installation Engineering Co., Ltd. (哈爾濱哈飛建築安裝工程有限責任公司)	Plant & buildings	-	35,000
Harbin Aircraft Industry Group Co., Ltd. (哈爾濱飛機工業集團有限責任公司)	Harbin Aviation Logistics Co., Ltd. (哈爾濱哈飛航空物流有限公司)	Plant & buildings	-	5,595
Beijing Qingyun Avionics Technology Co., Ltd. (北京青雲航電科技有限公司)	Beijing Qingyun High-tech Development Co., Ltd.* (北京青雲創新科技發展有限公司)	Plant & buildings	-	674,659

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

3. Related lease (Continued)

(1) Operating lease as lessor (Continued)

Name of lessor	Name of the lessee	Types of leased assets	Rental income recognized in the current year	Rental income recognized in the previous year
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	Jiangxi Hongdu CNC Machinery Co., Ltd. (江西洪都數控機械有限責任公司)	Plant & buildings	851,835	-
Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司)	Huaxia Jiuzhou General Aviation Co., Ltd. (華夏九州通用航空有限公司)	Machinery equipment	608,850	651,327
Total	-	-	20,240,712	15,886,618

(2) Operating lease as lessee

Name of lessor	Name of lessee	Types of leased assets	Rental fees recognized in the current year	Rental fees recognized in the previous year
Jingdezhen Changfei Industrial Co., Ltd.* (景德鎮昌飛實業有限公司)	Changhe Aircraft Industry (Group) Corporation Ltd. (昌河飛機工業(集團)有限責任公司)	Plant & buildings	6,002,477	6,002,477
Jiangxi Hongdu Aviation Industry Group Co., Ltd.* (江西洪都航空工業集團有限責任公司)	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	Fixed assets and land	569,135	78,394
Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司)	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	Plant & buildings	230,673	694,166
AVIC International Leasing Co., Ltd.* (中航國際租賃有限公司)	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	Machinery equipment	724,903	1,870,887
AVIC Xi'an Flight Automatic Control Research Institute* (中國航空工業集團公司西安飛行自動控制研究所)	Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司)	Machinery equipment	563,340	-
Beijing Qingyun Aviation Equipment Co., Ltd.* (北京青雲航空設備有限公司)	Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司)	Plant & buildings	1,800,901	4,429,608
Jingdezhen Changfei Industrial Co., Ltd.* (景德鎮昌飛實業有限公司)	Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司)	Plant & buildings	1,273,600	2,013,804
Aviation Industry Information Centre* (航空工業信息中心)	AviChina Industry & Technology Company Limited	Plant & buildings	4,582,001	2,816,301
AVIC International Leasing Co., Ltd.* (中航國際租賃有限公司)	Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司)	Machinery equipment	1,557,522	-
AVIC International Leasing Co., Ltd.* (中航國際租賃有限公司)	AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司)	Machinery equipment	75,261	-
Total	-	-	17,379,813	17,905,637

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From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

3. Related lease (Continued)

(3) Financial lease as lessee

Name of lessor	Name of lessee	Nature of payment	Subtotal at the end of the year	Due within one year	Closing statement balance
AVIC Finance Co., Ltd.* (中航工業集團財務有限責任公司)	Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司)	Financial lease payable (total rental)	11,168,328	2,233,666	8,934,662
		Less: Unrecognized financing costs	1,168,328	380,000	788,328
		Net financial lease payable	10,000,000	1,853,666	8,146,334
		Financial lease payable (total rental)	4,004,514	1,910,726	2,093,788
AVIC Finance Co., Ltd.* (中航工業集團財務有限責任公司)	AVIC Renewable Energy Investment Co., Ltd. (中國航空工業新能源投資有限公司)	Less: Unrecognized financing costs	197,749	130,942	66,807
		Net financial lease payable	3,806,765	1,779,784	2,026,981
		Financial lease payable (total rental)	245,891,701	24,881,029	221,010,672
		Less: Unrecognized financing costs	6,776,127	772,905	6,003,222
AVIC International Leasing Co., Ltd.* (中航國際租賃有限公司)	Jinzhou (Baotou) Renewable Energy Co., Ltd. (金州(包頭)可再生能源有限公司)	Net financial lease payable	239,115,574	24,108,124	215,007,450

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(The notes to the financial statements are presented in RMB, except as otherwise noted)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

4. Related party guarantees

Guarantor	Guaranteed party	Guaranteed amount	Starting date of guarantee	Due date of guarantee	Has the guarantee been fulfilled
AVIC Renewable Energy Corporation (中國航空工業新能源投資有限公司)	AVIC Heavy Machinery Company Limited* (中航重機股份有限公司)	42,286,860	2016-3-31	2031-2-1	No
AVIC Heavy Machinery Company Limited* (中航重機股份有限公司)	Jinzhou (Baotou) Renewable Energy Co., Ltd. (金州(包頭)可再生能源有限公司)	42,286,860	2016-3-31	2031-2-1	No

5. Fund borrowing from related parties

Name of related party	Amount borrowed	Starting date	Expiration date
Borrowed funds			
AVIC Finance Co., Ltd.* (中航工業集團財務有限責任公司)	3,890,312,400	2021-1-19	2026-12-30
AVIC Airborne Systems Co., Ltd.* (中航機載系統有限公司)	2,255,286,306	2019-9-26	2024-10-27
Beijing Qingyun Aviation Equipment Co., Ltd.* (北京青雲航空設備有限公司)	50,000,000	2021-1-14	2022-6-28

6. Key management personnel remuneration

Name of the item	Amount for the current year	Amount for the previous year
Total remuneration	5,289,572	5,849,585



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

7. Other financial services

(1) Interest income

Type of related party	Amount for the current year	Amount for the previous year
Subsidiaries of AVIC*	156,635,051	264,056,509
Total	156,635,051	264,056,509

(2) Interest expense

Type of related party	Amount for the current year	Amount for the previous year
AVIC*	8,027,708	23,122,530
Subsidiaries of AVIC*	204,534,464	207,513,298
Total	212,562,172	230,635,828

(3) Discount of notes receivable

Related party	Amount for the current year		Amount for the previous year	
	Discounted amount	Discounted interest	Discounted amount	Discounted interest
AVIC Finance Co., Ltd.* (中航工業集團財務有限責任公司)	10,314,596	111,475	98,764,196	1,322,333
Total	10,314,596	111,475	98,764,196	1,322,333

(4) Acceptance of notes receivable

Related party	Amount for the current year	Amount for the previous year
AVIC Finance Co., Ltd.* (中航工業集團財務有限責任公司)	11,262,329	102,029,056
Total	11,262,329	102,029,056

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From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related party transactions (Continued)

7. Other financial services (Continued)

(5) Factored accounts receivable

Type of related party	Amount for the current year	Amount for the previous year
Subsidiaries of AVIC*	385,209,802	696,019,792
Total	385,209,802	696,019,792

(6) Acquisition of wealth management products

Appointer	Trustee	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
AviChina Industrial Investment Co., Ltd. (中航科工業投資有限責任公司)	AVIC Trust Co., Ltd.* (中航信託股份有限公司)	70,000,000	70,000,000	70,000,000	70,000,000
AviChina Industry & Technology Company Limited	AVIC Trust Co., Ltd.* (中航信託股份有限公司)	1,030,000,000	660,000,000	730,000,000	960,000,000
AviChina Hong Kong Limited. (中航科工香港有限公司)	AVIC Credit Investment SPC* (中航資信投資SPC)	-	228,928,000	-	228,928,000
Tianjin Tianli Aviation Electromechanical Co., Ltd. (天津天利航空機電有限公司)	AVIC Securities Co., Ltd.* (中航證券有限公司)	-	100,000,000	100,000,000	-
Total	-	1,100,000,000	1,058,928,000	900,000,000	1,258,928,000

(7) Commission expenses

Type of related party	Amount for the current year	Amount for the previous year
AVIC Securities Co., Ltd.* (中航證券有限公司)	3,921,506	14,594,240
Total	3,921,506	14,594,240

8. Connected transactions complied with Hong Kong Listing Rules

The related party transactions (marked with *) disclosed on pages 310 to 317 of this financial report also constitute connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules. And the Group had complied with requirements under chapter 14A of the Listing Rules when dealt with those transactions.

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(III) Balance of intercourse funds among related parties

1. Receivables

Item name	Related party	Closing balance		Opening balance	
		Book balance	Bad debt provision	Book balance	Bad debt provision
Accounts receivable	AVIC	47,652	-	330,382	-
Accounts receivable	Subsidiaries of AVIC	10,373,802,996	187,838,186	7,865,652,569	271,967,228
Accounts receivable	Associates of the Group	90,680,496	182,487	52,213,678	733,750
Accounts receivable	Joint ventures of the Group	-	-	447,421	22,371
Accounts receivable	Associates of AVIC	39,366,220	2,919,710	246,019,083	299,515
Accounts receivable	Joint ventures of AVIC	5,176,383	349,838	23,417,144	3,884,118
Notes receivable	Subsidiaries of AVIC	4,414,973,150	7,992,432	4,582,708,377	-
Notes receivable	Associates of the Group	72,000,000	-	60,000,000	-
Notes receivable	Joint ventures of the Group	1,297,296	-	2,851,343	-
Notes receivable	Associates of AVIC	7,574,037	-	51,819,440	-
Other receivables	AVIC	100,000	-	511,519	-
Other receivables	Subsidiaries of AVIC	27,335,433	13,784,746	23,930,378	13,837,864
Other receivables	Associates of the Group	737,580	737,580	1,186,104	634,917
Other receivables	Joint ventures of the Group	-	-	103,117	82,493
Other receivables	Associates of AVIC	52,000,000	2,000,000	-	-
Other receivables	Joint ventures of AVIC	-	-	-	-
Prepayments	AVIC	283,500	-	283,500	-
Prepayments	Subsidiaries of AVIC	1,989,141,907	-	385,724,266	-
Prepayments	Associates of the Group	181,565	-	-	-
Prepayments	Associates of AVIC	-	-	324,050	-
Prepayments	Joint ventures of AVIC	-	-	8,746	-
Contract assets	AVIC	409,296	-	8,827	-
Contract assets	Subsidiaries of AVIC	1,253,487,233	-	1,368,544,509	-
Contract assets	Associates of the Group	7,462,410	-	-	-
Contract assets	Associates of AVIC	-	-	808,305	-
Contract assets	Joint ventures of AVIC	10,772,639	-	77,853,564	-
Total	-	18,346,829,793	215,804,979	14,744,746,322	291,462,256

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From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(III) Balance of intercourse funds among related parties (Continued)

2. Payables

Item name	Related party	Closing book value	Opening book value
Accounts payable	AVIC	23,038	23,038
Accounts payable	Subsidiaries of AVIC	6,433,207,684	5,121,304,899
Accounts payable	Associates of the Group	126,918,610	157,363,414
Accounts payable	Joint ventures of the Group	115,486,002	113,678,743
Accounts payable	Associates of AVIC	239,112,651	287,593,060
Notes payable	Subsidiaries of AVIC	2,223,233,431	1,541,136,055
Notes payable	Associates of the Group	7,964,430	12,489,206
Notes payable	Joint ventures of the Group	142,674,095	106,484,086
Notes payable	Associates of AVIC	4,268,100	3,213,824
Other payables	AVIC	451,334	2,307,297
Other payables	Subsidiaries of AVIC	152,306,236	31,110,746
Other payables	Associates of AVIC	1,807,441	2,391,980
Contract liabilities	AVIC	8,129,333	565,246
Contract liabilities	Subsidiaries of AVIC	8,827,540,302	896,713,445
Contract liabilities	Associates of the Group	416,577	888,258
Contract liabilities	Associates of AVIC	14,132,174	11,391,937
Total	–	18,297,671,438	8,288,655,234

(IV) Commitment of related parties

None.

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Director, supervisor and employee compensation

1. Details of director, supervisor and employee compensation

Item	Fees	Salaries, allowances and other expenses	Contribution to pension schemes	Bonus	Total	Note
Amount for the current year						
Executive directors	-	1,326,597	254,150	364,719	1,945,466	
Wang Xuejun	-	675,979	110,510	300,000	1,086,489	Resigned as executive director and Chairman of the Board on 2021-12-3
Zhang Minsheng	-	-	-	-	-	Nominated as executive director on the Board meeting on 2021-12-3
Zhao Hongwei	-	592,550	131,001	64,719	788,270	Resigned as executive director and general manager on 2021-11-5
Yan Lingxi	-	58,068	12,639	-	70,707	Resigned as Non-executive directors on 2021-5-28 and nominated as executive director and appointed as general manager at the Board meeting on 2021-12-3
Supervisors	-	602,809	106,808	144,000	853,617	-
Zheng Qiang	-	-	-	-	-	-
Guo Guangxin	-	-	-	-	-	-
Zhao Zhuo	-	602,809	106,808	144,000	853,617	
Non-executive directors	752,500	-	-	-	752,500	-
Lian Dawei						
Li Xichuan						Appointed on 2021-5-28
Xu Gang						
Liu Renhuai	87,500	-	-	-	87,500	Resigned on 2021-5-28
Wang Jianxin	87,500	-	-	-	87,500	Resigned on 2021-5-28
Wang Jun	122,500	-	-	-	122,500	Appointed on 2021-5-28
Liu Weiwu	210,000	-	-	-	210,000	
Mao Fugen	122,500	-	-	-	122,500	Appointed on 2021-5-28
Lin Guiping	122,500	-	-	-	122,500	Appointed on 2021-5-28
Total	752,500	1,929,406	360,958	508,719	3,551,583	-

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Director, supervisor and employee compensation (Continued)

1. Details of director, supervisor and employee compensation (Continued)

Item	Fees	Salaries, allowances and other expenses	Contribution to pension schemes	Bonus	Total	Note
Amount for the previous year						
Executive directors	-	793,882	97,339	242,416	1,133,637	
Chen Yuanxian	-	-	-	-	-	-
Wang Xuejun	-	684,780	72,458	242,416	999,654	
Zhao Hongwei	-	109,102	24,881	-	133,983	
Supervisors	-	365,099	34,702	144,000	543,801	
Zheng Qiang	-	-	-	-	-	
Guo Guangxin	-	-	-	-	-	
Zhao Zhuo	-	45,575	4,508	-	50,083	
Shi Shiming	-	319,524	30,194	144,000	493,718	
Non-executive directors	630,000	-	-	-	630,000	
Lian Dawei	-	-	-	-	-	
Yan Lingxi	-	-	-	-	-	Resigned on 2021-5-28
Xu Gang	-	-	-	-	-	
Liu Renhuai	210,000	-	-	-	210,000	Resigned on 2021-5-28
Liu Weiwu	210,000	-	-	-	210,000	
Wang Jianxin	210,000	-	-	-	210,000	Resigned on 2021-5-28
Total	630,000	1,158,981	132,041	386,416	2,307,438	-



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(The notes to the financial statements are presented in RMB, except as otherwise noted)

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Director, supervisor and employee compensation (Continued)

2. Five highest paid employees

There were no directors among the top five highest paid employees in the current year (previous year: none)

Item	Amount for the current year	Amount for the previous year
Salaries, allowances and other expenses	6,266,375	6,244,323
Contribution to pension schemes	140,302	91,826
Share-based payment	2,845,870	2,622,491
Total	9,252,547	8,958,640

Remuneration range:

Item	Number of people in the current year	Number of people in the previous year
RMB1,500,001 to RMB2,000,000	4	5
RMB2,000,001 to RMB2,500,000	1	–

During the track record period, none of the directors has waived or agreed to waive any remuneration. During the track record period, the Company did not pay any remuneration to any director, supervisor or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

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XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Director, supervisor and employee compensation (Continued)

3. Compensation for key managers

Compensation for key managers (including the amount which has been paid and shall be paid to directors, supervisors and senior management) is shown as follows:

Item	Amount for the current year	Amount for the previous year
Fees	752,500	630,000
Salaries, allowances and other expenses	3,053,166	4,276,192
Contribution to pension schemes	558,981	268,977
Bonus	924,925	674,416
Total	5,289,572	5,849,585

(VI) The Company has no borrowings due from directors and directors' related companies

(VII) Others

Monetary funds deposited with related parties

Related Party	Closing balance	Opening balance
AVIC Finance Co., Ltd.	15,856,420,419	16,601,007,294
Total	15,856,420,419	16,601,007,294



Notes to the Financial Statements

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XII. SHARE-BASED PAYMENT

1. According to the resolution of the first extraordinary general meeting of shareholders in 2017, the subsidiary of the company, JONHON Optronic, passed the Proposal for Granting Restricted Shares to the Incentive Recipients of the Company's A Share Restricted Share Incentive Plan (Phase I) (Plan I) at the Board Meeting on 18 January 2017. The Board agreed to grant 6,001,000 restricted A shares to 266 employees under Plan I. The grant date was 18 January 2017 and the share price was RMB28.19.

Plan I is valid from the first day of grant to the date when all restricted shares are unlocked or repurchased and cancelled. Plan I is valid for five years (60 months), including a two-year vesting period and a three-year lock-up period.

The incentive targets of Plan I are the management and core technical and business personnel of JONHON Optronic and the management and key personnel of its subsidiaries, totaling 266 persons.

2. According to the resolution of the third extraordinary general meeting of shareholders in 2019, the subsidiary of the company, JONHON Optronic, passed the Proposal for Granting Restricted Shares to the Incentive Recipients of the Company's A Share Restricted Share Incentive Plan (Phase II) (Plan II) at the Board Meeting on 26 December 2019. The Board agreed to grant 31,493,400 restricted A shares to 1,182 employees under Plan II. The grant date was 26 December 2019 and the share price was RMB23.43.

The Plan II is valid from the first day of grant to the date when all restricted shares are unlocked or repurchased and cancelled. The Plan II is valid for five years (60 months), including a two-year vesting period and a three-year lock-up period.

The incentive targets of Plan II are directors, management and core technical and business personnel of JONHON Optronic and the management and key employees of its subsidiaries, totaling 1,164 persons.

XIII. CONTINGENCIES

As of 31 December 2021, the Group has no material contingencies.

XIV. COMMITMENTS

Capital commitments

Item	Closing balance	Opening balance
Fixed assets	34,626,209	323,969
Construction in progress	34,328,801	65,933,381
Total	68,955,010	66,257,350

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

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XV. EVENTS AFTER THE BALANCE SHEET DATE

1. Significant non-adjusting events

In order to streamline the shareholding structure of the Group, the Company entered into agreements for the transfer of state-owned equity interests with two wholly-owned subsidiaries of the Company, Harbin Aviation Group and AVIC Helicopter, respectively, on 21 February 2022. Pursuant to such agreements, Harbin Aviation Group and AVIC Helicopter transferred 157,428,702 A shares (representing 26.71% of the total share capital of AVICOPTER) and 75,350,398 A shares (representing 12.78% of the total share capital of AVICOPTER) held by them respectively in AVICOPTER, a non wholly-owned subsidiaries of the Company, to the Company. Harbin Aviation Group and AVIC Helicopter would transfer a total of 232,779,100 A shares to the Company, representing 39.49% of the total share capital of AVICOPTER, and would be directly held by the Company. At the same time, Harbin Aviation Group and AVIC Helicopter would reduce their registered capital and capital reserves accordingly. After the completion of such transfer, the number of shares directly held by the Company in AVICOPTER increased to 271,431,658 A shares, and the direct shareholding ratio increased to 46.05%, and the number of shares directly and indirectly held by the Company in AVICOPTER was 290,618,610 A shares, and the shareholding ratio was 49.30%.

2. Profit distribution

Item	Content
Profit or dividends to be distributed	616,906,579
Profit or dividends declared after consideration and approval	–

3. Other than the above disclosed events after the balance sheet date, the Group has no other significant events after the balance sheet date.

XVI. OTHER SIGNIFICANT MATTERS

1. Segment information

(1) Determination basis and accounting policies of reportable segments

The Group determines operating segments based on internal organizational structure, management requirements and internal reporting system, and determines reportable segments and discloses segment information based on operating segments.

An operating segment is a component of the Company that meets the following conditions simultaneously: (1) the component is able to generate revenue and incur expenses in its daily activities; (2) the Company's management is able to evaluate the operating results of the component on a regular basis to decide to allocate resources to it and evaluate its performance; and (3) the Company is able to obtain accounting information related to the financial position, operating results and cash flows of the component. Two or more operating segments may be combined into one operating segment if they have similar economic characteristics and certain conditions are met.



Notes to the Financial Statements

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(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVI. OTHER SIGNIFICANT MATTERS (Continued)

1. Segment information (Continued)

(2) Financial information of the report segment in the period

The current year	Aviation entire aircraft	Aviation ancillary system and related business	Aviation engineering services	Offset	Total
Revenue from external transactions	20,388,178,726	33,180,817,339	6,727,288,683	-	60,296,284,748
Revenue from inter-segment transactions	-	4,882,314,638	335,159,139	-5,217,473,777	-
Investment income from associates and joint ventures	5,509,984	257,121,788	3,051,665	-	265,683,437
Asset impairment losses and credit impairment losses	37,252,452	187,066,176	10,960,877	-6,060,193	229,219,312
Depreciation and amortization costs	654,140,027	850,429,158	239,236,436	-	1,743,805,621
Profit before tax	852,102,938	4,440,888,758	233,533,513	-211,625,627	5,314,899,582
Income tax expense	117,414,231	285,982,940	74,972,349	1,635,013	480,004,533
Net profit	734,688,707	4,154,905,818	158,561,164	-213,260,640	4,834,895,049
Total assets	58,685,251,572	75,554,896,154	16,110,365,105	-16,461,377,691	133,889,135,140
Total liabilities	41,594,474,167	30,034,187,576	10,192,614,812	-2,698,644,671	79,122,631,884
Other non-cash expenses other than depreciation and amortization costs and asset impairment losses	70,737,959	169,771,576	-	-	240,509,535
Long-term equity investment in associates and joint ventures	430,413,692	1,052,138,256	86,182,836	-	1,568,734,784
Increase in other non-current assets other than long-term equity investments	690,373,433	2,601,416,582	-175,265,038	-335,526,474	2,780,998,503

Notes to the Financial Statements

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(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVI. OTHER SIGNIFICANT MATTERS (Continued)

1. Segment information (Continued)

(2) Financial information of the report segment in the period (Continued)

The previous year	Aviation entire aircraft	Aviation ancillary system and related business	Aviation engineering services	Offset	Total
Revenue from external transactions	19,060,951,853	24,939,041,282	6,929,909,057	-	50,929,902,192
Revenue from inter-segment transactions	-	3,137,813,775	73,552,080	-3,211,365,855	-
Investment income from associates and joint ventures	-10,900,784	172,402,730	627,903	-	162,129,849
Asset impairment losses and credit impairment losses	-3,594,034	167,191,644	8,555,518	-	172,153,128
Depreciation and amortization costs	688,554,542	650,483,382	288,604,709	-	1,627,642,633
Profit before tax	1,280,164,897	3,097,974,239	166,167,626	-275,818,396	4,268,488,366
Income tax expense	150,770,416	271,287,596	48,168,239	-	470,226,251
Net profit	1,129,394,481	2,826,686,643	117,999,387	-275,818,396	3,798,262,115
Total assets	51,552,151,178	64,552,011,771	15,441,341,689	-15,896,916,145	115,648,588,493
Total liabilities	36,694,024,334	25,132,978,554	10,520,295,341	-2,848,713,318	69,498,584,911
Other non-cash expenses other than depreciation and amortization costs and asset impairment losses	28,798,619	163,177,062	-	-	191,975,681
Long-term equity investment in associates and joint ventures	384,305,437	901,668,696	78,345,970	-	1,364,320,103
Increase in other non-current assets other than long-term equity investments	-116,265,660	1,184,656,826	-517,309,135	28,722,451	579,804,482

2. The Group has no other significant transactions and events that have an impact on investors' decisions



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVII. NOTES TO THE MAJOR ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS

1. Accounts receivable

Item	Closing balance	Opening balance
Accounts receivable	1,603,740	1,603,740
Less: Impairment provision	779,606	–
Net accounts receivable	824,134	1,603,740

(1) Classified presentation of accounts receivable by bad debt accrual method

Category of portfolio	Original value	Closing balance		Book value
		Proportion of bad debt provision (%)	Bad debt provision	
Bad debt provision made individually	–	–	–	–
Bad debt provision made as per portfolio	1,603,740	48.61	779,606	824,134
Including: Accounts receivable whose credit risk has not increased significantly since the initial recognition	1,603,740	48.61	779,606	824,134
Total	1,603,740	–	779,606	824,134

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVII. NOTES TO THE MAJOR ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Accounts receivable (Continued)

(1) Classified presentation of accounts receivable by bad debt accrual method (Continued)

Category of portfolio	Original value	Opening balance		Book value
		Proportion of bad debt provision (%)	Bad debt provision	
Bad debt provision made individually				
Bad debt provision made as per portfolio	1,603,740	–	–	1,603,740
Including: Accounts receivable whose credit risk has not increased significantly since the initial recognition	1,603,740	–	–	1,603,740
Total	1,603,740	–	–	1,603,740

1) Bad debt provision of accounts receivable made by portfolio

Aging	Closing balance		
	Book balance	Bad debt provision	Provision proportion (%)
2-3 years	66,792	11,132	16.67
3-4 years	1,536,948	768,474	50.00
Total	1,603,740	779,606	–



Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVII. NOTES TO THE MAJOR ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Accounts receivable (Continued)

(2) Based on the date of transaction, ageing of accounts receivable is as follows

Ageing	Accounts receivable	Closing balance	
		Bad debt provision	Proportion of bad debt provision (%)
2-3 years	66,792	11,132	16.67
3-4 years	1,536,948	768,474	50.00
Total	1,603,740	779,606	–

Ageing	Accounts receivable	Opening balance	
		Bad debt provision	Proportion of bad debt provision (%)
1-2 years	66,792	–	–
2-3 years	1,536,948	–	–
Total	1,603,740	–	–

(3) Bad debt provision of accounts receivable in the current year

Category	Opening balance	Provision	Amount changed in the current year			Closing balance
			Accounts recovered or transferred back	Amounts written back or written off	Other	
Accounts receivable	–	779,606	–	–	–	779,606
Total	–	779,606	–	–	–	779,606

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVII. NOTES TO THE MAJOR ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

1. Accounts receivable (Continued)

(4) Details of top five accounts receivable with the closing balances classified by the borrowers

The total amount of the top five accounts receivable with the closing balances classified by the borrowers during the current year was RMB1,603,740, accounting for 100% of the total accounts receivable balance, and the corresponding bad debt provision totaled RMB779,606.

The total amount of the top five accounts receivable with the closing balances classified by the borrowers during the previous year was RMB1,603,740, accounting for 100% of the total accounts receivable balance, and the corresponding bad debt provision totaled RMB0.

2. Other receivables

Item	Closing balance	Opening balance
Other receivables	227,505,857	9,337,463
Total	227,505,857	9,337,463

2.1 Other receivables

(1) Classification of other receivables by nature

Nature of amount	Closing book value	Opening book value
Borrowings	233,689,185	12,305,126
Others	45,009	910,232
Total	233,734,194	13,215,358

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVII. NOTES TO THE MAJOR ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

2.1 Other receivables (Continued)

(2) Bad debt provision of other receivables

Bad debt provision	Stage 1	Stage 2	Stage 3	Total
	Expected credit loss in the future 12 months	Lifetime expected credit loss (no credit impaired)	Lifetime expected credit loss (credit impaired)	
Opening balance	3,877,895	–	–	3,877,895
Opening book balance of other receivables during the year	–	–	–	–
-Be transferred to Stage 2				
-Be transferred to Stage 3				
-Be transferred back to Stage 2				
-Be transferred back to Stage 1				
Provision made in the current year	2,350,442	–	–	2,350,442
Amount transferred back in the current year				
Amount written back in the current year				
Amount written off in the current year				
Other changes				
Closing balance	6,228,337	–	–	6,228,337

(3) Other receivables listed as per aging

Aging	Closing balance	Opening balance
Within 1 year (including 1 year)	230,032,837	974,232
1-2 years	–	8,539,769
2-3 years	–	8,000
3-4 years	8,000	6,500
4-5 years	6,500	–
Over 5 years	3,686,857	3,686,857
Subtotal	233,734,194	13,215,358
Less: Bad debt provision	6,228,337	3,877,895
Total	227,505,857	9,337,463

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVII. NOTES TO THE MAJOR ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

2.1 Other receivables (Continued)

(4) Other receivables with bad debt provision made on the group of expected credit risk characteristics

Classification of the group	Original book value	Closing balance		Book value
		Proportion of bad debt provision (%)	Bad debt provision	
Other receivables with bad debt provision made individually	-	-	-	-
Other receivables with bad debt provision made on the group of credit risk characteristics	233,734,194	2.66	6,228,337	227,505,857
Total	233,734,194	-	6,228,337	227,505,857

Classification of the group	Original book value	Opening balance		Book value
		Proportion of bad debt provision (%)	Bad debt provision	
Other receivables with bad debt provision made individually	-	-	-	-
Other receivables with bad debt provision made on the group of credit risk characteristics	13,215,358	29.34	3,877,895	9,337,463
Total	13,215,358	-	3,877,895	9,337,463

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVII. NOTES TO THE MAJOR ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables (Continued)

2.1 Other receivables (Continued)

(5) Bad debt provision of other receivables

Category	Opening balance	Provision	Amount changed in the current year			Closing balance
			Accounts recovered or transferred back	Amounts written back or written off	Other	
Other receivables	3,877,895	2,350,442	–	–	–	6,228,337
Total	3,877,895	2,350,442	–	–	–	6,228,337

(6) Details of other receivables classified by the borrowers

Name	Nature of amount	Closing balance	Aging	Proportion to the total closing balance of other receivables (%)	Closing balance of bad debt provision
Company 1	Borrowings	230,019,328	Within 1 year	98.41	2,540,004
Total	—	230,019,328	–	–	2,540,004

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVII. NOTES TO THE MAJOR ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

3. Long-term equity investments

(1) Classification of long-term equity investments

Item	Closing balance			Opening balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Investment in subsidiaries	11,283,225,884	-	11,283,225,884	10,846,225,884	-	10,846,225,884
Investment in associates and joint ventures	569,728,875	-	569,728,875	473,522,912	-	473,522,912
Total	11,852,954,759	-	11,852,954,759	11,319,748,796	-	11,319,748,796

(2) Investment in subsidiaries

Investee	Opening balance	Increase in the current year	Decrease in the current year	Closing balance	Impairment Provision for the year	Closing balance of impairment provision
AVIC Helicopter Co., Ltd. (中航直升機有限責任公司)	3,667,800,931	-	-	3,667,800,931	-	-
Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司)	988,016,529	-	-	988,016,529	-	-
AVIC JONHON Optronic Technology Co., Ltd. (中航光電科技股份有限公司)*	855,216,254	200,000,000	-	1,055,216,254	-	-
China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司)*	1,771,378,694	-	-	1,771,378,694	-	-
Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司)	1,031,349,927	-	-	1,031,349,927	-	-
AviChina Hong Kong Limited. (中航科工香港有限公司)	486,562,400	-	-	486,562,400	-	-
Harbin Aviation Industry (Group) Co., Ltd.* (哈爾濱航空工業(集團)有限公司)	532,207,652	87,000,000	-	619,207,652	-	-
China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究總院有限公司)	1,313,693,497	150,000,000	-	1,463,693,497	-	-
AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司)	200,000,000	-	-	200,000,000	-	-
Total	10,846,225,884	437,000,000	-	11,283,225,884	-	-

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021

(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVII. NOTES TO THE MAJOR ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

3. Long-term equity investments (Continued)

(3) Investments in associates and joint ventures

Investee	Opening balance (Book value)	Added investment	Decreased investment	Investment profit or loss recognized under equity method	Movement for the year				Closing balance (Book value)	
					Adjustment to other comprehensive income	Other changes in equity	Distribution of cash dividend or profit declared	Impairment provision Others		
I. Associates										
AVIC Nanjing Servo Control System Co., Ltd. (中航工業南京伺服控制系 統有限公司)	162,862,373	-	-	27,937,870	-	-	-	-	-	190,800,243
Aviation Gyro (Beijing) PhotoElectricity Technology Co., Ltd.* (中航捷銳(北京)光電技術 有限公司)	77,453,910	-	-	9,487,505	-	-	1,172,500	-	-	85,768,915
Beijing Hangwei High-Technology Connection Technology Co., Ltd.* (北京航為高科連接技術有限公司)	96,579,407	-	-	3,356,641	-	-	332,484	-	-	99,603,564
AVIC Air Traffic Management System Equipment Co., Ltd.* (中航空管系 統裝備有限公司)	34,867,517	65,000,000	-	-3,403,561	-	-	-	-	-	96,463,956
AVIC Jincheng Unmanned System Co., Ltd.* (中航金城無人系統 有限公司)	44,093,411	-	-	193,570	-	-	-	-	-	44,286,981
AVIC Rongfu Fund Management Company Limited* (中航融富基金 管理有限公司)	57,666,294	-	-	-5,181,739	320,661	-	-	-	-	52,805,216
Subtotal	473,522,912	65,000,000	-	32,390,286	320,661	-	1,504,984	-	-	569,728,875
Total	473,522,912	65,000,000	-	32,390,286	320,661	-	1,504,984	-	-	569,728,875

Notes to the Financial Statements

From 1 January 2021 to 31 December 2021
(The notes to the financial statements are presented in RMB, except as otherwise noted)

XVII. NOTES TO THE MAJOR ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (Continued)

4. Operating income and operating cost

Item	Amount for the current year		Amount for the previous year	
	Income	Cost	Income	Cost
Other businesses	2,218,648	1,389,598	1,641,086	1,156,673
Total	2,218,648	1,389,598	1,641,086	1,156,673

5. Investment income

Item	Amount for the current year	Amount for the previous year
Long-term equity investment income calculated at cost method	503,378,655	270,335,091
Long-term equity investment income calculated at equity method	32,390,286	17,684,131
Investment income from disposal of long-term equity investment	–	-9,229,374
Investment income from holding financial assets held for trading	–	64,120,137
Investment income from holding other equity instrument investments	354,998	2,625,136
Investment income from holding other non-current financial assets	32,465,753	–
Investment income from disposal of financial assets held for trading	94,222,385	80,774,082
Total	662,812,077	426,309,203

XVIII. APPROVAL OF FINANCIAL STATEMENT

This financial report was approved by the Board of the Company on 30 March 2022.



Supplementary Information on Financial Statements

From 1 January 2021 to 31 December 2021 (The supplementary information on financial statements is presented in RMB, except as otherwise noted)

1. BREAKDOWN OF NON-RECURRING PROFIT OR LOSS FOR THE CURRENT YEAR

In accordance with the China Securities Regulatory Commission's Explanatory Announcement No. 1 on Information Disclosure by Companies Offering Securities to the Public – Non-recurring Profits and Losses (2008), the Group's non-recurring profit and loss during the reporting period is as follows:

Item	Amount for the year	Remark
Gain or loss on disposal of non-current assets	62,355,010	–
Unauthorized approval or no official approval documents or occasional tax rebates and exemptions	78,966	–
Government grants recognized in current profit or loss (except those closely related to the business of the enterprise and enjoyed in a fixed or quantitative amount according to the national uniform standard)	264,982,284	–
Charges to non-financial enterprises for capital utilization charged to current profit or loss	–	–
The cost of investments in subsidiaries, associates and joint ventures acquired by an enterprise is less than the gain from the fair value of the identifiable net assets of the investee at the time the investment is acquired	–	–
Gain or loss on exchange of non-monetary assets	–	–
Gain or loss from entrusting others to invest or manage assets	–	–
Provision for impairment of various assets due to force majeure factors, such as natural disasters	–	–
Gain or loss on debt restructuring	12,698,213	–
Business restructuring costs, such as expenses for relocating employees, integration costs, etc.	–	–
Gain or loss in excess of fair value arising from transactions where the transaction price is not clearly fair	–	–
Net gain or loss of subsidiaries arising from business combinations under common control for the period from the beginning of the year to the date of consolidation	-729,726	–
Gain or loss arising from contingencies not related to the Company's normal operating business	–	–
Gain or loss from changes in fair value of financial assets held for trading, derivative financial assets, financial liabilities held for trading and derivative financial liabilities, and investment income from the disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investments, except for effective hedging operations related to the Company's normal business operations	109,397,631	–

Supplementary Information on Financial Statements

From 1 January 2021 to 31 December 2021 (The supplementary information on financial statements is presented in RMB, except as otherwise noted)

1. BREAKDOWN OF NON-RECURRING PROFIT OR LOSS FOR THE CURRENT YEAR (Continued)

Item	Amount for the year	Remark
Reversal of provision for impairment of receivables and contract assets individually tested for impairment	11,692,910	–
Gain or loss on external entrusted loans	–	–
Gain or loss arising from changes in fair value of investment properties subsequently measured using the fair value model	–	–
Effect of one-time adjustments to current profit or loss in accordance with tax, accounting and other laws and regulations on current profit or loss	–	–
Custodian fee income earned from entrusted operations	59,174,438	–
Non-operating income and expenses other than those mentioned above	74,283,647	–
Other profit and loss items that meet the definition of non-recurring profit or loss	-18,042,211	–
Subtotal	575,891,162	–
Less: Income tax effect amount	92,912,764	–
Amount of minority interest impact (after tax)	202,155,833	–
Total	280,822,565	–

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

In accordance with the Rules Governing the Disclosure of Information by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revised 2010) of the China Securities Regulatory Commission, the Group's weighted average return on net assets, basic earnings per share and diluted earnings per share for the current year are as follows:

Profit for the reporting period	Weighted average return on net assets (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the parent Company	9.50	0.307	0.307
Net profit attributable to ordinary shareholders of the parent company after non-recurring profit or loss	8.37	0.271	0.271



Supplementary Information on Financial Statements

From 1 January 2021 to 31 December 2021 (The supplementary information on financial statements is presented in RMB, except as otherwise noted)

3. THE EXPLANATION FOR ADJUSTMENT FOR THE DIFFERENCES OF OPENING BALANCE

According to the Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong published by the Hong Kong Stock Exchange in December 2010, the Group resolved on the board meeting on 30 March 2021 and which passed at the general meeting of the Company convened on 28 May 2021, starting from the financial year, the Company decided to prepare its financial statements in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and relevant requirements. The effects of differences in applicable standards on shareholders' equity of the Group on 31 December 2020 and its net profit are as following:

Item	Net profit (RMB0,000)	Net assets (RMB0,000)
Under International Financial Reporting Standards	389,121	4,570,902
Adjustment for differences	–	–
1. Adjustment for safety production fee – withdrawal of special reserves	-8,126	–
2. Reversal of the impact of historical fixed assets and intangible assets appraisal appreciation	-130	1,394
3. Offsetting the undistributed profit at the beginning of the year with the share floating right under the domestic standard – the headquarter holding Hongdu Aviation and AVIC Avionics	–	19,322
4. Offsetting the undistributed profit at the beginning of the year with the share floating right under the domestic standard – Harbin Aviation Group holding AVICOPTER	–	17,325
5. Other adjustments	-1,100	1,445
Under the Accounting Standards for Business Enterprises	379,765	4,610,388

AviChina Industry & Technology Company Limited
30 March 2022

* For identification purpose only

The English presentation of the Auditor's Report, the Financial Statements, the Notes to the Financial Statements and the Supplementary Information on the Financial Statements are translations from their Chinese versions. If there is any inconsistency, the Chinese versions shall prevail.

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings indicated.

“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 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 Optronics
“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 Industry-Finance”	AVIC Industry-Finance Holdings Co., Ltd (中航工業產融控股股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange and a subsidiary of AVIC



Definitions

“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 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 Optronics
“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 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
“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 26.71% of its interests being held by the Company through Harbin Aviation Group, 12.78% of its interests being held by the Company through AVIC Helicopter, 3.25% of its interests being held by the Company through Harbin Aircraft 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

Definitions

“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)



Definitions

“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 Aviation 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”	AVICChina 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 Optronics”	AVIC JONHON Optronics 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 37.68% of its equity interest held by the Company after the completion of the Non-public Issuance on 13 January 2021
“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

Definitions

“Shanghai Aviation Electric”	Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司), a wholly-owned subsidiary of AVIC Avionics
“Shares”	the ordinary shares of the Company
“Shenyang Xinghua”	AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限責任公司), a subsidiary of JONHON Optronics
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“Taixing Aviation Optoelectronic”	Taixing Aviation Optoelectronic Technology Co., Ltd. (泰興航空光電技術有限公司), a subsidiary of JONHON Optronics
“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* (天津保稅區投資有限公司), a Company incorporated 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 JONHON Optronics

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	Zhang Minsheng
Executive Director	Yan Lingxi
Non-Executive Director	Lian Dawei
Non-Executive Director	Li Xichuan
Non-Executive Director	Xu Gang
Non-Executive Director	Wang Jun
Independent Non-Executive Director	Liu Weiwu
Independent Non-Executive Director	Mao Fugen
Independent Non-Executive Director	Lin Guiping

SUPERVISORS

Chairman of the Supervisory Committee	Zheng Qiang
Supervisor	Guo Guangxin
Supervisor	Zhao Zhuo

SENIOR MANAGEMENT

General Manager	Yan Lingxi
Deputy General Manager	Liu Wanming
Chief Financial Officer	Wang Jingmin
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:	Zhang Minsheng

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2202A, 22th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong

AUTHORISED REPRESENTATIVES

Yan Lingxi

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



Corporate Information

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 2021 will be held at 9:00 a.m. on Friday, 27 May 2022 at 6/F, Tower A, No.14 Xiaoguan dongli, Chaoyang District, Beijing, the PRC.

AUDITORS

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

Jingtian & Gongcheng LLP
Suites 3203-3207, 32/F., Edinburgh Tower, The Landmark,
15 Queen's Road Central, Hong Kong

As to PRC law

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12-14th Floor, China World Office 2,
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