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)

2017
Annual Report

Contents

Company Profile

The Company is a joint stock limited company established in the PRC on 30 April 2003. The Company's H Shares have been listed on the Stock Exchange since 30 October 2003 (stock code: 02357). As at the date of this report, the shareholders of the Company's Domestic Shares are AVIC, AMES, China Hua Rong Asset Management Corporation, China Cinda Asset Management Corporation and China Orient Asset Management Corporation and one of the substantial shareholders of the Company's H Shares is Airbus Group (空中客車集團).

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.

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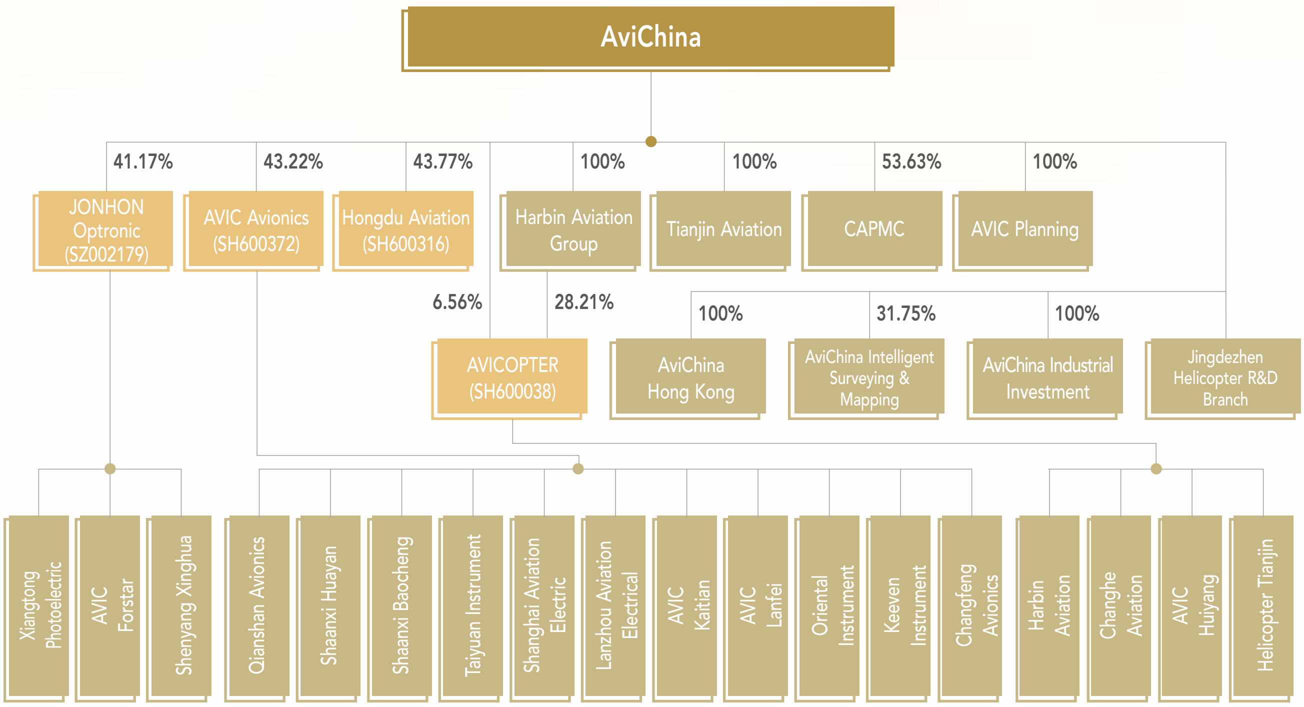
PRINCIPAL PRODUCTS OF THE GROUP

The Z-8, Z-9, Z-11 helicopters series (including AC series); L15, K8 and CJ-6 (PT-6) trainers series; Y-12 multi-purpose aeroplanes series and the N-5 agricultural aeroplanes series; EC-120 helicopters jointly produced by the Group and Airbus Helicopters; CA109 helicopters jointly produced by the Group and Agusta; aviation parts and components, avionics products and its accessories; aviation engineering services, such as planning, design and consultation services, etc.

BUSINESS STRUCTURE OF THE GROUP



Financial Highlights

CONSOLIDATED PROFIT AND LOSS

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

	For the year ended 31 December		
	2017	2016 (restated)	Changes
Revenue	**32,597**	36,834	-11.50%
Profit before income tax	**2,758**	2,652	4.00%
Profit attributable to the equity holders of the Company	**1,222**	1,160	5.34%
Gross profit margin	**22.84%**	19.11%	3.73%
Earnings per share for profit attributable to the equity holders of the Company (RMB)			
– Basic	**0.205**	0.194	5.67%
– Diluted	**0.205**	0.194	5.67%

CONSOLIDATED ASSETS AND LIABILITIES

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

	As at 31 December		
	2017	2016 (restated)	Changes
Total assets	**78,933**	71,628	10.20%
Total liabilities	**47,773**	42,665	11.97%
Non-controlling interests	**16,451**	15,161	8.51%
Owner’s equity (other than non-controlling interests)	**14,709**	13,802	6.57%

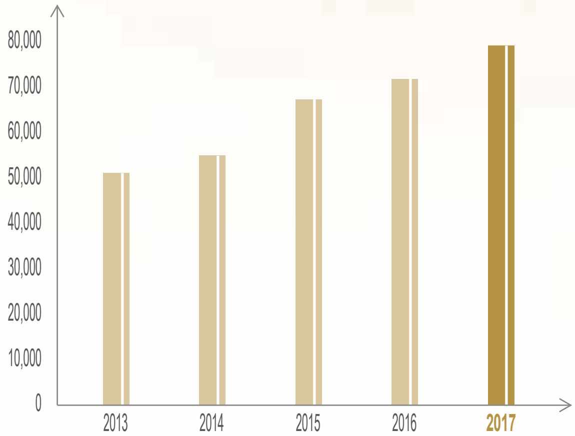
Financial information on the Group's comprehensive business in the recent five years starting from 1 January 2013 is summarized as follows:

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

	As at 31 December/For the year ended 31 December				
	2017	2016 (restated)	2015	2014	2013
Total assets	**78,933**	71,628	67,112	54,722	50,928
Total liabilities	**47,773**	42,665	40,692	31,421	29,121
Non-controlling interests	**16,451**	15,161	13,760	12,486	11,684
Owner's equity (other than non-controlling interests)	**14,709**	13,802	12,660	10,815	10,123
Revenue	**32,597**	36,834	34,424	25,710	22,193
Profit before income tax	**2,758**	2,652	2,646	2,003	1,761
Profit attributable to the equity holders of the Company	**1,222**	1,160	1,143	781	713
Gross profit margin	**22.84%**	19.11%	19.43%	19.05%	19.41%
Earnings per share for profit attributable to the equity holders of the Company (RMB)					
– Basic	**0.205**	0.194	0.192	0.143	0.131
– Diluted	**0.205**	0.194	0.192	0.143	0.131

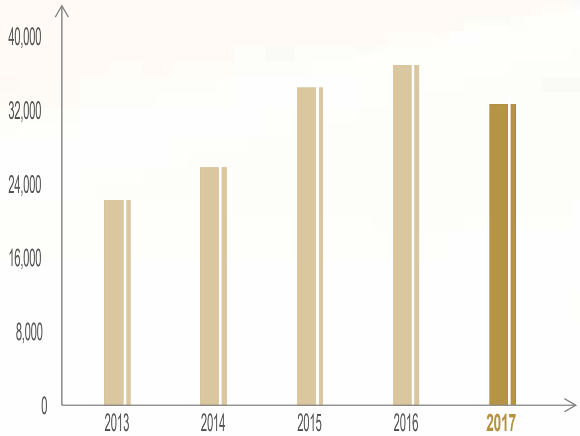
TOTAL ASSETS

(RMB million)



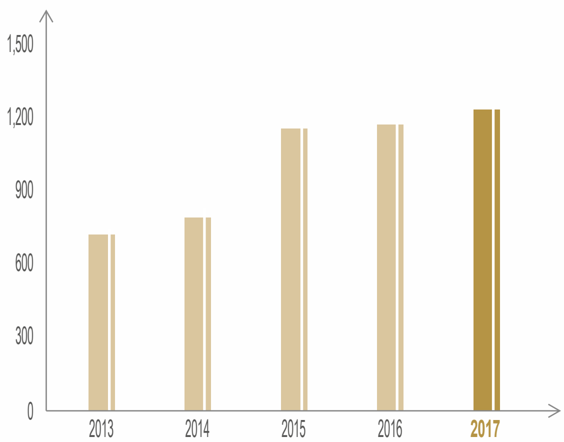
REVENUE

(RMB million)



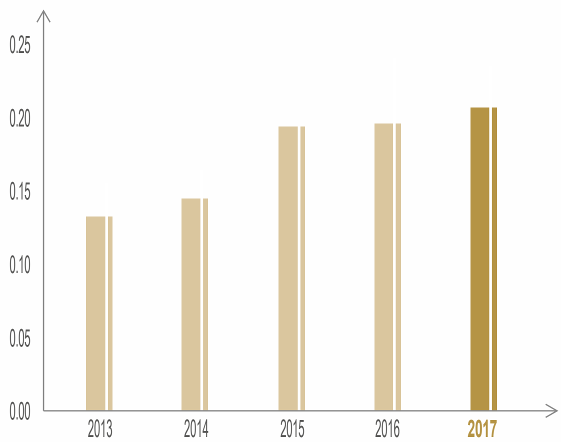
PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

(RMB million)



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

(RMB)



Board's Statement

To all shareholders,

The Board is pleased to announce the consolidated annual results of AviChina Industry & Technology Company Limited (the "**Company**") and its subsidiaries (the "**Group**") for the year of 2017.

ANNUAL RUSULTS

For the year ended 31 December 2017, the Group recorded a revenue of RMB32,597 million and the profit attributable to equity holders of the Company amounted to RMB1,222 million.

BUSINESS REVIEW

In 2017, the domestic economy realised a stable performance with good momentum for growth and achieved moderate and healthy development. Remaining true to its original aspiration, AVIC paved its way forward with focus on its principal businesses and achieved a momentous leap in aviation weapons. It also attained outstanding results in the initiatives of "leaner and healthier". J20 stealth fighter made equipment with the army; "Pterosaur (翼 龍) II" UAV successfully completed its maiden flight; 129 self-developed combat aircraft participated in celebration event and military parade for the 90th anniversary of the founding of the Chinese People's Liberation Army. AVIC made a successful maiden flight of AG600 large scale amphibious aircraft, developed innovation by leveraging the guidance and support of core technologies with nearly 9,000 patent applications for the year. With the innumerable great achievements in various works such as aviation equipment, civil-military integration and "the Belt and Road", AVIC has been making solid steps to the journey of building a strong aviation country.

Against the background of changes and innovation as well as burgeoning of aviation industry, the Company enhanced the competitiveness of its core businesses and accelerated the development and systematic construction of new defense products, following the strategic positioning of establishing a platform for China's aviation industry and related high-tech industries. Continuous exploration in civil aviation market and comprehensive development of AC series helicopters have been carried out. The Company provided full support in the research and manufacture of domestic large-scale aircraft which assisted the successful maiden flight of C919. The fund platform for the business of civil-military integration was created by virtue of practicing civil-military integration and optimising investment layout. The Company strengthened the positioning of high-tech industries and persisted in innovation driven to promote the remarkable achievements in technology innovation. It assured the delivery of supporting products for enormous major domestic project such as AG600, the first domestic aircraft carrier and "Fuxing Hao (復興號)" CHR train. The Company also proactively advanced the initiatives of "leaner and healthier", improved operational management and control; and was dedicated to enhancing corporate governance and improving investors relation and it was awarded the "Best Listed Companies" by the seventh China Securities Golden Bauhinia Award and the "Best Investment Value Award" for Shanghai-Hong Kong Stock Connect program by China Financing. At the same time, the Company continued to perform its social responsibilities by participating in community development and poverty alleviation, adhering to follow the path of sustainable development, so as to promote energy conservation and environmental protection and purse the concept for developing green aviation, together with maintaining a piece of pure land with blue sky above.

Meanwhile, the Board conducted conscientious review on the operation of the Group and realised that it was over optimistic about the development of general aviation industry, the progress made in the research and manufacture of certain civil aircraft products was below expectation, the quality of economic operation improved slowly and industry growth was subject to coordination. Upholding the determination of tearing down stereotypes and abolishing the harms, we will face the above issues with courage through fastening the promotion of confront shortfalls in capability and management gap, with an aim to boost the comprehensive, healthy and rapid development of the Group.

OUTLOOK

China will greet the 40th anniversary of the reform and opening up in 2018, and Chinese economy has stepped into a new era where the growth mode shifted from high speed to high quality stage. The aviation equipment are kept on upgrading, significant measures have been extensively introduced with the national strategy of the civil-military integration, as a result, strategic deployment has entered into a comprehensive phase. With the new space for China's reform and development expanded by "the Belt and Road", AVIC has carried its responsibilities of pushing forward the "Aerial Silk Road" plan, providing aerial solutions for the interconnection of "the Belt and Road" and industry cooperation. As the C919 large scale passenger aircraft project has been progressed in an orderly manner amid the huge market for civil aircraft in China, the general aviation industry will embrace a new round of development in mature areas. In accordance with the strategic goal, AVIC will basically build up a world-class aviation industry group by 2035; and it will become a world-leading aviation industry group by the middle of this century completely. AVIC has embarking on the new journey for new achievements adapting to the new era.

In 2018, being presented with a new starting note, the Company will proactively carry on the national strategy and plan development for handling the new opportunities and challenges faced by aviation industry. In complying with the objective of creating an aviation flagship company with high-tech and civil-military general products and services, the Company will make positive push in the establishment of the fund platform for civil-military integration and fasten the forming pace of the industry development pattern for the civil-military deep integration. The Company will guarantee the construction of defense equipment, accelerate the growth of civil aviation industry and facilitate synergetic advancement in aviation principal business; reinforce value creation, strengthen technological innovation and consolidate the support capacity for aviation principal business; proactively integrate itself into "the Belt and Road" and push forward the construction of "Aerial Silk Road", initiate an international merger and acquisition fund of aviation industry along with the enhancement in openness and sharing, structural upgrading and industrial deployment optimising to establish aviation supplier chain system with international competitiveness; The Company will position itself in aviation high-tech industry, accelerate transformation and upgrading, and expand economic directions such as intelligent manufacturing, air control system, unmanned aerial vehicle, laser gyro, etc. By leveraging the improvement in investment and financing, equity operation, value management and capital integration, the Company will keep on perfecting the capital structure. Meanwhile, we will continue to stick to the performance of social responsibilities, never forgetting the original aspiration to carry forward patriotic spirit for aviation industry, and upholding sustainable development concept of "innovation, harmonization, green, openness and sharing" on the way to become a strong aviation country, so as to create a responsible company with an artisan heart of dedication, integrity, innovation and transcendence.

The Board and all employees have full confidence for 2018, and will keep original aspiration and responsibilities in heart, dedicate ourselves and march forward by diligence working, to build up a listed company with sustainable development capability and investment value.

ACKNOWLEDGMENT

Finally, the Board would like to extend our gratitude to our investors, customers and partners for their constant trust and support. In addition, the Board would like to take this opportunity to express our appreciation for the hard work and contributions by the Company's management team and staff in the past year.

The Board
Beijing, 16 March 2018

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 AVIC Renewable Energy by AVIC Planning, a subsidiary of the Company in 2017, the corresponding financial data of the Group in the corresponding period of the preceding year was restated pursuant to the relevant regulations and requirements. In 2017, the business segments of the Group continued to be divided into aviation entire aircraft segment, aviation parts and components segment, and aviation engineering services segment, the revenue and the gross profit margin of these segments and other key financial performance indicators are analyzed in this report to intuitively demonstrate the operation and development of every business segment.

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

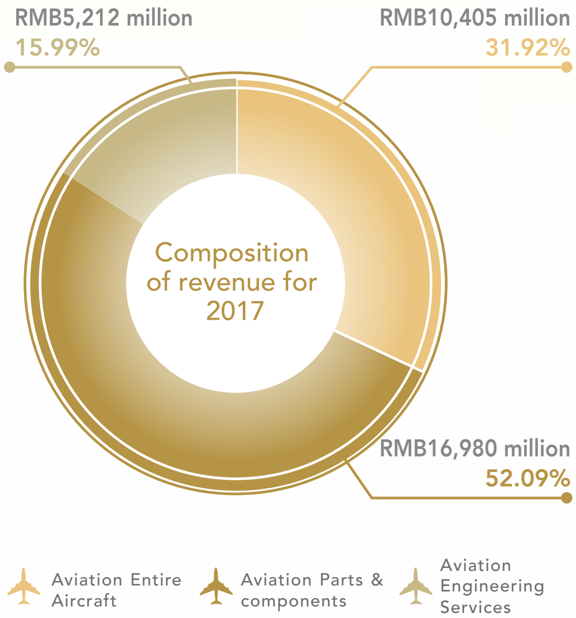
For the year ended 31 December 2017, profit attributable to equity holders of the Company amounted to RMB1,222 million, representing an increase of RMB62 million or 5.34% as compared with that of RMB1,160 million (as restated) in the corresponding period of the preceding year. The Group recorded a revenue of RMB32,597 million, representing a decrease of RMB4,237 million or 11.50% as compared with that of RMB36,834 million (as restated) in the corresponding period of the preceding year.

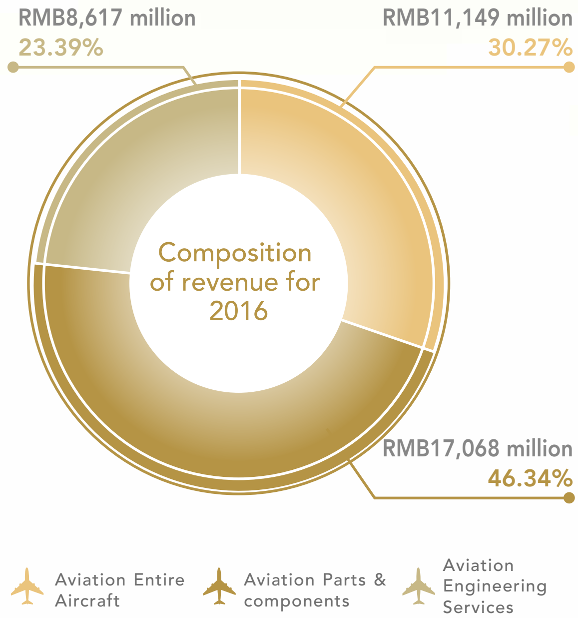
The following shows the comparison between the consolidated operating results of the Group for the year ended 31 December 2017 and those for the year ended 31 December 2016:

CONSOLIDATED OPERATING RESULTS

1 Composition of revenue

The revenue of the Group for the year 2017 was RMB32,597 million, representing a decrease of RMB4,237 million or 11.50% as compared with that of RMB36,834 million in the corresponding period of the preceding year, which was mainly attributable to the decrease of the revenue in the aviation engineering services segment of the Group.





The revenue of the Group's aviation entire aircraft business for the year 2017 amounted to RMB10,405 million, representing a decrease of RMB744 million or 6.67% as compared with that of RMB11,149 million in the corresponding period of the preceding year, which was mainly attributable to the decrease of sales volume resulted from the upgrading of certain helicopter products. The revenue of the aviation entire aircraft business for the year 2017 accounted for 31.92% of the total revenue of the Group, representing an increase of 1.65 percentage points as compared with that in the corresponding period of the preceding year.

The revenue of the Group's aviation parts and components business for the year 2017 amounted to RMB16,980 million, representing substantially the same level with that in the corresponding period of the preceding year. The revenue of the aviation parts and components business for the year 2017 accounted for 52.09% of the total revenue of the Group, representing an increase of 5.75 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 2017 amounted to RMB5,212 million, representing a decrease of RMB3,405 million or 39.51% as compared with that of RMB8,617 million in the corresponding period of the preceding year. The main reason is that certain engineering projects slowed down and accordingly the revenue from engineering constructions decreased as affected by the macro environment. The revenue of the aviation engineering services business for the year 2017 accounted for 15.99% of the total revenue of the Group, representing a decrease of 7.40 percentage points as compared with that in the corresponding period of the preceding year.

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

2 Selling and distribution expenses

The Group's selling and distribution expenses for the year 2017 amounted to RMB587 million, representing an increase of RMB14 million or 2.44% as compared with that of RMB573 million in the corresponding period of the preceding year. Such increase was mainly attributable to the increase in staff cost of sales person and after-sales service for the purpose of exploring the market by certain subsidiaries of the Company. In 2017, the selling and distribution expenses accounted for 1.80% of the revenue of the Group, representing an increase of 0.24 percentage point as compared with that in the corresponding period of the preceding year.

3 Administrative expenses

The Group's administrative expenses for the year 2017 amounted to RMB4,344 million, representing an increase of RMB352 million or 8.82% as compared with that of RMB3,992 million in the corresponding period of the preceding year. Such increase was mainly attributable to the enhanced investment in research and development ("**R&D**") by certain subsidiaries of the Company. In 2017, the administrative expenses accounted for 13.33% of the revenue of the Group, representing an increase of 2.49 percentage points as compared with that in the corresponding period of the preceding year.

4 Operating profit

The operating profit of the Group for the year 2017 amounted to RMB2,913 million, representing an increase of RMB85 million or 3.01% as compared with that of RMB2,828 million in the corresponding period of the preceding year. The Group had been proactively implementing the initiative of "leaner and healthier" in 2017. Although the revenue recorded a decrease as compared with that of the preceding year, the gross profit margin increased and the gross profits went up accordingly. Furthermore, the gains from disposals of certain equity assets increased. All the above led to an increase in the operating profit as compared with that of the preceding year.

5 Finance costs, net

The Group's net finance costs in 2017 amounted to RMB330 million, representing an increase of RMB27 million or 8.91% as compared with that of RMB303 million in the corresponding period of the preceding year, which is mainly attributable to the decrease of interest income as compared with that of the corresponding period of the preceding year resulting from the decrease of average daily deposit balance and fluctuation of deposit return rate. Please refer to note 7 to the financial statements for details.

6 Income tax expenses

The Group's income tax expense in 2017 was RMB341 million, representing a decrease of RMB11 million or 3.13% as compared with that of RMB352 million in the corresponding period of the preceding year. Please refer to note 10 to the financial statements for details.

7 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company for the year 2017 amounted to RMB1,222 million in 2017, representing an increase of RMB62 million or 5.34% as compared with that of RMB1,160 million in the corresponding period of the preceding year. The operating profit of the Group for the year 2017 presented an increase of 3.01% as compared with that in the corresponding period of the preceding year, and the investment returns from associated companies recorded an increase of RMB54 million as compared with that in the corresponding period of the preceding year, resulting in an increase of the profit attributable to equity holders of the Company during the reporting period as compared with that in the corresponding period of the preceding year.

GUARANTEED AND SECURED LOANS

As at 31 December 2017, the Group's total borrowings and convertible bonds amounted to RMB11,920 million, of which RMB684 million was secured by notes receivable and accounts receivable with a net book value of approximately RMB351 million.

Borrowings and convertible bonds placed under guarantees amounted to RMB3,184 million, of which RMB1,277 million represented guarantees amongst the members of the Group, RMB375 million represented guarantees provided by fellow subsidiaries and RMB1,532 million represented guarantees provided by AVIC.

EXCHANGE RATE RISKS

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

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2017, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

CASH FLOW AND FINANCIAL RESOURCES

1 Liquidity and capital resources

As at 31 December 2017, the Group's cash and cash equivalents amounted to RMB11,063 million which was mainly derived from the following sources:

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

The Group's cash flow for each of the years 2017 and 2016 were as follows:

Unit: RMB million (except for percentage)

Main items of cash flow	2017	2016 (restated)	Changes (amount)	Changes rate (percentage)
Net cash flows (used in)/from operating activities	**1,588**	(928)	2,516	/
Net cash flows (used in) investing activities	**(1,843)**	(751)	(1,092)	145.41%
Net cash flows from financing activities	**2,443**	912	1,531	167.87%

2 Operating, investing and financing activities

Net cash inflows from operating activities of the Group for 2017 amounted to RMB1,588 million, representing an increase of net inflows by RMB2,516 million as compared with the net cash outflows of RMB928 million in the corresponding period of the preceding year, which was mainly because certain product funds were pre-paid to certain subsidiaries of the Company during the reporting period and brought cash inflows accordingly.

Net cash outflows from investing activities of the Group for 2017 amounted to RMB1,843 million, representing an increase of net outflows by RMB1,092 million as compared with the net cash outflows of RMB751 million in the corresponding period of the preceding year. The main reasons of increased outflows were that certain subsidiaries of the Company procured fixed assets and the Group acquired new subsidiaries and invested in associated companies in cash and increased fixed deposit with terms of over three months according to the investment fund arrangement during the reporting period.

Net cash inflows from financing activities of the Group for the year 2017 amounted to RMB2,443 million, representing an increase of RMB1,531 million or 167.87% as compared with the net cash inflows of RMB912 million in the corresponding period of the preceding year, which was mainly attributable to the issuance of convertible bonds by AVIC Avionics and the increase of bank loans of certain subsidiaries of the Company during the reporting period.

As at 31 December 2017, the Group's total borrowings and convertible bonds amounted to RMB11,920 million, of which the short-term borrowings, the current portion of long-term borrowings, the non-current portion of long-term borrowings and the convertible bonds amounted to RMB4,631 million, RMB715 million, RMB5,042 million and RMB1,532 million, respectively.

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

Maturity	RMB million
Within one year	715
In the second year	3,831
In the third to fifth year	227
After the fifth year	2,516
Total	7,289

As at 31 December 2017, the Group's bank borrowings amounted to RMB3,370 million with a weighted average interest rate of 4% per annum, accounting for 32.44% of the total borrowings. Other borrowings amounted to RMB7,018 million with a weighted average interest rate of 4% per annum, accounting for 67.56% of the total borrowings. The convertible bonds amounted to RMB1,532 million.

As at 31 December 2017, there was no significant balance of borrowings denominated in foreign currencies.

GEARING RATIO

As at 31 December 2017, the Group's gearing ratio was 15.10% (as at 31 December 2016: 13.60%, as restated), which was arrived at by dividing the total borrowings and convertible bonds by the total assets as at 31 December 2017.

SEGMENT INFORMATION

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

THE AVIATION ENTIRE AIRCRAFT BUSINESS

Revenue

The Group's revenue derived from the aviation entire aircraft business for 2017 was RMB10,405 million, representing a decrease of 6.67% as compared with that in the corresponding period of the preceding year. The above revenue includes: (1) the sales revenue derived from the helicopter business which amounted to RMB8,945 million, representing a decrease of RMB982 million or 9.89% as compared with that in the corresponding period of the preceding year, and accounted for 85.97% of the total revenue of the aviation entire aircraft business; and the decrease was led by the decline of sales volume as certain helicopter products were in the process of upgrade; (2) the sales revenue from the trainer aircraft business which amounted to RMB1,435 million, representing an increase of RMB447 million or 45.24% as compared with that in the corresponding period of the preceding year, and accounting for 13.79% of the total revenue of the aviation entire aircraft business; (3) the sales revenue derived from the general purpose aircraft business which amounted to RMB25 million, representing a decrease of RMB209 million or 89.32% as compared with that in the corresponding period of the preceding year, and accounted for 0.24% of the total revenue of the aviation entire aircraft business.

The revenue of the aviation entire aircraft business of the Group for the year 2017 accounted for 31.92% of the Group's total revenue, representing an increase of 1.65 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 2017 was 11.11%, representing an increase of 1.60 percentage points as compared with that in the corresponding period of the preceding year. Such increase is mainly attributable to the increase of the price of certain entire aircraft sold during the year 2017.

THE AVIATION PARTS AND COMPONENTS BUSINESS

Revenue

The Group's revenue derived from the aviation parts and components business for the year 2017 was RMB16,980 million, representing substantially the same level as compared with that in the corresponding period of the preceding year. The above revenue includes the revenue derived from the avionics business, which amounted to RMB12,341 million, representing an increase of RMB684 million or 5.87% as compared with that in the corresponding period of the preceding year, and accounted for 72.68% of the total revenue of the aviation parts and components business.

The revenue derived from the aviation parts and components business for the year 2017 accounted for 52.09% of the Group's total revenue, representing an increase of 5.75 percentage points as compared with that in the corresponding period of the preceding year.

Gross Profit Margin

The gross profit margin of the Group's aviation parts and components business for the year 2017 was 32.18%, representing an increase of 1.81 percentage points as compared with that in the corresponding period of the preceding year, which was mainly attributable to the variation of the structure and types of the aviation parts and components products.

THE AVIATION ENGINEERING SERVICES BUSINESS

Revenue

The Group's revenue derived from the aviation engineering services business for the year 2017 was RMB5,212 million, representing a decrease of 39.51% as compared with that in the corresponding period of the preceding year. The main reason is that certain engineering projects slowed down and accordingly the revenue from engineering constructions decreased as affected by the macro environment. The revenue derived from the aviation engineering services business accounted for 15.99% of the Group's total revenue, representing a decrease of 7.40 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 2017 was 15.79%, representing an increase of 6.57 percentage points as compared with that in the corresponding period of the preceding year. The main reason for such increase is that the proportion of aviation engineering planning, consulting and designing business with relatively high gross profit margin in the aviation engineering services business of the Group increased which then improved the comprehensive gross profit margin of this segment.

BUSINESS REVIEW AND OUTLOOK

In 2017, the overall growth rate of the world economy accelerated for the first time in the past decade. Along with the stronger recovery trend of the global economy, China's economy has been steadily improving. The initiatives of "the Belt and Road" and the "Strategy of Civil-Military Integration" are widely supported. In face of the national strategic opportunities, under a new round of global development trend of science and technology and industrial revolution, AVIC, the controlling shareholder of the Company, never forgets its original aspiration to carry forward patriotic spirit for aviation industry. After several years of reforms and innovations, the product quality and economic efficiency of AVIC have been improved. Achievements have been made in the delivery of major models, the implementation of the strategy of civil-military integration, the technological innovation and the upgrading reform.

In line with the strategic positioning of building up a platform of aviation high-tech industry and related high-tech industries in China, the Group kept on deepening its understanding of "the New Normal" of the economic development, and implemented the new development concept of innovation, coordination, green, openness and sharing. The initiatives of "leaner and healthier" were proactively pushed forward, the requirements of the supply-side structural reform were duly implemented and the development scale of aviation major industry was enhanced in order to improve the core competitiveness of the Group. Following the strategy of civil-military integration in aviation industry, the Group created new model of industry development to set the business of civil-military integration as a new strategic growth pole of the Group.

In 2017, the Group executed in depth the "Strategy of Civil-Military Integration" with the guidance of "homologous technologies, conjugate industries and synclastic values" so as to advance the development of civil-military sharing technologies and expand the layout on civil-military integrating industry. The Company participated in the capital increase of Anji Casting, which was a significant step for the Company to realize the civil-military integration and the combination of production, study and research. The Company also participated in the capital increase of AVIC Gyro, for the purpose of the layout on aviation high-tech industry. The Group invested in AVIC Laser whose Guohua Series laser projectors, being civilian laser projection products created through the spillover of military technologies, became China's self-brand projectors designated for China pavilion for the first time in 2017 Kazakhstan Astana World Expo and won the "2017 Astana World Expo Outstanding Contribution to Corporate Awards".

In 2017, the Group continued to focus on the construction of systems in helicopter business, so as to build up the product brand and establish and improve the product R&D system, the marketing system and the customer services system. In 2017, the Group continued to strengthen the R&D capabilities for helicopters. The 2-ton AC311A helicopter products, upon the grant of the civil aviation certification and the completion of AEG (Aircraft Evaluation Group) review, have been officially delivered to the customers for the first time. The AC311A helicopter equipped with agricultural and forestry spraying devices succeeded in its maiden flight and its airworthiness certification was underway. The AC311 police helicopter products have been delivered successfully. The retrofit project of the AC311 helicopter equipped with medical rescue devices has obtained a supplementary model certificate issued by CAAC East China Regional Administration and will be used in the air medical rescue service industry. The 4-ton civilian helicopter AC312E, which is independently developed by the Group, was the first model with excellent plateau performance in China, and has made test flights on plateaus, which will provide strong support for the development of navigation operations in plateau regions. The 13-ton AC313 firefighting helicopters equipped with water cannons, being the "Excellent Aerial Firefighter", was released attracting high attention at the Fourth Tianjin Helicopter Exposition (第四屆天津直博會) and filled in the blank of domestic helicopters used in urban fire safety.

In 2017, the Group proactively expanded the overseas market for its trainer aircraft. The foreign-trade PT-6 primary trainer realized rolling production and was delivered to customers in batch. The upgraded foreign-trade L15 advanced trainer aircraft completed coating and commenced its maiden flight, which further enhanced the competitiveness of the Group's products and has positive significance for expanding overseas markets.

In 2017, the Group steadily carried out works for airworthiness certification and market development of the general aircraft for the layout of general aviation market. The Y-12F aircraft successfully completed the natural icing airworthiness test in Canada. The Group conducted a roadshow for it for the first time in the United States. Upon obtaining CAAC and FAA model certificates, the work for obtaining EASA airworthiness certification for Y-12F aircraft was officially launched so as to create necessary conditions for entering into the European market.

In 2017, the R&D innovation of the aviation parts and components business of the Group achieved good progress. JONHON Optronic stepped up efforts to conduct product innovation and technical research. A series of product technologies such as the TS Series Quick Plug Fluid connectors independently developed by JONHON Optronic have reached advanced international standard, and the successful R&D of automated pressure-relief fluid connectors and pressure quick-disconnect connectors has filled in the blank of domestic technology. The establishment program of lean manufacturing model in aviation circuit breakers undertaken by Tianjin Aviation won the "Excellent Project in Lean Management of Quality and Technology Award" granted by China Association for Quality. The establishment of such lean manufacturing model has important guiding significance to improve the products with the same characteristics. AVIC Avionics made a breakthrough in key systematic technologies such as air data systems, finished the upgrading of the ELT control panel which since then, has been applied to most of the military and civilian aircraft, and successfully explored non-aviation defence market such as boats and ships, weapons and equipment, aerospace and electrical industry etc. with differentiated high-end products as the starting point. After AVIC Hubei Ali-Jiatai Aircraft Equipment Co., Ltd.* (湖北航宇嘉泰飛機設備有限公司), in which the Company made investment, became a supplier for seats to Boeing 737 aircraft, its self-developed seats for commercial aircraft business class and economy class has been officially included in the potential product catalog of Airbus BFE.

In 2017, C919 large scale passenger aircraft successfully made its first flight. Several subsidiaries of the Group participated in the subcontracting manufacture, equipment technology R&D and assembly test, providing solid support for the first flight of C919. Hongdu Aviation and Harbin Aviation are both major suppliers of the aircraft body of C919. JONHON Optronic successfully supplied products in pairing parts of front and middle electronic compartment and rear cargo compartment of the first aircraft. AVIC Avionics undertook the independent development of two work packages of C919 large passenger aircraft control panel assembly and dimming control system (CPAs & DCS) and integrated circuit breaker panel (ICBP) and supplied air data heater controllers for C919. Tianjin Aviation provided products for the power systems, fire protection system, and environmental control systems of C919.

In 2017, in terms of aviation engineering services, AVIC Planning enhanced its efforts in market development, especially the general aviation airport construction and engineering development of "the Belt and Road". AVIC Planning also acquired 69.30% of the equity interest in AVIC Renewable Energy, so as to create a whole industry chain in new energy industry and further expand and develop the advanced engineering techniques in aerospace engineering into civil area.

In 2018, it is expected that the global economy will maintain its growth trend and it will enter into the acceleration phase, which will provide an ideal opportunity for China's economy to shift from high-speed growth to high-quality development. The acceleration of supply-side structural reforms and the implementation of innovation-driven development strategy will also create new growth momentum for China's economic development. Faced with the new opportunities brought by the strategy to build a strong aviation country at the new age of economy development, and in accordance with the objective of creating a flagship company of aviation high-tech civil-military integration products and services, the Group will enhance its industry development, international merger & acquisition and equity operation, and pull together with shareholders in times of difficulties for the purpose of promoting glorious development of the Company:

1. The Company will further implement the strategy of "Civil-Military Integration" to carry out multi-dimensional and mutually beneficial cooperation, promote open sharing and structural upgrading, and build an aviation supply chain system with international competitiveness;

2. The Company will actively carry out "the Belt and Road" initiatives, increase international cooperation, and initiate an international merger and acquisition fund of AVIC, so as to boost the construction of "Aerial Silk Road", and the goal of enhancing the core competitiveness, market share and brand influence of its products;

3. In accordance with the strategy of becoming a strong aviation country in the new age, the Company will strengthen the technology driven innovation strategy, push forward innovation breakthrough in the frontiers of the new aviation industry, exert its function as a high-tech industry platform, and improve the supporting function of the new emerging industry;

4. The Company will establish and manage civil-military integration fund and execute significant driving force for the major business development of aviation industry;

5. The Company will actively adapt to the development policies of the national general aviation industry and promote the industrialization development of general aviation in places with mature conditions;

6. The Company will make vigorous efforts in investment and financing, equity operation, value management and capital integration, and keep on perfecting the capital structure; and

7. The Company will focus on its principal businesses, improve quality and efficiency, and optimize the governance and control mode of the Group.

USE OF PROCEEDS

Up to 31 December 2017, a total of RMB4,086 million of the proceeds raised by the Company from the fund raising activities 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. The remaining balance was deposited in the banks in the PRC as interest-bearing short term deposits.

EMPLOYEES

As at 31 December 2017, the Group had 49,672 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	**49,626**	**99.91**
Entire aircraft business	*19,503*	*39.27*
Parts and components business	*27,366*	*55.09*
Engineering services business	*2,757*	*5.55*
Other businesses	**46**	**0.09**
Total	49,672	100

For the year ended 31 December 2017, the total staff costs of the Group amounted to RMB6,741 million, representing an increase of RMB479 million or 7.65% as compared with those of RMB6,262 million in the corresponding period of the preceding year.

REMUNERATION OF EMPLOYEES

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

TRAINING FOR EMPLOYEES

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

In accordance with its development strategy in 2017, in order to facilitate the development of its various businesses, the Group actively established a new training environment, systematically organized its trainings, enhanced the specificity and effectiveness of trainings, expanded domestic and foreign training channels, reconstructed training system and mechanism, improved corresponding management systems and resources allocation mechanism. The international talent training results are obvious. During the year, the Company continuously organized trainings in various aspects such as listing rules, compliance management, investment management, business secret protection to related staff of the Group. 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 Director

Mr. Lin Zuoming (林左鳴)

Chairman of the Development and Strategy Committee, Chairman of the Nomination Committee

60, chairman of the Board. He is a doctorate degree holder and researcher. Mr. Lin is also the chairman of the board of AVIC. He graduated from Nanjing University of Aeronautics and Astronautics in 1982 majoring in engine design; and received his Ph.D. degree in administrative engineering from Beijing University of Aeronautics and Astronautics in 2006. Mr. Lin commenced his career in aviation industry in July 1982, and used to be a staff and deputy director of Human Resource Division, deputy director of Engineering and Technology Division, deputy director-general of Technical Research Institute, deputy chief engineer, vice general manager, general manager and chairman of the board of Chengdu Engine Co., Ltd.; general manager of Shenyang Liming Aero-Engine (Group) Corporation Ltd. since October 1998; vice general manager of AVIC I and chairman and general manager of Shenyang Liming Aero-Engine (Group) Corporation Ltd. in July 2001; general manager of AVIC I since May 2006 and general manager of AVIC from July 2008 to March 2012. Mr. Lin also serves as vice chairman of the board of Commercial Aircraft Corporation of China, Ltd., chairman of the board of Chinese Aeronautical Establishment, and president of Chinese Society of Aeronautics and Astronautics. Mr. Lin has been appointed as the chairman of the Board and executive director since October 2008, the chairman of the Development and Strategy Committee since December 2008 and the chairman of the Nomination Committee since March 2012.

Non-executive Directors

Mr. Tan Ruisong (譚瑞松)

Member of the Development and Strategy Committee

56, vice chairman of the Board and general manager of the Company, a doctorate degree holder and a researcher level senior engineer. Mr. Tan is also the general manager of AVIC. He graduated from Beijing University of Aeronautics and Astronautics in 1983 with a bachelor degree majoring in manufacture and design of engines, and received his master degree in shipping and ocean engineering and Ph.D. degree in management science and engineering from Harbin Engineering University in 2002 and 2006, respectively. Mr. Tan commenced his career in aviation industry in July 1983, and used to be deputy chief engineer and deputy general manager of Harbin Dongan Engine Manufacturing Company, the general manager of Harbin Dongan Auto Engine Co., Ltd., member and vice chairman of the board and the general manager of Harbin Dongan Engine (Group) Co., Ltd., the chairman of the board of Harbin Aviation Industry (Group) Co., Ltd, and vice general manager of AVIC. Mr. Tan is also vice chairman of the board of Chinese Aeronautical Establishment. Mr. Tan has been appointed as a Director of the Company since June 2005, the vice chairman of the Board and executive Director since June 2006 and the vice chairman of the Board, executive Director and general manager of the Company since October 2008. Mr. Tan resigned as the general manager of the Company on August 2016, and became an non-executive Director of the Company.

Mr. Wu Xiandong (吳獻東)

Member of the Remuneration Committee and Nomination Committee

53, a researcher level senior engineer. Mr. Wu is also a vice general manager of AVIC. Mr. Wu received bachelor degree from Beijing University of Aeronautics and Astronautics, Ph.D. degree from the Moscow Aircraft Institute of Russia and post-doctoral from Beijing University of Aeronautics and Astronautics. Mr. Wu commenced his career in aviation industry in July 1987. He used to be the general manager of Harbin Aviation Electro-Mechanical Manufacturing Company, the director of Assets and Enterprises Management Department of AVIC II, an assistant to the general manager of AVIC II, and a vice general manager of AVIC II. Mr. Wu had been the vice chairman of the board and the general manager of the Company from April 2003 to October 2008, and the executive Director of the Company from October 2008 to May 2012. Mr. Wu has been appointed as a non-executive Director of the Company since May 2017.

Mr. Li Yao (李耀)

Member of the Development and Strategy Committee and Audit Committee

52, a researcher level senior accountant. Mr. Li is also the chief accountant of AVIC. Mr. Li graduated from Beijing University of Aeronautics and Astronautics and received Master's Degree from Tsinghua University. Mr. Li commenced his career in aviation industry since July 1986. He had served as the deputy director of the Financial & Audit Department of AVIC II, the chairman of Jiangxi Changhe Automobile Co., Ltd., the director, the general manager and the chairman of AVIC Assets Management Division, the director of the Planning and Finance Department of AVIC and the deputy chief accountant of AVIC. Mr. Li had been the vice general manager & CFO of the Company from April 2003 to April 2010. Mr. Li has been appointed as a non-executive Director of the Company since May 2017.

Mr. He Zhiping (何志平)

Member of the Development and Strategy Committee and Remuneration Committee

53, studied at the China Textile University (currently known as Donghua University) in Mechanical Engineering in 1979 and graduated with a master degree in engineering in 1986. Since 1987, Mr. He served as the assistant to the general manager of the United Rail Ltd, Shenzhen Branch of China Nonferrous Metals Company* (中國有色金屬深圳聯合公司科力鐵有限公司), the assistant to the general manager and vice general Manager of Hainan Sanya Huaya Enterprise Group Corporation* (海南三亞華亞企業集團公司), a director of China Great Wall Securities, LLC* (長城證券有限責任公司). He is currently the Chairman of the Board of China Wall King Holding Co., Ltd* (中國華建投資控股有限公司). Mr. He also serves social functions such as the vice president of the Revolutionary Area Development Association of Jiangxi Province, executive vice president of Gan General Chamber of Commerce and the Council of Donghua University. Mr. He has been appointed as a non-executive Director of the Company since August 2016.

Mr. Patrick de Castelbajac

Member of the Development and Strategy Committee

47, has a DESS (advanced post-graduate diploma) in Business and Tax Law from the University of Bordeaux, and a DEA (advanced post-graduate diploma) in Comparative Law from the Sorbonne University and Paris II Assas. Mr. Castelbajac successively worked at MBDA and Baker & McKenzie from 1997. He joined Airbus in 2002 and he was successively appointed vice-president of legal affairs for purchasing and intellectual property, vice-president of contract of the commercial division, head of negotiations for the sales of commercial aircraft and deputy contracts director. Mr. Patrick de Castelbajac was appointed as chief executive officer of ATR in June 2014. In December 2016, Mr. Castelbajac came back to Airbus as a member of the executive committee, becoming secretary-general of Airbus Commercial Aircraft and executive vice-president in charge of international and strategic affairs of Airbus Group. Mr. Castelbajac has been appointed as a non-executive Director of the Company since May 2017.

Independent Non-executive Directors

Mr. Lau Chung Man, Louis (劉仲文)

Chairman of the Audit Committee, member of the Remuneration Committee and Nomination Committee

59, executive director and CFO of Sing Tao News Corporation ("Sing Tao", a company listed on the main board of the Stock Exchange). Mr. Lau joined Sing Tao on 23 May 2005. Mr. Lau is a Chartered Accountant and has been granted the Bachelor of Business and Administration in Victoria University of Wellington, New Zealand. Mr. Lau is also a member of New Zealand Institute of Chartered Accountants (NZICA) and an associate member of Hong Kong Institute of Certified Public Accountants (HKICPA). He has experience in corporate management, accounting and finance. He had been an executive director of China Everbright Ltd. (a company listed on the main board of the Stock Exchange) before he joined Sing Tao in May 2005. Mr. Lau has been appointed as an independent non-executive Director of the Company since August 2006, and as chairman of Audit Committee since March 2014.

Mr. Liu Renhuai (劉人懷)

Member of Audit Committee, Remuneration Committee and Nomination Committee

77, an academician of the Chinese Academy of Engineering, graduated from Lanzhou University in 1963. He was elected as academician of the division of mechanical and vehicle technology of Chinese Academy of Engineering in 1999 and one of the first academicians of the division of engineering management of Chinese Academy of Engineering in 2000. He used to work as the president of Jinan University, deputy director of the division of engineering management of Chinese Academy of Engineering, director of the guiding committee on education of mechanics for colleges and universities of the Ministry of Education, director of the management department of the Science & Technology Commission of Ministry of Education, chairman of Chinese Vibration Engineering Society, vice chairman of Chinese Mechanics Society and vice chairman of Chinese Society for Composite Materials from 1995 to 2016. He is currently a professor and a board member of Jinan University, director of the institute of applied mechanics, and director of the research center of strategic management of Jinan University. Mr. Liu was appointed as a non-executive director of Sino-Tech International Holdings Limited (whose shares are listed on the Hong Kong Stock Exchange) from August 2010 to January 2012. He is currently an independent director of Guangdong Hongda Blasting Co., Ltd. (whose A shares are listed on the Shenzhen Stock Exchange). Mr. Liu Renhuai has been appointed as an independent non-executive Director of the Company since June 2014.

Mr. Yeung Chi Wai (楊志威)

Chairman of the Remuneration Committee, member of the Audit Committee and Nomination Committee

63, a Master degree holder. Mr. Yeung was educated at the University of Hong Kong where he obtained a Bachelor degree in Social Sciences. He later graduated from the College of Law, United Kingdom. He also holds a Bachelor degree in Law and a Master degree in Business Administration from the University of Western Ontario, Canada. Mr. Yeung is the Group Chief of Compliance and Risk Management Officer of Fung Holdings (1937) Limited and its publicly listed companies in Hong Kong. He has extensive experience in bank management and handling of legal, compliance and regulatory matters. Mr. Yeung joined BOC Hong Kong (Holdings) Limited(Stock Code:2388) in 2001 as Board Secretary and later held position as Deputy Chief Executive (Personal Banking) to oversee the overall performance of personal banking businesses. From 2005 to 2008, he also concurrently acted as Board Secretary of Bank of China Limited (Stock Code: 3988). Prior to that, Mr. Yeung was the General Counsel and Director of China Everbright Limited (Stock Code:0165), and also a Partner of Woo, Kwan, Lee & Lo. Mr. Yeung has been an independent non-executive Director of the Company since June 2015, and been appointed as the Chairman of Remuneration Committee, member of Audit Committee and Nomination Committee.

SUPERVISORS

Mr. Zheng Qiang (鄭強)

Chairman of the Supervisory Committee

54, 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 also served as director at AVICOPTER from August 2014 to March 2015. Mr. Zheng was appointed as vice general manager of the Company from June 2009 to June 2015. Mr. Zheng has been appointed as director of the management innovation office of AVIC since June 2015. Mr. Zheng has been appointed as supervisor of Sichuan Chengfei Integration Technology Co., Ltd. since April 2017 and director of AVIC Capital since May 2017. Mr. Zheng has been appointed as a Supervisor of the Company, and the Chairman of the Supervisory Committee since October 2016.

Mr. Liu Fumin (劉富敏)

53, a bachelor degree holder and a senior economist. Mr. Liu graduated from Harbin Finance University in 1985, majoring in finance; and graduated from Harbin Normal University in 1994, majoring in economic management. Mr. Liu commenced his career in banking in Heilongjiang Province since 1988, and was the officer, associate chief officer and chief officer of the financial research institute, the business credit department and the liquidity credit department of the Heilongjiang Branch of Industrial & Commercial Bank of China. Mr. Liu acted as the project manager, senior manager, assistant to the president and vice president of the equity management department, the assets management department and the business development department of the Harbin Branch of China Hua Rong Asset Management Corporation since February 2000. He was appointed as the deputy manager of the business review department of China Huarong Asset Management Co., Ltd. (previously named as China Huarong Asset Management Corporation) in January 2010, and the vice general manager), general manager of the Heilongjiang Branch of China Huarong Asset Management Co., Ltd.. Since January 2015. Mr. Liu has been appointed as a Supervisor of the Company since June 2015.

Ms. Li Jing (李竟)

39, a master degree holder and a certified medium translator. She graduated from the Southwest Agriculture University with a bachelor degree in 2002 and graduated from University of International Business and Economics with a MBA degree in 2013. She worked in the Investment Promotion Bureau of Mianyang Scientific-Industrial Zone and the International Cooperation Division of International Cooperation and Trading Department under AVIC II. Ms. Li joined the Company since 2004, and has been appointed as a Supervisor of the Company since May 2012.

SENIOR MANAGEMENT

Mr. Chen Yuanxian (陳元先)

General manager

57, a doctorate degree holder and researcher. Mr. Chen graduated from Nanjing University of Aeronautics and Astronautics with a bachelor degree majoring in man-machine engineering in 1982 and graduated from Beijing University of Aeronautics and Astronautics with a master degree and a doctorate degree majoring in man-machine engineering in 1988 and 1998, respectively. He commenced his career in the aviation industry since 1982 and used to be a technician, vice department director, deputy chief engineer and chief engineer of China Research Institute of Aero-Accessories. He had been the director of China Research Institute of Aero-Accessories since February 2000; director-general of Airborne Equipment Department of AVIC I since February 2003; deputy chief engineer of AVIC I since June 2007; deputy chief economist of AVIC, director of Strategic Planning Department in September 2008. In March 2013, he was appointed as a director and chief economist of AVIC. He has been the vice general manager of AVIC since January 2017. Mr. Chen was a non-executive Director of the Company from June 2009 to May 2012. From March 2014 to May 2017, Mr. Chen was appointed as the vice general manager&Chief Financial Officer and the general manager & Chief Financial Officer of the Company. Mr. Chen was appointed as the general manager of the Company in March 2018.

Mr. Yan Lingxi (閆靈喜)

Standing deputy general manager

47, a master degree holder and a senior engineer. Mr. Yan Lingxi is also a director of China AVIC Avionics and AVICOPTER. Mr. Yan Lingxi 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 AVIC, respectively. He was appointed as the deputy director and the director of the corporate assets management department of China Aviation Industry Corporation II. From October 2016 to February 2018, Mr. Yan Lingxi has been successively appointed as the head of the office of the board of directors and the deputy director of capital management department of Aviation Industry Corporation of China, and a director of the Board, the deputy general manager and the secretary of the board of directors of AVIC Capital. From April 2003 to October 2016, Mr. Yan Lingxi had been appointed as 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 appointed as the standing deputy general manager of the Company in February 2018.

Mr. Tang Jun (唐軍)

Deputy general manager

57, a doctor degree holder and a researcher level senior engineer. Mr. Tang graduated from Nanchang Hangkong University with a bachelor's degree, majoring in corrosion and corrosion prevention of aviation material, got a master's degree from Beijing University of Aeronautics and Astronautics majoring in industry foreign trade and got a doctor's degree from Northwestern Polytechnical University majoring in management. Mr. Tang commenced his career in aviation industry in 1983, successively being the process technician and deputy director of the Heat Treatment Shop in charge of technology, deputy director of the mechanical processing plant in charge of technology, deputy director of the manufacturing and engineering department & director of the Materials Technology Institute, director of the Quality Assurance Department, and vice general manager of AVIC Xi'an Aircraft Industry (Group) Co., Ltd. Mr. Tang had been the vice general manager of Chengdu Aircraft Company; the chairman of the board and general manager of AVIC Xi'an Aircraft Industry (Group) Co., Ltd. from August 2011 to March 2013; the general manager of AVIC Aircraft Co., Ltd from March 2013 to December 2015. He had been the director of the Quality Assurance Department of AVIC from December 2015 to August 2016. Mr. Tang was appointed as the vice general manager of the Company in August 2016.

Mr. Gan Liwei (甘立偉)

Board Secretary

53, a master degree holder and a researcher. He graduated from Beijing University of Aeronautics and Astronautics in 1987 with a bachelor's degree, majoring in system engineering and management engineering; and got a master's degree in 1998 majoring in industrial foreign trade management. Mr. Gan commenced his career in aviation industry in 1987, successively being the engineer and senior engineer of AVIC China Aero-Polytechnology Establishment, deputy division chief, division chief, assistant chief engineer and deputy director of AVIC Economics & Technology Research Establishment, deputy director of the Development and Research Department of AVIC. He was the director of the Administrative Department of AviChina from April 2003. He has been the vice general manager of AviChina Hong Kong Co., Ltd since March 2015. Mr. Gan was appointed as the Board Secretary of the Company in August 2016.

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 2017.

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 72 to page 96 of this annual report.

RESULTS AND DIVIDEND

The results of the Group for 2017 are set out in the Consolidated Statement of Profit or Loss on page 104 of this annual report.

The Board recommended the payment of a final dividend for the year 2017 in an aggregate amount of RMB178,983,655.08, representing a dividend of RMB0.03 per share (2016: RMB0.02 per share), calculated based on the existing number of total issued shares of 5,966,121,836 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 Wednesday, 30 May 2018 (the "**Record Date**"). To determine the identity of the shareholders entitled to receive the final dividend, the Company's register of members will be closed from Friday, 25 May 2018 to Wednesday, 30 May 2018 (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, 24 May 2018.

In accordance with Article 152 of the Articles of Association, the dividend will be declared in RMB to the shareholders. The dividend payable to shareholders of the domestic shares will be paid in RMB within three months after the dividend declaration date. The dividend payable to H shareholders is calculated and declared in RMB and will be paid in Hong Kong Dollars within three months after the dividend declaration date. The amount 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, 18 May 2018 (the "**AGM**"). Subject to the approval of the Company's shareholders at the AGM, the aforementioned dividend is expected to be paid by the Company on or before 18 August 2018.

The AGM will be held on Friday, 18 May 2018. The H Share register of members of the Company will be closed from Saturday, 28 April 2018 to Friday, 18 May 2018 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of the Company's H Shares and Domestic Shares whose names appear on the Company's register of members at the opening of business on Friday, 18 May 2018 are entitled to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, holders of the Company's H Shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H Shares registrar, not later than 4:30 p.m. on Friday, 27 April 2018.

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 2 June 2017.

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 capital structure as at 31 December 2017 was as follows:

Class of Shares	Number of Shares as at 31 December 2017	Percentage of total number of Shares in issue as at 31 December 2017 (%)
Domestic Shares	3,609,687,934	60.5
Overseas listed foreign invested shares (H Shares)	2,356,433,902	39.5
Total	**5,966,121,836**	**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 2017, pursuant to the register kept under Section 336 of the Securities and Futures Ordinance (the "**SFO**"), shareholders holding 5% or more than 5% 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	Approximate percentage to share capital in issue	Nature of Shares held
AVIC (Note 1)	Domestic Shares	Beneficial owner, Interest in controlled corporation	3,481,185,569	96.44%	58.35%	Long position
	H Shares	Interest in controlled corporation	13,076,000	0.55%	0.22%	Long position
Airbus Group (Note 2)	H Shares	Beneficial owner	274,909,827	11.67%	4.61%	Long position

Notes:

1 Out of the 3,481,185,569 Domestic Shares held by AVIC, 3,297,780,902 Domestic Shares are held as beneficial owner and 183,404,667 Domestic Shares are held through AMES, its wholly-owned subsidiary. The 13,676,000 H Shares are held by AVIC through China Aviation Industry (Hong Kong) Company Limited, its wholly-owned subsidiary.

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

Save as disclosed above, as at 31 December 2017, the Company had not been notified of any interests and short positions in 5% or more of the class 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 SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities for the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

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

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2017, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

FIXED ASSETS

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

RESERVES

Details of movement in reserves of the Group for the year ended 31 December 2017 are set out in the Consolidated Statement of Changes in Equity and Note 34 to the financial statements.

DISTRIBUTABLE RETAINED EARNINGS

As at 31 December 2017, the Company had distributable retained earnings of RMB421,659,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's total purchases from the five largest suppliers for the aviation business accounted for 17.44% of the Group's total purchases, of which, purchases from the largest supplier accounted for 5.11% of the Group's total purchases. The Group's sales to the five largest customers accounted for 45.75% of the Group's total sales, of which, sales to the largest customer accounted for 24.79% of the Group's total sales.

Purchases from the five largest suppliers in the aviation entire aircraft segment accounted for 31.85% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 10.21% of the total purchases in that segment. Sales to the five largest customers in the aviation entire aircraft segment accounted for 86.75% of the total sales in that segment, of which, sales to the largest customer accounted for 57.54% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation parts and components segment accounted for 14.77% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 5.23% of the total purchase in that segment. Sales to the five largest customers in the aviation parts and components segment accounted for 22.31% of the total sales in that segment, of which, sales to the largest customer accounted for 11.54% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation engineering services segment accounted for 17.13% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 5.34% of the total purchase in that segment. Sales to the five largest customers in the aviation engineering services segment accounted for 31.53% of the total sales in that segment, of which, sales to the largest customer accounted for 17.94% of the total sales in that segment.

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

SUBSIDIARIES

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

DIRECTORS

Details of the Directors as at 31 December 2017 are set out from pages 21 to 25 of this annual report. Details of changes of the Directors during the year 2017 are set out from pages 44 to 45 of this annual report.

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

1 On 15 March 2017, AviChina Industrial Investment, a wholly-owned subsidiary of the Company, entered into the Joint Venture Agreement with Shanghai Aviation Electric, a subsidiary of the Company, AVIC Avionics Systems, a subsidiary of AVIC, and Shanghai Jiliang Photoelectric Technology Co., Ltd.* (上海激亮光電科技有限公司) ("**Shanghai Jiliang**") in relation to the proposed establishment of AVIC Laser. Pursuant to the Joint Venture Agreement, the Company agreed to make indirect capital contributions of approximately RMB76.674 million in aggregate, including a contribution of approximately RMB55.324 million and RMB21.35 million through Shanghai Aviation Electric and AviChina Industrial Investment, respectively. Upon establishment of AVIC Laser, AVIC Laser became a subsidiary of the Company, which was owned as to 47.77% and 18.44% by Shanghai Aviation Electric and AviChina Industrial Investment, respectively. As at 15 March 2017, Shanghai Aviation Electric was a non-wholly-owned subsidiary of AVIC Avionics, a connected subsidiary of the Company. AVIC Avionics Systems was a subsidiary of AVIC, which was the controlling shareholder of the Company. Therefore, both Shanghai Aviation Electric and AVIC Avionics Systems were connected persons of the Company and the entering into of the Joint Venture Agreement of AviChina Industrial Investment, a wholly-owned subsidiary of the Company, with the above connected persons constituted 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 15 March 2017.

2 On 10 April 2017, the Company entered into the Investor Agreement with 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) ("**AVIC Automatic Control Institute**"), BUAA Holdings Co., Ltd.* (北京北航資產經營有限公司) ("**BUAA Holdings**") and BUAA electrooptical technology team* (北航光電團隊). Pursuant to the Investor Agreement, the Company agreed to contribute RMB60 million for participation in the capital increase of AVIC Gyro. Upon completion of the capital increase, the Company, AVIC Automatic Control Institute, BUAA Holdings and BUAA electrooptical technology team would hold 23.45%, 53.59%, 11.48% and 11.48% of the equity interest of AVIC Gyro, respectively. As at 10 April 2017, AVIC Automatic Control Institute was managed by AVIC, the controlling shareholder of the Company, as a trustee. Therefore, AVIC Automatic Control Institute was a connected person of the Company and the entering into of the Investor Agreement of the Company with the above connected person constituted 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 April 2017.

3 On 22 December 2017, the Company entered into the Capital Increase Agreement with AVIC, China National Guizhou Aviation Industry (Group) Co., Ltd.* (中國貴州航空工業(集團)有限責任公司) ("**Guizhou Aviation Group**"), AVIC Heavy Machinery, Anji Casting and the Shareholding Companies for Anji Casting Employees* (安吉精鑄員工持股公司). Pursuant to the Capital Increase Agreement, the Company agreed to contribute RMB50 million for participation in the capital increase of Anji Casting. Upon completion of the capital increase, the Company, AVIC, Guizhou Aviation Group, AVIC Heavy Machinery and the Shareholding Companies for Anji Casting Employees would hold 14.83%, 31.63%, 14.96%, 29.67% and 8.90% of the equity interest of Anji Casting, respectively. As at 22 December 2017, AVIC was the controlling shareholder of the Company, and Guizhou Aviation Group and AVIC Heavy Machinery were the subsidiaries of AVIC. Therefore, AVIC, Guizhou Aviation Group and AVIC Heavy Machinery were connected persons of the Company and the entering into of the Capital Increase Agreement of the Company with the above connected persons constituted 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 22 December 2017.

4 On 27 December 2017, AVIC Planning entered into the Equity Transfer Agreement with AVIC Heavy Machinery, pursuant to which, AVIC Heavy Machinery agreed to sell and AVIC Planning agreed to acquire, 69.30% of the equity interest in AVIC Renewable Energy. After completion of the Acquisition, AVIC Renewable Energy would become a subsidiary of AVIC Planning and thus a subsidiary of the Company, and the financial results of AVIC Renewable Energy would be consolidated into the consolidated financial statements of the Company. As at 27 December 2017, AVIC Planning was a wholly-owned subsidiary of the Company. AVIC Heavy Machinery was a subsidiary of AVIC, the controlling shareholder of the Company, and therefore was a connected person of the Company. The entering into of the Equity Transfer Agreement between AVIC Planning and AVIC Heavy Machinery constituted 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 13 December 2017 and 27 December 2017.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

For the year ended 31 December 2017, the Group engaged in continuing connected transactions with AVIC Group, AVIC Avionics and its subsidiaries ("**AVIC Avionics Group**"), AVICOPTER and its subsidiaries ("**AVICOPTER Group**"). AVIC is the controlling shareholder of the Company and therefore is a connected person of the Company. AVIC has direct and indirect equity interest of 34.16% in AVIC Avionics, which is a subsidiary of the Company held as to 43.22% 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. Similarly, AVIC has indirect equity interest of 26.93% in AVICOPTER, which is a subsidiary of the Company held as to 34.66% by the Company and is consolidated in the audited accounts of the Company. AVICOPTER is therefore a connected subsidiary of the Company under the Hong Kong Listing Rules. The Group also entered into continuing connected transactions with AVIC Finance, which is a subsidiary of AVIC and therefore a connected person of the Company.

With AVIC

During the year 2017, the Group carried out the following continuing connected transactions with AVIC Group pursuant to the four continuing connected transaction agreements entered into between the Company and AVIC:

1 On 26 August 2014, the Company entered into the mutual supply of products agreement (the "**Existing Mutual Supply of Products Agreements**") with AVIC to continue certain continuing connected transactions, pursuant to which, AVIC Group agreed to provide aviation related materials, components and products and their related sale and ancillary services to the Group for a term of three years ended 31 December 2017. The Group also agreed to provide aviation related materials, components and products and their related sale and ancillary services to AVIC Group for a term of three years ended 31 December 2017.

   As the Existing Mutual Supply of Products Agreement would expire on 31 December 2017, the Company entered into a new mutual supply of products agreement with AVIC to continue certain continuing connected transactions on 30 August 2017, pursuant to the agreement, 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) involved in the production and operations of their respective aviation products as well as the sales and ancillary services related thereto for a term of three years ending 31 December 2020.

2 On 26 August 2014, the Company entered into the mutual provision of services agreement with AVIC, and a supplementary agreement to the mutual provision of services agreement was entered into by the Company and AVIC (collectively referred to as "**Existing Mutual Provision of Services Agreement**") on 19 October 2015 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 ended 31 December 2017 and the Group also agreed to provide certain services relating to the production and business operations of AVIC Group for a term of three years ended 31 December 2017.

   As the Existing Mutual Supply of Services Agreement would expire on 31 December 2017, the Company entered into a new mutual supply of services agreement with AVIC on 30 August 2017 to continue certain continuing connected transactions, pursuant to the agreement, AVIC Group agreed to provide certain services relating to the production and business operations of the Group, 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 technology, engineering general contracting and equipment general contracting for a term of three years ending 31 December 2020.

Given that after acquisition of AVIC Planning, the Group accepts sub-contracting services provided by AVIC Group when the Group provides general contracting services, and the labour expenditure such as subcontracting increases as the Group's business develop, the Board expected that the expenditure from services provided by AVIC Group to the Group under the Existing Mutual Supply of Services Agreement would increase and might exceed the original annual cap for 2017 the Board revised relevant annual cap for 2017. The revised relevant annual cap was approved by independent shareholders at the extraordinary shareholders' general meeting of the Company held on 20 December 2017.

3 On 26 August 2014, the Company entered into the trademarks and technology cooperation framework agreement (the "**Existing Trademarks and Technology Cooperation Framework Agreement**") with AVIC to continue certain continuing connected transactions, pursuant to the agreement, AVIC Group agreed to provide, among others, certain licences of trademarks and technology cooperation services to the Group for a term of three years ended 31 December 2017 and the Group also agreed to provide certain licenses of trademarks and technology cooperation services to the AVIC Group for a term of three years ended 31 December 2017.

As the Existing Trademarks and Technology Cooperation Framework Agreement would expire on 31 December 2017, the Company entered into a new trademarks and technology cooperation framework agreement with AVIC on 30 August 2017 to continue certain continuing connected transactions, pursuant to which, AVIC Group and the Group agreed to mutually provide, among others, certain licences of trademarks and technology cooperation services for a term of three years ending 31 December 2020.

4 On 30 August 2011, the Company entered into the land use rights and properties leasing agreement with AVIC for a term of 20 years, and entered into the supplemental agreement to the land use rights and properties leasing agreement with AVIC on 20 August 2014 (collectively referred to as "**Existing Land Use Rights and Properties Leasing Agreement**") 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.

The term for the Existing Land Use Rights and Properties Leasing Agreement is 20 years, commencing from 1 January 2012. After re-considering the mutual leasing demands of the Group and AVIC Group, the parties agreed to terminate the 20-year Existing Land Use Rights and Properties Leasing Agreement with effect on 31 December 2017, and entered into the Land Use Rights and Properties Leasing Agreement on 30 August 2017, and for a term of three years ending 31 December 2020.

With AVIC Avionics and AVICOPTER

5 On 26 August 2014, the Company entered into products and services mutual supply and guarantee agreement with AVIC Avionics and AVICOPTER, and entered into a supplemental agreement to the products and services mutual supply and guarantee agreement (collectively referred to as "**Existing Products and Services Mutual Supply and Guarantee Agreement**") on 19 October 2015, pursuant to which, the Group agreed to provide aviation parts and components, raw materials, and relevant production, labour and guarantee(s) services, as well as engineering technology, engineering general contracting, equipment general contracting services, etc. to AVIC Avionics Group and AVICOPTER Group; and AVIC Avionics Group and AVICOPTER Group agreed to provide aviation parts and components and related ancillary services, engineering and equipment sub-contracting services to the Group for a term of three years ended 31 December 2017.

As the Existing Products and Services Mutual Supply and Guarantee Agreement was due to expire on 31 December 2017, the Company entered into a new products and services mutual Supply and guarantee agreement with AVIC Avionics and AVICOPTER on 30 August 2017 to continue certain continuing connected transactions, pursuant to which, the Group agreed to provide aviation parts and components, raw materials, and relevant production, labour and guarantee(s) services, as well as engineering technology, engineering general contracting, equipment general contracting services, etc. to AVIC Avionics Group and AVICOPTER Group for a term of 3 years ending 31 December 2020, and AVIC Avionics Group and AVICOPTER Group agreed to provide aviation parts and components and related ancillary services, engineering and equipment sub-contracting services to the Group for a term of 3 years ending 31 December 2020.

With AVIC Finance

6 On 26 August 2014, the Company entered into the financial services framework agreement (the "**Existing Financial Services Framework Agreement**") with AVIC Finance, pursuant to which, AVIC Finance agreed to provide the Group with non-exclusive deposit services, loan services, settlement services, guarantee services and other financial services subject to the terms and conditions provided therein with a term of three years.

As the Existing Financial Services Framework Agreement was due to expire on 31 December 2017, the Company entered into a new financial services framework agreement with AVIC Finance on 30 August 2017. Pursuant to the terms and conditions of the agreement, AVIC Finance has agreed to provide the Group with non-exclusive deposit services, loan services, settlement services, guarantee services and other financial services for a term of 3 years ending 31 December 2020.

In light of the increased monetary funds of the Group following the acquisition of AVIC Planning as well as the growing demands for funds and financial services as a result of the development of businesses of the Group, the Board expected that the actual amounts of the deposit services and other financial services under the Existing Financial Services Framework Agreement might exceed their respective caps originally set for 2017. Therefore, the Board proposed to enter into a supplemental agreement to the Existing Financial Services Framework Agreement and to revise the caps for 2017 for the deposit services and other financial services under the Existing Financial Services Framework Agreement. The above revision was approved by independent shareholders on the extraordinary shareholders' general meeting of the Company convened on 20 December 2017.

Entrusted Loan Framework Agreement

7 On 30 August 2017, AVIC Planning, a wholly-owned subsidiary of the Company, entered into the entrusted loan framework agreement ("**Entrusted Loan Framework Agreement**") with AVIC Finance and AVIC Construction and Development (Beijing) Technology Co., Ltd. ("**AVIC Construction and Development Technology**"), pursuant to which, AVIC Planning has agreed to grant the entrusted loans, each of which would have a term of not more than one year, to AVIC Institute of Geotechnical Engineering Co., Ltd. ("**AVIC Geotechnical**") and China Aviation Changsha Design and Research Co., Ltd. ("**AVIC Changsha Design**"), both being subsidiaries of AVIC Construction and Development Technology, through AVIC Finance for three years ending 31 December 2019. The daily balance of the outstanding entrusted loans under the Entrusted Loan Framework Agreement shall not be more than RMB300 million for each of the years from 2017 to 2019. As AVIC is the controlling shareholder of the Company and AVIC Finance, AVIC Construction and Development, AVIC Geotechnical and AVIC Changsha Design are subsidiaries of AVIC. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, AVIC Finance, AVIC Construction and Development, AVIC Geotechnical and AVIC Changsha Design are connected persons of the Company and the grant of the entrusted loans under the Entrusted Loans Framework Agreement to AVIC Geotechnical and AVIC Changsha Design constitutes continuing connected transactions of the Company.

For details of the aforementioned continuing connected transactions, please refer to the announcement of the Company dated 26 August 2014, the circular dated 26 September 2014, the announcement dated 19 October 2015, the circular dated 10 May 2016, the announcement dated 30 August 2017, 1 September 2017 and the circular dated 16 November 2017.

The annual caps of the year 2017 for the continuing connected transactions and the actual transaction amounts incurred or received by the Group in 2017 are set out below. For the year ended 31 December 2017, such continuing connected transactions of the Group were calculated on a consolidated basis as follows:

		2017 Actual Amount (RMB million)	2017 Annual Cap (RMB million)
1	Existing Mutual Supply of Products Agreement		
	(a) Annual expenditure of the Group	5,834	21,023
	(b) Annual revenue of the Group	17,687	38,347
2	Existing Mutual Provision of Services Agreement		
	(a) Annual expenditure of the Group	344	1,900
	(b) Annual revenue of the Group	2,965	9,200
3	Existing Land Use Rights and Properties Leasing Agreement		
	Annual expenditure of the Group	44	75
4	Existing Trademarks and Technology Cooperation Framework Agreement		
	(a) Annual expenditure of the Group	2	141
	(b) Annual revenue of the Group	239	462
5	Existing Products and Services Mutual Supply and Guarantee Agreement		
	(a) Annual expenditure of the Group	493	1,700
	(b) Annual revenue of the Group	614	3,200

		2017 Maximum daily outstanding balance of deposit (RMB million)	2017 Cap for the maximum daily outstanding balance of deposit (RMB million)
6	Existing Financial Services Framework Agreement		
	(a) Maximum daily outstanding balance of deposits (including accrued interests) placed by the Group with AVIC Finance	6,214	7,000

	Actual Amount (RMB million)	Annual Cap (RMB million)
(b) Other financial services provided by AVIC Finance to the Group	877	2,000

		2017	
		Maximum daily outstanding balance of entrusted loans (RMB million)	Cap for the maximum daily outstanding balance of entrusted loans (RMB million)
7	Entrusted Loan Framework Agreement		
	Maximum daily outstanding balance of entrusted loans of the Group	70	300

The Planning and Finance Department of 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 relevant 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 38 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.

One-Off Connected Transactions

On 25 December 2017, AVIC Avionics issued convertible corporate bonds (the "**Convertible Corporate Bonds**") to raise a total amount of RMB2.4 billion, and the Company, AVIC and AVIC Avionics Systems subscribed for RMB500,000,000, RMB188,470,000 and RMB431,719,000 of the Convertible Corporate Bonds, respectively, the amount of which are all within the amount entitled by their respective pre-emptive right. As at 25 December 2017, the Company holds 43.22% of the equity interest in AVIC Avionics. Meanwhile, AVIC, AVIC Avionics Systems and Hanzhong Aviation Industry (Group) Co., Ltd.* hold 7.85%, 17.99% and 6.23% of the equity interest in AVIC Avionics, respectively. Therefore, AVIC Avionics is a connected subsidiary of the Company. The subscription by the Company for the Convertible Corporate Bonds constitutes the provision of financial assistance by the Company to its connected subsidiary, and thus 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 26 December 2017.

For other one-off connected transactions of the Group, please refer to paragraphs 1, 2, 3 and 4 under the subsection headed "Material Acquisitions and Disposal of Subsidiaries and Associated Companies During the Reporting Period" of this session from page 34 to page 35.

SIGNIFICANT EVENTS DURING THE REPORTING YEAR

1 On 27 October 2016, JONHON Optronic, a subsidiary of the Company, proposed to adopt a restricted share incentive scheme (the "**Restricted Share Incentive Scheme**") and to grant the first batch of the restricted shares thereunder to certain participants (the "**Proposed Initial Grant**"). The Board approved the proposed adoption of the Restricted Share Incentive Scheme and the Proposed Initial Grant. On 18 January 2017, pursuant to the Restricted Share Incentive Scheme, JONHON Optronic made the initial grant of a total of 6,001,000 restricted shares to 266 selected participants, representing approximately 0.9960% of the issued share capital of JONHON Optronic as at the date of the initial grant being 18 January 2017. The grant price under the initial grant (the "**Initial Grant**") was RMB28.19 per restricted share. Upon implementation of the Initial Grant, the equity interest in JONHON Optronic held by the Company was diluted from 41.57% to 41.17%. For details, please refer to the announcements of the Company dated 27 October 2016 and 18 January 2017.

2 On 31 July 2017, AVIC Avionics, a subsidiary of the Company, convened a board meeting to consider and approve the proposed issuance of Convertible Corporate Bonds not exceeding RMB2.4 billion (including RMB2.4 billion). On 6 November 2017, the Issuance Appraisal Committee of China's Securities Regulatory Commission reviewed and approved AVIC Avionics' application for issuance of A Share Convertible Corporate Bonds. On 25 December 2017, AVIC Avionics issued the Convertible Corporate Bonds with a total amount of proceeds being RMB2.4 billion, and the Company, AVIC and AVIC Avionics Systems subscribed for RMB500,000,000, RMB188,470,000 and RMB431,719,000, respectively, the amount of which were all within the amount entitled by their respective pre-emptive right. As at the date of such subscription, the Company held 43.22% of the equity interest in AVIC Avionics. Meanwhile, AVIC, AVIC Avionics Systems and Hanzhong Aviation Industry (Group) Co., Ltd.* (漢中航空工業(集團)有限公司) held 7.85%, 17.99% and 6.23% of the equity interest in AVIC Avionics, respectively. Therefore, AVIC Avionics was a connected subsidiary of the Company. The subscription by the Company for the Convertible Corporate Bonds constituted the provision of financial assistance by the Company to its connected subsidiary, and thus constituted 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 11 May 2017, 18 May 2017, 6 November 2017 and 26 December 2017.

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 2017 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

On 12 June 2015, PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were no longer to be as the international and PRC auditors of the Company respectively and Ernst & Young and Ernst & Young Hua Ming LLP were appointed as the international and PRC auditors of the Company. On 18 May 2017, Ernst & Young and Ernst & Young Hua Ming LLP were no longer to be as the international and PRC auditors of the Company respectively and SHINEWING (HK) CPA Limited and ShineWing Certified Public Accountant LLP were appointed as the international and PRC auditors of the Company. Saved as disclosed above, there is no change of the auditor of the Company in the past three years.

The financial statements for the year 2017 have been audited by SHINEWING (HK) CPA Limited.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

In March 2017, Mr. Gu Huizhong and Mr. Gao Jianshe applied to the Board for resignation from their positions as the non-executive Directors and related duties due to age and other business commitment respectively. Mr. Wu Xiandong and Mr. Li Yao were nominated as the candidates for the new non-executive Directors.

In April 2017, Mr. Kiran Rao applied to the Board for resignation from his position as a non-executive Director and related duties due to other business commitment. Mr. Patrick de Castelbajac was nominated as the candidate for a new non-executive Director.

At the annual general meeting of the Company convened on 18 May 2017 ("**2016 AGM**"), Mr. Wu Xiandong, Mr. Li Yao and Mr. Patrick de Castelbajac were appointed as the new non-executive Directors of the Company, each with a term of office from the date of approval of the 2016 AGM to the date on which the resolution relating to the election of the sixth session of the Board will be approved at the annual general meeting to be convened in 2018.

Upon the conclusion of the 2016 AGM, Mr. Gu Huizhong ceased to be a non-executive Director and a member of the development and strategy committee and the audit committee of the Board, Mr. Gao Jianshe ceased to be a non-executive Director and a member of the remuneration committee and the nomination committee of the Board, and Mr. Kiran Rao ceased to be a non-executive Director and a member of the development and strategy committee of the Board.

At the Board meeting held after and on the date of the 2016 AGM, Mr. Wu Xiandong was appointed as a member of the remuneration committee and the nomination committee of the Board, Mr. Li Yao was appointed as a member of the development and strategy committee and the audit committee of the Board, Mr. Patrick de Castelbajac was appointed as a member of the development and strategy committee of the Board, and Mr. He Zhiping was appointed as a member of the development and strategy committee and the remuneration committee of the Board.

After the conclusion of the 2016 AGM, the fifth session of the Board of the Company comprises executive Director Mr. Lin Zuoming, non-executive Directors Mr. Tan Ruisong, Mr. Wu Xiandong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai.

In May 2017, due to other business commitment, Mr. Chen Yuanxian and Mr. Chen Guanjun applied for resignation to the Board as the general manager and chief financial officer of the Company, and the deputy general manager of the Company, respectively.

At the Board meeting held on 18 May 2017, the Board considered and approved the resolutions of changes in certain senior management of the Company that Mr. Chen Yuanxian and Mr. Chen Guanjun ceased to be the general manager and chief financial officer of the Company, and the deputy general manager of the Company, respectively; Mr. Qu Jingwen and Mr. Yu Feng were appointed as the general manager and chief financial officer of the Company, and the deputy general manager of the Company, respectively, both with a term of office from the date of approval of the resolution to the date on which the term of office of the fifth session of the Board expires or the Board removes them from their duties.

In February 2018, due to other work commitment, Mr. Yu Feng applied to the Board for resignation as the deputy general manager of the Company. At the Board meeting convened on 6 February 2018, the Board considered and approved the resolution in relation to the appointment of Mr. Yan Lingxi as the standing deputy general manager of the Company, with the term of office from the date of approval of such resolution to the date on which the Board removes him from his duty.

In March 2018, due to other work commitment, Mr. Qu Jingwen applied to the Board for resignation as the general manager of the Company. At the Board meeting convened on 16 March 2017, the Board has considered and approved the resolution in relation to the appointment of Mr. Chen Yuanxian as the general manager of the Company, with the term of office from the date of approval of such resolution to the date on which the Board removes him from his duty.

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 2017, none of the Directors or Supervisors or senior management had any interest in any businesses which may constitute competition, directly or indirectly, with the Company.

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

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

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

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

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

As at 31 December 2017, 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 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 the same class of Shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Directors						
Lin Zuoming	H Share	Beneficial owner	462,005	0.020%	0.008%	Long position
Tan Ruisong	H Share	Beneficial owner	563,811	0.024%	0.010%	Long position
Wu Xiandong	H Share	Beneficial owner	191,811	0.008%	0.003%	Long position
Li Yao	H Share	Beneficial owner	174,910	0.007%	0.003%	Long position
Yeung Chi Wai	H Share	Beneficial owner	248,000	0.011%	0.005%	Long position
Supervisor						
Zheng Qiang	H Share	Beneficial owner	322,653	0.014%	0.009%	Long position
Chief Executive						
Chen Yuanxian	H Share	Beneficial owner	255,687	0.011%	0.005%	Long position

Note: 1 Based on the relevant disclosure of interests filed on the website of the Stock Exchange, as at 31 December 2017, Mr. Lin Zuoming held 2,000 A shares in AVICOPTER (listed on Shanghai Stock Exchange with the stock code: 600038) and 5,000 A shares in AVIC Avionics (listed on Shanghai Stock Exchange with the stock code: 600372), representing approximately 0.0003% and 0.0003% of the total issued share capital of AVICOPTER and AVIC Avionics respectively. AVICOPTER and AVIC Avionics were subsidiaries of the Company, and therefore they were associated corporations (within the meaning of Part XV of the SFO) of the Company.

2 Based on the relevant disclosure of interests filed on the website of the Hong Kong Stock Exchange, as at 31 December 2017, Mr. Li Yao held 10,000 A Shares in AVIC Capital (listed on Shanghai Stock Exchange with the Stock code: 600705), representing approximately 0.0001% of the total issued share capital of AVIC Capital. AVIC Capital is a subsidiary of AVIC, and therefore it is an associated corporation (within the meaning of Part XV of the SFO) of the Company.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2017, 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 2017.

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 limity 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 Securities and Futures Ordinance.

The Group has implemented internal control measures to ensure its compliance with such laws and regulations. During the year ended 31 December 2017, 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 42 to 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.

SUBSEQUENT EVENTS

1 On 1 February 2018, the Company entered into the Joint Venture Agreement with AVIC Manufacturing Technology Institute* (the "**AVIC Manufacturing Institute**"), AVIC Aviation High-Technology Co. Ltd.* (the "**AVIC High-Technology**") and Beijing Hangyi Zhongchi Science and Technology Centre (Limited Partnership)* (the "**Hangyi Zhongchi**") in relation to the proposed establishment of AVIC Aviation High-Technology Co., Ltd.* (the "**AVIC High-Technology**"). Pursuant to the Joint Venture Agreement, the Company agreed to make a capital contribution of RMB95 million in cash, representing 38% of the total capital contribution of Hangwei High-Technology. As at 1 February 2018, AVIC is the controlling shareholder of the Company. AVIC Manufacturing Institute is a subsidiary of AVIC. AVIC High-Technology is owned as to 42.86% by AVIC High-Technology Development Co., Ltd.* (中航高科技發展有限公司), a wholly-owned subsidiary of AVIC, and is therefore a 30%-controlled company of AVIC High-Technology Development Co., Ltd.* Therefore, both AVIC Manufacturing Institute and AVIC High-Technology are connected persons of the Company and the entering into of the Joint Venture Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the transaction under the Joint Venture Agreement is more than 0.1% but less than 5%, the entering into of the Joint Venture Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

2 On 26 February 2018, the Company, as the principal initiator, entered into the Joint Venture Agreement with AVIC and AVIC Capital in relation to the formation of Beijing Rongfu AVIC Fund Management Company (the "**Fund Management Company**"), pursuant to which, the Company agreed to make a capital contribution of RMB70 million in cash, representing 50% of the total capital contribution of Fund Management Company. Upon establishment, Fund Management Company will become a subsidiary of the Company and its financial results will be consolidated into those of the Company. Upon establishment, Fund Management Company will propose to establish and manage an AVIC military-civilian integration fund as a general partner, which shall be dedicated in investment in military-civilian integration development projects of aviation industry. As at 26 February 2018, AVIC is the controlling shareholder of the Company and AVIC Capital is a subsidiary of AVIC. Therefore, both AVIC and AVIC Capital are connected persons of the Company. The entering into of the Joint Venture Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the transaction under the Joint Venture Agreement is more than 0.1% but less than 5%, the entering into of the Joint Venture Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

3 On 15 March 2018, to promote the industrialization for the aviation high-tech achievements of aviation research institutes, the Company entered into the Joint Venture Agreement with Chinese Aeronautical Radio Electronics Research Institute* (the "**Electronics Research Institute**"), Avionics Systems, Aviclub Holding Co., Ltd.* (the "**Aviclub Holding**"), Shanghai Advanced Avionics Company Ltd.* (the "**Advanced Avionics**") and Shanghai Hanggong Enterprise Management Centre (Limited Partnership)* (the "**Hanggong Management**") in relation to the proposed establishment of AVIC Air Traffic Management System Equipment Co., Ltd.*. Pursuant to the Joint Venture Agreement, the Company agreed to make a capital contribution of RMB198 million in cash, representing 33% of the total capital contribution of AVIC ATM System. As at 15 March 2018, AVIC is the controlling shareholder of the Company. Electronics Research Institute is a subsidiary institute of AVIC. Avionics Systems, Aviclub Holding and Advanced Avionics are subsidiaries of AVIC. Therefore, Electronics Research Institute, Avionics Systems, Aviclub Holding and Advanced Avionics are connected persons of the Company. The entering into of the Joint Venture Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the transaction under the Joint Venture Agreement is more than 0.1% but less than 5%, the entering into of the Joint Venture Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

4 In recognition of the investment value of AVIC Shenyang Aircraft Company Limited (the "**AVIC Shenyang Aircraft**") and the confidence of its sustainable and stable development in the future, on 13 February 2018, the Company acquired 2,430,501 A shares of AVIC Shenyang Aircraft through the trading system of the Shanghai Stock Exchange at an average price of RMB24.673 per share, representing approximately 0.174% of the total issued shares of AVIC Shenyang Aircraft (the "**Acquisition**"). Before the Acquisition, the Company did not hold A shares of AVIC Shenyang Aircraft. Meanwhile, the Company proposes to further increase its shareholding in AVIC Shenyang Aircraft within the following six months at a price not higher than RMB30 per share on market. The total shareholding increase (including the shareholding percentage under the Acquisition) is expected not to exceed 2% of the total issued shares of AVIC Shenyang Aircraft.

Report of the Supervisory Committee

To all shareholders,

During the year of 2017, the Supervisory Committee strictly complied with the Company Law of the PRC, the Articles of Association and the Procedural Rules for Meetings of the Supervisory Committee and duly adhered to the principles of honesty and integrity in performing the supervisory duties and exercising the rights conferred on it by the Articles of Association, and also in good faith safeguarded the shareholders' interests in a diligent, pragmatic and serious manner.

In 2017, the Supervisory Committee convened four meetings, at which eleven resolutions were considered and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2016 annual report, 2017 interim report, and the profits distribution plans for 2016 and the first six months of 2017 of the Company, the amendment of the Articles of Association of the Company. The Supervisory Committee also attended the Board meetings and the general meetings held in 2017 to monitor the validity of procedures for the convening of and resolutions of the Board meetings and general meetings. Through convening Supervisory Committee meetings and attending Board meetings and general 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.

The Supervisors attended the meetings of the Audit Committee and the communication meeting with external Directors for the year 2017, acquired knowledge of the implementation and progress of concerns of the Audit Committee, and communicated with the independent non-executive Directors and auditors in respect of the Company's operating matters and financial conditions.

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 2017, the Board and the senior management of the Company had duly exercised various powers conferred by the shareholders, performed various obligations, and made their best endeavors to make important contributions to the development of the Company.

To better fulfill its supervisory role on the financial conditions of the Company, the Supervisory Committee reviewed the report of the auditors of the Company and discussed with the management of the Company, and considered that the aforesaid report had fairly reflected the financial position and operating results of the Company. The Company's financial statements are prepared regularly with clear records and complete information.

The Supervisory Committee is fully confident in the prospect of the Company. In 2018, according to the work plan for the year, the Supervisory Committee will enhance its supervision over the Company's compliant operation and its construction of the internal control system, establish communication mechanism with intermediary institutions, and keep concern on the implementation of the resolutions of the Board. The Supervisory Committee will continue to strictly perform its duties in accordance with the Articles of Association and the relevant requirements, to strengthen the self-construction of the Supervisory Committee, to improve the supervision level, and to safeguard shareholders' interests.

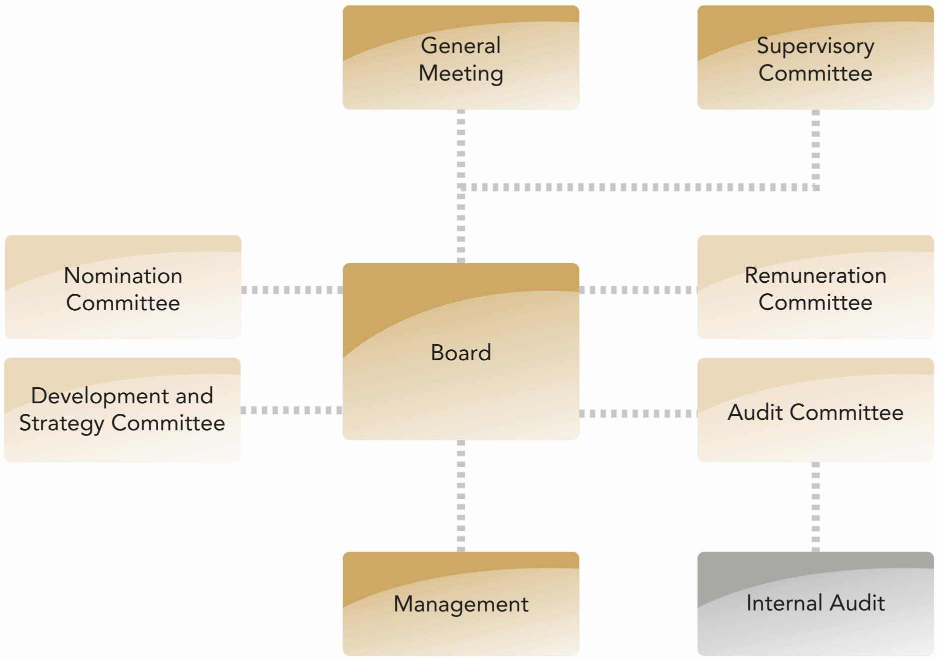
Chairman of the Supervisory Committee
Zheng Qiang

Beijing, 16 March 2018

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, the Terms of Reference of the Supervisory Committee, Working Guidelines for the Management, Terms of Reference of the Audit Committee, Terms of Reference of the Remuneration Committee, Terms of Reference of the Nomination Committee and the Rules on Information Disclosure, 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 2017 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 comprehensive recovery of global economy and complex and uncertain international political situation in 2017, 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 company operations 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 a series of forums on the hot topics and important issues relating to the business of the Company; the Company also invite Auditor to give systematic training to and communicate with Supervisors, management team and employees of the Company in respect of risk management and internal control.

– Compliance with laws and regulations: During this year, the Company established Confidentiality Management Rules on Information Disclosure and Investor Relations and Press Spokesman System (Trial), and amended the Articles of Association, Rules Governing the Operation of Shareholders General Meetings, Terms of Reference of the Board of Directors, Terms of Reference of the Supervisory Committee and Working Regulation for the Manager, and continued to improve the rules and regulations of the Company to assure the Company's operation in compliance with rules and regulations. In respect of risk management and internal control, the Company continued to review and appraise the underlying risks which may affect the realization of the Company's operation goals, so as to comprehensively improve the Company's risk management and internal control level.

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

CORPORATE GOVERNANCE CODE

During the reporting period, the Company strictly complied with various applicable laws, rules and regulations as well as the Articles of Association to standardize its operation. The Board reviewed the corporate governance practices adopted by the Company for the year ended 31 December 2017 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, except for the deviation that the Chairman of the Board was not able to attend the annual general meeting of the Company held on 18 May 2017 for healthy reason and Mr. Tan Ruisong, the vice chairman of the Board, attended and chaired the annual general meeting on his behalf and answered the questions raised at that meeting.

THE BOARD

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

DIRECTORS

As at the date of this report, the Board comprises nine Directors, including one executive Director, Mr. Lin Zuoming (Chairman), five non-executive Directors, namely, Mr. Tan Ruisong (Vice Chairman), Mr. Wu Xiandong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac, and three independent non-executive Directors, namely, Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai. 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 that the Board is aware of, the Company believes that each independent non-executive Director remains independent.

The Company adopts the formal procedures in 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 the skills, and the commitment of adequate time.

Each Director (including 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 and specialized committees under the Board are set out on pages 21 to 25 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, its 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 powers delegated to the chief executive officer 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 CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the chief executive officer have been clearly segregated to ensure a balance of power and authority. The current Chairman of the Company, Mr. Lin Zuoming, is responsible for leading the Board to ensure the effective operation of the Board. During the reporting period, the general manager, Mr. Qu Jingwen (resigned on 16 March 2018) and Mr. Chen Yuanxian (appointed on 16 March 2018), 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 chief executive officer. Meanwhile, duties reserved to the Chairman and those delegated to the management are also clearly set out in the Authorization System for Legal Person.

DIRECTORS TRAINING

Every newly appointed Director will receive relevant training based on his experience and background, to deepen his understanding of the culture and operation of the Group. The training generally consists of introduction for organization, businesses and governance of the Group. During the reporting period, the newly appointed non-executive Directors, Mr. Wu Xiandong, Mr. Li Yao and Mr. Patrick de Castelbajac had received training upon their respective appointment into the Board of the Company.

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 macro-economy environment 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, e.g. the disclosure requirements on Environmental, Social and Governance Report, and organizing workshops and discussions on such new rules in Hong Kong for the Board members, the company secretary and other relevant personnel participating in the daily operation and management of the Company.

In addition, the Directors also actively 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 governing the company according to the strategy of "Rule of Law", the internationalization of state-owned enterprises and "the Belt and Road" initiative, financial innovation and economic development, etc. The trainings received by each Director during the reporting period were as follows:

	Training Scope		
Directors	Corporate Governance	Laws and Regulations	Business Management
Executive Director			
Mr. Lin Zuoming	√	√	√
Non-executive Directors			
Mr. Tan Ruisong	√	√	√
Mr. Wu Xiandong	√	√	√
Mr. Li Yao	√	√	√
Mr. He Zhiping	√	√	√
Mr. Patrick de Castelbajac	√	√	√
Independent Non-executive Directors			
Mr. Lau Chung Man, Louis	√	√	√
Mr. Liu Renhuai	√	√	√
Mr. Yeung Chi Wai	√	√	√

BOARD MEETINGS

The Board convenes four scheduled meetings every year. Matters to be considered at these regular Board meetings have been provided in writing. Further, additional 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 company secretary assists the Chairman in preparing the agenda 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 of the Board or its specialized committees. 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 basis. This ensures that the Directors and specialized committee members are well-informed of the Company's latest development so that they may discharge their duties effectively.

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

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

The Board has established a Development and Strategy Committee, an Audit Committee, a Remuneration Committee and a Nomination Committee to ensure good corporate governance. Duties of these committees are set out in accordance with the principles of the Corporate Governance Code. Each committee reports directly to the Board. Minutes of committee meetings are kept by the company secretary. In 2017, the Company convened three meetings of the Audit Committee, two meetings of the Remuneration Committee and three meetings of the Nomination Committee. The terms of reference of the Audit committee, the Remuneration Committee and the Nomination Committee are published on the websites of the Company and the Stock Exchange.

Seven meetings were held by the Board during 2017. The attendance record of every Director at the Board meetings in 2017 is set out below:

Directors	Times of meeting should attend	Times of attendance	Times of attendance by proxy
Executive Director			
Mr. Lin Zuoming	7	3	4
Non-executive Directors			
Mr. Tan Ruisong	7	6	1
Mr. Wu Xiandong*	5	5	0
Mr. Li Yao*	5	4	1
Mr. He Zhiping	7	7	0
Mr. Patrick de Castelbajac*	5	3	2
Mr. Gu Huizhong*	2	2	0
Mr. Gao Jianshe*	2	1	1
Mr. Kiran Rao*	2	1	1
Independent Non-executive Directors			
Mr. Lau Chung Man, Louis	7	6	1
Mr. Liu Renhuai	7	5	2
Mr. Yeung Chi Wai	7	7	0

* At the annual general meeting of the Company convened on 18 May 2017, Mr. Wu Xiandong, Mr. Li Yao and Mr. Patrick de Castelbajac were appointed as the new non-executive Directors of the Company, and Mr. Gu Huizhong, Mr. Gao Jianshe and Mr. Kiran Rao ceased to be non-executive Directors of the Company.

In 2017, Directors who did not attend the Board meeting in person due to other business commitments all read the related documents of the meeting and appointed other Directors as proxy to present their opinion 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 Directors Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac. Mr. Lin Zuoming 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, analyse 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 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 2017 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 Directors Mr. Wu Xiandong, Mr. He Zhiping, Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai. Mr. Yeung Chi Wai is the chairman of the Remuneration Committee.

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

The Remuneration Committee is responsible for approving the emolument policies of the Directors, Supervisors and senior management staff and proposing to the Board amendments to the emolument policies and system. The Remuneration Committee will take into consideration factors such as work performance and experience of Directors and Supervisors when determining their remunerations and will report to the Board after each meeting. For the year ended 31 December 2017, the Remuneration Committee held two meetings to consider and approve the resolutions relating to the remuneration standard of Directors and senior management who were newly appointed in 2017.

For the year ended 31 December 2017, remunerations of senior management members by band are set out as follows:

Remuneration Band	Number
RMB400,000-450,000 (inclusive)	4
RMB450,000-500,000	2

Details of remunerations of Directors and Supervisors for the year ended 31 December 2017 are set out in Note 8 to the financial statements.

During the reporting period, the Remuneration Committee held two meetings and the attendance record of the meetings by members of the Remuneration Committee is as follows:

Name of Director	Position	Times of meetings should attend	Times of attendance	Times of attendance by Proxy
Mr. Yeung Chi Wai	Chairman of the Remuneration Committee, independent non-executive Director	2	2	0
Mr. Wu Xiandong	Non-executive Director	2	2	0
Mr. He Zhiping	Non-executive Director	2	2	0
Mr. Lau Chung Man, Louis	Independent non-executive Director	2	2	0
Mr. Liu Renhuai	Independent non-executive Director	2	0	2

AUDIT COMMITTEE

As at the date of the report, the Audit Committee of the Company comprises Directors Mr. Li Yao, Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai. Mr. Lau Chung Man, Louis is the chairman of the Audit Committee.

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

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

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

As at the date of this report, the Audit Committee comprises four members, namely, Mr. Lau Chung Man, Louis, Mr. Liu Renhuai, and Mr. Yeung Chi Wai who are independent non-executive Directors, and Mr. Li Yao who is a non-executive Director. Mr. Lau Chung Man, Louis is the chairman of the Audit Committee. Mr. Lau Chung Man, Louis and Mr. Li Yao have appropriate professional qualifications in accounting or related financial management expertise as required by the Hong Kong Listing Rules.

During 2017, the Audit Committee:

– reviewed the financial statements and the annual results announcement for the year ended 31 December 2016;

– reviewed the interim financial statements and relevant interim results announcement for the six months ended 30 June 2017;

– reviewed the Company's profit distribution plan for the year 2016 and the interim profit distribution plan for the year 2017;

– reviewed the proposal relating to the appointment of international and domestic auditors of the Company for the year 2017 and determination of their respective remunerations;

– reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2017, 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 2016 and the first half of 2017, the internal control report of the Company for the year 2016, and listened to the report from the external auditors on its audit work in relation to the year 2016 and on its review of 2017 interim report as well as its recommendations to the management of the Company.

The Audit Committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2017.

The Audit Committee held three meetings during 2017. The Audit Committee reviewed and evaluated the findings of the Auditor's Report issued by the external auditors, the accounting principles and standards applied by the Group and the risk management, internal control and the financial statements of the Company. The Audit Committee reported to the Board its scope of work, discussion results and recommendations after every meeting. The attendance record of the members of the committee is set out as follows:

Name of Director	Position	Times of meetings should attend	Times of attendance	Times of attendance by alternate director
Mr. Lau Chung Man, Louis	Chairman of the Audit Committee, Independent non-executive Director	3	3	0
Mr. Li Yao*	Non-executive Director	1	0	1
Mr. Liu Renhuai	Independent non-executive Director	3	3	0
Mr. Yeung Chi Wai	Independent non-executive Director	3	3	0
Mr. Gu Huizhong*	Non-executive Director	2	2	0

* On 18 May 2017, Mr. Li Yao was appointed as the new non-executive Director of the Company and the member of the audit committee of the Board, and Mr. Gu Huizhong ceased to be the member of the Audit Committee.

EXTERNAL AUDITORS

In 2017, the payment made to the Company's external auditors in relation to auditing services amounted to RMB2.57 million. Such payment had been approved by the Audit Committee, the Board and the general meeting. In addition, the Company's external auditors also provided non-auditing services to the Company in the year 2017 and the payment made by the Company to the non-auditing services amounted to RMB300,000.

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 101 to 103 of this annual report.

NOMINATION COMMITTEE

The Nomination Committee of the Company comprises Directors Mr. Lin Zuoming, Mr. Wu Xiandong, Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai. Mr. Lin Zuoming 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.

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

– 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;

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

As at the date of this report, the Nomination Committee comprises five members including Mr. Lin Zuoming, Chairman of the Board, non-executive Director Mr. Gu Huizhong, and independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai. Mr. Lin Zuoming acts as the chairman of the Nomination Committee. During the reporting period, members of the Nomination Committee had carefully studied the nomination standards and procedures for the Directors and senior management of the Company.

The Nomination Committee held three meetings in 2017. The Nomination Committee discussed the composition and size of the board and professional committees, approved resolutions relating to change of Directors and resolutions adjusting 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. Lin Zuoming	Chairman of the Nomination Committee, executive Director	3	3	0
Mr. Lau Chung Man, Louis	Independent non-executive Director	3	3	0
Mr. Liu Renhuai	Independent non-executive Director	3	3	0
Mr. Yeung Chi Wai	Independent non-executive Director	3	3	0
Mr. Gao Jianshe*	Non-executive Director	3	3	0

* On 18 May 2017, Mr. Wu Xiandong was appointed as the new non-executive Director of the Company, a member of the remuneration committee and the nomination committee of the Board, and Mr. Gao Jianshe ceased to be a non-executive Director of the Company and a member of the remuneration committee and the nomination committee of the Board.

COMPANY SECRETARY

As been 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 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 2017 have been disclosed in the Report of the Board of this annual report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Hong Kong Listing Rules and the Shares Trading Management Rules as its own guidelines for securities transactions by Directors, Supervisors and employees of the Company. The Shares Trading Management Rules of the Company is stricter than the Model Code in a certain degree. All Directors and Supervisors have been provided with a copy of the Model Code and the Shares Trading Management Rules upon appointments. Prior to the announcement of the annual or interim results of the Company, 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 2017 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 2017.

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 2017, the Directors have:

– selected appropriate accounting policies and applied them consistently;

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

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

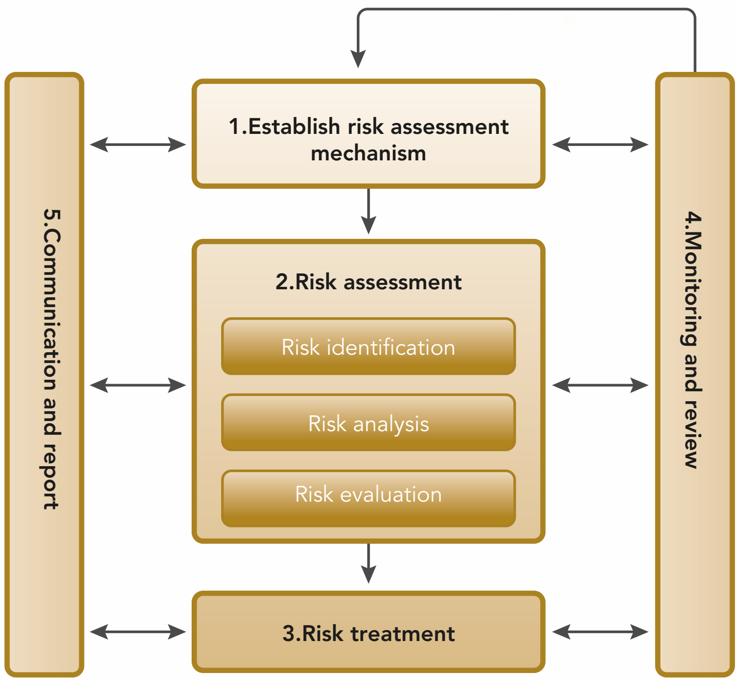
In accordance with the requirements of the Hong Kong Listing Rules, the Company has timely announced its annual and interim results within three and two months respectively after the end of the relevant financial periods.

INTERNAL CONTROL

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

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

The Group has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective subsidiaries of the Company review and assess the status of potential risks which may impact on their ability to achieve their business objectives, and determine the nature and extent of such risks they are willing to take in achieving their business objectives. The Group adopts the relevant risk management principles in China as its approach to manage its business and operational risks and monitor its internal control. The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:



Notes:

1 Set up the risk assessment mechanism of the Group;

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

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

4 Each subsidiary monitors the risk mitigating measures;

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

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

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

In 2017, the major subsidiaries of the Company issued internal control evaluation reports after evaluating the effectiveness of their own internal control in accordance with the provisions and requirements of The Basic Standard for Enterprise Internal Control of the PRC and its supporting guidelines, and appointed accounting firms to conduct independent audit on their internal control in 2017. 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 department responsible for internal control and audit evaluated the risk management and internal control of the Group as a whole and reported the evaluation conclusions to the Audit Committee and the Board. The Board reviewed through the Audit Committee the effectiveness of the risk management and internal control system of the Group for the year ended on 31 December 2017, including all the significant financial, operational and regulatory control and risk management functions, and was satisfied that such system was effective and sufficient. The Audit Committee also reviewed and was satisfied with the sufficiency of resources and the qualifications and experience of the employees for performing the Group's accounting and financial reporting functions, the adequacy of the employee training courses and the relevant budget. 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 fifth session of the Supervisory Committee was established in 2015, comprising two shareholder representative Supervisors (Mr. Zheng Qiang and Mr. Liu Fumin) and one employee representative Supervisor (Ms. Li Jing). In 2017, the Supervisory Committee held four meetings and considered and approved eleven resolutions. It supervised, on behalf of shareholders of the Company, the financial position of the Group, the legality and compliance of the performance of duties by the Directors and senior management of the Company, attended the Board meetings and general meetings and fulfilled its duties diligently.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

GENERAL MEETING

The general meeting is the supreme authority of the Company. It performs its functions according to law 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 2017, the Company convened one annual general meeting and one extraordinary general meeting, at which seventeen 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. Lin Zuoming	2	0
Mr. Tan Ruisong	2	1
Mr. Wu Xiandong	2	2
Mr. Li Yao	2	2
Mr. He Zhiping	2	2
Mr. Patrick de Castelbajac	2	1
Mr. Lau Chung Man, Louis	2	1
Mr. Liu Renhuai	2	0
Mr. Yeung Chi Wai	2	2

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 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 despatch 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
Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the PRC
Telephone: 86-10-58354309
Facsimile: 86-10-58354300/10
E-mail Address: avichina@avichina.com

ARTICLES OF ASSOCIATION

For the year 2017, the Company revised certain articles of the Articles of Association of the Company pursuant to relevant provisions of PRC regulatory authorities and current situation of the Company. For details of the revision of the Articles of Associations, please refer to announcements of the Company dated 30 August 2017 and 20 December 2017.

The amended Articles of Association is set out on the website of the Company and the Stock Exchange on 20 December 2017.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

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

The Company has assigned specific employees to assume the role of investor relations management. During the reporting period, due to the change of information disclosure methods required by the 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 Chinese and English websites 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 websites.

The Company also emphasized the mutual communication with its investors. During 2017, the requirements of the Company maintained continuous dialogues and communications with shareholders pursuant to the Corporate Governance Code. A specific department of the Company is in charge of the communication with shareholders, investors and other participants of the capital market. Through communications with the capital market, shareholders and investors are able to timely and fully understand the operations and development plans of the Company and 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.

Environmental, Social & Governance Report

The Group has published the Environmental, Social & Governance (ESG) report since 2017. This report is the second ESG report published by the Group, which was approved by the Board and included in the Group's annual report. The report covers the Group's ESG performance for the period from 1 January 2017 to 31 December 2017, part of which exceeds the scope. The report follows the provisions regarding "comply or explain" and "recommended disclosures" of the Environmental, Social and Governance Reporting Guidelines of the 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 records of the Group and relevant statistics.

The Group has been always insisting on the corporate mission of patriotic spirit, adhering to the concept of "Dedication, Integrity, Innovation and Transcendence", strictly complying with various regulatory laws, regulations and the Articles of Association and operating in a good faith and compliant manner. It vigorously pushes forward innovation breakthrough in the frontiers of the new generation aviation industry to enhance the overall competitiveness of the aviation industry chain. It adheres to the concept for developing green aviation, and minimises environmental impacts. It regards employees as the source of the Company's development and provides employees with broad platform and development space. It is committed to, via industrialisation development, giving back society, serving local economic construction and working hand in hand with the government, shareholders, customers and partners to achieve the sustainable development of people, environment and society as a whole.

1. RESPONSIBLE MANAGEMENT

1.1 Communication with Stakeholders

The Group attaches great importance to the expectations and requirements of stakeholders and regards the stakeholders' communication and response as an important part of our responsibility management. In light of the past review on historical responsibility and the judgment of current international and domestic situations, the Group has established an effective communication mechanism with stakeholders, and built a harmonious and trustful partnership with a total of six stakeholders including governmental and regulatory bodies, shareholders, customers and partners, environment, employees, community and the public to disseminate the Group's concept of social responsibility and practice and proactively listen to and respond to the expectations and requirements of stakeholders.

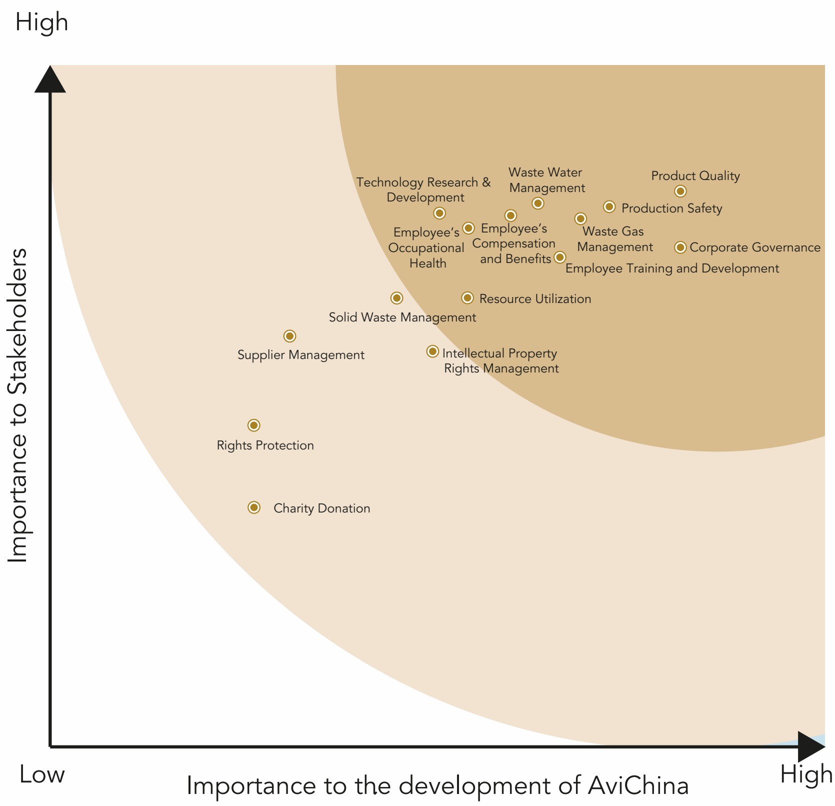
Stakeholders	Expectations and Requirements	Communication and Response Methods
Governmental and Regulatory Bodies	To implement national policies and laws and regulations To promote local economic development To drive local employment To advance industrial development	Submission of documents Advice and suggestions Special report Negotiation and cooperation
Shareholders	Returns on investment Compliant operation Production safety	Company announcements Special reports On-site investigations
Customers and Partners	To perform contracts according to law Integrity-based operation High quality products and services	Business communications Customer feedbacks Exchanges and seminars
Environment	Compliant emissions To conserve energy and reduce emissions To protect ecological systems	Working conferences Report submissions Investigations and inspections
Employees	Rights and interests maintenance Occupational health Compensation and benefits Career development	Workers congress Collective bargaining Democratic communication platform
Community and the Public	To improve the community environment To participate in public welfare undertakings To provide transparent information	Company websites Company announcements Interviews and communications

1.2 Materiality of Sustainable Development

The Group, on the basis of the requirements of the *Environmental, Social and Governance Reporting Guidelines* of the Stock Exchange, and with reference to *Guidelines for Sustainable Development Report* of Global Reporting Initiative, identifies sustainable development issues related to the Group and prepares the report based on the determination results of major issues so as to respond to the reasonable expectations and demands of stakeholders and prepare a more targeted and responsive report.

In 2017, the Group conducted an anonymous survey to gain a broad understanding of the cognition and judgment on the Group's social responsibility from stakeholders including investors, employees, customers, suppliers, government and media. Considering the situation of peers, the Group formed the materiality matrix of the current year, which were used as a basis for the disclosure of the contents of this report.

Environmental, Social and Governance Issues Screening Process
Source of Issues
– Recommendations from management
– Analysis and suggestions by internal and external experts
– Media information analysis
– Domestic and international benchmarking studies
– Standard guidelines for social responsibility
Screening Standards
– Contribution to sustainable development
– Common concerns of stakeholders
– Social responsibility related guideline highlights
– In line with the needs of the Company's strategic development
Substantive Judgment Result



2 SUSTAINABLE OPERATION

As China economy entered into a new stage of transformation and upgrade, the Group's development also lifted up to a new beginning. The basic policies of adhering to "innovation-driven, quality first, green development, structural optimisation and talent-oriented" of "Made in China 2025" issued by the State Council made a higher requirement to the innovation and development and structural reform in the manufacturing industry. The national "the Belt and Road" Initiative gave clear directions and brought opportunities for all industries and will also lead the aviation industry to a new round of development.

The Group adheres to the strategy of civil-military integration development, regards the research and development, production and service of aviation products as its foundation to build up a platform of aviation high-tech industry and related industry and a platform of aviation industry international financing, merger and acquisition. It actively promotes the rapid development of aviation products, narrows the gap between China and the world aviation power and make contribution to the modernisation construction of national defense and national economic development.

2.1 The Whole Process Product Quality Management

Aviation product quality is the central development theme for aviation enterprises. It is not only related to the national strategy of strengthening the army with science and technology, but also closely linked to the lives and safety of pilots and passengers. The Group's subsidiaries at all levels have established quality management systems that provides quality decision-making, quality policies, quality objectives, organizational structure and duties to process management, process requirements and methods, and stipulates on design, production, testing, monitoring and after sales service processes and requirements to protect and improve product quality.

Changhe Aviation– Establishment of rewards and punishment system and implementation of quality responsibility

In 2017, Changhe Aviation established the Quality Rewards and Punishment Committee to prepare the *Rules for the Implementation of Quality Rewards and Punishment* and *the Measures for the Administration of Quality Progress Award*, and set a quality progress award of RMB5 million every year to evaluate the quality management performance of each workshop on a quarterly basis. Quality progress award will be granted to the united achieved good (overall score> 80%) in the evaluation results, and punishment will be given to the units and individuals who violate the quality procedures to strengthen the quality awareness of leading cadres and staff and implement the quality responsibility.

Shanghai Aviation Electric– Improvement of quality rules and regulations

In 2017, in order to respond to the comprehensive implementation of the requirements for the comprehensive upgrading of aviation equipment quality of AVIC Group and to ensure the integrity, applicability and effectiveness of the Company's quality system, Shanghai Aviation Electric improved its existing quality rules and regulations and organized the revision of 14 procedure documents and 57 related enterprise standards such as *Quality Manual* of GJB, *Product Design and Development Control Procedures* and *Control Procedures for Production and Service Provision.*

AVIC Huiyang– Improving actual quality of products by QC quality control tools

Starting from the actual effect of product quality improvement process, AVIC Huiyang used QC quality management tools to enhance the actual quality of military products. In 2017, 1 QC results of AVIC Huiyang won AVIC Outstanding QC Team Award, 2 QC results won the First Prize of Military System Science and Technology Quality Results of Hebei Province, and 2 QC results won the title of Outstanding QC Team of Hebei Province.

2.2 Research & Development and Innovation

Innovation-driven is the core of the national development strategy and of particular importance to the aviation industry. Aviation science and technology is a high-tech industry and has always been at the forefront of science and technology. After a breakthrough is made in aviation science and technology and transformed into a product, it will radiate to civilian field and promote the development in other fields. The Group adheres to the business concept of "Innovation and Transcendence" and closely follows the implementation of the "Made in China 2025" strategy. It insists on innovation-driven development and independently innovates aviation products to bring a qualitative leap for the force building of the air force and make contributions to protect the motherland's sea and air. The Group insists on civil-military integration, focuses on the civil aviation industry, uses high-tech aviation to develop civilian products, serves the national economic construction and improvement of people's livelihood, and drives the innovation and development of related industries such as new materials, electronics, communications, energy and precision manufacturing.

2.2.1 Technology Research & Development

Over the years, the Group has established scientific research team consisting of academic and national-level experts and has established a number of national key laboratories, major scientific research and test facilities in first-class of Asia and the international advanced level and national-level enterprise technology centres to enhance the independent innovation capability of the Group. In 2017, the Group continued to encourage innovation in science and technology, strengthened technology research and development, enhanced scientific research capabilities, and made great achievements in scientific research projects, scientific research results and awards.

Selected Major Projects and Results in 2017	
Hongdu Aviation	• Through focusing on the Company's future models and combining with the development requirements for aviation industry's intelligent manufacturing, it carried out applied technology research on professional directions such as the design, aviation manufacturing and information of research and pre-research models. • It applied 4 projects, namely special projects for new model of intelligent manufacturing of the Ministry of Industry and Information Technology of the People's Republic of China, major projects of domestic high-end CNC machine tools and basic manufacturing equipment, major projects in Jiangxi Province and national defense basic research, and obtained the state related subsidies of more than RMB20 million.
JONHON Optronic	• Connectors and cables were successfully applied in China's first domestic aircraft carrier, "Renaissance" of CEMU, China's self-developed amphibious aircraft of large-scale fire fighting/water rescue- AG600 aircraft and other national high-end equipment. • "Large-scale car-based remote measurement and control photoelectric conversion device (大型車載遠程測發控光電變換裝置)" won the first prize of 2017 Science and Technology Progress Award of AVIC Group.
AVIC Planning	• It won 68 significant awards in the sectors of science and technology, survey and design, engineering consultation, etc., including 9 "the Industry Award of National Outstanding Engineering Survey and Design", 1 "Bronze Key Award of the 8th Outstanding General Contracting of National Engineering Survey and Design Industry", 3 " China Architectural Design Award", 3 " Beijing Outstanding Engineering Consulting Award", 1 "Outstanding Engineering Survey and Design Award in Guizhou Province", 4 "Outstanding Industrial Architecture Design Award of Architectural Society of China", 1 "Impact Evaluation Outstanding Environmental Impact Assessment Report of China Association of Environmental Protection Industry (中國環境保護 業協會影響評價行分優秀環境影響報告書)", 5 "Science and Technology Award of Aviation Industry Corporation", 22 comprehensive awards and 19 professional awards of "Aviation Industry Outstanding Engineering Survey and Design Award".

Qianshan Avionics- Building of a technology innovation model

In order to support and encourage technology innovation, Qianshan Avionics built an evolutionary technology innovation model of "researching and developing for a generation, pre-researching for a generation and exploring for a generation", and carried out technology innovation from the aspects of new technology, new specialty, new field and new market. Through deepening the existing specialized fields, making breakthroughs in new specialized fields and enlarging new markets, it formed a number of innovative results that offer a huge support to the development of the enterprise. New products identified in the past three years accounted for 27% of the total revenue of Qianshan Avionics.

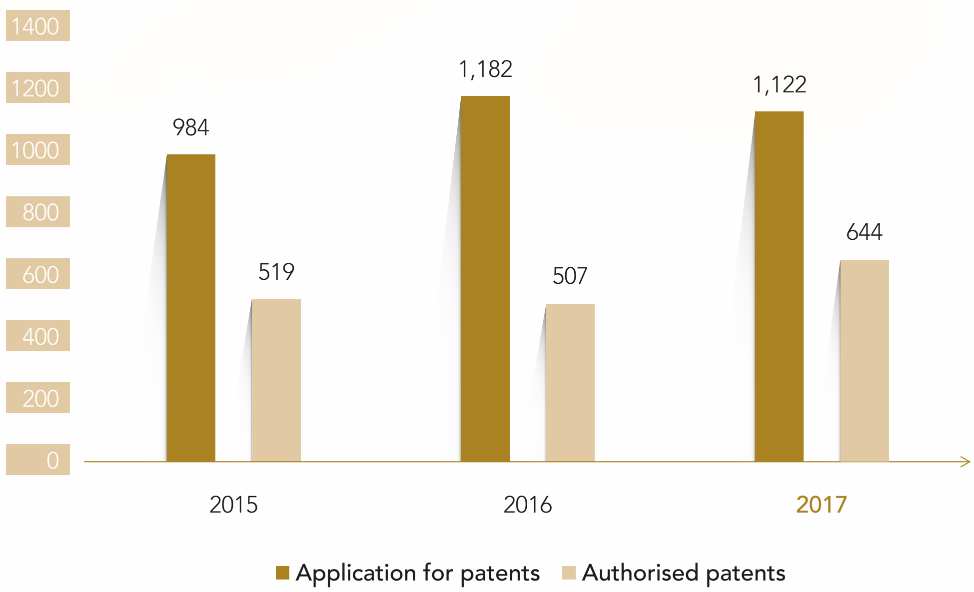
AVIC Lanfei- Actively participate in the construction of civil-military integration development, and promote the development of local industries

AVIC Lanfei fully implemented the strategy of civil-military integration development and proactively participated in the construction of civil-military integration development. AVIC Lanfei together with all levels of government in Gansu Province and the competent departments to communicate and coordinate the joint building of civil-military integration development environment for playing the catalytic roles in fields such as planning of aviation industry park, development of the robot industry and promotion of new materials by their own advantages. In addition, in order to promote the local economic development of military technology services, encourage scientific research institutes to participate in the scientific research and production of weapons and equipment and promote the two-way transfer and transformation of military and civilian technical results, AVIC Lanfei and Lanzhou Jiaotong University jointly established a consortium cooperative innovation center – "Civil-military Integration Cooperative Innovation Center of Intelligent Electric Servo Control System in Gansu Province", which was engaged in new products, new process, new technology, new material research and development and transformation application in civil-military integration sector. In the future, the cooperative innovation center will promote the synergetic development of relevant local industries through various projects so as to promote economic growth and raise the standard of innovation.

2.2.2 Intellectual Property Rights Management

As a company focusing on technical research and development and encouraging independent innovation, the Group attaches great importance to the protection of intellectual property rights. Subsidiaries at all levels formulated their own *Management Regulations of Intellectual Property Rights Protection*, *Patent Management Methods* and other related systems to standardise the management of intellectual property rights and innovation results.

Number of the Group's Patents in the Last Three Years



Keeven Instrument- Achieving results in intellectual property rights quality improvement and transformation application projects

In 2017, Keeven Instrument further promoted the intellectual property rights quality improvement and transformation application projects, strengthened the protection of intellectual property rights of the Company's core technology, promoted the in-depth development of intellectual property rights, and enhanced the Company's overall intellectual property competitive advantage to support the innovation and transformation of AVIC. In 2017, Keeven Instrument newly applied for 7 patents, 5 invention patents, granted 7 patents, obtained 14 company-level scientific and technological results, and effectively improved its technological innovation capability and intellectual property quality.

2.3 Production Safety

Safety is the central development theme for aviation enterprises. Problems in any part from production, manufacturing, operation and utilization of equipment to all kinds of security may lead to the accident. The Group's subsidiaries at all levels established a safety management system to formulate and continuously improve the safety management system, strengthen safety risk control and troubleshoot and govern hidden hazards, focus on emergency management to prevent accidents from moving forward, prevent major accidents and resolutely prevent major accidents. In 2017, there were no major safety accidents in the Group's subsidiaries at all levels.

2.3.1 Establishing Safety Management Architecture

The Group has established a production safety management responsibility system employing administrative leaders as the first responsible persons to fully responsible for the production safety work of the Group. The Group's subsidiaries at all levels have established production safety committees and production safety management departments, and have hired full-time technology safety personnel. The Group's grass-roots units have set up a "Production Safety Leading Team" which consists of both full-time and part-time technology safety personnel.

Relying on the laws and regulations and the relevant standards and regulations, the Group's subsidiaries at all levels constantly improved the *Production Safety Responsibility System*, *On-site production Safety Management System*, *Safety Inspection and Troubleshooting Hidden Hazards of Accidents System*, *Equipment and Facilities Safety Management System*, *Special Operators Safety Management System* and other management systems, continued to promote production safety standardization.

2.3.2 Production Safety Education

The safety of production cannot be separated from employees, only by strengthening safety education and training, strengthening employee'' safety awareness and precaution awareness, and building a solid defense line of production safety idea can safety management level be fundamentally improved, hidden hazards in production safety eliminated and accidents prevented. The Group's subsidiaries at all levels regarded production safety education as an important part of their safety management. They carried out safety education and training at three levels (company, department and team) for new employees, explaining safety technology for all employees and analyzing typical production safety accidents, post-safety operating procedures and other safety training to improve the sense of responsibility and consciousness on safety works of all employees and enhance safety awareness and self-protection of all employees.

Hongdu Aviation- Organization of "power liaison officer" and "power blackout and transmission personnel" training class

In 2017, Hongdu Aviation organized "power liaison officer" and "power blackout and transmission personnel" training class to explained in detail to the relevant managers and operators about "how to handle *Application Form for Power Usage, Application Form for Power Blackout and Transmission"* and other practical operations and management requirements, in combination with the actual operation of the power in the old factory and aerotropolis and the management duties of each employing unit, to ensure the safe and reliable operation of the Company's power facilities.

2.3.3 Strengthening Troubleshooting and Governance of Hidden Hazards

The Group's subsidiaries at all levels established a long-term mechanism for troubleshooting and governing hidden hazards in production safety accidents, formulated management systems such as the *Measures for Troubleshooting and Correcting Hidden Hazards in Production Safety Accidents* and *Measures for Administration of Troubleshooting and Governing Hidden Hazards*, and identified hazard sources and danger points. They also conducted troubleshooting and governing hidden hazards at the production site, prepared rectification plans for the identified safety hazards, continuously supervised rectification, reported the rectification progress to prevent and contain the occurrence of major accidents.

2.3.4 Strengthening Emergency Management

The Group adhered to take prevention as priority. According to the *Emergency Plan for AVIC's Industrial Production Safety Accidents* and in light of their actual conditions, subsidiaries at all levels continued to revise and improve their emergency management methods and emergency plans such as *Emergency Plan Management Procedures*, *Accidents Emergency Rescue Management System*, *Emergency Plan for Hazardous Chemical Accidents* and *Emergency Rescue Plan for Hazardous Wastes Accidents*. The Group's subsidiaries at all levels set up a three-level emergency management system, improved the emergency rescue mechanism, carried out emergency drill and improved the ability and efficiency in coping with emergencies.

2.4 Client Service

The Group focused on its customers. According to the relevant laws and regulations of the State and in light of the actual conditions of the Company, subsidiaries at all levels developed management measures including *Customer Management Control Procedures*, *Information Security Management Procedures*, *Measures for Administration of Business Secrets of Civilian Products and International Markets Department* and "Management Rules on Company's Operation Secrets " to prevent the illegal use, disclosure and sale of customer information and privacy practices, and protect customer information and privacy security. In addition, the Group and its subsidiaries at all levels proactively analyzed client needs, meet client expectations, and continue to maintain and enhance client service quality.

Shaanxi Baocheng- Establishment of special after-sales service team and product maintenance department to improve after-sales service quality

In order to further improve the Company's quality assurance capability, Shaanxi Baocheng established a special after-sales service team and professional product maintenance department in 2017 to speed up product maintenance and ensure the timeliness and effectiveness of after-sales service. In addition, Shaanxi Baocheng built a routing inspection and maintenance team with special equipment and facilities to carry out troubleshooting, isolation, maintenance and repair on the client site to effectively reduce flight risks and improve the passing rate of products, which were praised and recognized by clients.

JONHON Optronic- Building a basic security team to ensure the success of the first flight of C919

On 5 May 2017, the homemade large aircraft C919 made its first flight. The Company provided nine sets of electronic equipment racks for it to lead aviation industries in numerous aspects. The 24-member technical support team established by the Company is involved in the design, installation and experiments of all stages of the aircraft. It was responsible for the laying of electrical wiring interconnection system in passenger cabin, the termination of the installation box and the construction of electrical wiring interconnection system of the "Three Poultries (三鳥)" experimental platform on the ground, and guaranteeing the success of first flight by the excellent performance of "Zero Accident".

2.5 Supply Chain Management

The Group is committed to establishing a stable partnership with the suppliers. In the process of the Company's development, it played a leading role in the industry, propelled suppliers to improve product quality, integrity performance capabilities, social responsibility management capabilities and performance to promote the sustainable development of suppliers.

The Group's subsidiaries at all levels developed relevant systems such as the *Supplier Management Measures* and *Supplier Management Procedures* and regulated the management of supplier selection, access, assessment and evaluation. The Group's subsidiaries at all levels evaluated suppliers' quality, delivery, price and service, and provided feedback on evaluation results and proposed improvement requirements to suppliers. While ensuring the stability of raw materials, the Group also enhanced the management capacity of suppliers.

Harbin Aviation- Guidance on the construction of quality system for outsourcer to achieve effective integration of military economy and regional economy

Harbin Aviation actively utilized the technical resources of private enterprises to participate in military scientific research and production, outsourced the production of some parts and tooling, guided its suppliers in processing standards and qualification acquisitions to enhance suppliers' management capabilities. In terms of aircraft parts production, Harbin Aviation adopted the approach of supporting and incorporating to develop from application guidance on technical support, equipment selection and process method to the guidance on construction of outsourcer's quality system, to develop from the simple production and inspection process to the construction of ISO9000 and GJB9001 standard system to achieve an effective integration of military economy and regional economy.

3 ENVIRONMENTAL PROTECTION

The Group always adheres to the idea of efficient, clean, low-carbon and green development. It actively responds to the promotion of green development by the government, implements a strict ecological environment protection system, and builds a call for resource conservation and environmentally friendly production methods. Relying on its own technology and products advantages, it continues to promote the comprehensive and sustainable development of clean production and green operations. In 2017, the Group continued to improve its environmental management mechanism, strengthened its environmental risk management and control capabilities, implemented energy-saving, emission-reduction and environmentally friendly production methods, and committed to achieving synergy and win-win scenario in economic development and environmental protection.

3.1 Improving Environmental Management Mechanism

The Group strictly abides by all kinds of policies related to environmental protection of the state and strictly implements a system in which new projects, reconstruction projects and expansion projects can be designed, constructed and put into use simultaneously with its main work, as well as an environmental impact assessment system. It has established a sound environmental management mechanism, each subsidiary has established an environmental management department to ensure the implementation of environmental protection funds, specify environmental management objectives, implement environmental management responsibilities at all levels, supervise and implement environmental performance assessments to ensure the smooth progress of environmental protection work.

The Group has been fully engaged in promoting the creation of the "Green Aviation Industry" and by the end of 2017, some of our subsidiaries have obtained the basic qualifications of "Green Aviation Industry Enterprises. The subsidiaries of the Group actively carried out the certification of environmental management system. As at the end of 2017, most of the manufacturing enterprises of the Group had passed the certification of ISO 14001 environmental management system.

3.2 Reducing Pollutant Emissions

The Group has always insisted on exploring clean production processes, and each subsidiary strictly controls the emissions of pollutants through technological transformation and equipment replacement, monitoring the standards of pollutant emissions and optimizing the treatment thereof to fully meet the national and regional pollutant emission standards and minimise environmental impacts.

3.2.1 Reducing Waste Gas Emissions

Each production company of the Group continuously improves the waste gas treatment process and technology. In 2017, Changfeng Avionics officially operated the photocatalytic waste gas treatment facilities and activated carbon waste gas treatment facilities, effectively reduced VOCs emissions from painting and spray workshops. AVIC Lanfei conducted a technical transformation on the ventilation system of the surface treatment production line, installed 2 sets of acid mist purification towers and 1 set of chromium mist purification tower, which reduced the average annual emissions of chromic acid mist, sulfuric acid mist and hydrogen chloride by approximately 1.6 kg, 102 kg and 418 kg, respectively.

In addition, some subsidiaries actively respond to low-carbon transportation. Changhe Aviation purchased green low-carbon transportation tools such as electric tricycles, electric stacking trucks, electric loading and unloading vehicles, electric shuttle bus, and shared bicycles to replace traditional oil-driven parts and components transportation tools, thereby reducing atmospheric pollution caused by exhaust emissions.

The Group's waste gas emissions in 2017

Total waste gas emissions (ten thousand standard cubic meters)	1,130,572
Sulfur dioxide emissions (tons)	145
Nitrogen oxide emissions (tons)	239
Total soot emissions (tons)	179

3.2.2 Waste Water Treatment

Each of the Group's subsidiaries, in accordance with the relevant governmental requirements, has conducted professional treatment and discharge in compliance with standards to the production waste water and the domestic sewage. They also reduced waste water discharges through measures such as recycling of sewage and secondary utilization. In 2017, the total waste water discharged by the Group was approximately 3,792,738 tons, and the total COD emission was approximately 281 tons.

Tianjin Aviation- Effectively solves the problem of sewage discharge through improvement of sewage treatment system

In 2017, to further improve the sewage treatment efficiency and effectiveness in the workshop, Tianjin Aviation renovated and optimized the heat meter workshop and outlets facilities. According to the actual production of heat meter workshop, the chromium-containing waste water, nickel-containing waste water, cyanide-containing waste water, integrated waste water were dosing, respectively. Sampling and testing of heavy metal contaminants before the discharge of electroplating waste water into the Company's pipe network. After reaching the treatment standard, it can be discharged into the Company's pipe network. It also fully renovated the outlets facilities of Dongmen (東門) to ensure the waste water meet the discharge standards.

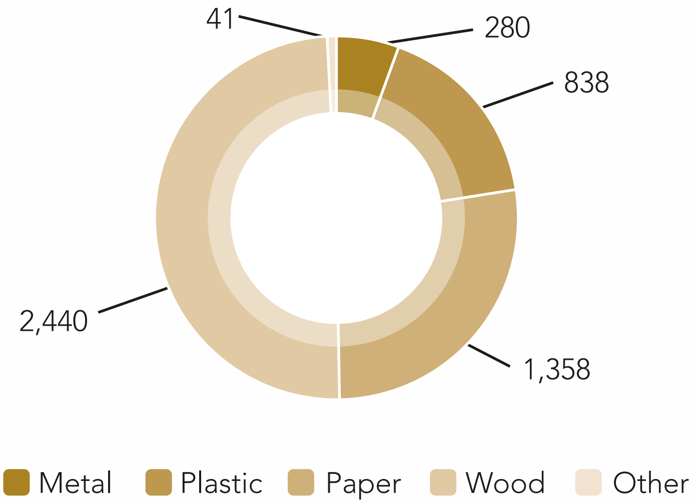
3.2.3 Solid Waste Disposal

The Group classifies and collects general industrial solid wastes produced in the course of production operations according to the categories of recyclable and non-recyclable. The scrap iron and copper fillings generated in the machining process are recycled for sales, while domestic sewage is disposed of by the sanitation department. In this year, the total general industrial solid wastes produced by the Group was approximately 12,206 tons, and the general industrial solid wastes produced for per RMB10,000 revenue was 3.7 kg/RMB10,000.

The Group continued to improve the standardized management of hazardous wastes and standardized management of the entire process of collection, transfer and disposal of hazardous wastes. Centralized storage of hazardous wastes shall be strictly separated from general industrial solid waste, and entrusted qualified units to handle, and completed the transfer table as required. In 2017, the total hazardous wastes generated by the Group was approximately 1,895 tons, and the hazardous wastes generated for per RMB10,000 revenue was 0.58kg/RMB10,000.

The Group places great emphasis on the recycling of packaging materials in order to reduce the cost of packaging materials and reduce the generation of waste. The packaging materials used in finished products of various production enterprises mainly include metal (aluminum alloy packaging boxes and steel plates), plastic (plastic sheets, ziplock bags and PE plates), composite materials (plywood and calp box), paper (pulp board and cartons) wood (wood, wooden crates) and other packaging materials. Changfeng Avionics organized relevant departments to recycle crates and packaging materials. In 2017, it recycled approximately 780 crates of products sent back for repair from the outside, saving costs of approximately RMB200,000.

Group's Use of packaging Materials in 2017 (tons)



3.2.4 Noise Control

The Group's subsidiaries have taken measures to control factory noise pollution and reduce the impact on the surrounding environment and residents by reducing mechanical vibrations, reducing traffic noise in factory area, improving greening and others. We entrust qualified monitoring agencies to evaluate our factory boundary noise pollution once every quarter. The factory boundary noise of all factory areas meets the requirements of the *Emission Standard for Industrial Enterprise Noise at Factory Boundaries*.

3.3 Saving Resource and Energy

Through source control, saves raw materials, reduces energy consumption, optimises production, improves production technology and upgrades equipment, the Group constantly enhanced the utilization efficiency of resource and energy. In 2017, the Group's comprehensive energy consumption was 104,000 tons of standard coal, the comprehensive energy consumption for per RMB10,000 revenue was 32 kg of standard coal/RMB10,000, the equivalent of carbon dioxide emissions was 503,000 tons, and the equivalent of carbon dioxide emissions for per RMB10,000 revenue was 0.15 tons/RMB10,000.

The Group's Energy consumption in 2017

Coal consumption (tons)	49,371
Gasoline consumption (tons)	889
Kerosene consumption (tons)	4,173
Diesel consumption (tons)	240
Natural gas consumption (ten thousand standard cubic meters)	1,379
Electricity consumption (ten thousand kWh)	31,004

AVIC Kaitian- Significant achievements in energy conservation work

In 2017, AVIC Kaitian replaced all the lighting in the factory, such as fluorescent tube, corridor lamps and workshop mining lamps with LED energy-saving lamps. It also eliminated 102 equipment with outdated capacity and high energy consumption and newly purchased 150 energy-saving equipment. Through cleaning up and removing excess pipelines, adjusting the kinetic energy configuration in the two plants to improve the energy utilization efficiency. It strengthened the operation and management on central air conditioning and split-type air-conditioning, strictly implemented air-conditioning temperature control standards. During the year, the comprehensive energy consumption per RMB10,000 output value was 0.008 tons of standard coal/RMB10,000.

In addition, all subsidiaries actively adopted recycling to reduce water consumption. All central air-conditioning, laboratory equipment, welding equipment and heat treatment of AVIC Kaitian used the recycled water, the annual water reuse of approximately 1.53 million tons. Shaanxi Baocheng used circulating water system on all heat treatment equipment with larger water consumption in the course of production processes, collected and used the boiler condensate. Changfeng Avionics established a complete rainwater collection system at the landscape water body within the plant area. The collected rainwater was processed into the landscape water system upon treatment and becomes a green landscape. In the year, the Group' total water consumption was 6,726,212 tons, the water consumption for per RMB10,000 revenue was 2.1 tons/RMB10,000.

The Group proactively carried out energy-saving publicity, strengthened staff awareness of energy conservation and encouraged employees to integrate saving into their daily work and life.

Harbin Aviation- Energy Saving Publicity

In 2017, in virtue of special periods such as "World Water Day", "China Water Week", "National Energy Saving Publicity Week" and "National Low Carbon Day", Harbin Aviation comprehensively implemented water conservation publicity work through issuing special and issuing documents on Wechat platforms, carrying out special training on energy conservation and knowledge quiz and other activities and methods to effectively enhance the awareness of environmental protection and ideas of all staff.

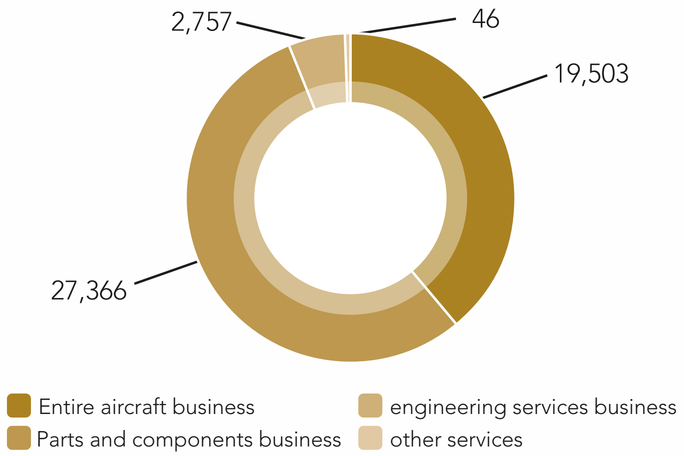
4 EMPLOYEE DEVELOPMENT

Our employees are the foundation of our company. The Group adheres to the concept of "people-oriented", actively protects employees' basic rights and interests, conducts diversified training to ensure the employees' health and safety, and strives to creating a healthy, safe, open and equal working environment for employees.

4.1 Recruitment and Employment

The Group strictly follows the *Labour Law*, *Labour Contract Law*, *Law on the Protection of Rights and Interests of Women* and relevant laws and regulations. It adheres to an open, fair, and equal employment policy, clarifies the recruitment management process, eliminates discrimination in terms of gender, race, religion and age, and prohibits the use of child labor and forced labor during the recruitment process to realise equal pay for equal work as well as gender equality. As at the end of 2017, the total number of employees was 49,672, of which, the employees of aviation business (including entire aircraft business, parts and components business and engineering services business) was 49,626 in total, accounted for approximately 99.91%.

Number of Employees by Business



4.2 Development and Training

With clear career development paths and abundant training opportunities, the Group actively develops a sound career development environment and provides employees with a broad development platform. It is committed to driving the development and upgrading of enterprise by enhancing the staff's capacities.

4.2.1 Establishing a multi-level employee training system

The Group followed the core works of the Company and built a multi-level employee training system to further enhance the employees' capacities in innovation and change and provide talent support for the Company's transformation and upgrading.

The Group improved the main management system for employee education and training, formulated long-term plans and annual plans for employee education and training, actively improved the employee training system, and carried out targeted training according to different levels, categories and positions. Relying on internal and external training resources, it carried out training courses in multi-level, multi-category and multi-form. It also carried out standardized evaluation on education and training effects, obtained training effect feedback and suggestions through comprehensive instant evaluation, results evaluation and performance appraisal to promote the continuous improvement of employee training.

In 2017, employee training hours totalled more than 1.19 million, and average training hours for each employee was 24 hours. Such training has achieved full coverage of all employees, business fields and career paths.

AVIC Planning- Promoting "finger revolution" of training and education

In 2017, in order to solve the learning time and space obstacles for employees, AVIC Planning took full advantage of the new media to develop mobile learning and fragmented learning, and promoted the "finger revolution" of training and education to open an online learning permit for each employee. It provided nearly 4,000 general courses and produced nearly 100 internal learning courseware, opened micro-class, three-system learning, chief engineer open class and other columns, and strengthened learning guidelines, supervision and assessment. It forwarded industry hotspots, cutting-edge technologies, advanced experiences and cases in the "WeChat Group" of various cadres of the Company to disseminate aviation culture and professional knowledge, explore strategic horizons and working ideas, and enhance business skills standard.

4.2.2 Culturing Skilled and Leadership Talents

The Group, from key universities, major projects, foreign countries, school-enterprise cooperation, postdoctoral workstations and other key measures, has recruited high level talents to provide high-tech talent guarantee for the sustainable development of the Company. It focuses on cultivating a number of leading talents and innovation, research and development teams. These talents enable the Group to develop core technologies and accelerate the commercialisation of scientific research achievements to improve its technological innovation and research and development capabilities.

AVIC Huiyang- Cooperating with Beijing University of Aeronautics & Astronautics to develop talents

AVIC Huiyang and Beijing University of Aeronautics and Astronautics jointly organized a master's degree program in engineering, including aerospace engineering, project management, mechanical engineering and reliability engineering, and continued to develop backup high-tech talent for the development of the Company. According to the academic system arrangement, some of the students successfully graduated in 2017 and became an important talent resource for AVIC Huiyang.

4.2.3 Improving Promotion Mechanism

With a clear career development path, the Group actively develops a sound career development environment to provide employees with a broad development space and platform. it established a rank management system to clarify the promotion and standard review process, along with various promotion channels. It also established incentive mechanisms in line with the market, adhered to a basic distribution system, which is performance and contribution based, and implemented supplementary incentive systems to encourage innovation of the employees. It provides various incentives to outstanding talents in addition to material rewards to strengthen its employees' ethics and sense of belonging.

4.3 Caring about Physical and Mental Health

The Group attaches great importance to the management of occupational safety and health, and the physical and mental health of employees is an important goal pursued by us. Through establishing and improving an occupational health and safety management system and creating a safe and comfortable working environment to enhance employees' safety awareness, and guide employees' healthy lifestyle.

4.3.1 Guaranteeing Occupational Health

The Group formulated a comprehensive management measures to guarantee employees' occupational health. According to the requirements of the regulations such as *Safety Management Measures* (《安全管理辦法》), *HSE File System* (《HSE體系文件》), *Work Injury Management Measures* (《工傷管理辦法》) and *Occupational Disease Prevention and Control Measures* (《職業病防治辦法》), we carried out protection measures and activities to improve the occupational health and safety of employees. It strengthened the source treatment of occupational hazards and occupational health protection system, and strictly carried out control on occupational hazards factors and occupational health monitoring of the victim. It regularly carried out safety production status assessment and occupational health status assessment, allocated personal protection equipment that meet national regulations for employees to ensure a safe and healthy working environment. It also organized all employees to carry out general health examinations and occupational hazard physical examinations and engaged experts to provide psychological consultation services for employees each year. In 2017, the employee physical examination rate reached 100%, and occupational hazard detection complied with relevant national standards.

4.3.2 Caring for Employees' life

In addition to various routine benefits, the Group provided additional caring measures for specific groups of employees. We have demonstrated our care for personal needs of our female employees by providing breastfeeding rooms in our offices and organising protection policy lectures, health quizzes, workplace etiquette training, gynaecological examinations and other activities. To solve the difficulties of employees who have major illnesses by organizing donations and contributions by company. We care for the lives of retired employees, every year we organise health examinations and provide welfare and subsidies to retired employees.

Each of the Group's subsidiaries actively organises various cultural and sports activities to enrich its employees' daily life. There are table tennis tables, badminton courts, basketball courts, dance studios, and other activities in the office space. We regularly carry out activities such as mountaineering and fun games to promote the healthy work and happy life of employees.

4.4 Clean Governance

The Group has continuously improved the anti-corruption-related rules and regulations to prevent bribery, extortion, fraud and money laundering and have formulated the *Employee Disciplinary Action Measures (Trial)* and many other rules and regulations. Moreover, the management is also required to sign the Responsibility for Building a Clean Government to continuously improve our supervision mechanism, implement a responsibility system and establish a long-term anti-corruption mechanism.

Our Group has strengthened cultural education at all levels of management, and provides monthly anti-corruption education. We also conduct continuous supervision to maintain self-discipline at all levels of management by organising educational films, visits and lectures and enforcing regulations and self-discipline.

5 CONTRIBUTING TO OUR COMMUNITY

The Group never forgets the source of benefit and its initial determination. The development of the Group could not separate from the understanding, support and assistance of local government, society and residents. The Group actively participates in the local economic construction, makes every effort to give back society, promotes the continuous improvement of the public life and the rapid development of the regional economy, and actively participates in charity activities by relying on the Wu Daguan volunteer service team (吳大觀志願服務隊), the Group provides aviation science education, makes donations, helps the community and promotes volunteering. In 2017, the Group spent more than 70,000 hours on volunteer service in total.

Aviation Industry Corporation of China, a controlling shareholder of the Group, established the Wu Daguan volunteer service team in 2012, to commemorate Mr. Wu Daguan, the "Father of China's Aviation Engine" and his patriotic spirit and selfless dedication. Each of the Group's subsidiaries has established a Wu Daguan volunteer service team.

5.1 Supporting Local Construction

The Group is committed to, via industrialisation development, giving back society. By promoting local construction, the Group supports the development of the aviation industry. It adheres to in-depth cooperation with all sectors of society with an open attitude to achieve mutual benefit and win-win situation. It actively implements "Made in China 2025" and achieves effective integration of military economy and regional economy through participating in the construction of comprehensive demonstration areas for aviation industry in various regions. It actively communicates with local governments and signs strategic cooperation agreements to drive the synergetic development of industrial structural adjustment and local related industries, promote local economic growth and technological innovation, and increase stable social employment and taxation.

AVIC Planning- Supporting the development of local aviation industry

On 2 November 2017, AVIC Planning and subsidiaries of AVIC, namely Aviclub Holdings(愛飛客控股), Sichuan AVIC General Aviation Group(四川中航通航集團)and Sichuan Air Group(四川航空集團)signed a strategic cooperation framework agreement to jointly develop a platform for development of Sichuan provincial general aviation that based on a national defense science and technology industry province to ensure the implementation of "decisive winning over the air(决勝空中)" strategy in Sichuan Province.

On 28 November 2017, AVIC Planning and the Zhenning Autonomous County Government of Guizhou Province signed the *Strategic Cooperation Framework Agreement for the General Aviation Industry Project of Zhenning Autonomous County*, which targeted and accurately assisted the development of general aviation industry in Zhenning Autonomous County and further improved the traffic location advantages of Zhenning County, thereby accelerating poverty alleviation.

5.2 Spreading Aerospace Cultures

The Group has popularised aviation technology knowledge, promoted aviation culture and improved the public awareness of aviation. Through conducting aviation science education courses for young people and organizing aviation open days to the public, it provides young people and the public with aviation knowledge, inherits aviation sentiments, and spreads the patriotic ideal. In 2017, the Wu Daguan volunteer service team and the Youth League Committee of each of the Group's subsidiaries visited the local primary and secondary schools to promote aviation science.

Subsidiaries	Cooperative Schools	Activities
Harbin Aviation	Harbin Institute of Technology, Harbin Normal University High School, The High School Attached to Harbin Institute of Technology, No.162 High School and No. 25 High School	"Dating Harbin Aviation" aviation open day activity, "Love the Aviation, Love the Motherland and Co-build the Aviation Patriotic Dream" aviation science education program
AVIC Kaitian	Chengdu Shude B-Ray Experimental School	"Love the Aviation, Love the Motherland and Co-build the Aviation Patriotic Dream" aviation science knowledge into campus
Changhe Aviation	Jingdezhen Lishuyuan Primary School, Jingdezhen Changhe Experimental Primary School, Dongan Beijing Telecom Hope Primary School in Xianghu Town, Fuliang County and Xingtian Central Primary School in Fuliang County	"Love the Aviation, Love the Motherland and Co-build the Aviation Patriotic Dream" aviation science education activity and "Dedicating to the Aviation, Cooperating to Develop" themed aviation knowledge science activity

Subsidiaries	Cooperative Schools	Activities
Lanzhou Aviation Electrical	Diaoziyu Primary School in Yuewan Village, Wangguan Town, Longnan City	"Love the Aviation, Love the Motherland and Co-build the Aviation Patriotic Dream" aviation science education activity
AVIC Lanfei	Gangu Primary School in Tianshui	Aviation science knowledge activity
Changfeng Avionics	4 primary schools including Pingjiang Experimental Primary School	"Love the Aviation, Love the Motherland and Co-build the Aviation Patriotic Dream" aviation science education activity
Taiyuan Instrument	Taihang Primary School and Mazhai Primary School in Wenshui County	"Love the Aviation, Love the Motherland and Co-build the Aviation Patriotic Dream" aviation science education activity
Shaanxi Baocheng	Tianchisi Primary School in Liujia Village	Aviation science education activity
AVIC Planning	Yuxiang Primary School and Liubinbao Primary School	"Towards the Blue Sky" aviation science into campus
JONHON Optronic	Beicun Primary School in Xishandi Township, Luoning County and Dingxiang Primary School in Yuhong District	Aviation science into campus

5.3 Participation in Public Welfare Activities

In 2017, the Group continued to carry out in-depth fixed-point poverty alleviation work, conducted in-depth visits and investigations in poverty-stricken villages and towns, analyzed the causes of poverty, helped the villages to formulate annual poverty alleviation plans, and provided technical and financial support to help them to overcome poverty and achieve prosperity. It paid attention to educational supports first in poverty alleviation, donated to schools in poverty-stricken areas, and conducted beneficial explorations and extensions of the "targeted poverty alleviation" project.

Examples of the Group's Fixed-point Poverty Alleviation Projects in 2017

Subsidiaries	Poverty Alleviation Target	Poverty Alleviation Contents
Changhe Aviation	Zhouzhen Village, Zhouxi Town, Duchang County, Xiaokeng Village, Hongyan Town, Leping and Gongqiao Village, Jinggongqiao Town, Fuliang County; Wanquan Primary School in Zhouzhen, Zhouxi Town and Xingtian Central Primary School in Fuliang County	Visited and extended regards to poverty-stricken family and sent them consolation money, rice, edible oil and other suppliers; financed the construction of roads in villages; conducted book-donation activities of "Science Aviation and Charity Aviation" and assisted in the construction of "Charity Bookstores" in primary schools of poverty alleviation area; conducted education-support activity of "Concerning about Old Revolutionary Base Areas, Caring for Left-behind Children" and "Autumn Education-support" activity with the theme of "Charity Aviation Became Our Future(愛心航空 • 揚帆啓航)"
Lanzhou Aviation Electrical	Zhaogou Village and Xinzhuang Village in Dananyu Town, Gansu Province	Conducted in-depth research on poverty alleviation contact points to help the village to formulate a well-off development plan and annual poverty alleviation plan, coordinated funds, and actively connected with poverty-stricken family to help them to overcome poverty and achieve prosperity; Donated RMB4,000 to the pupils in poverty-stricken villages, and purchased more than 300 extra-curricular books.

Subsidiaries	Poverty Alleviation Target	Poverty Alleviation Contents
AVIC Lanfei	Xiejiachuan Village and Pujiashan Village in Jinshan Town, Gangu County	Donated poverty alleviation funds and assisted villagers to carry out relocation projects
Tianjin Aviation	Caocun Village and Xiaoji Village in Chenguantun Town, Jinghai District, Tianjin; Boarding school in Xixinying Township, Guyuan County	Implemented special action initiatives for targeted poverty alleviation; donated 340 sets of school uniforms to boarding school students and two sets of distance education systems
AVIC Huiyang	Shenxing Village, Weizhuang Village and Shijiazuo Village in Shenxing Town, Mancheng District, Baoding; Longjiapu Village in Yixian County	Carried out donations to support education for poverty-stricken villages and donated RMB70,000 to poverty-stricken students; Conducted fixed-point poverty alleviation, installed street lights for poverty-stricken villages, visited all poverty-stricken families in the village, sent duvets, rice, oil, and other supplies.
Changfeng Avionics	"assisting Xinjiang and Tibet", and support poverty-stricken Areas	Donated RMB40,000 to support work in poverty-stricken areas
Oriental Instrument	Yonggu Primary School in Liangshan Town, Nanzheng County, Hanzhong	Conducted charitable donation, and donated learning and daily necessities with value of more than RMB10,000 to schools and students
Taiyuan Instrument	Mujiawa Village, Peijiagou Township, Shilou County, Lvliang and Zaogeda Primary School in Sanjiao Town, Lvliang	Provided a poverty alleviation fund of RMB30,000; conducted charitable donation to impoverished primary schools by sending school supplies, bedding, and other daily necessities

Subsidiaries	Poverty Alleviation Target	Poverty Alleviation Contents
Shaanxi Huayan	Ningqiang and Lueyang County in Hanzhong	Prioritized the employment of college graduates from poverty-stricken families, industrial poverty alleviation, helped poverty-stricken students and open up sales channels for specialty agricultural products.
Keeven Instrument	Shuijing Village, Huachu Town, Puding County, Guizhou	Organized charitable group purchase activities, purchased plateau lotus roots produced in poverty-stricken areas with poverty alleviation amount of RMB89,600
Shaanxi Baocheng	Liujia Village	Arranged for young employees to stay at Liujia Village for poverty alleviation, assisted the construction of medical clinics in Liujia Village, opened up an internet marketing platform, and expand the brand promotion and marketing for kiwifruits of Liujia Village.
JONHON Optronic	Beicun Village, Xishandi Township, Luoning County	Sent books, stationery, toys and all kinds of daily necessities
Harbin Aviation	Left-behind children and underprivileged children in middle school of poverty alleviation area	Donated well-selected technology books and literary books and charitable bursaries

In 2017, the Group encouraged and standardized volunteer service activities of the Company and promoted the volunteer service spirit of "dedication, friendship, mutual assistance, and progress". Wu Daguan volunteer service team of the Group's subsidiary actively carried out various volunteer service activities. For example, Harbin Aviation and the community reached a unit of "co-construction of region and factories" to extend their regard to the empty nester in the community, retired employees and poverty-stricken family throughout the year; AVIC Kaitian and Changhe Aviation visited and extended their regard to the sick and wounded workers in difficulties and retired employees; Lanzhou Aviation Electrical and AVIC Lanfei supported the National Marathons in Lanzhou and organized Wu Daguan volunteer service team to carry out service work; Tianjin Aviation entered the nursing home and sent materials to the elderly person of no family to help cleaning the home and listen to the elderly; Taiyuan Instrument sent green pomelo air purifier developed by AVIC Avionics Beijing Technology Research and Development Center to community sanitation worker.

Independent Auditor's Report

信永中和 ShineWing

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

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

OPINION

We have audited the consolidated financial statements of AviChina Industry & Technology Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 104 to 218, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report

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

KEY AUDIT MATTERS (Continued)

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

Key audit matter	How our audit addressed the key audit matter
Impairment of accounts receivables	
As at 31 December 2017, the Group's accounts receivables was significant to the consolidated financial statements. Provision for impairment of accounts receivables is determined based on the evaluation of collectability of accounts receivables. A considerable amount of management judgement is required in assessing the ultimate realisation of accounts receivables, including the current creditworthiness and the past collection history of each customer and current market conditions.	Our audit procedures to assess the impairment of accounts receivables included, but are not limited to the audit procedures below. We obtained an understanding of the impairment assessment process for accounts receivables, performed walkthroughs and identified and tested relevant controls within the transaction process; communicated with management in regard to their estimation of collectability of accounts receivables, and compared to the historical collection records; checked the ageing analysis, and selected samples to trace to the original supporting documents; inquired management about their consideration for the material and/or long-aged individual items, and examined the historical collection and evaluated the financial strength of the customers concerned; and examined subsequent collections by checking to the bank receipts and related original documents.

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

KEY AUDIT MATTERS (Continued)

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognition for construction contracts (the percentage of completion method)	
As at 31 December 2017, the Group's revenue recognition on construction contracts was significant to the consolidated financial statements. The Group uses the percentage of completion method in accounting for its contract revenues. Significant management judgement is involved in using the percentage of completion method as it requires management to estimate the total estimated cost as well as the cost incurred up to the date as a proportion of the total estimated cost for each contract.	Our audit procedures to assess the revenue recognition included, but are not limited to the audit procedures below. We obtained an understanding of the contract accounting process, performed walkthroughs and identified and tested relevant controls within the process; checked the contract revenue recognised to the original contract clause; examined the compilation of the total estimated cost and discussed with management and various project officials to assess whether the estimation uncertainties have been adequately addressed; examined the cost incurred up to the date by reviewing the breakdown, selected samples to check to the original supporting documents; and recalculated the percentage of completion and performed gross profit analysis.

Independent Auditor's Report

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

KEY AUDIT MATTERS (Continued)

Refer to the accounting policies and disclosures for the impairment of inventories included in notes 2.4, 3 and 22 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories	
As at 31 December 2017, the Group's inventories were significant to the consolidated financial statements. Management estimates the net realisable value for finished goods and work in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes provision for impairment of obsolete and slow-moving items and writes off or writes down inventories to net realisable value. This assessment of impairment of inventories requires significant management estimates on current market conditions.	Our audit procedures to assess the impairment risk of inventories included, but are not limited to the audit procedures below. We obtained an understanding of the impairment assessment process for inventories, performed walkthroughs and identified and tested relevant controls within the transaction process; observed stock take performed by management, and identified the obsolete or slow-moving items; obtained the final stock list and selected samples to check to subsequent net realisable values; and examined the impairment calculation and the aging analysis prepared by management and checked the subsequent usage and sales of inventories.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chan Wing Kit.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong
16 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
REVENUE	5	32,596,711	36,833,553
Cost of sales		(25,152,802)	(29,795,882)
Gross profit		7,443,909	7,037,671
Other income and gains	5	473,248	429,213
Other expenses		(72,459)	(73,780)
Other income and gains, net		400,789	355,433
Selling and distribution expenses		(587,498)	(573,050)
Administrative expenses		(4,343,755)	(3,991,849)
OPERATING PROFIT		2,913,445	2,828,205
Finance income		177,069	212,230
Finance costs		(507,177)	(515,348)
Finance costs, net	7	(330,108)	(303,118)
Share of profits of:			
Joint ventures		22,196	28,262
Associates		152,352	98,549
PROFIT BEFORE TAX	6	2,757,885	2,651,898
Income tax expenses	10	(341,321)	(352,235)
PROFIT FOR THE YEAR		2,416,564	2,299,663
Attributable to:			
Equity holders of the Company		1,222,280	1,160,082
Non-controlling interests		1,194,284	1,139,581
		2,416,564	2,299,663
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
– For profit for the year	12	RMB0.205	RMB0.194

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000 (Restated)
PROFIT FOR THE YEAR	2,416,564	2,299,663
OTHER COMPREHENSIVE LOSS		
Other comprehensive income/loss to be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	(246,081)	(370,368)
Reclassification adjustments for accumulative gains included in the consolidated statement of profit or loss upon disposal	(54,120)	(38,512)
Income tax effect	45,030	61,332
	(255,171)	(347,548)
Exchange differences on translation of foreign operations	(12,552)	11,638
Other comprehensive loss to be reclassified to profit or loss in subsequent periods	(267,723)	(335,910)
Other comprehensive income/loss not to be reclassified to profit or loss in subsequent periods:		
Gain (loss) on a defined benefit scheme	32,482	(43,015)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(235,241)	(378,925)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,181,323	1,920,738
Attributable to:		
Equity holders of the Company	1,083,455	949,382
Non-controlling interests	1,097,868	971,356
	2,181,323	1,920,738

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	14,527,086	13,548,849
Investment properties	14	281,545	301,877
Land use rights	15	1,689,809	1,708,246
Goodwill	16	69,188	69,188
Other intangible assets	17	619,438	689,866
Investments in joint ventures	18	122,433	95,200
Investments in associates	19	928,027	839,427
Available-for-sale investments	20	1,290,426	1,509,655
Deferred tax assets	21	288,221	238,881
Prepayments, deposits and other receivables	24	810,567	638,067
Total non-current assets		20,626,740	19,639,256
CURRENT ASSETS			
Inventories	22	23,220,449	21,654,590
Accounts and notes receivables	23	17,541,036	16,224,191
Prepayments, deposits and other receivables	24	3,647,643	3,445,487
Financial assets held for trading	25	23,660	31,057
Pledged deposits	26	1,502,878	1,035,307
Term deposits with initial terms of over three months	26	1,307,509	717,656
Cash and cash equivalents	26	11,063,187	8,879,976
Total current assets		58,306,362	51,988,264
TOTAL ASSETS		78,933,102	71,627,520

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000 (Restated)
CURRENT LIABILITIES			
Accounts and notes payables	27	24,084,796	24,157,459
Other payables and accruals	28	9,374,200	6,325,946
Interest-bearing bank and other borrowings	29	5,345,625	4,450,590
Obligations under finance leases	32	45,305	22,778
Tax payable		264,078	255,944
Total current liabilities		39,114,004	35,212,717
NET CURRENT ASSETS		19,192,358	16,775,547
TOTAL ASSETS LESS CURRENT LIABILITIES		39,819,098	36,414,803
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	5,042,527	5,291,129
Deferred income from government grants	30	816,095	869,321
Deferred tax liabilities	21	82,441	117,595
Convertible bonds	31	1,531,945	–
Obligations under finance leases	32	373,802	152,382
Other payables and accruals	28	812,554	1,021,531
Total non-current liabilities		8,659,364	7,451,958
TOTAL LIABILITIES		47,773,368	42,664,675
Net assets		31,159,734	28,962,845

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 RMB'000	31 December 2016 RMB'000 (Restated)
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	33	5,966,122	5,966,122
Reserves	34	8,743,139	7,835,476
		14,709,261	13,801,598
Non-controlling interests		16,450,473	15,161,247
Total equity		31,159,734	28,962,845

The consolidated financial statements on page 104 to 218 were approved and authorised for issue by the board of directors on 16 March 2018 and are signed on its behalf by:

Director
Tan Ruisong

Director
Li Yao

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to equity holders of the Company								Non-controlling interests	Total
	Share capital	Capital reserve	Equity component of convertible bonds of a subsidiary	Fair value reserve	Currency translation reserve	Other reserves	Retained earnings	Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016 (as previously reported)	5,966,122	3,808,534	–	(36,006)	15,434	187,277	3,458,420	13,399,781	14,936,874	28,336,655
Business combinations involving entities under common control (Note (a))	–	441,515	–	–	–	–	(39,698)	401,817	224,373	626,190
As at 1 January 2017 (as restated)	5,966,122	4,250,049	–	(36,006)	15,434	187,277	3,418,722	13,801,598	15,161,247	28,962,845
Profit for the year	–	–	–	–	–	–	1,222,280	1,222,280	1,194,284	2,416,564
Other comprehensive loss for the year, net of tax	–	–	–	(126,311)	(12,514)	–	–	(138,825)	(96,416)	(235,241)
Total comprehensive (loss) income for the year	–	–	–	(126,311)	(12,514)	–	1,222,280	1,083,455	1,097,868	2,181,323
Disposals of interests in subsidiaries	–	–	–	–	–	–	–	–	(4,804)	(4,804)
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	189,126	189,126
Business combinations involving entities under common control (Note (a))	–	(413,571)	–	–	–	–	–	(413,571)	–	(413,571)
2016 final dividend (Note 11)	–	–	–	–	–	–	(119,322)	(119,322)	–	(119,322)
Contribution from non-controlling shareholders of subsidiaries (Note (c))	–	–	–	–	–	–	–	–	191,212	191,212
Recognition of equity-settled share-based payment expenses of a subsidiary	–	7,311	–	–	–	–	–	7,311	10,448	17,759
Recognition of equity component of convertible bonds	–	–	352,610	–	–	–	–	352,610	–	352,610
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(203,532)	(203,532)
Transfer to statutory surplus reserve (Note 34(c))	–	–	–	–	–	25,244	(25,244)	–	–	–
Appropriation (Note 34(c))	–	–	–	–	–	28,727	(28,727)	–	–	–
Others	–	(2,820)	–	–	–	–	–	(2,820)	8,908	6,088
As at 31 December 2017	5,966,122	3,840,969*	352,610*	(162,317)*	2,920*	241,248*	4,467,709*	14,709,261	16,450,473	31,159,734

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to equity holders of the Company							Non-controlling interests	Total
	Share capital RMB'000	Capital reserve RMB'000	Fair value reserve RMB'000	Currency translation reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Subtotal RMB'000	RMB'000	RMB'000
As at 1 January 2016 (as previously reported)	5,474,429	4,300,227	186,271	3,857	208,315	2,486,595	12,659,694	13,759,865	26,419,559
Business combinations involving entities under common control (Note (a))	–	441,515	–	–	–	(80,819)	360,696	208,282	568,978
As at 1 January 2016 (as restated)	5,474,429	4,741,742	186,271	3,857	208,315	2,405,776	13,020,390	13,968,147	26,988,537
Profit for the year	–	–	–	–	–	1,160,082	1,160,082	1,139,581	2,299,663
Other comprehensive loss for the year, net of tax	–	–	(222,277)	11,577	–	–	(210,700)	(168,225)	(378,925)
Total comprehensive (loss) income for the year	–	–	(222,277)	11,577	–	1,160,082	949,382	971,356	1,920,738
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	–	(2,190)	(2,190)
Capital injection by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	303,786	303,786
Issue of shares	491,693	1,681,589	–	–	–	–	2,173,282	–	2,173,282
Business combinations involving entities under common control (Note (b))	–	(2,173,282)	–	–	–	–	(2,173,282)	–	(2,173,282)
2015 final dividend	–	–	–	–	–	(109,489)	(109,489)	–	(109,489)
Contribution from non-controlling shareholders of subsidiaries (Note (c))	–	–	–	–	–	–	–	189,860	189,860
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	(212,321)	(212,321)
Transfer to statutory surplus reserve (Note 34(c))	–	–	–	–	14,267	(14,267)	–	–	–
Appropriation (Note 34(c))	–	–	–	–	23,380	(23,380)	–	–	–
Others	–	–	–	–	(58,685)	–	(58,685)	(57,391)	(116,076)
As at 31 December 2016 (as restated)	5,966,122	4,250,049*	(36,006)*	15,434*	187,277*	3,418,722*	13,801,598	15,161,247	28,962,845

Note (a):

On 29 December 2017, the Company obtained the control over AVIC Renewable Energy Investment Co., Ltd. ("AVIC Renewable Energy") through business combinations involving entities under common control. Refer to Note 2.1 below.

Note (b):

On 28 June 2016, the Company obtained the control over China Aviation Planning and Design Institute Co., Ltd ("AVIC Planning") through business combinations involving entities under common control.

Note (c):

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

* These reserve accounts comprise the consolidated reserves of RMB8,743,139,000 (2016: RMB7,835,476,000 as restated) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,757,885	2,651,898
Adjustments for:			
Interest expense		456,506	452,303
Share of profits of joint ventures	18	(22,196)	(28,262)
Share of profits of associates	19	(152,352)	(98,549)
Interest income	7	(177,069)	(212,230)
Gain on disposal of property, plant and equipment	5	(56,543)	(364)
Gain on disposal of investments in associates	5	(37,704)	(4,349)
Gain on disposal of available-for-sale investments	5	(81,767)	(40,347)
Gain on disposal of financial assets held for trading	5	–	(731)
Gain on disposal of subsidiaries	5	(12,214)	–
Fair value gains on financial assets held for trading		(2,914)	(6,529)
Depreciation on investment properties	14	11,918	7,493
Depreciation on property, plant and equipment	13	1,034,003	964,822
Amortisation of other intangible assets	17	52,072	45,603
Amortisation of land use rights	15	36,873	54,983
Impairment of available-for-sale investments	6	6,071	24,948
Impairment of property, plant and equipment	6	1,350	21,330
Impairment of other intangible assets	6	41,029	–
Impairment of accounts receivables and prepayments, deposits and other receivables	6	158,878	131,267
Write-down of inventories to net realisable value		57,519	175,425
Share-based payment expense	6	17,759	–
Dividend income from available-for-sale investments and financial assets held for trading		(11,109)	(29,452)
Operating cash flows before movements in working capital		4,077,995	4,109,259
Increase in inventories		(1,623,378)	(1,885,266)
Increase in accounts and notes receivables		(1,461,433)	(1,004,250)
Increase in prepayments, deposits and other receivables		(735,096)	(1,075,837)
Increase in accounts and notes payables		47,782	2,808,462
Increase/(decrease) in other payables and accruals		2,414,592	(3,942,856)
(Increase)/decrease in pledged deposits		(467,571)	700,585
Cash generated from/(used in) operations		2,252,891	(289,903)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Interest received		177,069	212,230
Interest paid		(456,506)	(452,303)
Income tax paid		(385,519)	(397,780)
Net cash flows from/(used in) operating activities		1,587,935	(927,756)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,919,928)	(1,324,422)
Purchase of investment properties		(3,233)	–
Purchase of land use rights		(15,927)	(32,208)
Purchase of other intangible assets		(19,272)	(18,375)
Additions to available-for-sale investments		(88,119)	(15,000)
Additions to financial assets held for trading		–	(31,841)
Additions to investment in a joint venture	18	(23,066)	(1,500)
Additions to investments in associates		(60,000)	(70,000)
Redemption of term deposits with initial terms of over three months		717,656	851,160
Addition of term deposits with initial terms of over three months		(1,307,509)	(717,656)
Government grants for purchase of property, plant and equipment	30	209,178	172,118
Proceeds from disposal of property, plant and equipment		476,429	140,423
Proceeds from disposal of investment properties		2,435	–
Disposal of available-for-sale investments		82,843	74,303
Disposal of financial assets held for trading		10,311	46,574
Disposal of investments in associates		49,170	5,790
Disposal of investment in a joint venture		7,520	–
Disposal of investments in subsidiaries	43	67,648	(15,576)
Dividend received from joint ventures	18	10,509	9,683
Dividend received from available-for-sale investments		14,759	14,759
Dividend received from associates	19	147,641	172,617
Acquisition of a subsidiary		(202,019)	–
Cash paid for other investing activities		–	(15,000)
Cash received from other investing activities		–	3,000

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Net cash flows used in investing activities		(1,842,974)	(751,151)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		6,144,715	7,979,804
Repayments of borrowings		(5,498,282)	(6,942,656)
Proceeds from convertible bonds		1,884,555	–
Repayment of obligations under finance leases		(26,328)	(24,723)
Capital injection by non-controlling shareholders of subsidiaries		191,212	259,422
Dividends paid to equity holders of the Company		(119,322)	(109,489)
Dividends paid to non-controlling shareholders of subsidiaries		(133,477)	(250,459)
Net cash flows from financing activities		2,443,073	911,899
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,188,034	(767,008)
Cash and cash equivalents at beginning of year		8,879,976	9,646,500
Effect of foreign exchange rate changes, net		(4,823)	484
CASH AND CASH EQUIVALENTS AT END OF YEAR		11,063,187	8,879,976
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	26	13,873,574	10,632,939
Less: Pledged deposits		(1,502,878)	(1,035,307)
Term deposits with initial terms of over three months		(1,307,509)	(717,656)
Cash and cash equivalents as stated in the consolidated statement of cash flows	26	11,063,187	8,879,976

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. CORPORATE AND GROUP INFORMATION

AviChina Industry & Technology Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 30 April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation of China Aviation Industry Corporation II ("AVIC II"). AVIC II merged with China Aviation Industry Corporation I ("AVIC I") to form Aviation Industry Corporation of China ("AVIC") on 6 November 2008, and AVIC became the holding company of the Company thereafter. The Company's H shares were listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") on 30 October 2003. The address of its registered office is 8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing, and the PRC.

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

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

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2017		2016		
			Direct	Indirect	Direct	Indirect	
Harbin Aviation Industry (Group) Ltd. (哈爾濱航空工業(集團)有限公司)	PRC	RMB450,000,000	100	–	100	–	Manufacture and sale of aero products and related services
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	PRC	RMB717,114,512	43.77 Note(a)	–	43.77 Note(a)	–	Design, development, manufacture and sale of basic trainers, general-purpose aeroplanes and other aero products, including parts and components

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company 2017 Direct	2017 Indirect	2016 Direct	2016 Indirect	Principal activities
AVIC Jonhon Optronic Technology Co., Ltd. (中航光電科技股份有限公司)	PRC	RMB790,977,309	41.17 Note(a)	–	41.57 Note(a)	–	Research and development, manufacture and sale of electrical connectors, optical components and cable assemblies
China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司)	PRC	RMB1,759,162,938	43.22 Note(b)	–	43.22 Note(b)	–	Holding investments in companies engaged in aviation equipment business
Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司)	PRC	RMB293,163,439	100	–	100	–	Manufacture and sale of aviation electrical engineering products and accessories
China Aviation Planning and Design Institute Co., Ltd. (中國航空規劃設計研究總院有限公司)	PRC	RMB750,000,000	100	–	100	–	Delivery of planning, design, consultation, construction, operation and other related aviation engineering services
China Aviation Publishing & Media Co., Ltd. (中航出版傳媒有限責任公司)	PRC	RMB48,779,000	53.63	–	53.63	–	Advertising, public relations, consulting services, professional exhibition, information development, sale of audio and video equipment
AviChina Hong Kong Limited. (中航科工香港有限公司)	Hong Kong	HKD1,000	100	–	100	–	Design, sale and development of aviation products, finance and investment, information consulting, training and house rental

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2017		2016		
			Direct	Indirect	Direct	Indirect	
AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司)	PRC	RMB220,500,000	31.75 Note(b)	–	31.75 Note(b)	–	Development, manufacture, remodelling and sale of Unmanned Aerial Vehicle products
AviChina Industrial Investment Co., Ltd. (中航科工產業投資有限責任公司)	PRC	RMB200,000,000	100	–	100	–	Aviation industry project investment, consulting research and technology transfer
AVICOPTER PLC (中航直升機股份有限公司)	PRC	RMB337,350,000	6.56	28.21 Note(b)	6.56	28.21 Note(b)	Research, development, design, manufacture and sale of aero products, including parts and components
Jiangxi Changhe Aviation Industry Company Limited (江西昌河航空工業有限公司)	PRC	RMB630,422,696	–	34.77 Note(b)	–	34.77 Note(b)	Manufacture and sale of general-purpose aeroplane and helicopters
Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司)	PRC	RMB86,838,030	–	34.77 Note(b)	–	34.77 Note(b)	Manufacture aviation propellers, speed governors, feathering pumps, helicopter rotors, tail rotors, hovercrafts with propellers
Tianjin Helicopter Co., Ltd. (天津直升機有限責任公司)	PRC	RMB250,000,000	–	34.77 Note(b)	–	34.77 Note(b)	Research and manufacture of helicopters, other aircrafts and aerospace components, and production, sale and maintenance services

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2017		2016		
			Direct	Indirect	Direct	Indirect	
Harbin Hafei Aviation Industry Co., Ltd. (哈爾濱哈飛航空工業有限責任公司)	PRC	RMB500,000,000	–	34.77 Note(b)	–	34.77 Note(b)	Design, development, manufacture and sale of helicopters, other aircrafts and electrical engineering products
Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司)	PRC	RMB320,000,000	–	43.22 Note(b)	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司)	PRC	RMB360,000,000	–	43.22 Note(b)	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司)	PRC	RMB260,000,000	–	43.22 Note(b)	–	43.22 Note(b)	Research, manufacture and sale of aviation auto control equipment and instruments
Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司)	PRC	RMB321,680,000	1.56	37.49 Note(b)	1.56	37.49 Note(b)	Research, manufacture and sale of air data systems and various types of aviation instruments
Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀錶有限責任公司)	PRC	RMB452,000,000	–	43.22 Note(b)	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀錶有限公司)	PRC	RMB110,000,000	–	43.22 Note(b)	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Shaanxi Qianshan Avionics Co., Ltd. (陝西千山航空電子有限責任公司)	PRC	RMB292,000,000	–	43.22 Note(b)	–	43.22 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2017		2016		
			Direct	Indirect	Direct	Indirect	
AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司)	PRC	RMB225,000,000	–	34.58 Note(b)	–	34.58 Note(b)	Manufacture and sale of aviation electrical engineering products and accessories
Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司)	PRC	RMB63,432,216	–	43.22 Note(b)	–	43.22 Note(b)	Manufacture and sale of aviation instruments, sensors and autopilot products and related products
Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司)	PRC	RMB59,632,782	–	43.22 Note(b)	–	43.22 Note(b)	Research, manufacture, sale of avionics, airborne equipment and aviation products and related services
Shaanxi Oriental Aeronautic Instrument Manufacture Co., Ltd. (陝西東方航空儀錶有限責任公司)	PRC	RMB100,000,000	–	43.22 Note(b)	–	43.22 Note(b)	Manufacture and sale of aeronautic instruments and other civil mechanical and electrical instruments
AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (瀋陽興華航空電器有限責任公司)	PRC	RMB80,856,400	–	25.88 Note(a)	–	26.14 Note(a)	Research, manufacture, sale, maintenance and related service of aviation electric equipment, electric connectors and related products

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2017		2016		
			Direct	Indirect	Direct	Indirect	
AVIC Forstar S&T Co., Ltd. (中航富士達科技股份有限公司)	PRC	RMB65,720,000	–	22.85 Note(a)	–	23.08 Note(a)	Manufacture of electric connectors, wires and cables, cable components, microwave components, optoelectronic devices, antennas, power supplies, instruments and meter production and marketing
Shenzhen Xiangtong PhotoelectricTechnology Co., Ltd. (深圳市翔通光電技術有限公司)	PRC	RMB2,360,000	–	21.00 Note(a)	–	21.20 Note(a)	Research and development, manufacture and sale of optical fibre connectors, optical-module ceramic cores, active and passive optical fibre communication devices, and new ceramic materials
China Aviation Optical Precision Electronics (Shenzhen) Co., Ltd. (中航光電精密電子(深圳)有限公司)	PRC	RMB50,000,000	–	21.00 Note(a)	–	21.20 Note(a)	Manufacture and sale of electrical connectors
China Aviation International Construction and Investment Co., Ltd. (中國航空國際建設投資有限公司)	PRC	RMB130,000,000	–	100	–	100	Project contracting of aviation, civil and industrial construction
China Aviation Integration Equipment Co., Ltd. (中航工程集成設備有限公司)	PRC	RMB61,000,000	–	100	–	100	Research, manufacture and sale of mechanical equipment

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation/ registration and business	Issued paid up/ registered share capital	Percentage of equity attributable to the Company				Principal activities
			2017		2016		
			Direct	Indirect	Direct	Indirect	
China Aviation Engineering Supervision (Beijing) Co., Ltd. (中航工程監理(北京)有限公司)	PRC	RMB6,000,000	–	100	–	100	Construction supervision and engineering consulting
AVIC CAPDI Engineering Consulting (Beijing) Co., Ltd. (中航工程諮詢(北京)有限公司)	PRC	RMB3,000,000	–	100	–	100	Engineering consulting
AVIC CAPDI (Macau) Company Limited. (中航院設計諮詢(澳門)有限公司)	Macau	MOP600,000	–	100	–	100	Engineering, designing and consulting
AVIC Renewable Energy Investment Co., Ltd. ("AVIC Renewable Energy") (中國航空工業新能源投資有限公司)*	PRC	RMB329,687,591	–	69.30	–	–	Engineering consulting and power generation

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

* During the year ended 31 December 2017, the Group acquired AVIC Renewable Energy through business combinations involving entities under common control. Further details of this acquisition are included in Note 2.1.

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

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

2.1 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

On 25 December 2017, a subsidiary of the Company entered into an Equity Transfer Agreement (the "Agreement") with a subsidiary of its ultimate holding company, AVIC, to acquire 69.3% equity interest of AVIC Renewable Energy, a subsidiary of AVIC, at the consideration of RMB413,571,300 by cash. The acquisition had been completed on 29 December 2017.

Given that AVIC Renewable Energy is under common control of AVIC before and after the business combination, and that control is not temporary, the acquisition of AVIC Renewable Energy is considered as business combination involving entities under common control. Accordingly, the Company applied the principles of merger accounting to account for the acquisition of AVIC Renewable Energy in preparing these consolidated financial statements.

By applying the principles of merger accounting, these consolidated financial statements also included the financial position, results and cash flows of AVIC Renewable Energy as if it had been combined with the Group throughout the year ended 31 December 2017, and from the earliest date presented. Comparative figures as at 31 December 2016 and for the year then ended have been restated as a result of such. All intra-group transactions and balances have been eliminated on consolidation.

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

(i) The consolidated statement of profit or loss for the year ended 31 December 2016

	As previously reported RMB'000	Merger of AVIC Renewable Energy RMB'000	Elimination of inter-company transactions RMB'000	As restated RMB'000
Revenue	36,627,771	205,782	–	36,833,553
Profit for the year	2,252,251	47,412	–	2,299,663

2.1 BASIS OF PREPARATION (Continued)

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

(ii) The consolidated statement of comprehensive income for the year ended 31 December 2016

	As previously reported RMB'000	Merger of AVIC Renewable Energy RMB'000	Elimination of inter-company transactions RMB'000	As restated RMB'000
Total comprehensive income for the year	1,873,326	47,412	–	1,920,738

(iii) The consolidated statement of financial position as at 31 December 2016

	As previously reported RMB'000	Merger of AVIC Renewable Energy RMB'000	Elimination of inter-company balances RMB'000	As restated RMB'000
Total non-current assets	17,871,263	1,767,993	–	19,639,256
Total current assets	51,637,502	350,762	–	51,988,264
Total non-current liabilities	6,382,595	1,069,363	–	7,451,958
Total current liabilities	34,789,515	423,202	–	35,212,717
Total equity	28,336,655	626,190	–	28,962,845

(iv) The consolidated statement of cash flows for the year ended 31 December 2016

	As previously reported RMB'000	Merger of AVIC Renewable Energy RMB'000	As restated RMB'000
Cash and cash equivalents at beginning of year	9,535,436	111,064	9,646,500
Net cash flows (used in) operating activities	(858,477)	(69,279)	(927,756)
Net cash flows (used in) investing activities	(608,400)	(142,751)	(751,151)
Net cash flows from financing activities	703,842	208,057	911,899
Effect of foreign exchange rate changes, net	484	–	484
Cash and cash equivalents at end of the year	8,772,885	107,091	8,879,976

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IFRSs	*Annual Improvements to IFRSs 2014 – 2016 Cycle: Amendments to IFRS 12*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*

Except as described below, the application of other new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfill the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The application of amendments to IAS 7 has resulted in additional disclosures on the Group's financing activities, especially a reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities is provided in note 44. On initial application of the amendments, the Group is not required to provide comparative information for preceding periods. Apart from the additional disclosure in note 44, the directors of the Company considered that these amendments have had no impact on the Group's consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2014 – 2016 Cycle[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 40	Transfers of Investment Property[1]
IFRIC Int – 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC Int – 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective date not yet determined

The directors of the Company anticipate that, except as described below, the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, IFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of IFRS 9 was issued in 2014 to incorporate all the requirements of IFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of IFRS 9 also introduces an "expected credit loss" model for impairment assessments.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 9 Financial Instruments (Continued)

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IFRS 9 to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 9 Financial Instruments (Continued)

- IFRS 9 introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

IFRS 9 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company has performed a preliminary analysis of the Group's financial instruments as at 31 December 2017 based on the fact and circumstances existing at that date. The directors of the Company have assessed the impact of adoption of IFRS 9 on the Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures, as follows:

(a) Classification and measurement

The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated with irrevocable election to present in other comprehensive income the changes in fair value.

(b) Impairment

The directors of the Company expect to apply the simplified approach and record lifetime expected credit losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its accounts and other receivables. The application of the expected credit loss model may result in earlier recognition of credit losses for accounts and other receivables and increase the amount of impairment allowance recognised for these items.

The directors of the Company will perform a more detailed analysis which considers all reasonable and supportable information for the estimation of the effect of adoption of IFRS 9. Based on the preliminary assessment, the directors of the Company expect that the adoption of IFRS 9 will not have other material impact on amounts reported in the Group's consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 15 Revenue from Contracts with Customers

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, IFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

i) Identify the contract with the customer;

ii) Identify the performance obligations in the contract;

iii) Determine the transaction price;

iv) Allocate the transaction price to the performance obligations; and

v) Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

IFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The major sources of revenue of the Group are sales of goods, provision of services and construction contracts. Under IFRS 15, revenue is recognised for each of the performance obligations when control over goods or service is transferred to a customer. The directors of the Company have preliminarily assessed each type of the performance obligations and consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18 *Revenue*. Furthermore, IFRS 15 requires the transaction price to be allocated to each performance obligation on a relative stand-alone selling price basis, which may affect the timing and amounts of revenue recognition, and results in more disclosures in the consolidated financial statements. However, the directors of the Company expect that the adoption of IFRS 15 will not have a material impact on the timing and amounts of revenue recognised based on the existing business model of the Group as at 31 December 2017.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

In respect of the construction contracts, the directors of the Company have considered the guidance of IFRS 15 on contract combination, contract modifications, variable consideration and the existence of significant financing component in the contracts. The directors of the Company have assessed that revenue from these construction contracts will be recognised over time during the course of construction. Furthermore, the directors of the Company have considered that the input and output method currently used to measure the progress towards complete satisfaction of these performance obligations appropriately depicts the performance under the contracts and will continue to be applied under IFRS 15. The directors of the Company expect that the adoption of IFRS 15 will not have material impact on amounts reported in the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 Property, *Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 *Leases* and the related interpretations when it becomes effective.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 16 Leases (Continued)

IFRS 16 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of approximately RMB140,871,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Company are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under IFRS 16. The directors of the Company expect that the adoption of IFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

Annual Improvements to IFRSs 2015-2017 Cycle

The Annual Improvements to IFRSs 2015-2017 Cycle include a number of amendments to various IFRSs, which are summarised below.

Amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. Amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

Amendments to IAS 12 clarify that the income tax consequences of dividends as defined in IFRS 9 (i.e. distribution of profits) should be recognised when a liability to pay a dividend is recognised. The income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated distributable profits were originally recognised.

Amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments apply to annual periods on or after 1 January 2019 with earlier application permitted.

The directors of the Company anticipate that the application of the amendments included in the Annual Improvements to IFRSs 2015-2017 Cycle will have no material impact in the Group's consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

Merger accounting

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Merger accounting (Continued)

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

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

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

Goodwill

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

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

Fair value measurement

The Group measures its listed equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

Level 1	–	based on quoted market prices (unadjusted) in active markets for identical assets or liabilities
Level 2	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3	–	based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

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

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost, including related transaction costs, less accumulated depreciation and accumulated impairment losses, if any.

Land use rights

Land use rights represent prepayment for operating leases and they are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated.

Amortisation of land use rights is calculated on a straight-line basis over the lease term of the land use rights.

Intangible assets (other than goodwill)

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

Research and development costs

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Technology know-how

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

Trademarks and licences

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

Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method of 8 years over the expected life of the customer relationship.

Service concession arrangements

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the consolidated statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated statement of profit or loss. The loss arising from impairment is recognised in the consolidated statement of profit or loss in finance costs for loans and receivables in other expenses for other receivables.

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the fair value reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statement of profit or loss as other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the fair value reserve to the consolidated statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the consolidated statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primary derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the consolidated statement of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of profit or loss, is removed from other comprehensive income and recognised in the consolidated statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss – is removed from consolidated statement of profit or loss and of other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated statement of profit or loss. Increases in their fair value after impairment are recognised directly in consolidated statement of profit or loss and other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as other financial liabilities.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include accounts and notes payables, other payables and accruals, obligations under finance leases, convertible bonds, interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

After initial recognition, other financial liabilities are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Equity instruments

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, after allowances for returns and trade discounts, on the following bases:

(a) from the sale of aviation products, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;

(c) from the rendering of services including that from operating service provided under service concession arrangements, over the service terms as the services are rendered, as further explained in the accounting policy for "Contracts for services" below;

(d) rental income, on a time proportion basis over the lease terms;

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

(f) dividend income, when the shareholders' right to receive payment has been established.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts including construction or upgrade services of the infrastructure under a service concession arrangement is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Share-based payments

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

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

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

Other employee benefits

Pension scheme

The employees of the Company and its subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These companies are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Housing benefits

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits (Continued)

Termination benefits

The Group has recognised the termination benefit obligations as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, future salary increases, mortality rates, the growth rate of the benefits and other factors. The deviation from the actual result and the actuary result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the liability amount of supplementary employee retirement benefit obligations. All assumptions are reviewed at each reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These consolidated financial statements are presented in RMB, which is the Company functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

The functional currency of certain subsidiaries is currency other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rate prevailing at the end of the reporting period and their consolidated statements of profit or loss are translated into RMB at the weighted average exchange rate for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the currency translation reserve.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Consolidation of entities in which the Group holds less than a majority of voting rights

Management considers that the Group has de facto control of certain entities even though it has less than 50% of the voting rights, since the equity interests held by other shareholdings are dispersed and the other shareholders have not organised their interests in such a way that they exercise more votes than the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax and income tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Deferred tax liabilities are recognised for withholding tax refund. Significant management judgement is required to determine the amount of deferred tax assets and liabilities that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Depreciation and amortisation

The Group's management determines the estimated useful lives and related depreciation/amortisation charges for the property, plant and equipment, investment properties, land use right and intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortisation charges where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of accounts and other receivables

Provision for impairment of accounts and other receivables is determined based on the evaluation of collectability of accounts and other receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each customer and the current market condition.

Impairment of inventories

Management estimates the net realisable value for raw material, work in progress and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and will make provision for impairment on obsolete and slow-moving items or will write off or write down inventories to net realisable value.

Revenue recognition (Construction contracts)

The Group uses the percentage of completion method in accounting for its contract revenues. The use of the percentage of completion method requires the Group to estimate the contract costs incurred up to the date as a proportion of the total estimated cost for each contract. Based on the Group's experience and nature of the construction contracts undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that costs to complete and revenue can be reliably estimated.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the consolidated statement of profit or loss. At 31 December 2017, impairment losses of RMB6,071,000 have been recognised for available-for-sale financial assets (2016: RMB24,948,000 as restated).

4. OPERATING SEGMENT INFORMATION

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

The Executive Directors classifies the business into three reportable segments:

- Manufacturing, assembly, sales and servicing of helicopters, trainers and other aircraft ("Aviation entire aircraft");

- Manufacturing and sale of aviation parts and components ("Aviation parts and components");

- Delivery of aviation engineering services such as planning, design, consultation, construction and operation ("Aviation engineering services").

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

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

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2017	Aviation entire aircraft RMB'000	Aviation parts and components RMB'000	Aviation engineering services RMB'000	Total RMB'000
Segment Revenue:				
Sales to external customers	10,404,546	16,980,047	5,212,118	32,596,711
Intersegment sales				1,218,343
				33,815,054
Reconciliation:				
Elimination of intersegment operations				(1,218,343)
Revenue				32,596,711
Segment results	557,440	2,195,240	378,193	3,130,873
Reconciliation:				
Interest income				177,069
Corporate and other unallocated expenses				(42,880)
Finance costs				(507,177)
Profit before tax				2,757,885
Segment assets	28,152,099	38,619,604	13,688,167	80,459,870
Reconciliation:				
Elimination of intersegment receivables				(1,526,768)
Total assets				78,933,102
Segment liabilities	18,046,681	21,246,266	10,007,189	49,300,136
Reconciliation:				
Elimination of intersegment payables				(1,526,768)
Total liabilities				47,773,368
Other segment information:				
Share of profits of:				
Joint ventures	912	21,284	–	22,196
Associates	2,339	156,592	(6,579)	152,352
Impairment losses recognised in the statement of profit or loss	35,439	206,170	23,238	264,847
Other non-cash expenses	63,903	1,998	–	65,901
Depreciation and amortisation	377,563	591,162	166,141	1,134,866
Investments in joint ventures	23,978	98,455	–	122,433
Investments in associates	442,067	446,258	39,702	928,027
Capital expenditure*	769,914	1,147,698	641,056	2,558,668

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

4. OPERATING SEGMENT INFORMATION (Continued)

Year ended 31 December 2016 (Restated)	Aviation entire aircraft RMB'000	Aviation parts and components RMB'000	Aviation engineering services RMB'000	Total RMB'000
Segment Revenue:				
Sales to external customers	11,149,053	17,067,810	8,616,690	36,833,553
Intersegment sales				1,960,610
				38,794,163
Reconciliation:				
Elimination of intersegment operations				(1,960,610)
Revenue				36,833,553
Segment results	536,848	2,041,222	418,442	2,996,512
Reconciliation:				
Interest income				212,230
Corporate and other unallocated expenses				(41,496)
Finance costs				(515,348)
Profit before tax				2,651,898
Segment assets	28,031,082	33,476,440	11,985,465	73,492,987
Reconciliation:				
Elimination of intersegment receivables				(1,865,467)
Total assets				71,627,520
Segment liabilities	16,111,296	17,970,048	10,448,798	44,530,142
Reconciliation:				
Elimination of intersegment payables				(1,865,467)
Total liabilities				42,664,675
Other segment information:				
Share of profits of:				
Joint ventures	–	28,252	10	28,262
Associates	(27,462)	128,390	(2,379)	98,549
Impairment losses recognised in the statement of profit or loss	41,429	244,119	67,422	352,970
Other non-cash expenses	142,163	–	–	142,163
Depreciation and amortisation	385,753	546,516	140,632	1,072,901
Investments in joint ventures	–	87,680	7,520	95,200
Investments in associates	447,971	386,217	5,239	839,427
Capital expenditure*	648,583	1,057,087	351,762	2,057,432

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

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

	2017 RMB'000	2016 RMB'000
Customer A[1]	8,079,171	7,487,658

[1] Revenue from Aviation entire aircraft.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered during the year.

5. REVENUE, OTHER INCOME AND GAINS (Continued)

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

	2017 RMB'000	2016 RMB'000 (Restated)
Revenue		
Sales of goods	27,544,672	29,051,224
Rendering of services	5,052,039	7,782,329
	32,596,711	36,833,553
Other income		
Income from sale of materials	375,348	367,555
Cost of sale of materials	(342,328)	(321,114)
Profit from sale of materials	33,020	46,441
Income from rendering of maintenance and other services	143,363	109,924
Dividend income	11,109	29,452
	154,472	139,376
Gross rental income	28,577	17,500
Gross rental expense	(16,788)	(5,867)
	11,789	11,633
	199,281	197,450
Gains		
Fair value gains, net:		
Financial assets held for trading	2,914	6,529
Foreign exchange gains, net:	–	29,284
Default fine	38,181	98,323
Gain on exchange of non-monetary assets	1,000	10,219
Gain on disposal of:		
Available-for-sale investments	81,767	40,347
Interests in subsidiaries	12,214	–
Interests in associates	37,704	4,349
Financial assets held for trading	–	731
Property, plant and equipment	56,543	364
Others	43,644	41,617
Other income and gains	473,248	429,213
	33,069,959	37,262,766

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

6. PROFIT BEFORE TAX

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

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Cost of inventories sold		20,968,518	22,978,604
Cost of services provided		4,184,284	6,817,278
Depreciation:			
Investment properties	14	11,918	7,493
Property, plant and equipment	13	1,034,003	964,822
Less: Amortisation of deferred income from government grants	30	(222,765)	(98,490)
		823,156	873,825
Amortisation:			
Land use rights	15	36,873	54,983
Intangible assets	17	52,072	45,603
Research and development costs:			
Current year expenditure		2,244,263	2,233,312
Less: Government grants released*		(387,494)	(753,785)
		1,856,769	1,479,527
Auditor's remuneration		7,912	8,525
Employee benefit expense (including directors' and supervisors' remuneration):			
Wages, salaries, housing benefits and other allowances		5,842,390	5,401,786
Share-based payment expense		17,759	–
Pension scheme contributions		880,707	859,735
Foreign exchange loss (gains), net		30,629	(29,284)
Impairment of:			
Available-for-sale investments		6,071	24,948
Accounts receivables and prepayments, deposits and other receivables		158,878	131,267
Property, plant and equipment	13	1,350	21,330
Other intangible assets	17	41,029	–
Write-down of inventories to net realisable value		57,519	175,425

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

7. FINANCE COSTS, NET

	2017 RMB'000	2016 RMB'000 (Restated)
Finance income:		
Bank interest income	177,069	201,879
Other interest income	–	10,351
	177,069	212,230
Finance costs:		
Interest on bank and other borrowings	479,529	477,257
Interest on finance leases	7,241	7,252
Total interest expense	486,770	484,509
Less: Interest capitalised	(30,264)	(32,206)
Other financial costs	50,671	63,045
	507,177	515,348
Finance costs, net	(330,108)	(303,118)

The interested capitalised in construction in progresses are ranging from 1.08% to 4.90% (2016: 1.08% to 5.58% as restated).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2017 RMB'000	2016 RMB'000
Fees	760	1,522
Other emoluments:		
Salaries and allowances	356	1,545
	1,116	3,067

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2017 RMB'000	2016 RMB'000
Mr. Lau Chungman	210	210
Mr. Liu Renhuai	170	170
Mr. Yeung Chi Wai	210	210
	590	590

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(b) Executive director and non-executive directors

	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017					
Executive director:					
Mr. Lin Zuoming	–	–	–	–	–
Non-executive directors:					
Mr. Tan Ruisong	–	–	–	–	–
Mr. Wu Xiandong[1]	–	–	–	–	–
Mr. Li Yao[1]	–	–	–	–	–
Mr. Patrick de Castelbajac[1]	–	–	–	–	–
Mr. Gu Huizhong[1]	–	–	–	–	–
Mr. Gao Jianshe[1]	–	–	–	–	–
Mr. He Zhiping	170	–	–	–	170
Mr. Kiran Rao[1]	–	–	–	–	–
	170	–	–	–	170

	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
Executive director:					
Mr. Lin Zuoming	–	450	–	–	450
Non-executive directors:					
Mr. Tan Ruisong	–	500	–	–	500
Mr. Gu Huizhong[1]	380	–	–	–	380
Mr. Gao Jianshe[1]	380	–	–	–	380
Mr. Kiran Rao[1,2]	–	–	–	–	–
Mr. He Zhiping[2]	57	–	–	–	57
Mr. Guo Chongqing[2]	85	–	–	–	85
Mr. Maurice Savart[2]	30	–	–	–	30
	932	950	–	–	1,882

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(b) Executive director and non-executive directors (Continued)

There was no arrangement under which directors waived or agreed to waive any remuneration during the year (2016: Nil). The emoluments paid or payable to each of the directors were paid by the Company.

(c) Supervisors

	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017					
Supervisors:					
Mr. Zheng Qiang	–	–	–	–	–
Mr. Liu Fumin	–	–	–	–	–
Ms. Li Jing	–	356	–	–	356
	–	356	–	–	356

	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
Supervisors:					
Mr. Zheng Qiang[3]	–	–	–	–	–
Mr. Liu Fumin	–	–	–	–	–
Ms. Li Jing	–	328	–	–	328
Mr. Chen Guanjun[3]	–	267	–	–	267
	–	595	–	–	595

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(c) Supervisors (Continued)

1 On 18 May of 2017, Mr. Wu Xiandong, Mr. Li Yao and Mr. Patrick de Castelbajac were appointed as the new non-executive director of the Company respectively; Mr. Gu Huizhong, Mr. Gao Jianshe and Mr. Kiran Rao were resigned as the non-executive directors of the Company respectively.

2 On 14 June and 25 August of 2016, Mr. Kiran Rao and Mr. He Zhiping were appointed as the new non-executive directors of the Company respectively; Mr. Maurice Savart and Mr. Guo Chongqing were resigned as the non-executive directors of the Company respectively.

3 On 27 October of 2016, Mr. Zheng Qiang was appointed as the new supervisor of the Company; Mr. Chen Guanjun were resigned as the supervisor of the Company.

9. FIVE HIGHEST PAID EMPLOYEES

The five individuals whose remuneration were highest in the Group for the year did not include any directors of the Company whose remuneration are set out in Note 8 above. Details of the remuneration for the year of the five highest paid employees of the Group are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and allowances	5,166	4,412

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2017	2016
Nil to HK$1,000,000 (equivalent to approximately RMB833,000)	–	3
HK$1,000,001 to HK$1,500,000 (equivalent to approximately RMB833,000 to RMB1,250,000)	5	2

During the years ended 31 December 2016 and 2017, no remuneration was paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals has waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2017.

10. INCOME TAX EXPENSES

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2016: 15%), in accordance with the relevant PRC enterprise income tax rules and regulations, provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25% (2016: 25%) on the assessable income of respective entities in the Group.

	2017 RMB'000	2016 RMB'000 (Restated)
Current income tax	380,785	385,977
Deferred income tax	(39,464)	(33,742)
Total tax charge for the year	341,321	352,235

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the year ended 31 December 2017.

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

	2017 RMB'000	2016 RMB'000 (Restated)
Profit before tax	2,757,885	2,651,898
Tax at the statutory tax rate of 25%	689,471	662,975
Lower tax rate(s) for specific provinces or enacted by local authorities	(320,120)	(317,137)
Profits and losses attributable to joint ventures and associates	(43,637)	(31,703)
Income not subject to tax	(70,563)	(25,321)
Expenses not deductible for tax	42,979	40,578
Tax losses utilised from previous periods	(4,439)	(10,301)
Tax losses not recognised	66,677	34,638
Others	(19,047)	(1,494)
Tax charge at the Group's effective rate	341,321	352,235

11. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Proposed:		
Final dividend, proposed of RMB0.03 (2016: RMB0.02) per share	178,984	119,322

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

This dividend for the year ended 31 December 2017 was not recognised as a payable in the consolidated financial statements as at 31 December 2017 but will be reflected as an appropriation of retained earnings for the year ending 31 December 2018.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 5,966,121,836 (2016: 5,966,121,836) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2017 (2016: nil).

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

	2017 RMB'000	2016 RMB'000 (Restated)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculation	1,222,280	1,160,082
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (thousands)	5,966,122	5,966,122
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation (thousands)	5,966,122	5,966,122

13. PROPERTY, PLANT AND EQUIPMENT

2017	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture, fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost					
As at 1 January 2017 (Restated)	2,805,823	7,234,111	7,889,595	2,826,927	20,756,456
Additions	1,906,939	123,857	332,103	159,970	2,522,869
Transfer from investment properties	–	16,307	–	–	16,307
Transfer upon completion	(1,374,907)	260,016	877,785	237,106	–
Disposal/write-off	(193,735)	(117,773)	(293,182)	(196,025)	(800,715)
Disposal of subsidiaries	(120,090)	–	(43)	(643)	(120,776)
Transfer to investment properties	–	(5,503)	–	–	(5,503)
As at 31 December 2017	3,024,030	7,511,015	8,806,258	3,027,335	22,368,638
Accumulated depreciation and impairment					
As at 1 January 2017 (Restated)	–	(1,559,917)	(3,751,214)	(1,896,476)	(7,207,607)
Depreciation	–	(226,719)	(554,477)	(252,807)	(1,034,003)
Transfer from investment properties	–	(1,666)	–	–	(1,666)
Impairment	–	–	(1,350)	–	(1,350)
Elimination on disposal/ write-off	–	45,697	287,388	69,550	402,635
Disposal of subsidiaries	–	–	22	417	439
As at 31 December 2017	–	(1,742,605)	(4,019,631)	(2,079,316)	(7,841,552)
Net book value					
As at 31 December 2016 (Restated)	2,805,823	5,674,194	4,138,381	930,451	13,548,849
As at 31 December 2017	3,024,030	5,768,410	4,786,627	948,019	14,527,086

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

2016 (Restated)	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture, fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost					
As at 1 January 2016	2,939,318	6,577,941	7,096,133	2,469,348	19,082,740
Additions	1,423,587	21,819	316,902	180,446	1,942,754
Transfer from investment properties	–	45,791	–	–	45,791
Transfer upon completion	(1,522,335)	679,958	562,088	280,289	–
Disposal/write-off	(34,747)	(87,352)	(85,528)	(103,156)	(310,783)
Transfer to investment properties	–	(4,046)	–	–	(4,046)
As at 31 December 2016	2,805,823	7,234,111	7,889,595	2,826,927	20,756,456
Accumulated depreciation and impairment					
As at 1 January 2016	–	(1,396,999)	(3,338,778)	(1,692,708)	(6,428,485)
Depreciation	–	(214,344)	(460,855)	(289,623)	(964,822)
Transfer from investment properties	–	(444)	–	–	(444)
Impairment	–	(2,900)	(18,185)	(245)	(21,330)
Elimination on disposal/write-off	–	53,342	66,604	86,100	206,046
Transfer to investment properties	–	1,428	–	–	1,428
As at 31 December 2016	–	(1,559,917)	(3,751,214)	(1,896,476)	(7,207,607)
Net book value					
As at 31 December 2016	2,805,823	5,674,194	4,138,381	930,451	13,548,849

As at 31 December 2017, certain of the Group's property, plant and equipment with a carrying value of approximately RMB63,600,000 (31 December 2016: RMB76,960,000 as restated) were situated on leasehold lands in the PRC which are granted by AVIC for the Group's use at no cost or have been leased from certain subsidiaries of the ultimate holding company under long-term leases. The remaining period of the Group's rights on the leasehold land at 31 December 2017 ranged from 5 to 32 years (31 December 2016: 6 to 33 years).

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group was in the process of applying for the legal titles for buildings with a net book value of RMB976,741,000 as at 31 December 2017 (31 December 2016: RMB2,322,156,000 as restated).

Certain property, plant and equipment were pledged as security for bank borrowings (Note 29(d)).

The carrying value of plant and equipment of approximately RMB4,786,627,000 (31 December 2016: RMB4,138,381,000 as restated) includes an amount of approximately RMB419,108,000 (31 December 2016: RMB175,160,000 as restated) in respect of assets held under finance leases.

14. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000 (Restated)
Carrying amount at 1 January	301,877	346,024
Additions	3,233	29,126
Transfer from owner-occupied property	7,394	2,618
Depreciation	(11,918)	(7,493)
Transfer to owner-occupied property	(19,041)	(68,398)
Carrying amount at 31 December	281,545	301,877
At valuation	476,842	569,084

All investment properties are located in the PRC and their valuations as at 31 December 2017 and 2016 stated above were determined by the directors of the Company based on either the observable market prices of similar buildings in the same districts or the discounted cash flow method, which are within Level 2 of the fair value hierarchy.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group was in the process of applying for the legal titles for investment properties with a net book value of RMB81,365,000 as at 31 December 2017 (31 December 2016: RMB74,290,000 as restated).

15. LAND USE RIGHTS

	2017 RMB'000	2016 RMB'000 (Restated)
Cost		
As at 1 January	1,957,705	1,834,279
Additions	15,927	32,208
Transfer from investment properties	4,916	25,192
Transfer from prepayments and deposits	–	66,026
Transfer to investment properties	(2,247)	–
As at 31 December	1,976,301	1,957,705
Accumulated amortisation		
As at 1 January	(249,459)	(192,335)
Amortisation	(36,873)	(54,983)
Transfer from investment properties	(516)	(2,141)
Transfer to investment properties	356	–
As at 31 December	(286,492)	(249,459)
Net book amount		
As at 31 December	1,689,809	1,708,246

The Group was in the process of applying for the legal titles for land use rights with a net book value of Nil as at 31 December 2017 (31 December 2016: RMB22,636,000 as restated).

16. GOODWILL

	2017 RMB'000	2016 RMB'000 (Restated)
Carrying amount at 31 December	69,188	69,188

The goodwill acquired in the acquisitions of Shenzhen Xiangtong Photoelectric Technology Co., Ltd. ("Xiangtong Photoelectric") in 2014 and AVIC Forstar S&T Co., Ltd. ("AVIC Forstar") in 2013 is fully allocated to each cash-generating unit respectively. As of 31 December 2017, the Group performed an impairment assessment of goodwill based on the respective recoverable amounts of the CGUs and concluded that no impairment provision was necessary. The recoverable amount of each CGU is determined based on a value-in-use calculation using the discounted cash flow method. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

The key assumptions used for value-in-use calculations in 2017 were annual growth rates of 9% to 10% and 4% to 11% (2016: 0% to 25% and 6% to7%) for the five-year forecast, growth rates beyond the five-year period of 0% and 0% (2016: 0% and 0%) and pre-tax discount rates of 15% and 15% (2016: 13% and 13%) for Xiangtong Photoelectric and AVIC Forstar, respectively.

Management determined that volume of sales and gross margin covering over the five-year forecast period are the key assumptions. The volume of sales in each period is the main driver for revenue and costs. The annual volume growth rates are based on past performance and management's expectations of market development. The long-term growth rates used are determined with reference to the forecasts included in industry reports and adjusted by the entities' specific conditions. The discount rates used are pre-tax and reflect specific risks relating to the relevant businesses.

17. OTHER INTANGIBLE ASSETS

2017	Development costs RMB'000	Service concession arrangement RMB'000	Technology know-how RMB'000	Trademarks and licences RMB'000	Contractual customer relationships RMB'000	Total RMB'000
Cost						
As at 1 January 2017 (restated)	50,630	598,286	141,505	80,982	19,302	890,705
Additions	6,068	387	18,885	–	–	25,340
Disposal/write off	–	(1,030)	(13,550)	–	–	(14,580)
As at 31 December 2017	56,698	597,643	146,840	80,982	19,302	901,465
Accumulated amortisation and impairment						
As at 1 January 2017 (restated)	–	(27,129)	(87,802)	(79,474)	(6,434)	(200,839)
Amortisation	–	(23,947)	(23,032)	(1,474)	(3,619)	(52,072)
Elimination on disposal/ write off	–	283	11,630	–	–	11,913
Impairment	–	(41,029)	–	–	–	(41,029)
As at 31 December 2017	–	(91,822)	(99,204)	(80,948)	(10,053)	(282,027)
Net book amount						
As at 31 December 2017	56,698	505,821	47,636	34	9,249	619,438

17. OTHER INTANGIBLE ASSETS (Continued)

2016 (Restated)	Development costs RMB'000	Service concession arrangement RMB'000	Technology know-how RMB'000	Trademarks and licences RMB'000	Contractual customer relationships RMB'000	Total RMB'000
Cost						
As at 1 January 2016	48,597	580,000	141,416	80,982	19,302	870,297
Additions	2,033	18,286	89	–	–	20,408
As at 31 December 2016	50,630	598,286	141,505	80,982	19,302	890,705
Accumulated amortisation						
As at 1 January 2016	–	(3,867)	(67,931)	(78,210)	(5,228)	(155,236)
Amortisation	–	(23,262)	(19,871)	(1,264)	(1,206)	(45,603)
As at 31 December 2016	–	(27,129)	(87,802)	(79,474)	(6,434)	(200,839)
Net book amount						
As at 31 December 2016	50,630	571,157	53,703	1,508	12,868	689,866

Concession assets

The Group's concession assets represent the rights that the Group obtained for the usage of the concessions in relation to wastewater treatment plants. The Group recognized the rights as intangible assets and the amounts are amortized over the relevant concession services periods.

18. INVESTMENTS IN JOINT VENTURES

The following table illustrates the financial information of the Group's joint ventures which are not individually material:

	2017 RMB'000	2016 RMB'000 (Restated)
Share of net assets, as at 1 January	95,200	75,121
Increase in investments	23,066	1,500
Share of profit for the year	22,196	28,262
Disposal of investments	(7,520)	–
Dividend declared	(10,509)	(9,683)
Share of net assets, as at 31 December	122,433	95,200

19. INVESTMENTS IN ASSOCIATES

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 RMB'000	2016 RMB'000 (Restated)
Share of net assets, as at 1 January	849,153	848,542
Share of profit for the year	152,352	98,549
Increase in investments	60,000	76,120
Dividend declared	(147,641)	(172,617)
Transfer from interests in subsidiaries	35,355	–
Disposal of investments	(11,466)	(1,441)
	937,753	849,153
Provision for impairment	(9,726)	(9,726)
Share of net assets, as at 31 December	928,027	839,427

20. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000 (Restated)
Listed equity investments, at fair value	614,236	917,078
Unlisted equity investments, at cost (Note)	774,147	684,463
	1,388,383	1,601,541
Less: Provision for impairment	(97,957)	(91,886)
	1,290,426	1,509,655

During the year, the fair value loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB246,081,000 (2016: RMB370,368,000 as restated) and cumulative gain of RMB54,120,000 (2016: RMB38,512,000 as restated) was reclassified from other comprehensive income to the consolidated statement of profit or loss for the year.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date.

Note: These equity investments represent investments in certain unlisted companies which do not have a quoted market price in an active market and for which the range of other methods of reasonably estimating fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. Therefore, these investments are carried at cost less accumulated impairment losses.

21. DEFERRED TAX

The movement in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Impairment RMB'000	Accruals and other temporary differences RMB'000	Total RMB'000
At 1 January 2016 (restated)	159,785	68,857	228,642
Deferred tax credited to profit or loss during the year	26,166	1,033	27,199
Deferred tax charged to the other comprehensive income during the year	–	(16,960)	(16,960)
At 31 December 2016 (restated)	185,951	52,930	238,881
Deferred tax credited to profit or loss during the year	25,713	28,270	53,983
Deferred tax charged to the other comprehensive income during the year	–	(4,643)	(4,643)
At 31 December 2017	211,664	76,557	288,221

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

	2017 RMB'000	2016 RMB'000 (Restated)
Deductible temporary differences	176,543	139,932
Tax losses not recognised	369,844	384,264

21. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

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

	2017 RMB'000	2016 RMB'000
2017	–	43,337
2018	44,340	63,228
2019	75,508	79,603
2020	64,841	64,841
2021	127,889	133,255
2022	57,266	–
	369,844	384,264

Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences which relate to certain subsidiaries that have been loss-making for some years and it is not considered probable that sufficient taxable profits will be available in the near future against which the tax losses and deductible temporary differences can be utilised.

Deferred tax liabilities

	Fair value change of available-for-sale investments RMB'000	Investment profit to be amortised RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2016 (restated)	160,565	17,714	24,151	202,430
Deferred tax charged/(credited) to profit or loss during the year	11,842	(4,429)	(13,956)	(6,543)
Deferred tax credited to the other comprehensive income during the year	(78,292)	–	–	(78,292)
At 31 December 2016 (restated)	94,115	13,285	10,195	117,595
Deferred tax charged/(credited) to profit or loss during the year	350	(4,428)	18,597	14,519
Deferred tax credited to the other comprehensive income during the year	(49,673)	–	–	(49,673)
At 31 December 2017	44,792	8,857	28,792	82,441

21. DEFERRED TAX (Continued)

Offsetting of deferred tax assets and deferred tax liabilities

	2017		2016	
	Offsetting amount RMB'000	Net amount after offsetting RMB'000	Offsetting Amount RMB'000 (Restated)	Net amount after offsetting RMB'000 (Restated)
Deferred tax assets	–	288,221	(19,165)	219,716
Deferred tax liabilities	–	82,441	19,165	136,760

22. INVENTORIES

	2017 RMB'000	2016 RMB'000 (Restated)
Raw materials	6,059,978	6,257,525
Work in progress	14,386,462	12,998,198
Finished goods	2,774,009	2,398,867
	23,220,449	21,654,590

23. ACCOUNTS AND NOTES RECEIVABLES

	2017 RMB'000	2016 RMB'000 (Restated)
Accounts receivables		
– Ultimate holding company	4,013	4,310
– Fellow subsidiaries	5,708,610	5,961,059
– A joint venture	74	259
– Associates	95,780	26,523
– Others	8,390,254	6,767,702
Accounts receivable, gross	14,198,731	12,759,853
Provision for impairment	(825,306)	(681,119)
Accounts receivable, net	13,373,425	12,078,734
Notes receivables		
– Fellow subsidiaries	1,706,446	2,191,714
– A joint venture	1,051	1,034
– Others	2,460,114	1,952,709
	4,167,611	4,145,457
Accounts and notes receivables	17,541,036	16,224,191

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

23. ACCOUNTS AND NOTES RECEIVABLES (Continued)

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

	2017 RMB'000	2016 RMB'000 (Restated)
Within 1 year	10,870,624	9,799,999
1 to 2 years	1,663,082	1,788,223
2 to 3 years	670,970	376,470
Over 3 years	168,749	114,042
	13,373,425	12,078,734

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

	2017 RMB'000	2016 RMB'000 (Restated)
At beginning of year	681,119	575,419
Impairment losses recognised	153,684	107,745
Amount written off as uncollectible	(9,497)	(2,045)
	825,306	681,119

Included in the above provision for impairment of accounts receivables was a provision for individually impaired accounts receivables of RMB74,702,000 (2016: RMB37,306,000 as restated) with a carrying amount before provision of RMB1,166,412,000 (2016: RMB79,286,000 as restated), and a provision for collectively impaired accounts receivable of RMB750,604,000 (2016: RMB643,813,000 as restated) with a carrying amount before provision of RMB6,597,658,000 (2016: RMB6,572,884,000 as restated).

The individually impaired accounts receivables relate to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

23. ACCOUNTS AND NOTES RECEIVABLES (Continued)

The aged analysis of the accounts receivables that are not individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Not past due	6,392,413	6,101,651
Less than 1 year past due	26,741	4,832
1 to 2 years past due	12,640	680
Over 2 years past due	2,867	520
	6,434,661	6,107,683

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The amounts due from the Group's joint ventures and associates are repayable on credit terms similar to those offered to the major customers of the Group.

Certain accounts and notes receivable were pledged as security for bank borrowings (Note 29(d)).

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000 (Restated)
Advances to suppliers		
–Ultimate holding company	3	–
– Fellow subsidiaries	339,175	862,485
– Associates	10	–
– Others	584,693	886,955
Amounts due from customers for contract work	969,316	145,806
Dividends receivable		
– Associates	25	50
Prepayments and deposits	923,682	746,405
Other advances to		
– Ultimate holding company	777	412
– Fellow subsidiaries	94,584	102,385
Other current assets	887,578	602,331
Other receivables		
– Associates	53	–
– Others	658,314	736,725
	4,458,210	4,083,554
Less: Non-current portion	(810,567)	(638,067)
	3,647,643	3,445,487

As of 31 December 2017, other receivables of RMB110,423,000 (2016: RMB97,527,000 as restated) were impaired. The individually impaired receivables mainly relate to those small debtors which are in financial difficulties.

25. FINANCIAL ASSETS HELD FOR TRADING

	2017 RMB'000	2016 RMB'000 (Restated)
Listed equity investment, at market value	23,660	31,057

26. PLEDGED DEPOSITS AND TERM DEPOSITS WITH INITIAL TERMS OF OVER THREE MONTHS AND CASH AND CASH EQUIVALENT

	2017 RMB'000	2016 RMB'000 (Restated)
Cash and bank balances	13,873,574	10,632,939
Less: Pledged deposits	(1,502,878)	(1,035,307)
Term deposits with initial terms of over three months	(1,307,509)	(717,656)
Cash and cash equivalents	11,063,187	8,879,976

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between seven days and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term fixed deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2017, RMB6,213,600,000 (31 December 2016: RMB3,030,983,000 as restated) was deposited in AVIC Finance Co, Ltd., a fellow subsidiary of the Company.

27. ACCOUNTS AND NOTES PAYABLES

	2017 RMB'000	2016 RMB'000 (Restated)
Accounts payable (Note(a))		
– Ultimate holding company	11,058	138
– Fellow subsidiaries	2,915,776	3,037,576
– Joint ventures	6,689	8,172
– Associates	57,649	4,492
– Others	14,976,684	14,951,746
	17,967,856	18,002,124
Notes payable (Note(b))		
– Fellow subsidiaries	2,011,324	1,823,728
– Joint ventures	34,263	51,262
– Associates	15,349	600
– Others	4,056,004	4,279,745
	6,116,940	6,155,335
	24,084,796	24,157,459

Notes:

(a) An ageing analysis of the accounts payable as at the end of the reporting period, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Within 1 year	11,903,022	13,286,612
1 to 2 years	3,794,203	3,079,904
2 to 3 years	1,267,904	1,200,113
Over 3 years	1,002,727	435,495
	17,967,856	18,002,124

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

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

27. ACCOUNTS AND NOTES PAYABLES (Continued)

Notes: (Continued)

(b) The notes payable are with an average maturity period of less than six months. As at 31 December 2017, notes payable of RMB3,942,943,000 (31 December 2016: RMB3,360,153,000 as restated) were secured by pledged deposits to the extent of RMB1,394,524,000 (2016: RMB1,009,104,000 as restated).

28. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000 (Restated)
Advances from customers		
– Ultimate holding company	32,419	32,267
– Fellow subsidiaries	4,612,188	1,690,207
– Associates	8,681	–
– Others	433,648	522,195
Wages, salaries, bonuses and other employee benefits	1,729,027	2,103,511
Accrued expenses	250,291	152,678
Payable for property, plant and equipment		
– Fellow subsidiaries	67,831	60,343
– Others	53,393	176,284
Payable for acquisition of equity interests in subsidiaries		
– Fellow subsidiaries (Note)	206,744	411,718
– Others	–	12,240
Deferred income from government grants (Note 30)	39,639	53,496
Amounts payable to the ultimate holding company	268,827	268,827
Other advances from		
– Ultimate holding company	–	2,107
– Fellow subsidiaries	413,871	209,347
– Others	124,585	–
Dividend payable to non-controlling shareholders of subsidiaries	182,199	186,112
Consumption tax, business tax and other taxes payable	223,383	245,154
Provision	278,430	212,829
Other payables		
– Associates	17,665	–
– Others	1,243,933	1,008,162
	10,186,754	7,347,477
Less: Non-current portion	(812,554)	(1,021,531)
	9,374,200	6,325,946

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

28. OTHER PAYABLES AND ACCRUALS (Continued)

Note:

The balance as at 31 December 2017 represents the remaining amount payables for the acquisition of AVIC Renewable Energy as mentioned in note 2.1.

On July 2013, China Avionics Systems Co., Ltd., a subsidiary of the Company (the "Transferee"), and Avionics Systems (the "Transferor") signed a "Share Transfer Agreement regarding Beijing Keeven Aviation Instrument Co., Ltd. and Suzhou Changfeng Avionics Co., Ltd." (the "Share Transfer Agreement"), based on which the Transferee acquired 100% shares of Beijing Keeven Aviation Instrument Co., Ltd. and Suzhou Changfeng Avionics Co., Ltd.("Suzhou Changfeng") held by the Transferor in cash of RMB1,417,700,400. According to the Share Transfer Agreement, if land use rights held by Suzhou Changfeng was claimed by Suzhou Land Reserve Center and the compensation received from Suzhou Land Reserve Center (the "Land Compensation"), after deduction of taxes, was higher than the book value of the land use rights (namely the net income of the Land Compensation), the Transferee needs to pay the Transferor in cash the net income of the Land Compensation actually received by Suzhou Changfeng; if the Land Compensation, after deduction of taxes, was lower than the book value of the land use rights (namely the net loss of the Land Compensation), the Transferor should pay the Transferee in cash the net loss of the Land Compensation of Suzhou Changfeng.

From the date of the Share Transfer Agreement until 31 December 2016, Suzhou Changfeng has received part of the Land Compensation, amounting to RMB412 million. The Transferee has recorded the above payments in other payables as net income of the Land Compensation due to the Transferor, while writing off capital reserve. As at 31 December 2016, Suzhou Changfeng has not settled the above the Land Compensation with regard to the land use rights with Suzhou Land Reserve Center, and therefore the amount payable to the Transferor remains unknown to the Transferee. The Land Compensation had been fully settled during the year ended 31 December 2017.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2017			31 December 2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000 (Restated)
Current						
Bank borrowings – unsecured	3-5	2018	1,573,110	3-6	2017	1,310,000
Bank borrowings – secured	–	–	–	4-6	2017	62,400
Other borrowings – unsecured	4-5	2018	2,614,000	3-6	2017	1,883,500
Other borrowings – secured	4-7	2018	443,800	4-6	2017	286,500
Current portion of long-term						
bank borrowings – unsecured	3-5	2018	163,800	4-6	2017	234,774
bank borrowings – secured	4-5	2018	37,915	2-7	2017	499,116
other borrowings – unsecured	–	–	–	4-6	2017	171,800
other borrowings – secured	4-5	2018	513,000	4-6	2017	2,500
			5,345,625			4,450,590
Non-current						
Bank borrowings – unsecured	1-5	2019-2031	257,358	1-6	2018-2030	363,662
Bank borrowings – secured	1-5	2019-2031	1,337,567	2-7	2018-2026	948,858
Other borrowings – unsecured	3-5	2019-2021	3,443,510	2-8	2018-2019	3,452,659
Other borrowings – secured	5	2019-2021	4,092	4-6	2018-2021	525,950
			5,042,527			5,291,129
			10,388,152			9,741,719

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2017 RMB'000	2016 RMB'000 (Restated)
Analysed into:		
Bank borrowings repayable:		
– Within one year	1,774,825	2,106,290
– In the second year	563,706	223,774
– In the third to fifth year, inclusive	87,098	75,536
– Beyond five years	944,121	1,013,210
	3,369,750	3,418,810
Other borrowings repayable:		
– Within one year	3,570,800	2,344,300
– In the second year	3,267,602	543,000
– In the third to fifth year, inclusive	140,000	3,420,794
– Beyond five years	40,000	14,815
	7,018,402	6,322,909
	10,388,152	9,741,719

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes:

(a) As at 31 December 2017, other borrowings represented:

– corporate bonds issued by AVIC Jonhon Optronic Technology Co., Ltd. in an aggregate principal amount of RMB500,000,000 (31 December 2016: RMB500,000,000) bearing interest at 5.08% per annum (2016: 5.08%) and guaranteed by the Company.

– corporate bonds issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB1,000,000,000 (31 December 2016: RMB1,000,000,000) bearing interest at 3.52% (2016: 3.52%) per annum.

– corporate bonds issued by Jiangxi Hongdu Aviation Industry Co., Ltd. in an aggregate principal amount of RMB900,000,000 (31 December 2016: RMB900,000,000 bearing interest at 3.20% (2016: 3.20%) per annum.

– borrowings granted by a fellow subsidiary of AVIC amounting to RMB4,493,677,000 (31 December 2016: RMB3,969,392,000 as restated) bearing interest at 3% to 7% per annum (2016: 3% to 7%).

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

	2017 RMB'000	2016 RMB'000 (Restated)
Bank borrowings		
– Fixed rates (1% – 6%)	1,461,268	1,387,036
– Floating rates (3% – 7%)	1,908,482	2,031,774
	3,369,750	3,418,810
Other borrowings		
– Fixed rates (3% – 6%)	6,597,310	5,761,044
– Floating rates (4% – 5%)	421,092	561,865
	7,018,402	6,322,909
	10,388,152	9,741,719

The new borrowings were borrowed for business daily operation.

The annual effective interest rates of long-term and short-term borrowings at the end of the reporting period were as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Weighted average effective interest rates		
– Bank borrowings	4%	4%
– Other borrowings	4%	5%

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

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

(d) The Group's long-term and short-term bank and other borrowings are secured as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Securities over the Group's assets, at carrying value		
– Pledged deposits	–	2,000
– Buildings	–	21,479
– Notes receivable	73,800	16,500
– Accounts receivable	278,098	258,407
	351,898	298,386
Guarantees provided by		
– Fellow subsidiaries	375,115	254,434
– Entities within the Group	1,276,859	1,979,431
	1,651,974	2,233,865
	2,003,872	2,532,251

(e) As at 31 December 2017, the Group had the following undrawn committed borrowings facilities:

	2017 RMB'000	2016 RMB'000 (Restated)
At floating rates		
– Expiring within one year	8,382,451	8,061,759

30. DEFERRED INCOME FROM GOVERNMENT GRANTS

Movements of deferred income from government grants for each of the years ended 31 December 2017 and 2016 are as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
At 1 January	869,321	849,189
Additions	209,178	172,118
Amortisation	(222,765)	(98,490)
At 31 December	855,734	922,817
Less: Current portion	(39,639)	(53,496)
	816,095	869,321

31. CONVERTIBLE BONDS

A subsidiary of the Company issued convertible bonds with a coupon rate of 0.2% in year 1, 0.5% in year 2, 1% in year 3, 1.5% in year 4, 1.8% in year 5 and 2% in year 6 at a total principal value of RMB2,400,000,000 on 25 December 2017. Among the total principal amount, RMB500,000,000 was held by the Company. The convertible bonds are denominated in RMB and are guaranteed by the Company's ultimate holding company. The convertible bonds entitle the holders to convert them into ordinary shares of the subsidiary at any time between the date after six months of issue of the bonds and their settlement date on 24 December 2023 at a conversion price of RMB14.29 per convertible bond. If the bonds have not been converted, they will be redeemed on 24 December 2023 at par. Interest will be paid annually up until the settlement date.

The convertible bonds contain two components, liability and equity elements. The equity element is presented in equity heading "equity component of convertible bonds of a subsidiary". The effective interest rate of the liability component is 5.41% per annum.

The movement of the liability component of the convertible bonds for the year is set out below:

	2017 RMB'000	2016 RMB'000 (Restated)
Carrying amount at beginning of the financial year	–	–
Issued during the year	1,531,945	–
Carrying amount at end of the financial year	1,531,945	–

32. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease its plant and equipment under finance leases. The average lease term is 8 to 15 years (2016: 8 to 15 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 4.7% to 6.9% per annum (2016: 4.9% to 6.9% per annum as restated). The Group has options to purchase the plant and equipment for a nominal amount at the end of the lease term. No arrangements have been entered for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2017 RMB'000	2016 RMB'000 (Restated)	2017 RMB'000	2016 RMB'000 (Restated)
Amounts payable under finance leases				
Within one year	54,077	31,506	45,305	22,778
After one year but within two years	61,880	31,506	52,743	23,941
After two years but within five years	183,833	94,096	158,188	78,970
Over five years	235,728	58,956	162,871	49,471
	535,518	216,064	419,107	175,160
Less: future finance charges	(116,411)	(40,904)	N/A	N/A
Present value of obligations under finance leases	419,107	175,160	419,107	175,160
Less: amount due for settlement with 12 months (shown under current liabilities)			(45,305)	(22,778)
Amount due for settlement after 12 months			373,802	152,382

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

33. SHARE CAPITAL

Shares

	2017 RMB'000	2016 RMB'000
Registered, issued and fully paid:		
3,609,687,934 (2016: 3,609,687,934) domestic shares of RMB1 each	3,609,688	3,609,688
2,356,433,902 (2016: 2,356,433,902) H shares of RMB1 each	2,356,434	2,356,434
	5,966,122	5,966,122

The H shares rank pari passu in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars. The transfer of the domestic shares is subject to such restrictions as the PRC laws may impose from time to time.

34. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 109 to 110 of the financial statements.

(a) Capital reserve

Capital reserve of the Group also includes reserves arising from the issuance of additional shares by subsidiaries, share-based payment, capital contributions in associates and disposals to non-controlling interests without change in control. Upon group restructuring where there are acquisitions or distributions with a holding company, the consideration is also accounted for in capital reserve of the Group.

(b) Currency translation reserve

Currency translation reserve arises from currency translations of a subsidiary that has a functional currency different from RMB, which is the Group's presentation currency.

(c) Other reserves

(i) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with the PRC accounting standards to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, this reserve balance should not fall below 25% of the registered capital by other usage.

(ii) Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside an amount to a safety reserve at the rate ranging from 0.1% to 2% on the total revenue of aviation products recognised for the year. The reserve can be utilised for improvements of safety on the manufacturing work of aviation products, and the amounts utilised are charged to the consolidated statement of profit or loss, as incurred. In 2017, RMB65,501,000 (2016: RMB45,470,000 as restated) was appropriated to the special reserve, and RMB36,774,000 (2016: RMB22,090,000 as restated) was utilised.

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

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

Percentage of equity interest held by non-controlling interests

	2017	2016
AVIC Jonhon Optronic Technology Co., Ltd.	58.83%	58.43%
China Avionics Systems Co., Ltd.	56.78%	56.78%
AVICOPTER PLC	65.23%	65.23%
Jiangxi Hongdu Aviation Industry Co., Ltd.	56.23%	56.23%

Profit for the year allocated to non-controlling interests

	2017 RMB'000	2016 RMB'000
AVIC Jonhon Optronic Technology Co., Ltd.	527,894	474,615
China Avionics Systems Co., Ltd.	340,823	305,486
AVICOPTER PLC	268,042	306,685
Jiangxi Hongdu Aviation Industry Co., Ltd.	32,111	10,627

35. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

Dividends paid to non-controlling interests

	2017 RMB'000	2016 RMB'000
AVIC Jonhon Optronic Technology Co., Ltd.	59,446	55,107
China Avionics Systems Co., Ltd.	51,576	57,888
AVICOPTER PLC	88,439	96,140
Jiangxi Hongdu Aviation Industry Co., Ltd.	4,066	4,347

Accumulated balances of non-controlling interests at the reporting date

	2017 RMB'000	2016 RMB'000
AVIC Jonhon Optronic Technology Co., Ltd.	3,455,795	2,945,396
China Avionics Systems Co., Ltd.	4,340,692	3,640,229
AVICOPTER PLC	5,049,322	4,774,213
Jiangxi Hongdu Aviation Industry Co., Ltd.	2,778,533	2,854,554

35. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

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

2017	AVIC Jonhon Optronic Technology Co., Ltd. RMB'000	China Avionics Systems Co., Ltd. RMB'000	AVICOPTER PLC RMB'000	Jiangxi Hongdu Aviation Industry Co., Ltd. RMB'000
Revenue	6,336,524	7,007,867	12,044,622	3,173,008
Total expenses	1,262,717	1,820,911	1,338,627	245,534
Profit for the year	869,986	587,098	469,935	56,573
Total comprehensive income for the year	969,922	600,092	469,935	(128,121)
Current assets	7,907,103	15,809,528	15,548,059	5,036,920
Non-current assets	2,192,146	5,386,735	3,514,036	4,490,681
Current liabilities	4,280,099	9,627,847	11,189,493	2,538,506
Non-current liabilities	321,883	4,183,175	691,304	2,060,866
Net cash flows from/(used in) operating activities	414,763	(338,332)	572,110	118,526
Net cash flows used in investing activities	(278,608)	(464,222)	(121,108)	(191,168)
Net cash flows from/(used in) financing activities	118,752	2,973,871	(74,390)	(204,802)
Effect of foreign exchange rate changes, net	(26,757)	(210)	(3)	(154)
Net increase/(decrease) in cash and cash equivalents	228,150	2,171,107	376,609	(277,598)

35. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (Continued)

2016	AVIC Jonhon Optronic Technology Co., Ltd. RMB'000	China Avionics Systems Co., Ltd. RMB'000	AVICOPTER PLC RMB'000	Jiangxi Hongdu Aviation Industry Co., Ltd. RMB'000
Revenue	5,695,318	6,776,333	12,328,598	3,659,605
Total expenses	1,130,524	1,719,204	1,215,375	292,225
Profit for the year	781,545	523,281	469,935	17,729
Total comprehensive income/(loss) for the year	781,588	465,017	461,615	(203,012)
Current assets	6,652,450	12,445,268	15,548,059	6,219,706
Non-current assets	1,926,494	5,092,399	3,514,036	4,400,430
Current liabilities	3,058,620	9,088,655	11,189,493	3,502,776
Non-current liabilities	838,899	2,242,546	691,304	2,054,323
Net cash flows from/(used in) operating activities	116,929	(424,183)	(335,622)	(725,890)
Net cash flows used in investing activities	(182,107)	(348,597)	(160,567)	(408,090)
Net cash flows from financing activities	48,054	731,999	26,360	960,720
Effect of foreign exchange rate changes, net	23,146	507	56	304
Net increase/(decrease) in cash and cash equivalents	6,022	(40,274)	(469,773)	(172,956)

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms initially ranging from one to seven years.

As at 31 December 2017 and 2016, the Group had total commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Land and buildings		
Within one year	36,038	34,263
In the second to fifth year, inclusive	92,439	44,881
After five years	12,394	28,944
	140,871	108,088

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

Contracted for but not provided in the consolidated financial statements

	2017 RMB'000	2016 RMB'000 (Restated)
Plant and equipment	48,786	62,080
Construction in progress	197,850	436,881
	246,636	498,961

38. RELATED PARTY DISCLOSURES

The Group is directly and indirectly controlled by AVIC, which owned 58.57% in total of the Company's shares as at 31 December 2017. The remaining 41.43% of the shares are widely held.

Related parties refer to entities in which AVIC has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; or directors or officers of the Company and of its ultimate holding company, associates or joint ventures. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government structure, a majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"), including AVIC, its subsidiaries, associates and joint ventures in the ordinary course of business.

In accordance with IAS 24 *Related Party Disclosures*, state-owned enterprises and their subsidiaries, other than entities under AVIC (also a state-owned enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither AVIC nor the PRC government publishes financial statements for public use. In the normal course of the Group's business, the Group may either enter into various transactions with one or more of such state-owned enterprises and their subsidiaries. However, the Company adopts IAS 24 (revised 2009) which grants exemptions on disclosure requirements about government-related entities.

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions in addition to the related party information shown elsewhere in the financial statements. Management of the Group are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

38. RELATED PARTY DISCLOSURES (Continued)

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

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Ultimate holding company:			
Rendering of service	(3)	13,669	8,019
Guarantee	(3)	2,400,000	–
Associates:			
Sales of goods	(3)	98,360	127,433
Purchases of products	(3)	45,048	85,361
Rendering of service	(3)	23,992	61,311
Service fee payable	(3)	90	58
Joint ventures:			
Sales of goods	(3)	1,125	1,143
Purchases of products	(3)	87,021	105,658
Fellow subsidiaries:	(1)		
Sales of goods	(3)	17,925,933	20,059,272
Purchases of products	(3)	5,833,717	7,293,647
Rendering of service	(3)	2,951,609	4,205,579
Service fee payable	(3)	346,104	596,166
Rental expense	(3)	44,444	83,098
Rental income	(3)	3,757	11,135
Guarantee	(3)	375,115	254,434
Other financial services	(3)	877,040	667,000
Other related party	(2)		
Sales of goods	(3)	–	6,095

38. RELATED PARTY DISCLOSURES (Continued)

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

Notes:

(1) Fellow subsidiaries are companies whose are controlled by the same ultimate holding company, AVIC.

(2) Other related party represents Commercial Aircraft Corporation of China Ltd., which is an associate of AVIC.

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

- **Sales/purchases of goods and materials, and rendering/receiving services**

  The products and ancillary services are provided: (i) according to the Government-prescribed price; (ii) if there is no Government-prescribed price, then according to the Government-guidance price; (iii) if there is no Government-guidance price, then according to the market price; and (iv) if none of the above is applicable, then according to the contractual price.

- **Rental income/expenses**

  The annual rental is reviewed and adjusted regularly and not be higher than the prevailing market annual rental as determined by an independent valuer with reference to the market rent of land or properties with similar conditions and locations.

- **Guarantees**

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

38. RELATED PARTY DISCLOSURES (Continued)

(b) Outstanding balances with related parties:

	2017 RMB'000	2016 RMB'000 (Restated)
Assets:		
Accounts receivable		
– Ultimate holding company	4,013	4,310
– Fellow subsidiaries	5,708,610	5,961,059
– A joint venture	74	259
– Associates	95,780	26,523
Notes receivable		
– Fellow subsidiaries	1,706,446	2,191,714
– A joint venture	1,051	1,034
Advance to suppliers		
– Ultimate holding company	3	–
– Fellow subsidiaries	339,175	862,485
– Associates	10	–
Other receivables and prepayments		
– Ultimate holding company	777	412
– Fellow subsidiaries	94,584	102,385
– Associates	78	50
Deposits		
– A fellow subsidiary	6,213,600	3,030,983
Liabilities:		
Accounts payable		
– Ultimate holding company	11,058	138
– Fellow subsidiaries	2,915,776	3,037,576
– Joint ventures	6,689	8,172
– Associates	57,649	4,492
Notes payable		
– Fellow subsidiaries	2,011,324	1,823,728
– Joint ventures	34,263	51,262
– Associates	15,349	600
Advances from customers		
– Ultimate holding company	32,419	32,267
– Fellow subsidiaries	4,612,188	1,690,207
– Associates	8,681	–

38. RELATED PARTY DISCLOSURES (Continued)

(b) Outstanding balances with related parties: (Continued)

	2017 RMB'000	2016 RMB'000 (Restated)
Other payables and accruals		
– Ultimate holding company	268,827	270,934
– Fellow subsidiaries	688,446	681,408
– Associates	17,665	–
Borrowings		
– Fellow subsidiaries	4,493,677	3,969,392

Except for borrowings from fellow subsidiary as stated in Note 29, other balances with related parties above are unsecured, non-interest-bearing, and are repayable or settled in accordance with the relevant trading terms.

(c) Compensation of key management personnel of the Group

	2017 RMB'000	2016 RMB'000
Short-term employee benefits and total compensation paid to key management personnel	2,916	4,411

Key management includes directors (executive and non-executive), supervisors, senior management of the Company and the Board secretary.

Further details of directors' and supervisors' emoluments are included in Note 8.

39. TRANSFERS OF FINANCIAL ASSETS

(1) Transferred financial assets that are not derecognised in their entirety

(a) At 31 December 2017, the Group endorsed certain bills receivables accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB309,546,000 (2016: RMB423,317,000 as restated) to certain of its suppliers in order to settle the accounts payable due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated accounts payable settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the accounts payable settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB309,546,000 (2016: RMB423,317,000 as restated) as at 31 December 2017.

(b) As part of its normal business, the Group entered into accounts receivable factoring arrangements (the "Arrangements I") and transferred certain accounts receivable to banks. Under the Arrangements I, the Group may be required to reimburse the bank for loss of interest if any trade debtors have late payment. The Group is exposed to default risks of the accounts debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the accounts receivable, including the sale, transfer or pledge of the accounts receivable to any other third parties. The original carrying value of the accounts receivable transferred under the Arrangements I that have not been settled as at 31 December 2017 was RMB242,875,000 (2016: RMB238,940,000 as restated). The carrying amount of the assets that the Group continued to recognise as at 31 December 2017 was RMB242,875,000 (2016: RMB238,940,000 as restated) and that of the associated liabilities as at 31 December 2017 was RMB220,000,000 (2016: RMB230,000,000 as restated).

39. TRANSFERS OF FINANCIAL ASSETS (Continued)

(2) Transferred financial assets that are derecognised in their entirety

(a) At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the accounts payable due to such suppliers with a carrying amount in aggregate of RMB1,990,698,000 (2016: RMB2,198,131,000 as restated). The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated accounts payable. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

(b) Other than described in (1)(b) above, the Group also entered into accounts receivable factoring arrangements (the "Arrangements II") and transferred certain accounts receivable to a bank and AVIC Finance. Under the Arrangements II, the Group was not required to reimburse the banks or AVIC Finance for loss of interest if any trade debtors have late or default payment. The Group is not exposed to default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group did not retain any rights on the use of the trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to those accounts receivable. Accordingly, it has derecognised the full carrying amounts of those accounts receivable. The original carrying value of the accounts receivable transferred under the Arrangements II as at 31 December 2017 was RMB574,026,000 (2016: RMB513,277,000 as restated).

During the year ended 31 December 2017, the Group has recognised loss of RMB17,986,000 (2016: RMB10,992,000 as restated) on the date of transfer of those accounts receivable.

40. FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2017

Financial assets

	Financial assets at fair value through profit or loss			
	Held for trading	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments	–	–	1,290,426	1,290,426
Accounts and notes receivable	–	17,541,036	–	17,541,036
Financial assets included in prepayments, deposits and other receivables	–	2,405,180	–	2,405,180
Financial assets held for trading	23,660	–	–	23,660
Pledged deposits	–	1,502,878	–	1,502,878
Cash and cash equivalents	–	11,063,187	–	11,063,187
Term deposits with initial terms of over three months	–	1,307,509	–	1,307,509
	23,660	33,819,790	1,290,426	35,133,876

Financial liabilities

	Financial liabilities at amortised cost	Total
	RMB'000	RMB'000
Accounts and notes payable	24,084,796	24,084,796
Financial liabilities included in other payables and accruals	2,290,883	2,290,883
Obligations under finance leases	419,107	419,107
Convertible bonds	1,531,945	1,531,945
Interest-bearing bank and other borrowings	10,388,152	10,388,152
	38,714,883	38,714,883

40. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

31 December 2016 (Restated)

Financial assets

	Financial assets at fair value through profit or loss			
	Held for trading RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000 (Restated)
Available-for-sale investments	–	–	1,509,655	1,509,655
Accounts and notes receivable	–	16,224,191	–	16,224,191
Financial assets included in prepayments, deposits and other receivables	–	3,223,397	–	3,223,397
Financial assets held for trading	31,057	–	–	31,057
Pledged deposits	–	1,035,307	–	1,035,307
Cash and cash equivalents	–	8,879,976	–	8,879,976
Term deposits with initial terms of over three months	–	717,656	–	717,656
	31,057	30,080,527	1,509,655	31,621,239

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000 (Restated)
Accounts and notes payable	24,157,459	24,157,459
Financial liabilities included in other payables and accruals	1,254,833	1,254,833
Obligation under finance lease	175,160	175,160
Interest-bearing bank and other borrowings	9,741,719	9,741,719
	35,329,171	35,329,171

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair values of financial assets held for trading and certain listed equity investments are based on quoted market prices. The fair value of certain listed equity investment has been estimated using the Monte Carlo Simulation model based on assumptions that are supported by observable market prices or rates.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active market (Level 1) RMB'000	Significant Observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
– listed equity investments	427,425	186,811	–	614,236
Financial assets held for trading	23,660	–	–	23,660
	451,085	186,811	–	637,896

As at 31 December 2016 (Restated)

	Fair value measurement using			
	Quoted prices in active market (Level 1) RMB'000	Significant Observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments:				
– listed equity investments	746,908	170,170	–	917,078
Financial assets held for trading	31,057	–	–	31,057
	777,965	170,170	–	948,135

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise term deposits, pledged deposits, interest-bearing bank and other borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts and notes receivable and accounts and notes payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest-rate risk, price risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Currency risk

The Group's major operating subsidiaries have foreign currency sales and purchases, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group's exposure to foreign currency risk relates principally to its trade and other receivables, bank balances, trade and other payables denominated in foreign currencies other than the functional currency of relevant group entity.

The carrying amounts of the Group's material foreign currency denominated monetary assets and monetary liabilities at the end of 2017 and 2016 are as follows:

	Assets At 31 December		Liabilities At 31 December	
	2017 RMB'000	2016 RMB'000 (Restated)	2017 RMB'000	2016 RMB'000 (Restated)
USD	616,797	598,246	11,352	12,786
EUR	58,579	123,580	217	226

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Sensitivity analysis

The following table details the Group's sensitivity to a 10% (2016: 10%) increase and decrease in RMB against the relevant foreign currencies for the years ended 31 December 2017. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change in foreign currency rate.

A positive number below indicates an increase in post-tax profit where RMB weakening 10% (2016: 10%) against the relevant currency for the years ended 31 December 2017. For a 10% strengthen of RMB against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD At 31 December		EUR At 31 December	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Profit or loss	51,463	49,764	4,961	10,485

Interest-rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and bank balances, details of which have been disclosed in Note 26. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 29. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. As of 31 December 2017, 78% (2016: 73% as restated) of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest-rate risk.

At 31 December 2017, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by the People's Bank of China, with all other variables held constant, post tax profit for the year would have been RMB43,290,000 (2016: RMB30,147,000 as restated) higher/lower.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Price risk

The Group is principally exposed to equity securities price risk in respect of investments held by the Group which are classified as financial assets held for trading and available-for-sale financial assets. Some of these financial assets are publicly traded in recognised stock exchanges. At 31 December 2017, if the quoted market price of these financial assets held for trading and available-for-sale financial assets held by the Group had increased/decreased by 10% (2016: 10%), with all other variables held constant, post tax profit for the year and fair value reserve would have been RMB2,011,000 (2016: RMB2,640,000 as restated) and RMB54,221,000 (2016: RMB80,591,000 as restated) higher/lower respectively as a result of the changes in fair value of these financial assets.

Credit risk

14% (2016: 48% as restated) of the Group's pledged deposits, term deposits and cash and cash equivalents are held in state-owned financial institutions, which management believes are of high credit quality. Most of the Group's financial assets held for trading and available-for-sale financial assets are also publicly traded in recognised stock exchanges. Management does not expect any losses from non-performance by these counterparties.

The Group has significant related party balances (Note 38(b)) with low credit risk, and for the balances with third parties, the Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally, the Group does not require collateral from trade debtors. Management makes periodic collective assessment as well as individual assessment on the recoverability of accounts and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of accounts and notes receivable, deposits and other receivables falls within the recorded allowances and the directors of the Company are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and long-term and short-term bank and other borrowings.

As at 31 December 2017, the net current assets of the Group amounted to RMB19,192,358,000 (31 December 2016: RMB16,775,547,000 as restated). Management monitors regularly the Group's current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amounts of committed banking facilities to meet its working capital requirements. The amount of undrawn credit facilities at the end of each reporting period is disclosed in Note 29(e) to the financial statements. The directors believe that the Group's current operating cash flows and credit facilities are sufficient for financing its capital commitments in the near future and for working capital purposes.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2017					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Interest-bearing bank and other borrowings	5,650,003	3,954,567	353,083	1,274,179	11,231,832	10,388,152
Accounts and notes payables	24,084,796	–	–	–	24,084,796	24,084,796
Obligations under finance leases	54,077	61,880	183,833	235,729	535,519	419,107
Other payables and accruals	2,290,883	–	–	–	2,290,883	2,290,883

Restated	2016					
	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
Interest-bearing bank and other borrowings	4,767,920	960,794	3,707,928	1,309,586	10,746,228	9,741,719
Accounts and notes payables	24,157,459	–	–	–	24,157,459	24,157,459
Obligations under finance leases	31,506	31,506	94,096	58,956	216,064	175,160
Other payables and accruals	1,254,833	–	–	–	1,254,833	1,254,833

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged from prior year.

In order to maintain or adjust the capital structure, the Group may consider the macro economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generated from operations and may raise funding through capital market or bank borrowings as necessary.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings and convertible bonds divided by total assets as shown in the consolidated statement of financial position.

The gearing ratios at 31 December 2017 and at 31 December 2016 were as follows:

	2017 RMB'000	2016 RMB'000 (Restated)
Total borrowings (Note 29)	10,388,152	9,741,719
Convertible bonds (Note 31)	1,531,945	–
	11,920,097	9,741,719
Total assets	78,933,102	71,627,520
Gearing ratio	15.10%	13.60%

43. DISPOSAL OF SUBSIDIARIES

(i) On 3 November 2017, the Group disposed 16% shares of AVIC Chaofeng New Energy Electricity Power Company Limited (中航朝風新能源電力有限公司), a subsidiary of the Group, to an independent third party at cash consideration of RMB6,130,000. The subsidiary is engaged in electricity generation. The net assets of AVIC Chaofeng New Energy Electricity Power Company Limited at the date of disposal were as follows:

Consideration received:

	RMB'000
Total cash consideration received	6,130

43. DISPOSAL OF SUBSIDIARIES (Continued)

Analysis of assets and liabilities over which control was lost:

	RMB'000
Bank balance and cash	424
Other receivables	12,089
Plant and equipment	1,728
Other payables	(4,437)
Net assets	9,804
Net assets disposed of	1,569

Gain on disposal of a subsidiary:

Consideration received	6,130
Net assets disposed of	(1,569)
Gain on disposal	4,561

Net cash inflow arising on disposal:

Cash consideration	6,130
Less: bank balances and cash disposed of	(424)
	5,706

43. DISPOSAL OF SUBSIDIARIES (Continued)

(ii) On 5 June and 23 November 2017, the Group disposed 33% and 32% shares of AVIC Yuehai Wind Power Generation Company Limited (中航粵海風力發電有限公司), a wholly-owned subsidiary of the Group, to an independent third party at cash consideration of RMB33,660,000 and RMB33,280,000 respectively. The subsidiary is engaged in electricity generation. The net assets of AVIC Yuehai Wind Power Generation Company Limited at the date of disposal were as follows:

Consideration received:

	RMB'000
Total cash consideration received	66,940

Analysis of assets and liabilities over which control was lost:

	RMB'000
Bank balance and cash	4,998
Note receivables	400
Prepayment	75,261
Other receivables	45,515
Plant and equipment	118,609
Account payables	(120,400)
Other payables	(33,172)
Net assets	91,211
Net assets disposed of	59,287

Gain on disposal of a subsidiary:

Consideration received	66,940
Net assets disposed of	(59,287)
Gain on disposal	7,653

Net cash inflow arising on disposal:

Cash consideration	66,940
Less: bank balances and cash disposed of	(4,998)
	61,942

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Interest-bearing bank and other borrowings RMB'000	Convertible Bonds RMB'000	Obligations under finance leases RMB'000	Total RMB'000
Balance at 1 January 2017	9,741,719	–	175,160	9,916,879
New finance lease arrangements	–	–	270,275	270,275
Financing cash flows	646,433	1,884,555	(26,328)	2,504,660
Equity	–	(352,610)	–	(352,610)
Balance at 31 December 2017	10,388,152	1,531,945	419,107	12,339,204

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	17,307	17,676
Investment properties	20,384	21,079
Other intangible assets	2,974	1,033
Investments in subsidiaries	7,979,873	7,678,533
Investments in associates	189,275	116,417
Available-for-sale investments	526,106	511,104
Deferred tax assets	4,653	4,653
Prepayments, deposits and other receivables	10,000	129,507
Total non-current assets	8,750,572	8,480,002

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	31 December 2017 RMB'000	31 December 2016 RMB'000
CURRENT ASSETS		
Accounts and notes receivables	1,452	1,737
Prepayments, deposits and other receivables	121,126	433,878
Financial assets held for trading	500,000	–
Cash and cash equivalents	1,115,477	1,508,314
Total current assets	1,738,055	1,943,929
TOTAL ASSETS	10,488,627	10,423,931
CURRENT LIABILITIES		
Other payables and accruals	228,699	228,689
Tax payable	5,926	7,647
Total current liabilities	234,625	236,336
NON-CURRENT LIABILITY		
Deferred tax liabilities	12,848	22,855
Total non-current liability	12,848	22,855
TOTAL LIABILITIES	247,473	259,191
Net assets	10,241,154	10,164,740
EQUITY		
Share capital	5,966,122	5,966,122
Reserves (Note)	4,275,032	4,198,618
Total equity	10,241,154	10,164,740

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2017	3,629,034	129,509	126,288	313,787	4,198,618
Profit for the year	–	–	–	252,438	252,438
Other comprehensive loss for the year, net of tax.	–	(56,702)	–	–	(56,702)
Total comprehensive income for the year	–	(56,702)	–	252,438	195,736
2016 final dividend	–	–	–	(119,322)	(119,322)
Transfer to statutory surplus reserve	–	–	25,244	(25,244)	–
At 31 December 2017	3,629,034	72,807	151,532	421,659	4,275,032

	Capital reserve RMB'000	Fair value reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2016	1,947,445	210,881	112,021	294,881	2,565,228
Profit for the year	–	–	–	142,662	142,662
Other comprehensive loss for the year, net of tax.	–	(81,372)	–	–	(81,372)
Total comprehensive income for the year	–	(81,372)	–	142,662	61,290
Issue of shares	1,681,589	–	–	–	1,681,589
2015 final dividend	–	–	–	(109,489)	(109,489)
Transfer to statutory surplus reserve	–	–	14,267	(14,267)	–
At 31 December 2016	3,629,034	129,509	126,288	313,787	4,198,618

Capital reserve of the Company represents (i) the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment, set off by net premium on issue of shares upon listing of the Company; and (ii) the difference between the fair value of shares issued and their respective par value.

Other reserves of the Company represent statutory surplus reserve. In accordance with the PRC accounting standards to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, this reserve balance should not fall below 25% of the registered capital by other usage.

46. CONTINGENCIES

A subsidiary has been named as a defendant in a Court action of Xi'an Middle Court in respect of an alleged breach of contractual undertakings for an amount of approximately USD77 million which was respect to a sale commission. Although the US court adjudicated the subsidiary was liable to the fine, based on the legal opinion, the directors of the Company are in the opinion that there will not be any potential liability and no provision has been made in these consolidated financial statements. Details are disclosed in the announcement of the Company dated 29 March 2017.

47. COMPARATIVE AMOUNTS

As stated in Note 2.1, the Company obtained the control over AVIC Renewable Energy through business combinations involving entities under common control during the current year, and hence the comparative information of the consolidated financial statements is restated to include the financial position, financial performance and cash flows of AVIC Renewable Energy. Accordingly, certain comparative information is restated to conform with current year's presentation and accounting.

48. EVENTS AFTER THE REPORTING PERIOD

(a) On 1 February 2018, the Company entered into an investment agreement with AVIC Manufacturing Technology Institute, AVIC Aviation High-Technology Co., Ltd. and Beijing Hangyi Zhongchi Science and Technology Centre (Limited Partnership) in relation to the proposed establishment of Hangwei High-Technology Connection Technology Co., Ltd and the Company agreed to make a capital contribution of RMB95 million in cash, representing 38% of the total capital contribution of Hangwei High-Technology. Details are disclosed in the Company's announcement dated 1 February 2018.

(b) On 13 February 2018, the Company acquired 2,430,501 A shares of AVIC SHENYANG Aircraft Company Limited ("AVIC Shenyang Aircraft") through the trading system of the Shanghai Stock Exchange at an average price of RMB24.673 per share, representing approximately 0.174% of the total issued shares of AVIC Shenyang Aircraft. Before the Acquisition, the Company held no A shares of AVIC Shenyang Aircraft. Details are disclosed in the Company's announcement dated 13 February 2018.

(c) On 26 February 2018, the Company, as the principal initiator, entered into an investment agreement with AVIC and AVIC Capital Co., Ltd. in relation to the formation of Fund Management Company, pursuant to which, the Company agreed to make a capital contribution of RMB70 million in cash, representing 50% of the total capital contribution of Fund Management Company. Upon establishment, Fund Management Company will become a subsidiary of the Company and its financial results will be consolidated into those of the Company. Details are disclosed in the Company's announcement dated 26 February 2018.

(d) On 15 March 2018, the Company entered into an investment agreement with Chinese Aeronautical Radio Eletronics Research Institute, AVIC Avionics Systems Co., Ltd., Aviclub Holding Co., Ltd, Shanghai Advanced Avionics Company Ltd and Shanghai Hanggone Enterprise Management Centre (Limited Partnership) in relation to the proposed establishment of AVIC Air Traffic Management System Equipment Co., Ltd. ("AVIC ATM System") and the Company agreed to make a capital contribution of RMB198 million in cash, representing 33% of the total capital contribution of AVIC ATM System. Details are disclosed in the Company's announcement dated 15 March 2018.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 16 March 2018.

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings indicated.

"Airbus Helicopters"	Airbus Helicopters, a subsidiary of Airbus Group and formerly known as Eurocopter
"AMES"	AVIC Electromechanical Systems Company Limited (中航機電系統有限公司), a wholly-owned subsidiary of AVIC
"Anji Casting"	AVIC Guizhou Anji Aviation Investment Casting Co., Ltd. (貴州安吉航空精密鑄造有限責任公司), a limited liability company established in the PRC
"Articles of Association"	Articles and 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 58.57% equity interest of the Company as at 31 December 2017
"AVICOPTER"	AVICOPTER PLC (中航直升機股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 28.21% of its interests being held by the Company through Harbin Aviation Group and 6.56% of its interests being directly held by the Company
"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 43.22% of its equity interest being held by the Company
"AVIC Avionics System"	AVIC Avionics System Co., Ltd. (中航航空電子系統有限責任公司), a wholly-owned subsidiary of AVIC
"AVIC Capital"	AVIC Capital Co., Ltd. (中航資本控股股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange and a subsidiary of AVIC
"AVIC Finance"	Aviation Industry Corporation Finance Company Limited (中航工業集團財務有限責任公司), a subsidiary of AVIC
"AVIC Forstar"	AVIC Forstar S&T Company Limited. (中航富士達科技股份有限公司), a subsidiary of JONHON Optronic
"AVIC Group"	AVIC and its subsidiaries

"AVIC Gyro"	Aviation Gyro (Beijing) Photoelectricity Technology Co., Ltd. (中航捷銳(北京)光電技術有限公司), a limited liability company established in the PRC
"AVIC Heavy Machinery"	AVIC Heavy Machinery Co., Ltd. (中航重機股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange and a subsidiary of AVIC
"AVIC Huiyang"	Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司), a wholly-owned subsidiary of AVICOPTER
"AVIC I"	China Aviation Industry Corporation I (中國航空工業第一集團公司), the predecessor of AVIC
"AVIC II"	China Aviation Industry Corporation II (中國航空工業第二集團公司), a former controlling shareholder of the Company and the predecessor of AVIC
"AVIC Kaitian"	Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), which is held as to 86.74% by and a subsidiary of AVIC Avionics, and held as to 1.56% by the Company directly
"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 Laser"	AVIC Guohua (Shanghai) Laser Display Technology Co., Ltd. (中航國畫(上海)激光顯示科技有限公司), a limited liability company established in the PRC, a subsidiary of Shanghai Aviation Electric Co., Ltd.
"AVIC Planning"	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 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
"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 Hong Kong"	AviChina Hong Kong Limited (中航科工香港有限公司), a wholly-owned subsidiary of the Company
"AviChina Intelligent Surveying & Mapping"	AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd. (中航科工智繪航空科技有限公司), a subsidiary of the Company

"AviChina Industrial Investment"	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
"Board" or "Board of Directors"	the board of directors of the Company
"CAPMC"	China Aviation Publishing & Media Co., Ltd. (中航出版傳媒有限責任公司), which is held as to 53.63% by and a subsidiary of the Company
"Changfeng Avionics"	Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司), a wholly-owned subsidiary of AVIC Avionics
"Changhe 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
"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 of China Corporation (中國航空工業總公司), the predecessor of AVIC I and AVIC II
"Group", "the 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 traded in Hong Kong dollars and listed on the Stock Exchange
"Harbin Aviation"	Harbin Hafei Aviation Industry Limited Liability Company (哈爾濱哈飛航空工業有限責任公司), a wholly-owned subsidiary of AVICOPTER
"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
"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

"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)
"Jingdezhen Helicopter R&D Branch"	AVIChina Industry and Technology Company Limited Jingdezhen Helicopter Research and Development Branch (中國航空科技工業股份有限公司景德鎮直升機研發分公司)
"JONHON Optronic"	China Aviation Optical-Electrical 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 41.17% of its equity interest held by the Company
"Keeven Instrument"	Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics
"Lanzhou Aviation Electrical"	Lanzhou Wanli Aviation Electrical 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
"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
"PRC"	the People's Republic of China
"Shaanxi Baocheng"	Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀錶有限責任公司), 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 wholly-owned subsidiary of AVIC Avionics
"Shanghai Aviation Electric"	Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司), a wholly-owned subsidiary of AVIC Avionics
"Shares"	Domestic Shares and H Shares
"Shenyang Xinghua"	AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (沈陽興華航空電器有限責任公司), a subsidiary of JONHON Optronic
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company

"Supervisory Committee"	the supervisory committee of the Company
"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
"Trainer"	aeroplanes designed and used for pilot training purposes
"Xiangtong Photoeletric"	Shenzhen Xiangtong Photo eletric Technology Co., Ltd. (深圳市翔通光電技術有限公司), a subsidiary of JONHON Optronic

Corporate Information

BOARD OF DIRECTORS

Executive Director (Chairman)	Lin Zuoming
Non-Executive Director (Vice Chairman)	Tan Ruisong
Non-Executive Director	Wu Xiandong
Non-Executive Director	Li Yao
Non-Executive Director	He Zhiping
Non-Executive Director	Patrick de Castelbajac
Independent Non-Executive Director	Lau Chung Man, Louis
Independent Non-Executive Director	Liu Renhuai
Independent Non-Executive Director	Yeung Chi Wai

SUPERVISORS

Chairman of the Supervisory Committee	Zheng Qiang
Supervisor	Liu Fumin
Supervisor	Li Jing

SENIOR MANAGEMENT

General Manager	Chen Yuanxian
Standing Deputy General Manager	Yan Lingxi
Deputy General Manager	Tang Jun
Board Secretary	Gan Liwei

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:	Lin Zuoming

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 2202A, 22th Floor, Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong

AUTHORISED REPRESENTATIVES

Tan Ruisong

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

8th Floor, Tower 2, No. 5A Rongchang East Street,
Beijing Economic Technological Development Area,
Beijing, the PRC

WEBSITE

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CORRESPONDENCE ADDRESS

Postal Code: 100029
Tower A, No. 14 Xiaoguandongli,
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Telephone: 86-10-58354309
Facsimile: 86-10-58354300/10
E-mail Box: avichina@avichina.com

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Room 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2017 will be held at 9:00 a.m. on Friday, 18 May 2018 at AVIC Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC.

AUDITORS

International Auditors

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

Auditors in the PRC

ShineWing Certified Public Accountant LLP
9/F, Block A, Fu Hua Mansion,
No.8, Chaoyangmen Beidajie,
Dongcheng District,
Beijing, the PRC

LEGAL ADVISERS

As to Hong Kong law

Baker & McKenzie
14th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong

As to PRC law

Beijing Jingtian & Gongcheng Law Firm
34th Floor, Tower 3, China Central Place,
77 Jianguo Road, Chaoyang District,
Beijing, the PRC