THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AVIC International Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

中航國際控股股份有限公司

AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))

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

(Stock Code: 00161)

VERY SUBSTANTIAL DISPOSAL: PROPOSED DISPOSAL OF 73.87% EQUITY INTEREST IN AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

A letter from the Board containing details of the proposed AVIC Maritime Disposal is set out on pages 5 to 18 of the circular.

Notice convening the EGM to be held on Monday, 11 November 2019 at 3:00 p.m. at 39/F, AVIC Center Building, No.1018 Huafu Road, Futian District, Shenzhen, PRC has been despatched to the shareholders on 24 September 2019, and a copy of the notice is set out on pages EGM-1 to EGM-2 of this circular. Form of proxy for use by the Shareholders at the EGM (or any adjournment thereof) is enclosed with the notice of the EGM. Whether or not you intend to attend the EGM, you are requested to complete the proxy form enclosed with the notice of the EGM in accordance with the instructions printed thereon and return the same to the legal address of the Company at 39/F, AVIC Center Building, No.1018 Huafu Road, Futian District, Shenzhen, PRC (for holders of Domestic Shares) or to the H Share registrar of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM. Completion and return of the proxy form will not prevent the Shareholders from attending and voting in person at the EGM (or any adjournment thereof) should they so wish.

25 October 2019

CONTENT

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

"Acquisition Offer"	the offer to be made by CMII in relation to the acquisition of the Target Shares from the Company subject to fulfillment of the Pre-Condition under the Implementation Agreement
"AVIC International"	AVIC International Holding Corporation (中國航空技術國際控股有限公司), a limited liability company incorporated in the PRC and the controlling shareholder of the Company
"AVIC Maritime"	AVIC International Maritime Holdings Limited, a limited established in Singapore whose shares are listed on the SGX, and as at the Latest Practicable Date, its equity interest was owned as to 73.87% by the Company
"AVIC Maritime Disposal"	the proposed disposal of the Target Shares by the Company to CMII under the Acquisition Offer pursuant to the Implementation Agreement
"AVIC Sunda Disposal"	the disposal of 22.35% equity interest in AVIC Sunda Holding Company Limited (中航善達股份有限公司) by the Company to CMSK pursuant to the AVIC Sunda Equity Transaction Agreement dated 26 April 2019, details of which are set out in the Company's announcement dated 26 April 2019, 4 September 2019 and the circular dated 24 June 2019
"Board"	the board of Directors
"CMG"	CMG Group Limited (招商局集團有限公司), a limited liability company established in the PRC and a State-owned enterprise
"CMII"	China Merchants Industry Investment Limited, a limited liability company established in Hong Kong and indirectly wholly-owned subsidiary of CMG
"CMOEI"	China Merchants Offshore Engineering Investment (Shen Zhen) Co., Ltd.* (深圳市招商局海工投資有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of CMG

"CMSK"	China Merchants Shekou Industrial Zone Holdings Co., Ltd.* (招商局蛇口工業區控股股份有限公司), a joint stock limited company established in the PRC and a subsidiary of CMG
"Company"	AVIC International Holdings Limited (中航國際控股股份有限公司) (formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司)), a joint stock limited company established in the PRC whose H Shares are listed on the Stock Exchange
"Composite Document"	the composite document in relation to the H Share Offer to be issued jointly by AVIC International and the Company to the holders of the H Shares in accordance with the Takeovers Code and the Listing Rules
"connected person"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder(s)"	has the same meaning as ascribed thereto in the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposals and Related Transactions"	the AVIC Maritime Disposal, the Weihai Shipyard Disposal and the AVIC Sunda Disposal
"EGM"	the extraordinary general meeting of the Company to be held on Monday, 11 November 2019 at 3:00 p.m. at 39/F, AVIC Center Building, No.1018 Huafu Road, Futian District, Shenzhen, PRC for the purpose of considering and, if thought fit, approving the Implementation Agreement together with the transactions contemplated thereunder
"EPC"	engineering, procurement and construction
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Group"	the Company and its subsidiaries

"H Share Offer"	the voluntary conditional offer to be made by China International Capital Corporation Hong Kong Securities Limited, the exclusive financial adviser to AVIC International on behalf of AVIC International to acquire all of the issued H Shares, details of which are set out in the announcement of the Company dated 2 October 2019
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Implementation Agreement"	the implementation agreement dated 27 August 2019 entered into between the Company and CMII in relation to the AVIC Maritime Disposal
"Independent Third Party"	independent third party(ies) who is/are independent of and not connected with the Company and its connected person
"Irrevocable Undertaking"	the irrevocable undertaking to be provided by the Company to CMII pursuant to the Implementation Agreement
"Latest Practicable Date"	25 October 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	26 December 2019 or such other later date as the parties may agree and approved by the Securities Industry Council of Singapore
"Offer Document"	the offer document to be issued by CMII (or its financial advisor) in relation to the Acquisition Offer
"PRC"	the People's Republic of China and, for the sole purposes of this circular, excludes Taiwan, Hong Kong and Macau Special Administrative Region of the PRC
"Pre-Condition"	the condition precedent to the making of the Acquisition Offer pursuant to the Implementation Agreement

"Remaining Group"	the Group after completion of the AVIC Maritime Disposal
"RMB"	Renminbi, lawful currency of the PRC
"S$"	Singapore dollar, lawful currency of Singapore
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SG Takeovers Code"	Singapore Code on Take-overs and Mergers
"SGX"	Singapore Exchange Securities Trading Limited
"Shareholder(s)"	holder(s) of shares (including domestic shares and H shares) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Merger published by the SFC
"Target Shares"	all the shares owned by the Company in AVIC Maritime on the date when the Acquisition Offer (if materialized) is made, being 210,947,369 shares in AVIC Maritime, representing approximately 73.87% of the total issued shares of AVIC Maritime as at the Latest Practicable Date
"Weihai Shipyard Disposal"	the disposal of 69.77% equity interest in AVIC Weihai Shipyard Company Limited* (中航威海船廠有限公司) and the shareholder's loan therein by the Company to CMOEI pursuant to the Weihai Shipyard Equity Transaction Agreement dated 26 April 2019, details of which are set out in the Company's announcement dated 26 April 2019, 10 September 2019 and the circular dated 24 June 2019

In this circular, the English names of the PRC entities are translation of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

In this circular, amounts denominated in S$ and USD have been converted into RMB at the rate of S$1.00 = RMB5.12 and USD1.00=RMB7.08 for illustration purpose only. No representation is made to the effect that any amount in S$, USD or RMB have been, could have been or could be converted at the above rate or at any other rates or at all.

中航國際控股股份有限公司
AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00161)

Executive Directors:	*Legal address:*
Mr. Liu Hong De	39/F, AVIC Center Building
Mr. Lai Wei Xuan	No. 1018 Huafu Road
Mr. You Lei	Futian District, Shenzhen
Mr. Liu Jun	Guangdong Province
Mr. Fu Fang Xing	PRC
Mr. Chen Hong Liang	
	Principal place of business in Hong Kong:
Independent non-executive Directors:	
Ms. Wong Wai Ling	Room 1603
Mr. Wu Wei	16/F, China Building
Mr. Wei Wei	29 Queen's Road Central
	Hong Kong
	25 October 2019

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL: PROPOSED DISPOSAL OF 73.87% EQUITY INTEREST IN AVIC INTERNATIONAL MARITIME HOLDINGS LIMITED

INTRODUCTION

Reference is made to the announcement of the Company dated 27 August 2019 in respect of the Implementation Agreement and the transactions contemplated thereunder.

The purpose of this circular is to provide you with, among other things, (i) further details of the Implementation Agreement; (ii) the financial information of the Group; (iii) the financial information of AVIC Maritime; (iv) the unaudited pro forma financial information of the Remaining Group; (v) other information as required to be disclosed under the Listing Rules; and (vi) the notice of EGM.

PROPOSED AVIC MARITIME DISPOSAL

On 27 August 2019 (after trading hours), the Company entered into the Implementation Agreement with CMII, the principal terms of which are set out below:

Date: 27 August 2019

Parties: the Company (as offeree); and
CMII (as offeror)

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of CMII and its ultimate beneficial owner(s) is an Independent Third Party.

Subject Matter:

CMII agreed to make the Acquisition Offer to acquire the Target Shares (all the shares owned by the Company in AVIC Maritime on the date when the Acquisition Offer (if materialized) is made, being 210,947,369 shares in AVIC Maritime, representing approximately 73.87% of the total issued shares of AVIC Maritime as at the Latest Practicable Date) from the Company subject to the fulfillment of the Pre-Condition.

Pre-Condition:

The making of the Acquisition Offer is subject to the Company having obtained all necessary approval for the transfer of the Target Shares under the Acquisition Offer, i.e. having obtained the Shareholders' approval at the EGM pursuant to the requirements under the Listing Rules on or before the Long Stop Date.

Consideration:

Subject to the Acquisition Offer having been materialized, the offer price of each Target Share is S$0.15. Accordingly, the total consideration for the transfer of the Target Shares is S$31,642,105.35 (equivalent to approximately RMB162,007,579).

Pursuant to Rule 15.2 of the Singapore Code on Take-overs and Mergers, the consideration to be made under the Acquisition Offer should be, among others, not less than the highest price paid by the offeror (i.e. CMII) or any person acting in concert with it for voting rights of the offeree company (i.e. AVIC Maritime) during the offer period and within 3 months prior to its commencement.

To the best knowledge, information and belief of the Company, CMII and its concert party have not purchased any voting rights of AVIC Maritime within 3 months prior to the Latest Practicable Date.

Should the offeror (i.e. CMII) or any person acting in concert with it acquire voting rights in the offeree company (i.e. AVIC Maritime) at a price higher than the offer price during the offer period, the aforesaid consideration will have to be adjusted upwards accordingly.

Basis of the Consideration

The consideration of S$31,642,105.35 for the Target Shares was determined with the offer price of S$0.15 per Target Share proposed by CMII. With reference to the premium rate of the offer price in 23 offer deals in Singapore's capital market during the period from January 2017 up to 27 August 2019, representing all offer deals took place in the aforesaid period which the offeree company were companies listed on SGX. Among the 23 offer deals, 11 of them took place in 2017, 5 of them took place in 2018, 7 of them took place in 2019, and none of the 23 offeree companies is principally engage in shipbuilding and design business. Having considered there was no change in the SG Takeovers Code during the sampling period, the Company believes the 2017 deals have similar referential value as compared to those took place in 2018 and 2019 despite a time gap of around 2 years. Besides, as there were relatively lesser offer deals in 2018 and 2019, inclusion of the 2017 deals as reference data can help to ensure sufficiency of the sample size. Further, as shown in the premium rate table below, the average premium rates of the deals took place in 2017 are higher than those took place in 2018 and 2019, thus the inclusion of the 2017 figures as reference data will raise the premium rate level of the Target Shares, which is reasonable and beneficial to the Group and its Shareholders as a whole. Therefore, since AVIC Maritime is also a company listed on SGX, the Board believes the sample size and data is sufficient and has a high referential value for determining the consideration in the AVIC Maritime Disposal.

A summary of the premium rate of the offer price in the aforesaid 23 offer deals is as follow:

	Trading price of the Last Trading Day *(%)*	**Nearest one-month average trading price including the Last Trading Day** *(%)*	**Nearest 3-month average trading price including the Last Trading Day** *(%)*	**Nearest 6-month average trading price including the Last Trading Day** *(%)*
Average premium rate	30.6	34.8	38.9	40.7
Median premium rate	19.8	24.3	25.3	25.3
Highest premium rate	252.9	259.7	284.3	285.3
Lowest premium rate	1.6	6.2	11.9	15.3

For the six months ended 30 June 2019	**Trading price of the Last Trading Day** *(%)*	**Nearest one-month average trading price including the Last Trading Day** *(%)*	**Nearest 3-month average trading price including the Last Trading Day** *(%)*	**Nearest 6-month average trading price including the Last Trading Day** *(%)*
Average premium rate	22.4	25.7	29.7	28.7
Median premium rate	23.9	28.7	31.2	25.3
Highest premium rate	34.9	36.1	47.7	52.9
Lowest premium rate	9.1	16.1	16.1	17.6

Year 2018	Trading price of the Last Trading Day *(%)*	Nearest one-month average trading price including the Last Trading Day *(%)*	Nearest 3-month average trading price including the Last Trading Day *(%)*	Nearest 6-month average trading price including the Last Trading Day *(%)*
Average premium rate	15.8	19.3	20.5	20.6
Median premium rate	19.6	16.5	21.4	21.1
Highest premium rate	26.4	29.9	29.0	26.5
Lowest premium rate	3.2	6.8	11.9	15.7

Year 2017	Trading price of the Last Trading Day *(%)*	Nearest one-month average trading price including the Last Trading Day *(%)*	Nearest 3-month average trading price including the Last Trading Day *(%)*	Nearest 6-month average trading price including the Last Trading Day *(%)*
Average premium rate	42.5	47.6	53.1	57.5
Median premium rate	14.1	24.3	28.2	35.8
Highest premium rate	252.9	259.7	284.3	285.3
Lowest premium rate	1.6	6.2	12.7	15.3

As at 27 August 2019, the statistic of the shares of AVIC Maritime was as follows:

Period	Benchmark Price(1) (S$)	Premium over Benchmark Price(2) (%)
Last traded price of the Shares on the SGX-ST on 27 August 2019 (the "**Last Trading Day**")	0.1090	37.6
VWAP per Share for the one-month period up to and including the Last Trading Day	0.0900	66.7
VWAP per Share for the three-month period up to and including the Last Trading Day	0.0906	65.6
VWAP per Share for the six-month period up to and including the Last Trading Day	0.0904	65.9
VWAP per Share for the 12-month period up to and including the Last Trading Day	0.0913	64.3

Notes:

(1) Based on data extracted from Bloomberg L.P. on 27 August 2019, being the Last Trading Day, figures rounded to the nearest four decimal places.

(2) Premia rounded to the nearest decimal place.

In light of the above and having compared the premium rate of the AVIC Maritime Disposal with the premium rate level in the Singapore market, the Board is of the view that the offer price of S$0.15 per Target Share was in line with the recent offer deals in the Singapore market, and therefore fair and reasonable and in the interest of the Group and the Shareholders as a whole.

Payment manner of the Consideration

If the Pre-Condition is fulfilled on or before the Long Stop Date, CMII undertook that upon fulfillment of the Pre-Condition, it (or its financial advisor) shall publish a formal offer announcement on the SGX in relation to its firm intention to make the Acquisition Offer and issue the Offer Document not earlier than 14 days and not later than 21 days from the date of the formal offer announcement.

The Company shall accept the Acquisition Offer within 3 business days after the issue of the Offer Document. Upon the acceptance of the Acquisition Offer and such offer has become unconditional, CMII shall transfer the total consideration to the Central Depository (Pte) Limited of Singapore, and the Central Depository (Pte) Limited of Singapore shall release the total consideration to the bank account designated by the Company within 7 business days.

Irrevocable Undertaking:

Pursuant to the Implementation Agreement, the Company shall provide the Irrevocable Undertaking to CMII within one business day from the date of the Implementation Agreement.

On 27 August 2019, the Company has provided the Irrevocable Undertaking to CMII, pursuant to which the Company undertook that:

(a) it shall accept the Acquisition Offer in respect of all the Target Shares, and any other shares of AVIC Maritime (the "**Further Shares**") which the Company or its nominees may subsequently acquire after the date of the Irrevocable Undertaking (collectively, the "**Relevant Shares**") by no later than 3 business days after the dispatch date of the Offer Document, or, in the case of the Further Shares, by no later than 3 business days after the date of acquisition thereof;

(b) except pursuant to the Acquisition Offer, the Company shall not sell, charge, encumber, grant any option over or otherwise dispose of any Relevant Share or any interest therein which would or might restrict or impede its acceptance of the Acquisition Offer;

(c) except pursuant to the Acquisition Offer, it shall not enter into any agreement or arrangement, incur any obligation, grant or dispose of any right or interest or give any indication of intent in relation to the Relevant Shares which would or might restrict or impede its acceptance of the Acquisition Offer; and

(d) notwithstanding the provisions of the SG Takeovers Code or any terms of the Acquisition Offer regarding withdrawal, not to withdraw its acceptance(s) of the Acquisition Offer for any reason.

The Irrevocable Undertaking will lapse upon the earlier of:

(a) a pre-conditional offer announcement not being released by CMII on SGX by 29 August 2019, or such other date as may be extended by the mutual agreement of the parties and subject to the requirements of the SG Takeovers Code;

(b) the Pre-Condition not being fulfilled by the Long-Stop Date;

(c) a formal offer announcement not being released by CMII on SGX within two business days of the satisfaction of the Pre-Condition; or

(d) the Acquisition Offer, if and when made, being withdrawn (after consent from the Securities Industry Council of Singapore has been obtained for the withdrawal) or lapsing for whatever reason.

Replacement of AVIC Group Corporate Guarantee:

As at the Latest Practicable Date, members of AVIC Group have provided corporate guarantees (the "**AVIC Group Corporate Guarantees**") in favour of the creditor banks, being Export-Import Bank of China, China CITIC Bank , China Everbright Bank Co., Ltd., Ping An Bank Co., Ltd., Shanghai Rural Commercial Bank and Bank of Ningbo Co., Ltd., (collectively the "**Corporate Guarantee Beneficiaries**") of AVIC Maritime and its subsidiaries for approximately RMB3,060,000,000 and USD463,940,000 (equivalent to an aggregate amount of approximately RMB6.3 billion). The aggregate guarantee fee to be received by the members of AVIC Group during the period after completion of the AVIC Maritime Disposal and prior to the release and discharge of the AVIC Group Corporate Guarantees (as described below) is expected to be approximately RMB0.1 billion, together with the AVIC Group Corporate Guarantees shall total up to RMB6.4 billion.

Based on the information available in public, the ultimate beneficial owners or the largest shareholders of Export-Import Bank of China, China CITIC Bank, China Everbright Bank Co., Ltd., Ping An Bank Co., Ltd., Shanghai Rural Commercial Bank and Bank of Ningbo Co., Ltd. are PRC Government, CITIC Corporation Limited, China Everbright Group Ltd., Ping An Insurance (Group) Company of China, Ltd., Shanghai State-owned Assets Operation Co., Ltd. and Ningbo Development Investment Group Limited Company, respectively. To the best of the knowledge, information and belief of the Company, each of the Corporate Guarantee Beneficiaries and their respective ultimate beneficial owner(s) is a third party independent of the Company and its connected persons.

Pursuant to the Implementation Agreement, CMII undertook that it shall within 6 months (the "Guarantee Replacement Period") upon completion of the AVIC Maritime Disposal and having become the controlling shareholder of AVIC Maritime, provide the Corporate Guarantee Beneficiaries with corporate guarantees issued by CMII or members of its group to replace the AVIC Group Corporate Guarantees, and procure the complete release and discharge of all AVIC Group Corporate Guarantees. The aggregate guarantee fee to be received by the members of AVIC Group during the Guarantee Replacement Period is expected to be approximately RMB0.1 billion, together with the AVIC Group Corporate Guarantees shall total up to RMB6.4 billion.

Pursuant to the Implementation Agreement, in the event CMII is unable to fulfil aforesaid undertakings due to reasons beyond the reasonable control of both parties, it shall unconditionally and irrevocably carry out the followings (the "**Indemnifying Measures**"):

(a) guarantee to the relevant guarantors the proper and punctual performance by AVIC Maritime and/or its subsidiaries of their respective obligations in respect of the relevant AVIC Group Corporate Guarantees (to the extent not released and discharged); and

(b) indemnify the relevant guarantors for the payment of the relevant principal sum, interest and/or default payments required to be made to the relevant Corporate Guarantee Beneficiaries under the terms of the relevant AVIC Group Corporate Guarantees (to the extent not released and discharged) by the relevant guarantors as a result of any breach by the AVIC Maritime and/or its subsidiaries of any of their respective obligations in respect of which such AVIC Group Corporate Guarantees (to the extent not released and discharged).

The Company believes the risk faced by the Group during the Guarantee Replacement Period has been mitigated by the Indemnifying Measures. As such the arrangement regarding the AVIC Group Corporate Guarantee is fair and reasonable and in the interest of the Group and the Shareholders as a whole.

Accordingly, the continued provision of the AVIC Group Corporate Guarantees during the period after completion of the AVIC Maritime Disposal and prior to the release and discharge of the AVIC Group Corporate Guarantees will constitute provision of financial assistance by the Group to a third party under Chapter 14 of the Listing Rules.

Completion:

Upon completion of AVIC Maritime Disposal (if materialized), the Company will no longer hold any equity interest in AVIC Maritime and AVIC Maritime will cease to be a subsidiary of the Company.

INFORMATION OF AVIC MARITIME

AVIC Maritime is a limited company incorporated in Singapore and its shares are listed on the Catalist of the SGX. It is mainly engaged in shipbuilding project management and consultancy, design and engineering as well as ship-trading.

As at the Latest Practicable Date, the Company owns 210,947,369 shares in AVIC Maritime (representing approximately 73.87% of the issued share capital of AVIC Maritime) and AVIC Maritime is accounted for as a subsidiary of the Company.

Set out below are the consolidated financial figures of AVIC Maritime together with its subsidiaries for the two financial years ended 31 December 2017 and 31 December 2018 and the six months ended 30 June 2019 extracted from its 2017 and 2018 annual reports and 2019 interim report and prepared in accordance with Singapore Financial Reporting Standards:

	For the year ended 31 December 2017	**For the year ended 31 December 2018**	**For the six months ended 30 June 2019**
	(Audited)	*(Audited)*	*(Unaudited)*
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	42,200	59,872	30,353
Profit after taxation	26,515	38,811	22,138
Net assets	230,377	252,701	259,672

INFORMATION OF THE PARTIES

The Company and the Group

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of flat panel displays and modules, printed circuit boards and watches, EPC projects, shipping business and trade and logistic business.

CMII

CMII is a limited liability company established in Hong Kong and it is principally engaged in investment business. CMII is an indirect wholly-owned subsidiary of CMG, a company incorporated in Hong Kong which is principally engaged in financial services, investment and capital operation, shipping, real estate, and urban zone comprehensive development and operation.

REASONS AND BENEFITS FOR THE AVIC MARITIME DISPOSAL

Despite the business performance of AVIC Maritime has been gradually improving as shown in its financial figures under the section headed "Information of AVIC Maritime" above, the Company determined to dispose its equity interest therein for the following reasons:

(A) Since the shipping industry is at the rock bottom, the disposal of AVIC Maritime is in line with the Company's strategic goal of "Focus on the Principal Business"

In recent years, the Group has closely centered on the strategy of "Reform and Reconstruction, Focus on Breakthrough, Value Growth". It has continuously focused on its principal businesses of high-tech electronic products, retails and consumer products, international engineering and trading & logistics business, and successively disposed of its loss-suffering non-principal businesses such as real estate development business.

Having considered research reports on shipping industry released by relevant professional institutions (such as the "Industrial and Economic Performance of the Shipping Industry during January-June 2019" (2019年1-6月船舶工業經濟運行情況) issued by the China Association of the National Shipbuilding Industry (中國船舶工業行業協會) and certain research reports issued by renowned domestic brokerage in shipping industry), the Board believes that: Under the effects of international trade frictions and geopolitics factors, the global demand for new ships has fallen sharply. Although the number of China's shipbuilding completion output has continued to grow, numbers of new shipbuilding orders and shipbuilding orders in hand have fallen year-on-year. As the shipping industry is capital intensive in nature and the operational conditions for the corporates are unsatisfactory, it is difficult for the shipping industry companies to obtain financing from banks or other financial institutions and leading to the prolonged problem of "difficult financing". Accordingly, the stable and healthy development of the shipbuilding industry will continue to face significant challenges in the short term.

(B) The Group can no longer play the synergy effect between AVIC Maritime and Weihai Shipyard, which is not beneficial to the long term development of AVIC Maritime

The Board decided to gradually withdraw from the shipping business. Due to the long-term loss and extensive investment of Weihai Shipyard of the Group, currently the Company has been actively proceeding with the Weihai Shipyard Disposal. As AVIC Maritime principally engages in shipbuilding and design business, it could provide ship designing services for Weihai Shipyard's shipbuilding business. Currently, Weihai Shipyard focuses on manufacturing Ro-Pax model of ships, and such model of ships currently owned by Weihai Shipyard were designed by AVIC Maritime. Since both AVIC Maritime and Weihai Shipyard were members of the Group which allows them to have better understanding and high degree of tacit between each other, they could play the synergy effect in full and develop together. Nonetheless, upon completion of the Weihai Shipyard Disposal, the strategic position and business development direction of Weihai Shipyard will be determined by CMOEI, the purchaser under the Weihai Shipyard Disposal. Consequently, AVIC Maritime and Weihai Shipyard will no longer able to play the synergy effect, and the continuous holding of equity interest in AVIC Maritime by the Company will deviate from its strategic goal of "Focus on the Principal Business". Therefore, the disposal of AVIC Maritime will be more conducive to the Group's strategy of integrating its resources on development of its principal business, further improving its business performance and investment return.

(C) The offer price proposed by CMII is fair and reasonable, and higher than the initial investment cost the Company invested in AVIC Maritime

In conjunction with the basis of the consideration of the AVIC Maritime Disposal set out in the section headed "Proposed AVIC Maritime Disposal — Consideration" above, the Board believes that the offer price of S$0.15 per Target Share proposed by CMII is in line with the Singapore's market, and higher than the initial investment cost the Company invested in AVIC Maritime which is beneficial to all the Shareholders.

According to the Group's audited financial information for the year ended 31 December 2018, the total assets, profit (before tax) and revenue of AVIC Maritime only accounted for approximately 3.1%, 8.1% and 1.1% of the Group, respectively, representing a relatively insignificant portion to the overall business of the Group.

Upon completion of the AVIC Maritime Disposal, the shipping business segment of the Group will further downsize and is expected to account for 0.23%, 0.28% and 0.01% of the Group's total assets, profit (before tax) and revenue for the year ended 31 December 2018. The Company will gradually withdraw from the shipping business and will determine the treatment of its remaining shipping business subject to the future market conditions.

As mentioned above, the Group has been focusing on its principal businesses of high-tech electronic products, retails and consumer products, international engineering and trading & logistics business; all of which are operated separately from the shipping business. Therefore, it is expected that the AVIC Maritime Disposal will not have any material adverse impact on the continuous operation and the financial performance of such businesses.

In light of the reasons set out above, the Directors are of the view that the terms and conditions of the Implementation Agreement and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable, and the proposed AVIC Maritime Disposal, if materialized, is in the interest of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE AVIC MARITIME DISPOSAL

Assets and Liabilities

Upon completion of the AVIC Maritime Disposal, the Company will no longer hold any equity interest in AVIC Maritime nor consolidate AVIC Maritime into the financial statements of the Group. With reference to Appendix III to this circular, assuming the AVIC Maritime Disposal was completed on 30 June 2019 and taking into account (i) the total asset of AVIC Maritime as of 30 June 2019 was RMB3,399,208,000; (ii) the proceed of RMB155,699,000 receivable by the Remaining Group after netting the costs and tax from the consideration of the AVIC Maritime Disposal of S$31,642,000; (iii) the reversal of the amount due to the Remaining Group by AVIC Maritime of RMB28,631,000; and (iv) the amount due to AVIC Maritime by Weihai Shipyard of approximately RMB1,198,583,000 being eliminated in the financial position of the Group as at 30 June 2019, the total assets of the Remaining Group will decrease by approximately RMB2,016,295,000 upon completion of the AVIC Maritime Disposal.

With reference to Appendix III to this circular, assuming the AVIC Maritime Disposal was completed on 30 June 2019 and taking into account (i) the total liabilities of AVIC Maritime as of 30 June 2019 was RMB3,139,536,000; and (ii) the reversal of the amount payable by AVIC Maritime to the Remaining Group of RMB28,631,000, the total liabilities of the Remaining Group will decrease by approximately RMB3,110,905,000 upon completion of the AVIC Maritime Disposal

Please refer to Appendix III to this circular for details.

Earnings

With reference to Appendix III to this circular, assuming the AVIC Maritime Disposal was completed on 30 June 2019 and taking into account (i) the proceed of RMB155,699,000 receivable by the Remaining Group after netting the costs and tax from the consideration of the AVIC Maritime Disposal of S$31,642,000; (ii) the net asset of AVIC Maritime as of 30 June 2019 was RMB259,672,000; (iii) the reclassification adjustment of currency translation differences of AVIC Maritime of RMB22,468,000; and (iv) the non-controlling interest derecognized on completion of the AVIC Maritime Disposal of RMB122,298,000; the Remaining Group (on consolidated basis) will record a loss of approximately RMB4,143,000 upon completion of the AVIC Maritime Disposal.

Please refer to Appendix III to this circular for details.

The final effect on the assets and earnings to be recorded will be subject to audit by the auditors of the Company.

INTENDED USE OF PROCEEDS FROM THE AVIC MARITIME DISPOSAL

With reference to Appendix III to this circular, after deducting the costs and tax of approximately RMB5,059,000, the Remaining Group will receive a total proceeds of approximately RMB155,699,000. The Company intends to apply the total proceeds as follows: (i) 60% for repayment the interest-bearing loans of the Group pursuant to the relevant loan agreements; and (ii) the remaining 40% for daily operation such as payment for employee salary, rent etc.

LISTING RULES IMPLICATIONS

Reference is made to the Company's announcement dated 26 April 2019 and the circular dated 24 June 2019 in relation to the Weihai Shipyard Disposal and the AVIC Sunda Disposal which in aggregate constituted a major disposal of the Company. As (i) CMOEI and CMSK (being the purchaser under the Weihai Shipyard Disposal and the AVIC Sunda Disposal, respectively) and CMII are all subsidiaries of CMG, CMII is connected or associated with CMOEI and CMSK, and (ii) the AVIC Maritime Disposal, the Weihai Shipyard Disposal and the AVIC Sunda Disposal are conducted within a 12-month period; the Disposals and the Related Translations are required to be aggregated for the purpose of computing the relevant percentage ratios pursuant to Rules 14.22 and 14.23 of the Listing Rules.

As the highest applicable aggregated percentage ratio in respect of the Disposals and Related Transactions exceeds 75%, the Disposals and Related Transactions constitute a very substantial disposal of the Company and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

TAKEOVERS CODE IMPLICATIONS

With the publication of the joint announcement of the Company and AVIC International on 2 October 2019, the offer period of the H Share Offer has commenced since 2 October 2019. Pursuant to Rule 10 of the Takeovers Code, the unaudited profit figures (both before and after taxation) of AVIC Maritime for the six months ended 30 June 2019 as set out in the section headed "Information of AVIC Maritime" disclosed in the announcement of the Company dated 27 August 2019 (the "**Announcement**") and this circular (the "**Required Financial Information**") constitutes profit forecasts under Rule 10 of the Takeovers Code and must be reported on by the Company's financial adviser and its auditors or accountants in accordance with the Takeovers Code (the "**Profit Forecast Reports**") and such Profit Forecast Reports must be lodged with the Executive in accordance with Rule 10.4 of the Takeovers Code.

However, since (i) the Required Financial Information set out in the Announcement is prepared in accordance with Singapore Financial Reporting Standards and published in the 2019 interim report of AVIC Maritime in accordance with the requirements with the listing rules of the SGX and (ii) the Required Financial Information set out in this circular, while being prepared in accordance International Financial Reporting Standards, is consistent with the Required Financial Information set out in the Announcement and the 2019 interim report published by AVIC Maritime pursuant to the listing rules of the SGX, the exemption from reporting requirement in Rule 10.9 of the Takeovers Code shall apply to the Required Financial Information.

Shareholders and investors of the Company should note that the Announcement and this Circular do not meet the standard required by Rule 10 of the Takeovers Code. Shareholders and investors of the Company are advised to exercise caution in placing reliance on the Required Financial Information and when dealing in the shares of the Company and in assessing the merits and demerits of the AVIC Maritime Disposal, the H Share Offer and the proposed merger. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

EGM

The EGM will be convened by the Company at 39/F, AVIC Center Building, No.1018 Huafu Road, Futian District, Shenzhen, PRC on Monday, 11 November 2019 at 3:00 p.m. at which resolution will be proposed to consider and, if thought fit, approve the Implementation Agreement together with the transactions contemplated thereunder. The notice convening the EGM has been despatched to the shareholders on 24 September 2019 and a copy of the notice is set out on pages EGM-1 to EGM-2 of this circular.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Implementation Agreement and thus none of the Shareholders is required to abstain from voting if the Company were to convene a general meeting for the approval of the Implementation Agreement.

The proxy form for use at the EGM is enclosed with the notice of the EGM. Whether or not you are able to attend (if you are so entitled to) the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return them as soon as possible to the Company's legal address at 39/F, AVIC Center Building, No.1018 Huafu Road, Futian District, Shenzhen, PRC (for holders of Domestic Shares), or the H Share Registrar of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares of the Company) as soon as possible and in any event not later than 24 hours before the time appointed for holding the EGM.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, save for certain procedural or administrative matter to be decided by the chairman, all votes of the Shareholders at the general meetings shall be taken by poll. Accordingly, the chairman of the EGM will therefore demand a poll for every resolution put to the vote at the EGM pursuant to Article 78 of the articles of association of the Company.

RECOMMENDATION

The Directors, including the independent non-executive Directors, consider that the terms of each of the Implementation Agreement are on normal commercial terms, and are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors, including the independent non-executive Directors, recommend the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Implementation Agreement together with the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

By order of the Board
AVIC International Holdings Limited
Liu Hong De
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2016, 2017 and 2018 is disclosed in the annual reports of the Company for the years ended 31 December 2016, 2017 and 2018 respectively, and the unaudited financial information of the Group for the six months ended 30 June 2019 is disclosed in the interim report of the Company for the six months ended 30 June 2019. There was no qualified audit opinion expressed on the consolidated financial statements of the Group for the three years ended 31 December 2018.

The said annual reports and interim report of the Group are published on both the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.avic161.com):

- annual report of the Group for the year ended 31 December 2016 (pages 158 to 360) (available on http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0413/LTN20170413363.pdf);

- annual report of the Group for the year ended 31 December 2017 (pages 156 to 356) (available on http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0416/LTN201804161385.pdf); and

- annual report of the Group for the year ended 31 December 2018 (pages 175 to 448) (available on http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0415/LTN20190415860.pdf).

- interim report of the Group for the six months ended 30 June 2019 (pages 2 to 49) (available on https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0905/ltn20190905778.pdf)

2. INDEBTEDNESS STATEMENT

Borrowings

As at the close of business on 31 August 2019, being the latest practicable date for the purpose of this indebtedness statement, the Group had total borrowings of RMB35,828,119,000 details of which are as follows:

	Secured and unguaranteed *(Note i)* *RMB'000*	Unsecured Guaranteed *(Note ii)* *RMB'000*	Unsecured Unguaranteed *RMB'000*	Total *RMB'000*
Non-current				
Bank borrowings	5,778,661	3,013,000	7,619,118	16,410,779
Debentures	–	–	2,694,665	2,694,665
Third party borrowings	134,598	–	195,933	330,531
Amounts due to related parties	–	–	1,083,208	1,083,208
	5,913,259	3,013,000	11,592,924	20,519,183
Current				
Bank borrowings	216,092	1,467,100	10,452,658	12,140,850
Third party borrowings	49,862	–	–	49,862
Amounts due to related parties	–	270,000	2,848,224	3,118,224
	265,954	1,737,100	13,305,882	15,308,936
	6,179,213	4,750,100	24,898,806	35,828,119

(i) The secured borrowings of RMB6,179,213,000 as at 31 August 2019 were secured by right-of-use assets and property, plant and equipment of the Group.

(ii) The unsecured but guaranteed borrowings of RMB4,750,100,000 as at 31 August 2019 were guaranteed by AVIC International Holding Corporation (the holding company of the Company), AVIC International Shenzhen Company Limited (a major shareholder of the Company) or Xiamen Financial Investment Group Co., Ltd. (an independent third party).

Lease obligations

As at the close of business on 31 August 2019, the Group, as a lessee, has lease liabilities for the remainder of the relevant lease terms amounting to RMB354,651,000 in aggregate (excluding contingent rental arrangement). Except for lease liabilities of RMB234,403,000 which are secured by rental deposits and unguaranteed and lease liabilities of RMB4,022,000 which are secured by rental deposits and property, plant and equipment and unguaranteed, all the remaining amounts are unsecured and unguaranteed.

Contingent liabilities

As at the close of business on 31 August 2019, being the latest practicable date for the purpose of this indebtedness statement, the Group has the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Group	Guarantee	Guarantee's relationship with the Group	31 August 2019 Outstanding amounts guaranteed
				RMB'000
AVIC International Beijing Company Limited (中國航空技術北京有限公司)	Subsidiary of the Company	Tuofu Yuanyang Shipping Company Limited* (拓富遠洋海運有限公司)	Independent third party	89,200

* The English name of the company represents management's best efforts in translating the Chinese name of the company as no English name has been registered or is available.

Save as disclosed above or otherwise mentioned herein, and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, the Group did not have any outstanding debentures issued and outstanding or authorized or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, other recognised lease liabilities or lease commitments, any other mortgages and charges, material contingent liabilities and guarantees outstanding at the close of business on 31 August 2019, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular.

3. STATEMENT OF SUFFICIENCY OF WORKING CAPITAL

After due and careful consideration, the Directors are of the opinion that, taking into account the expected financial resources available to the Group including the internally generated funds and the available facilities, the Group has sufficient working capital for its present requirements that is for at least the next 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS

Looking ahead, the second half of 2019 will see global economic fluctuation and the further increase in downward pressure on domestic economy. Despite the external challenges, the Group will maintain its strategic theme of "Reform and Restructure, Focus and Breakthrough, and Value Growth," with an aim to seize market opportunities and enhance the order acquisition capability, accelerate market expansion and project execution, strive to optimize the product structure and adjust the customer structure, as well as speed up the operational improvement of or withdrawal from loss-making businesses. Meanwhile, we will further sharpen our focus on principal business and strip away the real estate business through innovative business models to achieve our whole-year operational target.

High-tech Electronic Products Business

In respect of the high-tech electronic products business, the Group will closely monitor the changes in external environment and markets, continue to improve its market share, strengthen connections with customers in its advantageous fields, reinforce the expansion of new markets and new customers, and lay a solid foundation for reserving orders for new factories. The Group will continue to optimize its product structure, and effectively integrate market expansion with customer classification management to increase customer coverage and penetration of high value-added products. Tianma Micro-electronics Co., Ltd ("**Tianma Company**") will seize the opportunity to initiate the re-finance project in the capital market, to accelerate the phase II construction of G6 active matrix organic light-emitting diode panels (主動矩陣有機發光二極體面板) ("**AMOLED**") production line of Wuhan Tianma Microelectronics Co., Ltd. ("**Wuhan Tianma**") and improve the mass production capacity and quality. Shennan Circuits Co., Ltd. ("**SCC**") will proactively promote its project in relation to the Proposed Issuance of A share convertible bonds to further consolidate its leading position in the printed circuit boards and packaging substrate ("**PCB**") field.

Retails and Consumer Products Business

With deep combination of consumption demands of the customers, Fiyta Holdings Limited's ("**Fiyta**") will accelerate the optimization of its existing channel structures and increase yield per unit, continue to facilitate the cultivation of new brands and expansion of new business and new markets. It will also continue to strengthen the cost and expense control and improve operating efficiency, speed up the execution of smart retail projects in an orderly manner, and fully promote the continuous improvement of operating results.

International Engineering and Trading and Logistics Business

In the second half of 2019, the international engineering business of the Group will speed up the construction progress of its key projects, focus on the implementation of the Angolan airport project, and promote the early delivery of

Algeria project. In respect of the mechatronics engineering business, we will further strengthen our operations control, vigorously promote the execution of key projects, and endeavor to improve the operation as early as possible. Regarding the cement engineering business, we will focus on the key markets, spare no efforts to obtain orders, sign new contracts for the commencement of cement and building materials and petrochemical engineering projects, and facilitate the execution of projects on hand in an orderly manner. For the trading and logistics business, we will continue with the equity transfer of Weihai Shipyard and simultaneously implement the equity transfer of our associate, AVIC Sunda.

Shipping Business

Upon completion of the AVIC Maritime Disposal, the shipping business segment of the Group will further downsize and is expected to account for 0.23%, 0.28% and 0.01% of the Group's total assets, profit (before tax) and revenue for the year ended 31 December 2018. The Company will gradually withdraw from the shipping business and will determine the treatment of its remaining shipping business subject to the future market conditions.

Liquidity and Capital Resources

As at 30 June 2019, the total cash and cash equivalents of the Group amounted to approximately RMB10,116,144,000, including cash in Hong Kong Dollars, US Dollars, Japanese Yen, and Korean Won, which have been converted into Renminbi (31 December 2018: RMB8,526,106,000). The Group's total current borrowings amounted to approximately RMB15,494,269,000; and total non-current borrowings amounted to approximately RMB19,603,104,000 with an annual interest rate ranging from 0.79% to 6.16%. The Group has further strengthened and perfected its regulations in respect of the management of tradable financial assets, and formulated the procedures of decision-making, implementation and risk control.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were of the view that there was no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

Set out below are the historical financial information which comprise the unaudited consolidated statements of financial position of the Target Group (as defined in Note 1) as at 31 December 2016, 2017 and 2018 and 30 June 2019, the unaudited consolidated statements of comprehensive income, the unaudited consolidated statements of changes in equity and the unaudited consolidated statements of cash flows of the Target Group for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019, and explanatory notes (the "**Historical Financial Information**").

The Historical Financial Information has been prepared on the basis set out in Note 2, and has also been prepared in accordance with the accounting policies adopted by the Company and paragraph 68(2)(a)(i) of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Historical Financial Information is prepared by the Directors solely for the purpose of inclusion in this circular in connection with the AVIC Maritime Disposal. The Company's reporting accountant, PricewaterhouseCoopers was engaged to review the Historical Financial Information of the Target Group set out on pages II-1 to II-15 in accordance with International Standard on Review Engagements 2400 "*Engagements to Review Financial Statements*" issued by the International Auditing and Assurance Standards Board and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable the reporting accountant to obtain assurance that the reporting accountant would become aware of all significant matters that might be identified in an audit. Accordingly, the reporting accountant does not express an audit opinion. Based on the review, nothing has come to the reporting accountant's attention that causes them to believe that the Historical Financial Information is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

A. UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Unaudited				
	For the year ended 31 December			For the 6 months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	426,272	645,688	587,660	292,218	261,795
Cost of sales	(230,858)	(378,888)	(242,792)	(124,994)	(101,214)
Gross profit	195,414	266,800	344,868	167,224	160,581
Other income	7,073	14,947	14,943	4,792	1,532
Other gains and losses, net					
– (Impairment loss)/write back of impairment loss on financial assets	(3,218)	(7,119)	3,435	1,211	(142)
– Others	(11,428)	15,530	(3,691)	(3,193)	9,932
Expenses					
– Distribution and marketing	(48,854)	(40,760)	(38,248)	(15,308)	(15,547)
– Administrative	(127,741)	(136,470)	(159,024)	(72,631)	(79,655)
– Finance	(23,325)	(56,029)	(100,669)	(40,402)	(47,858)
– Others	(1,754)	(16,337)	(2,288)	(157)	–
Share of profit of associated companies	679	1,638	546	499	1,510
(Loss)/profit before income tax	(13,154)	42,200	59,872	42,035	30,353
Income tax expense	(13,898)	(15,685)	(21,061)	(14,413)	(8,215)
(Loss)/profit after tax	(27,052)	26,515	38,811	27,622	22,138

	Unaudited				
	For the year ended 31 December			For the 6 months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other comprehensive (loss)/income					
Items that may be reclassified subsequently to profit or loss:					
Share of other comprehensive income of associated companies	52	174	26	–	194
Currency translation differences arising from consolidation (loss)/gain	(7,569)	5,763	(13,863)	(1,117)	(10,607)
	(7,517)	5,937	(13,837)	(1,117)	(10,413)
Total comprehensive (loss)/income	(34,569)	32,452	24,974	26,505	11,725
(Loss)/profit attributable to:					
Equity holders of the Company	(28,575)	26,829	27,280	21,167	18,025
Non-controlling interests	1,523	(314)	11,531	6,455	4,113
	(27,052)	26,515	38,811	27,622	22,138
Total comprehensive (loss)/income attributable to:					
Equity holders of the Company	(38,453)	28,908	12,674	21,041	8,345
Non-controlling interests	3,884	3,544	12,300	5,464	3,380
	(34,569)	32,452	24,974	26,505	11,725
(Loss)/earnings per share attributable to equity holder of the Company (expressed in RMB cents per share)					
Basic and diluted (loss)/earnings per share	(10.01)	9.39	9.55	7.41	6.31

B. UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited			
	As at			
	31 December 2016	31 December 2017	31 December 2018	30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS				
Non-current assets				
Trade and other receivables	61,718	34,136	19,788	10,577
Investments in associated companies	2,504	5,371	5,943	7,472
Right-of-use assets	–	–	–	48,984
Property, plant and equipment	7,006	8,381	8,968	8,606
Intangible assets	75,021	74,917	76,619	72,995
Goodwill	106,796	114,049	114,706	110,517
Available-for-sale financial assets	11	12	–	–
Deferred tax assets	1,545	1,721	2,014	2,033
	254,601	238,587	228,038	261,184
Current assets				
Inventories	278,962	139,885	156,477	172,134
Trade and other receivables	851,433	2,281,514	2,412,379	2,717,490
Amounts due from customers for contract work	25,331	75,101	–	–
Contract assets	–	–	53,290	65,313
Cash and cash equivalents	495,184	135,024	243,331	170,127
Pledged bank deposits	91,553	25,555	13,267	12,960
	1,742,463	2,657,079	2,878,744	3,138,024
Total assets	1,997,064	2,895,666	3,106,782	3,399,208
EQUITY				
Equity attributable to owners of the Company				
Share capital	101,237	101,237	101,237	101,237
Capital reserve	11,944	11,944	11,944	11,944
Other reserves	4,839	10,101	7,619	(2,061)
Retained profits	18,020	41,666	56,822	74,847
	136,040	164,948	177,622	185,967
Non-controlling interests	63,467	65,429	75,079	73,705
Total equity	199,507	230,377	252,701	259,672

	Unaudited			
	As at			
	31 December 2016	31 December 2017	31 December 2018	30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LIABILITIES				
Non-current liabilities				
Borrowings	492,240	395,033	588,302	283,305
Lease liabilities	755	553	1,076	43,482
Deferred tax liabilities	16,928	15,556	15,108	15,101
	509,923	411,142	604,486	341,888
Current liabilities				
Trade and other payables	516,332	257,679	214,260	180,343
Amounts due to customers for contract work	47,499	58,272	–	–
Contract liabilities	–	–	82,105	77,950
Borrowings	703,520	1,918,705	1,905,491	2,510,493
Lease liabilities	1,042	953	1,161	8,616
Derivative financial instruments	–	–	24,753	–
Current income tax liabilities	19,241	18,538	21,825	20,246
	1,287,634	2,254,147	2,249,595	2,797,648
Total liabilities	1,797,557	2,665,289	2,854,081	3,139,536
Total equity and liabilities	1,997,064	2,895,666	3,106,782	3,399,208

C. UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Unaudited								
	Attributable to owner of the Company								
	Share Capital	Capital reserve	Merger reserve	Statutory reserve	Currency translation Reserve	Retained Profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2016	101,237	11,944	(3,664)	14,735	1,669	48,572	174,493	62,352	236,845
(Loss)/profit for the year	–	–	–	–	–	(28,575)	(28,575)	1,523	(27,052)
Other comprehensive (loss)/income for the year	–	–	–	–	(9,878)	–	(9,878)	2,361	(7,517)
Total comprehensive (loss)/income for the year	–	–	–	–	(9,878)	(28,575)	(38,453)	3,884	(34,569)
Distributions to non-controlling interests	–	–	–	–	–	–	–	(2,769)	(2,769)
Total transactions with owners, recognised directly in equity	–	–	–	–	–	–	–	(2,769)	(2,769)
Transfer to statutory reserve	–	–	–	1,977	–	(1,977)	–	–	–
Balance at 31 December 2016	101,237	11,944	(3,664)	16,712	(8,209)	18,020	136,040	63,467	199,507

	Unaudited								
	Attributable to owner of the Company								
	Share Capital	Capital reserve	Merger reserve	Statutory reserve	Currency translation Reserve	Retained Profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017	101,237	11,944	(3,664)	16,712	(8,209)	18,020	136,040	63,467	199,507
Profit/(loss) for the year	–	–	–	–	–	26,829	26,829	(314)	26,515
Other comprehensive income for the year	–	–	–	–	2,079	–	2,079	3,858	5,937
Total comprehensive income for the year	–	–	–	–	2,079	26,829	28,908	3,544	32,452
Distributions to non-controlling interests	–	–	–	–	–	–	–	(1,582)	(1,582)
Total transactions with owners, recognised directly in equity	–	–	–	–	–	–	–	(1,582)	(1,582)
Transfer to statutory reserve	–	–	–	3,183	–	(3,183)	–	–	–
Balance at 31 December 2017	101,237	11,944	(3,664)	19,895	(6,130)	41,666	164,948	65,429	230,377

	Unaudited								
	Attributable to owner of the Company								
	Share Capital	Capital reserve	Merger reserve	Statutory reserve	Currency translation Reserve	Retained Profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2018	101,237	11,944	(3,664)	19,895	(6,130)	41,666	164,948	65,429	230,377
Profit for the year	–	–	–	–	–	27,280	27,280	11,531	38,811
Other comprehensive (loss)/income for the year	–	–	–	–	(14,606)	–	(14,606)	769	(13,837)
Total comprehensive (loss)/income for the year	–	–	–	–	(14,606)	27,280	12,674	12,300	24,974
Distributions to non-controlling interests	–	–	–	–	–	–	–	(2,650)	(2,650)
Total transactions with owners, recognised directly in equity	–	–	–	–	–	–	–	(2,650)	(2,650)
Transfer to statutory reserve	–	–	–	12,124	–	(12,124)	–	–	–
Balance at 31 December 2018	101,237	11,944	(3,664)	32,019	(20,736)	56,822	177,622	75,079	252,701

	Unaudited								
	Attributable to owner of the Company								
	Share Capital *RMB'000*	Capital reserve *RMB'000*	Merger reserve *RMB'000*	Statutory reserve *RMB'000*	Currency translation Reserve *RMB'000*	Retained Profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2018	101,237	11,944	(3,664)	19,895	(6,130)	41,666	164,948	65,429	230,377
Profit for the period	–	–	–	–	–	21,167	21,167	6,455	27,622
Other comprehensive loss for the period	–	–	–	–	(126)	–	(126)	(991)	(1,117)
Total comprehensive (loss)/income for the period	–	–	–	–	(126)	21,167	21,041	5,464	26,505
Distributions to non-controlling interests	–	–	–	–	–	–	–	(2,641)	(2,641)
Total transactions with owners, recognised directly in equity	–	–	–	–	–	–	–	(2,641)	(2,641)
Balance at 30 June 2018	101,237	11,944	(3,664)	19,895	(6,256)	62,833	185,989	68,252	254,241

	Unaudited								
	Attributable to owner of the Company								
	Share Capital	Capital reserve	Merger reserve	Statutory reserve	Currency translation Reserve	Retained Profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2019	101,237	11,944	(3,664)	32,019	(20,736)	56,822	177,622	75,079	252,701
Profit for the period	–	–	–	–	–	18,025	18,025	4,113	22,138
Other comprehensive loss for the period	–	–	–	–	(9,680)	–	(9,680)	(733)	(10,413)
Total comprehensive (loss)/income for the period	–	–	–	–	(9,680)	18,025	8,345	3,380	11,725
Distributions to non-controlling interests	–	–	–	–	–	–	–	(4,754)	(4,754)
Total transactions with owners, recognised directly in equity	–	–	–	–	–	–	–	(4,754)	(4,754)
Balance at 30 June 2019	101,237	11,944	(3,664)	32,019	(30,416)	74,847	185,967	73,705	259,672

D. UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited				
	For the year ended 31 December			For the 6 months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from operating activities					
(Loss)/profit before income tax	(13,154)	42,200	59,872	42,035	30,353
Adjustments for:					
– Amortisation of intangible assets	5,206	5,459	6,280	2,826	4,784
– Bad trade debts written off	1,176	–	–	–	–
– Depreciation of property, plant and equipment	3,472	3,398	3,639	1,754	5,906
– Interest expense	20,905	48,485	95,015	42,196	46,447
– Interest income	(2,782)	(1,914)	(2,362)	(1,571)	(890)
– Loss/(gain) on disposal of property, plant and equipment	105	(107)	–	–	–
– Property, plant and equipment written off	188	238	213	–	–
– Provision for foreseeable losses	–	–	1,967	–	–
– (Write back of impairment loss)/impairment loss on financial assets					
– Trade	(206)	7,077	(3,435)	145	142
– Non-trade	3,424	42	–	–	–
– Share of profit of associated companies	(679)	(1,638)	(546)	(499)	(1,510)
– Unrealised currency translation gains	3,325	(2,666)	(4,162)	6,888	(4,367)
– Waiver of amount due to related corporation	–	–	(1,258)	–	–
– Write-down of inventory to net realisable value	–	16,087	2,275	–	–

	Unaudited				
	For the year ended 31 December			For the 6 months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating profit before working capital changes	20,980	116,661	157,498	93,774	80,865
Changes in working capital:					
– Amounts due from customers for contract work	113,197	(49,770)	–	–	–
– Amounts due to customers for contract work	45,541	10,773	–	–	–
– Contract assets	–	–	21,811	31,152	(12,023)
– Contract liabilities	–	–	23,833	2,165	(4,155)
– Inventories	28,828	122,990	(18,867)	(5,127)	(15,657)
– Trade and other receivables	(694,868)	(1,412,015)	(115,675)	25,076	(295,752)
– Trade and other payables	326,491	(296,675)	10,448	(26,044)	(59,463)
Cash (used in)/generated from operations	(159,831)	(1,508,036)	79,048	120,996	(306,185)
Interest received	1,887	1,512	2,362	1,571	890
Income tax paid	(11,069)	(19,663)	(17,857)	(7,679)	(6,142)
Net cash (used in)/generated from operating activities	(169,013)	(1,526,187)	63,553	114,888	(311,437)
Cash flows from investing activities					
Additions to property, plant and equipment	(1,350)	(2,315)	(2,172)	(984)	(5)
Additions to intangible assets	(1,064)	(394)	(7,550)	(1,066)	–
Interest received	696	107	–	–	–
Net cash used in investing activities	(1,718)	(2,602)	(9,722)	(2,050)	(5)

	Unaudited				
	For the year ended 31 December			For the 6 months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows from financing activities					
Dividends paid to non-controlling interests	–	(1,539)	(2,650)	(2,641)	(4,682)
Interest paid	(18,815)	(42,944)	(98,912)	(16,207)	(24,569)
(Increase)/decrease in cash pledged with bank	(52,152)	65,998	12,288	9,514	307
Loan from non-controlling interests	54,874	–	–	–	–
Loan from related corporations	21,926	–	–	–	–
Proceeds from borrowings	586,850	2,051,991	3,836,978	245,000	997,175
Repayment of borrowings	(251,168)	(909,456)	(3,679,536)	(280,600)	(727,170)
Repayment of lease liabilities	–	–	–	–	(3,602)
Repayment of finance lease liabilities	(1,270)	(893)	(2,087)	(902)	–
Repayment of related corporation's loan	(5,864)	–	–	–	–
Net cash generated from/(used in) financing activities	334,381	1,163,157	66,081	(45,836)	237,459
Net increase/(decrease) in cash and cash equivalents	163,650	(365,632)	119,912	67,002	(73,983)
Cash and cash equivalents at beginning of the year/period	316,963	495,184	135,024	135,024	243,331
Effects of currency translation on cash and cash equivalents	14,571	5,472	(11,605)	(14,460)	779
Cash and cash equivalents at end of the year/period	495,184	135,024	243,331	187,566	170,127

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

AVIC International Holdings Limited ("**the Company**") and its subsidiaries (together "**the Group**") are principally engaged in the related business of manufacturing and sales of flat panel displays, printed circuit boards and watches, international engineering and trading & logistic business, and shipbuilding, design and related engineering, procurement and construction projects development in the People's Republic of China.

On 27 August 2019, the Company entered into a sale and purchase agreement with China Merchant Group for the disposal of the equity interest of AVIC International Maritime Holdings Limited ("**Target Company**") and its subsidiaries (together, the "**Target Group**"), at a consideration of approximately S$32 million (the "**Proposed Disposal**"). Upon the completion of the Proposed Disposal, the Company will no longer hold any equity interest in AVIC Maritime.

2. BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and solely for the purposes of inclusion in this circular. It does not contain sufficient information to constitute a complete set of financial statements as described in International Accounting Standard 1 "Presentation of Financial Statements" issued by the International Accounting Standards Board nor a set of condensed financial statements as defined in International Accounting Standard 34 "Interim Financial Reporting" and should be read in connection with the annual report of the Company for the year ended 31 December 2018 and the interim report of the Company for the six months ended 30 June 2019.

The Historical Financial Information has been prepared in accordance with the accounting policies adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2018 and the interim report of the Company for the six months ended 30 June 2019. These policies have been consistently applied to all the years presented, unless otherwise stated.

The following new and amended standards are applicable to the Target Group with the related impact outlined in Note 2.1:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases

The following amendments to existing standards are effective to the Group for accounting periods beginning on or after 1 January 2019 but did not result in any significant impact on the results and the financial position of the Target Group.

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

2.1 New and amended standards adopted

IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018)

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. The adoption of IFRS 15 did not have any significant impact on the Target Group's unaudited historical financial information except for disclosures.

Following the presentation requirement in IFRS 15, the Target Group has separately presented contract assets and contract liabilities from 1 January 2018.

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. Accordingly, the requirements of IAS 39 Financial Instruments: Recognition and Measurement are applied up to financial year ended 31 December 2017. There is no impact on the Target Group's unaudited historical financial information arising from the adoption of IFRS 9 on 1 January 2018.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)

IFRS 16 has resulted in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors has not changed significantly.

The Group has applied the standard from its mandatory adoption date of 1 January 2019. The Group has applied the modified retrospective approach and has not restated comparative amounts for the year prior to first adoption. The Group has elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application. All other right-of-use assets are measured at the amount of the relevant lease liability on adoption. When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental rates of the relevant group entities at the date of initial application.

The adoption of IFRS 16 resulted in adjustments to the balance sheet of the Target Group as at 1 January 2019. The differences from the balance sheet as previously reported at 31 December 2018 are increase in right-of-use assets and lease liabilities of RMB53,416,000.

The unaudited pro forma financial information of AVIC International Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") excluding AVIC Weihai Shipyard Company Limited ("**Weihai Shipyard**"), AVIC International Maritime Holdings Limited ("**AVIC Maritime**"), AVIC Sunda Holding Company Limited ("**AVIC Sunda**") (collectively referred to as the "**Target Companies**") (the "**Remaining Group**") ("**Unaudited Pro Forma Financial Information**") has been prepared by the directors in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and solely for the purpose to illustrate (a) the financial position of the Remaining Group as if the disposals of equity interest and shareholder's loan in the Target Companies by the Company to independent third parties (the "**Purchasers**") pursuant to the implementation agreements dated 26 April 2019 and 27 August 2019 entered into among the Company and the Purchasers (the "**Disposals**") had been completed on 30 June 2019; and (b) the financial results and cash flows of the Remaining Group as if the Disposals had been completed on 1 January 2019.

The unaudited pro forma consolidated statement of financial position of the Remaining Group has been prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2019 which has been extracted from the Group's published interim report for the period ended 30 June 2019, after taking into account the pro forma adjustments relating to the Disposals that are (i) clearly shown and explained; (ii) directly attributable to the Disposals and not relating to future events or decisions; and (iii) factually supportable, as explained in the accompanying notes, as if the Disposals had been completed on 30 June 2019.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group are prepared based on the unaudited consolidated statement of profit or loss and other comprehensive income and the unaudited consolidated statement of cash flows of the Group for the period ended 30 June 2019, which have been extracted from the Group's published interim report for the period ended 30 June 2019, after taking into account the pro forma adjustments relating to the Disposals that are (i) clearly shown and explained; (ii) directly attributable to the Disposals and not relating to future events or decisions; and (iii) factually supportable, as explained in the accompanying notes, as if the Disposals had been completed on 1 January 2019.

The Unaudited Pro Forma Financial Information has been prepared by the directors based on certain assumptions, estimates and uncertainties for illustrative purposes only and because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not purport to predict what the financial position of the Remaining Group would have been if the Disposals had been completed on 30 June 2019 or at any future dates, or what the financial results and cash flows of the Remaining Group for the period ended 30 June 2019 or for any future periods would have been if the Disposals had been completed on 1 January 2019.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in Appendix I to this circular, the unaudited financial information of AVIC Maritime as set out in Appendix II to this circular and the unaudited financial information of Weihai Shipyard and AVIC Sunda extracted by the directors from the Group's published interim report for the period ended 30 June 2019, and other financial information included elsewhere in this circular. Reference is made to the Company's announcement and circular dated 26 April 2019, 10 September 2019, and 4 September 2019 and 24 June 2019.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED 30 JUNE 2019

	The Group for the period ended 30 June 2019	Pro Forma Adjustments							The Remaining Group for the period ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 5(i)*	*Note 5(ii)*	*Note 5(iii)*	*Note 6(i)*	*Note 6(ii)*	*Note 6(iii)*	*Note 7*	
Revenue	26,871,678	–	(647,744)	(261,795)	–	–	–	38,734	26,000,873
Cost of sales	(22,230,431)	–	782,311	101,214	–	–	–	(38,715)	(21,385,621)
Gross profit	**4,641,247**	**–**	**134,567**	**(160,581)**	**–**	**–**	**–**	**19**	**4,615,252**
Other income	624,222	–	(15,038)	(1,532)	–	–	–	–	607,652
Other gains and losses	222,218	–	542	(9,932)	(44,016)	264,672	6,970	–	440,454
Impairment losses under expected credit loss model, net of reversal	(172,736)	–	19,802	142	–	–	–	–	(152,792)
Administrative expenses	(1,311,064)	–	17,657	79,655	–	–	–	–	(1,213,752)
Research and development expenses	(1,134,028)	–	–	–	–	–	–	–	(1,134,028)
Distribution costs	(1,025,670)	–	256	15,547	–	–	–	(19)	(1,009,886)
Fair value gain on investment properties	1,143	–	–	–	–	–	–	–	1,143
Operating profit	**1,845,332**	**–**	**157,786**	**(76,701)**	**(44,016)**	**264,672**	**6,970**	**–**	**2,154,043**
Finance income	80,761	–	(88)	–	–	–	–	17,410	98,083
Finance costs	(738,302)	–	51,440	47,858	–	–	–	(17,410)	(656,414)
Finance costs - net	(657,541)	–	51,352	47,858	–	–	–	–	(558,331)
Share of results of joint ventures and associates	(19,520)	(19,039)	–	(1,510)	–	–	–	–	(40,069)

	The Group for the period ended 30 June 2019	Pro Forma Adjustments							The Remaining Group for the period ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 5(i)*	*Note 5(ii)*	*Note 5(iii)*	*Note 6(i)*	*Note 6(ii)*	*Note 6(iii)*	*Note 7*	
Profit before income tax	**1,168,271**	**(19,039)**	**209,138**	**(30,353)**	**(44,016)**	**264,672**	**6,970**	**–**	**1,555,643**
Income tax expense	(328,000)	–	(444)	8,215	–	–	–	–	(320,229)
Profit for the period	**840,271**	**(19,039)**	**208,694**	**(22,138)**	**(44,016)**	**264,672**	**6,970**	**–**	**1,235,414**
Attributable to:									
Owners of the Company	91,576	(19,039)	145,604	(13,315)	(44,016)	264,672	6,970	–	432,452
Non-controlling interests	748,695	–	63,090	(8,823)	–	–	–	–	802,962
	840,271	(19,039)	208,694	(22,138)	(44,016)	264,672	6,970	–	1,235,414

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2019

	The Group for the period ended 30 June 2019	Pro Forma Adjustments							The Remaining Group for the period ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 5(i)*	*Note 5(ii)*	*Note 5(iii)*	*Note 6(i)*	*Note 6(ii)*	*Note 6(iii)*	*Note 7*	
Profit for the period	840,271	(19,039)	208,694	(22,138)	(44,016)	264,672	6,970	–	1,235,414
Other comprehensive income/(expense):									
Items that will not be reclassified to profit or loss									
Remeasurements of retirement and other Supplemental benefit obligations, net of tax	(701)	–	–	–	–	–	–	–	(701)
Items that may be subsequently reclassified to profit or loss									
Currency translation differences	16,865	–	–	10,413	–	–	15,318	–	42,596
Other comprehensive income for the period	**16,164**	**–**	**–**	**10,413**	**–**	**–**	**15,318**	**–**	**41,895**
Total comprehensive income/(expense) for the period, net of income tax	**856,435**	**(19,039)**	**208,694**	**(11,725)**	**(44,016)**	**264,672**	**22,288**	**–**	**1,277,309**
Attributable to:									
Owners of the Company	101,501	(19,039)	145,604	(3,635)	(44,016)	264,672	22,288	–	467,375
Non-controlling interests	754,934	–	63,090	(8,090)	–	–	–	–	809,934
Total comprehensive income for the period	**856,435**	**(19,039)**	**208,694**	**(11,725)**	**(44,016)**	**264,672**	**22,288**	**–**	**1,277,309**

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	The Group as at 30 June 2019	Pro Forma Adjustments							The Remaining Group as at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(i)*	*Note 2(ii)*	*Note 2(iii)*	*Note 3(i)*	*Note 3(ii)*	*Note 3(iii)*	*Note 4*	
ASSETS									
Non-current assets									
Right-of-use assets	2,867,092	–	–	(48,984)	–	–	–	–	2,818,108
Intangible assets	900,073	–	–	(72,995)	–	–	–	–	827,078
Property, plant and equipment	34,600,194	–	–	(8,606)	–	–	–	–	34,591,588
Construction-in-progress	15,855,396	–	–	–	–	–	–	–	15,855,396
Investment properties	4,484,469	–	–	–	–	–	–	–	4,484,469
Goodwill	620,270	–	–	(110,517)	–	–	–	–	509,753
Investments accounted for using the equity method	938,437	–	–	(7,472)	–	–	–	–	930,965
Trade and other receivables	91,335	–	–	(10,577)	–	–	–	–	80,758
Contract assets	272,334	–	–	–	–	–	–	–	272,334
Financial assets at fair value through profit or loss	217,058	–	–	–	–	–	–	–	217,058
Deferred income tax assets	744,905	–	–	(2,033)	–	–	–	–	742,872
Other non-current assets	405,368	–	–	–	–	–	–	–	405,368
	61,996,931	–	–	(261,184)	–	–	–	–	61,735,747
Current assets									
Inventories	8,821,304	–	–	(172,134)	–	–	–	–	8,649,170
Properties under development	466,029	–	–	–	–	–	–	–	466,029
Trade and other receivables	21,597,200	–	–	(2,717,490)	–	(997,092)	–	2,224,306	20,106,924
Contract assets	652,814	–	–	(65,313)	–	–	–	–	587,501
Financial assets at fair value through profit or loss	7,582	–	–	–	–	–	–	–	7,582
Pledged bank deposits	158,288	–	–	(12,960)	–	–	–	–	145,328
Cash and cash equivalents	10,116,144	–	–	(170,127)	825,249	602,767	155,699	–	11,529,732
	41,819,361	–	–	(3,138,024)	825,249	(394,325)	155,699	2,224,306	41,492,266
Assets classified as held for sale	4,479,809	(1,243,590)	(3,236,219)	–	–	–	–	–	–
Total assets	**108,296,101**	**(1,243,590)**	**(3,236,219)**	**(3,399,208)**	**825,249**	**(394,325)**	**155,699**	**2,224,306**	**103,228,013**

	The Group as at 30 June 2019	Pro Forma Adjustments							The Remaining Group as at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(i)*	*Note 2(ii)*	*Note 2(iii)*	*Note 3(i)*	*Note 3(ii)*	*Note 3(iii)*	*Note 4*	
EQUITY									
Capital and reserves attributable to the owners of the Company									
Share capital	1,166,162	–	–	–	–	–	–	–	1,166,162
Share premium	1,512,380	–	–	–	–	–	–	–	1,512,380
Other reserves	2,803,351	–	–	–	(167,058)	–	22,468	–	2,658,761
Perpetual subordinated convertible securities	2,781,674	–	–	–	–	–	–	–	2,781,674
Retained earnings	5,235,945	–	–	–	149,018	414,590	(4,143)	–	5,795,410
	13,499,512	**–**	**–**	**–**	**(18,040)**	**414,590**	**18,325**	**–**	**13,914,387**
Non-controlling interests	25,852,940	–	–	–	–	347,627	(122,298)	–	26,078,269
Total equity	**39,352,452**	**–**	**–**	**–**	**(18,040)**	**762,217**	**(103,973)**	**–**	**39,992,656**
LIABILITIES									
Non-current liabilities									
Borrowings	19,603,104	–	–	(283,305)	–	–	–	–	19,319,799
Deferred income tax liabilities	824,396	–	–	(15,101)	–	–	–	–	809,295
Deferred income on government grants	1,339,628	–	–	–	–	–	–	–	1,339,628
Lease liabilities	236,933	–	–	(43,482)	–	–	–	–	193,451
Provisions	235,939	–	–	–	–	–	–	–	235,939
Trade and other payables	373,971	–	–	–	–	–	–	–	373,971
Retirement and other supplemental benefit obligations	412,017	–	–	–	–	–	–	–	412,017
Other non-current liabilities	5,030	–	–	–	–	–	–	–	5,030
	23,031,018	**–**	**–**	**(341,888)**	**–**	**–**	**–**	**–**	**22,689,130**

	The Group as at 30 June 2019	Pro Forma Adjustments							The Remaining Group as at 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2(i)*	*Note 2(ii)*	*Note 2(iii)*	*Note 3(i)*	*Note 3(ii)*	*Note 3(iii)*	*Note 4*	
Current liabilities									
Trade and other payables	24,036,638	–	–	(180,343)	(400,301)	(2,195,675)	–	2,224,306	23,484,625
Contract liabilities	3,727,937	–	–	(77,950)	–	–	–	–	3,649,987
Lease liabilities	133,522	–	–	(8,616)	–	–	–	–	124,906
Borrowings	15,494,269	–	–	(2,510,493)	–	–	–	–	12,983,776
Current income tax liabilities	232,794	–	–	(20,246)	–	–	–	–	212,548
Retirement and other supplemental benefit obligations	15,385	–	–	–	–	–	–	–	15,385
Other current liabilities	75,000	–	–	–	–	–	–	–	75,000
	43,715,545	–	–	(2,797,648)	(400,301)	(2,195,675)	–	2,224,306	40,546,227
Liabilities associated with assets classified as held for sale	2,197,086	–	(2,197,086)	–	–	–	–	–	–
Total liabilities	**68,943,649**	**–**	**(2,197,086)**	**(3,139,536)**	**(400,301)**	**(2,195,675)**	**–**	**2,224,306**	**63,235,357**
Total equity and liabilities	**108,296,101**								**103,228,013**

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2019

	The Group for the period ended 30 June 2019	Pro Forma Adjustments							The Remaining Group for the period ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 5(i)*	*Note 5(ii)*	*Note 5(iii)*	*Note 6(i)*	*Note 6(ii)*	*Note 6(iii)*	*Note 7*	
Profit before income tax	1,168,271	(19,039)	209,138	(30,353)	(44,016)	264,672	6,970	–	1,555,643
Adjustment for depreciation of property, plant and equipment	1,769,044	–	(28,041)	(5,906)	–	–	–	–	1,735,097
Finance costs - net	738,302	–	(52,321)	(41,190)	–	–	–	–	644,791
Other income - government grant	(470,181)	–	(3,427)	–	–	–	–	–	(473,608)
Others	107,525	19,039	(19,802)	(3,416)	44,016	(264,672)	(6,970)	–	(124,280)
Operating cash flows before movements in working capital	3,312,961	–	105,547	(80,865)	–	–	–	–	3,337,643
Increase/(decrease) in trade and other receivables	(2,546,193)	(400,301)	11,466	295,752	–	–	–	–	(2,639,276)
Increase/(decrease) in trade and other payables	1,113,849	–	(29,988)	59,463	–	–	–	–	1,143,324
(Increase)/decrease in contract assets	(287,776)	–	(248,425)	12,023	–	–	–	–	(524,178)
Increase in contract liability	1,704,878	–	(20,282)	4,155	–	–	–	–	1,688,751
Others	(498,479)	–	180,964	15,350	–	–	–	–	(302,165)
Cash generated from operations	2,799,240	(400,301)	(718)	305,878	–	–	–	–	2,704,099
Interest paid	(626,338)	–	34,633	24,569	–	–	–	–	(567,136)
Income tax paid	(455,960)	–	–	6,142	–	–	–	–	(449,818)
Net cash generated from/(used in) operating activities	1,716,942	(400,301)	33,915	336,589	–	–	–	–	1,687,145

	The Group for the period ended 30 June 2019	Pro Forma Adjustments							The Remaining Group for the period ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 5(i)*	*Note 5(ii)*	*Note 5(iii)*	*Note 6(i)*	*Note 6(ii)*	*Note 6(iii)*	*Note 7*	
Investing activities									
Purchase of property, plant and equipment and construction-in-progress	(4,404,831)	–	9,914	5	–	–	–	–	(4,394,912)
Purchase of Intangible assets	(27,748)	–	989	–	–	–	–	–	(26,759)
Payment for right-of-use assets	(989)	–	–	–	–	–	–	–	(989)
Payment for rental deposit	(2,424)	–	–	–	–	–	–	–	(2,424)
Payment to purchasing of financial assets at FVTPL	(6,641)	–	–	–	–	–	–	–	(6,641)
Proceeds from disposals of property, plant and equipment	22,671	–	(234)	–	–	–	–	–	22,437
Proceeds from disposals of intangible assets	3,804	–	–	–	–	–	–	–	3,804
Proceeds from disposals of investments in associates	241,719	–	–	–	1,225,550	–	–	–	1,467,269
Proceeds from disposals of subsidiaries	–	–	–	–	–	585,411	153,497	–	738,908
Government grants received	156,015	–	–	–	–	–	–	–	156,015
Interest received	91,300	–	–	(890)	–	–	–	–	90,410
Loans to related parties	(240,346)	–	–	–	–	–	–	–	(240,346)
Repayments of loan to related parties	187,187	–	–	–	–	–	–	–	187,187
Loans to third parties	–	–	–	–	–	–	–	(110,000)	(110,000)
Repayments of loan to third parties	–	–	–	–	–	–	–	44,581	44,581
Dividends received	70,040	–	–	–	–	–	–	–	70,040
Net cash (used in)/generated from investing activities	**(3,910,243)**	**–**	**10,669**	**(885)**	**1,225,550**	**585,411**	**153,497**	**(65,419)**	**(2,001,420)**

	The Group for the period ended 30 June 2019	Pro Forma Adjustments							The Remaining Group for the period ended 30 June 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 5(i)*	*Note 5(ii)*	*Note 5(iii)*	*Note 6(i)*	*Note 6(ii)*	*Note 6(iii)*	*Note 7*	
Financing activities									
Deemed acquisition of additional interest in a subsidiary	(14,302)	–	–	–	–	–	–	–	(14,302)
Proceeds from borrowings	8,711,602	–	(217,000)	(997,175)	–	–	–	–	7,497,427
Repayments of borrowings	(5,495,450)	–	244,000	727,170	–	–	–	–	(4,524,280)
Proceed from issue of subsidiaries' shares for share awards granted	148,422	–	–	–	–	–	–	–	148,422
Borrowings from related parties	1,317,763	–	(110,000)	–	–	–	–	110,000	1,317,763
Repayments of borrowings from related parties	(694,964)	–	44,581	–	–	–	–	(44,581)	(694,964)
Repayment of lease liabilities	(55,748)	–	–	3,602	–	–	–	–	(52,146)
Dividends paid to non-controlling interests of subsidiaries	(196,116)	–	–	4,682	–	–	–	–	(191,434)
Net cash generated from/(used in) financing activities	**3,721,207**	**–**	**(38,419)**	**(261,721)**	**–**	**–**	**–**	**65,419**	**3,486,486**
Net increase/(decrease) in cash and cash equivalents	**1,527,906**	**(400,301)**	**6,165**	**73,983**	**1,225,550**	**585,411**	**153,497**	**–**	**3,172,211**
Cash and cash equivalents at beginning of year	8,526,106	–	(17,687)	(243,331)	–	–	–	–	8,265,088
Effects of exchange rate changes on cash and cash equivalents	73,654	–	–	(779)	–	–	–	–	72,875
Cash and cash equivalents at end of period	**10,127,666**	**(400,301)**	**(11,522)**	**(170,127)**	**1,225,550**	**585,411**	**153,497**	**–**	**11,510,174**
Represented by:									
Cash and cash equivalents	10,116,144	(400,301)	–	(170,127)	1,225,550	585,411	153,497	–	11,510,174
Cash and cash equivalents classified as held for sale	11,522	–	(11,522)	–	–	–	–	–	–
	10,127,666	(400,301)	(11,522)	(170,127)	1,225,550	585,411	153,497	–	11,510,174

Notes:

1. The unadjusted unaudited consolidated statement of financial position of the Group as at 30 June 2019, the unadjusted unaudited consolidated statement of profit or loss, the unadjusted unaudited consolidated statement of profit or loss and other comprehensive income and the unadjusted unaudited consolidated statement of cash flows of the Group for the period ended 30 June 2019 are extracted from the published interim report of the Group for the period ended 30 June 2019.

2. The adjustment represents the impact excluding the assets and liabilities of the Target Companies, including i) the exclusion of equity interest in an associate of the Group, AVIC Sunda, as if significant influence over AVIC Sunda was lost on 30 June 2019; ii) the exclusion of the assets and liabilities of Weihai Shipyard as at 30 June 2019, as extracted by the directors from the Group's unaudited interim report for the period ended 30 June 2019 as if the disposal was completed and the Group's control over Weihai Shipyard was lost on 30 June 2019; iii) the exclusion of the assets and liabilities of AVIC Maritime as at 30 June 2019, as extracted from the unaudited statement of financial position set out in Appendix II to this circular as if the disposal of AVIC Maritime was completed and the Group's control over AVIC Maritime was lost on 30 June 2019. The investment in AVIC Sunda and the assets and liabilities attributable to the Weihai Shipyard have been presented as assets classified as held for sale and liabilities associated with assets classified as held for sale presented in the unaudited consolidated financial statements for the period ended 30 June 2019 of the Group.

3. The adjustment represents the consequential impact on the Group's equity and the estimated financial position when the Disposals were completed on 30 June 2019, including the effect of: i) disposal of 22.35% equity interest in AVIC Sunda; ii) disposal of 69.77% equity interest in Weihai Shipyard and the shareholder's loan (including the principal and interests portions) owed by Weihai Shipyard to the Company ("**Weihai Shipyard Shareholder's Loan and Corresponding Interests**") amounting to RMB997,092,000; and iii) disposal of 73.87% equity interest in AVIC Maritime.

   i. The cash consideration received upon completion of the disposal of AVIC Sunda amounted to RMB1,289,610,000. The adjustment reflects the estimated loss on the disposal of AVIC Sunda for approximately RMB18,040,000.

      The calculation of the estimated loss on the disposal of AVIC Sunda to be recognised in profit or loss, as if the disposal had been completed on 30 June 2019, is as follows:

	Notes	*RMB'000*
Cash Consideration	*(a)*	1,289,610
Less: the Group's carrying value of interests in AVIC Sunda as at 30 June 2019	*(b)*	(1,243,590)
Less: estimated value added tax and surcharges	*(c)*	(62,288)
Less: estimated transaction costs	*(d)*	(1,772)
Loss on the disposal of AVIC Sunda		(18,040)
Net cash and cash equivalents received:		
Cash consideration to be received upon the disposal of AVIC Sunda subsequently to 30 June 2019	*(e)*	889,309
Less: estimated value added tax and surcharges	*(c)*	(62,288)
Less: estimated transaction costs	*(d)*	(1,772)
		825,249

Notes:

(a) As at the date of the AVIC Sunda Equity Transfer Agreement, the consideration of the 149,087,820 A shares in AVIC Sunda was RMB1,334,336,000, which was determined by the parties with reference to the arithmetic mean of the daily weighted average price of A share of AVIC Sunda for 30 trading days (the price per A share of AVIC Sunda is approximately RMB8.95) prior to the reminder announcement in relation to the disposal of AVIC Sunda dated 14 April 2019.

On 22 April 2019, AVIC Sunda convened its 2018 annual general meeting to consider and approve the "Resolution on the 2018 Profit Distribution Plan", which proposed a cash bonus of RMB3 for every 10 shares to all its shareholders. On 30 May 2019, AVIC Sunda announced its "2018 Profit Distribution Implementation Scheme", with its 2018 profit distribution record date scheduled on 5 June 2019. Accordingly, the Weighted Average Price shall be adjusted from approximately RMB8.95 to approximately RMB8.65, and the consideration for the 149,087,820 A shares in AVIC Sunda to be disposed by the Company to the purchaser shall be adjusted from RMB1,334,336,000 to RMB1,289,610,000.

(b) The amount represents the carrying amount of the Group's 22.35% equity interest in AVIC Sunda, which has been accounted for as investments in associates in the Group's published interim report for the period ended 30 June 2019, as assets classified as held for sale.

The amounts to be transferred from other reserves to retained earnings amounting to RMB167,058,000, as if the disposal had been completed on 30 June 2019, include: i) On 23 November 2007, the Company acquired 11.66% equity interest in AVIC Sunda. In addition to the 10.69% equity interest acquired previously on 7 April 2006, the Company's aggregate shareholding in AVIC Sunda increased to 22.35%. The Company had started to exercise significant influence over AVIC Sunda and the classification of this investment was then changed from available-for-sale financial asset to an investment in associates. The fair value gain arising from the initial acquired shareholding of 10.69% during the step-up period to 23 November 2007 amounting to RMB191,029,000 had been directly credited to other reserves; ii) the Company recognized the share of other reserves of AVIC Sunda of RMB23,971,000 by using equity method in prior years.

(c) The amount represents estimated value-added tax and surcharges on disposal of AVIC Sunda as if the disposal had been completed on 30 June 2019, and it is assumed that the taxes would be settled by cash.

(d) The transaction costs represent professional fee directly attributable to the disposal of AVIC Sunda which are estimated to be RMB1,772,000 and it is assumed that the fees would be settled by cash.

(e) As at 30 June 2019, the Group received an amount of approximately RMB400,301,000 from the purchaser, being the security deposit and representing 30% of the original consideration stated in the AVIC Sunda Equity Transfer Agreement. The remaining consideration of the disposal of AVIC Sunda amounted to approximately RMB889,309,000 was received by the Company on 27 August 2019.

ii. The cash consideration received upon completion of the disposal of Weihai Shipyard amounted to RMB603,092,000. The adjustment reflects the estimated gain on the disposal of Weihai Shipyard before income taxation for approximately RMB414,590,000.

The calculation of the estimated gain on the disposal of Weihai Shipyard to be recognised in profit or loss, as if the disposal had been completed on 30 June 2019, is as follows:

	Notes	*RMB'000*
Cash Consideration	*(a)*	603,092
Add: net liabilities of Weihai Shipyard derecognized	*(b)*	1,156,542
Less: disposal of Weihai Shipyard Shareholder's Loans and Corresponding Interests	*(c)*	(997,092)
Less: estimated transaction costs	*(d)*	(325)
Less: non-controlling interests derecognized on completion of the disposal of Weihai Shipyard	*(e)*	(347,627)
Gain on the disposal of Weihai Shipyard before income taxation		414,590
Net cash and cash equivalents received:		
Cash received upon the disposal of Weihai Shipyard	*(a)*	603,092
Less: estimated transaction costs	*(d)*	(325)
		602,767

Notes:

(a) The amount represents the consideration of the 69.77% interest in Weihai Shipyard of RMB1 and the consideration of the disposal of shareholder's loans and corresponding interests of RMB603,092,000.

(b) The amount represents the net liabilities of Weihai Shipyard as at 30 June 2019 as follows:

	RMB'000
Assets classified as held for sale of Weihai Shipyard as at 30 June 2019*	3,236,219
Liabilities associated with assets classified as held for sale of Weihai Shipyard as at 30 June 2019*	(2,197,086)
Reinstatement of amounts due to the Remaining Group by Weihai Shipyard being eliminated in the Group's unaudited consolidated statement of financial position as at 30 June 2019	(2,195,675)
Net liabilities of Weihai Shipyard derecognized	(1,156,542)

* The amounts represent the balances in the unaudited consolidated statement of financial position of the Remaining Group as at 30 June 2019 after elimination.

(c) The amount represents the Weihai Shipyard shareholder's loan with the principal amount of RMB950,000,000 and the corresponding interests of approximately RMB47,092,000 as if the disposal had completed on 30 June 2019 as set out in Note 4 below.

(d) The transaction costs represent professional fee directly attributable to the disposal of Weihai Shipyard which are estimated to be RMB325,000 and it is assumed that the fees would be settled by cash.

(e) The non-controlling interests derecognized on completion of the disposal of Weihai Shipyard included: 1) the carrying amount of non-controlling interests in the unaudited consolidated financial statements of Weihai Shipyard amounting to RMB838,000; 2) the non-controlling interests of 30.23% of the net liabilities of Weihai Shipyard in the unaudited consolidated financial statements of the Group amounting to RMB348,465,000.

iii. The cash consideration received upon completion of the disposal of AVIC Maritime amounted to Singapore dollar ("**S$**") 31,642,000 (equivalent to RMB160,758,000). For the purpose of pro forma and for the sake of convenience, it is assumed that no adjustments would be required to be made against the consideration. The actual consideration is subject to changes at date when the disposal of AVIC Maritime is completed. The adjustment reflects the estimated loss on the disposal of AVIC Maritime for approximately RMB4,143,000.

The calculation of the estimated loss on the disposal of AVIC Maritime to be recognised in profit or loss, as if the disposal had been completed on 30 June 2019, is as follows:

	Notes	*RMB'000*
Cash Consideration	*(a)*	160,758
Less: net assets of AVIC Maritime derecognized	*(b)*	(259,672)
Less: cumulative currency translation differences of AVIC Maritime recycled to profit or loss	*(c)*	(22,468)
Less: estimated value added tax and surcharges	*(d)*	(2,589)
Less: estimated transaction costs	*(e)*	(2,470)
Add: non-controlling interests derecognized on completion of the disposal of AVIC Maritime	*(f)*	122,298
Loss on the disposal of AVIC Maritime		(4,143)
Net cash and cash equivalents received:		
Cash received upon the disposal of AVIC Maritime	*(a)*	160,758
Less: estimated value added tax and surcharges	*(d)*	(2,589)
Less: estimated transaction costs	*(e)*	(2,470)
		155,699

Notes:

(a) The amount represented the minimum bidding price for the entire issued share capital of AVIC Maritime of S$31,642,000 (equivalent to RMB160,758,000). Exchange rate of S$1.00 = RMB5.0805 is used by the Group, as if the disposal of AVIC Maritime had been completed on 30 June 2019. Such exchange rate has been used, where applicable, for the purpose of pro forma only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

(b) The amount of net assets of AVIC Maritime was extracted from the unaudited consolidated statement of financial position of AVIC Maritime as at 30 June 2019, set out in Appendix II to this circular.

(c) The amount represents the cumulative currency translation differences related to foreign operations of the AVIC Maritime to be released to profit or loss as if the disposal of AVIC Maritime had been completed on 30 June 2019.

(d) The amount represents estimated value-added tax and surcharges on disposal of AVIC Maritime as if the disposal had been completed on 30 June 2019, and it is assumed that the taxes would be settled by cash.

(e) The transaction costs represent professional fee directly attributable to the disposal of AVIC Maritime which are estimated to be RMB2,470,000 and it is assumed that the fees would be settled by cash.

(f) The non-controlling interests derecognized on completion of the disposal of AVIC Maritime included: 1) the carrying amount of non-controlling interests in the unaudited consolidated financial statements of AVIC Maritime amounting to RMB73,705,000, as extracted from the unaudited consolidated statement of financial position of AVIC Maritime as at 30 June 2019, set out in Appendix II to this circular; 2) the non-controlling interests of 26.13% of the net assets of AVIC Maritime in the unaudited consolidated financial statements of the Group amounting to RMB48,593,000.

iv. Based on the difference between the considerations and investment cost of Weihai Shipyard, AVIC Sunda and AVIC Maritime recorded in the book of the Company, no income tax effect on the Disposals is expected.

4. The adjustment represents the reinstatement of current accounts between the Remaining Group and the Target Companies eliminated in the unaudited consolidated statement of financial position of the Group as at 30 June 2019 as follow:

	RMB'000
Amount due to AVIC Maritime by Weihai Shipyard	1,198,583
Amount due to the Remaining Group by Weihai Shipyard *(Note3 (ii)(c))*	997,092
Amount due to the Remaining Group by AVIC Maritime	28,631
	2,224,306

5. The adjustment represents the impact excluding the profit or loss, other comprehensive income and cash flows of the Target Companies, including i) the exclusion of the financial performance and cash flows relevant to AVIC Sunda for the period ended 30 June 2019, as if significant influence over AVIC Sunda was lost on 1 January 2019; ii) the exclusion of the financial performance and cash flows of Weihai Shipyard for the period ended 30 June 2019; iii) the exclusion of the financial performance and cash flows of AVIC Maritime for the period ended 30 June 2019, as extracted from the unaudited consolidated statement of profit or loss and other comprehensive income and unaudited consolidated statement of cash flows set out in Appendix II to this circular, as if the disposal of AVIC Maritime had been taken place on 1 January 2019. The results and cash flows of Weihai Shipyard and AVIC Sunda are prepared by the directors for the period ended 30 June 2019 on which no review report has been published.

6. The adjustment represents the consequential were impact on the Group's profit or loss, other comprehensive income and cash flows when the Disposals were completed on 1 January 2019, including the effect of: i) disposal of 22.35% equity interest in AVIC Sunda; ii) disposal of 69.77% equity interest in Weihai Shipyard and Weihai Shipyard Shareholder's loan and Corresponding Interests amounting to RMB979,736,000; and iii) disposal of 73.87% equity interest in AVIC Maritime.

i. The cash consideration received upon completion of the disposal of AVIC Sunda amounted to RMB1,289,610,000. The adjustment reflects the estimated loss on the disposal of AVIC Sunda for approximately RMB44,016,000.

The calculation of the estimated loss on the disposal of AVIC Sunda to be recognised in profit or loss, as if the disposal had been completed on 1 January 2019, is as follows:

	Note	*RMB'000*
Cash Consideration	*(a)*	1,289,610
Less: the Group's carrying value of interests in AVIC Sunda as at 1 January 2019	*(b)*	(1,269,566)
Less: estimated value added tax and surcharges	*(c)*	(62,288)
Less: estimated transaction costs	*(d)*	(1,772)
Loss on the disposal of AVIC Sunda		(44,016)
Net cash and cash equivalents received:		
Cash consideration to be received upon the disposal of AVIC Sunda	*(a)*	1,289,610
Less: estimated value added tax and surcharges	*(c)*	(62,288)
Less: estimated transaction costs	*(d)*	(1,772)
		1,225,550

Notes:

(a) As at the date of the AVIC Sunda Equity Transfer Agreement, the consideration of the 149,087,820 A shares in AVIC Sunda was RMB1,334,336,000, which was determined by the parties with reference to the arithmetic mean of the daily weighted average price of A share of AVIC Sunda for 30 trading days (the price per A share of AVIC Sunda is approximately RMB8.95) prior to the reminder announcement in relation to the disposal of AVIC Sunda dated 14 April 2019.

On 22 April 2019, AVIC Sunda convened its 2018 annual general meeting to consider and approve the "Resolution on the 2018 Profit Distribution Plan", which proposed a cash bonus of RMB3 for every 10 shares to all its shareholders. On 30 May 2019, AVIC Sunda announced its "2018 Profit Distribution Implementation Scheme", with its 2018 profit distribution record date scheduled on 5 June 2019. Accordingly, the Weighted Average Price shall be adjusted from approximately RMB8.95 to approximately RMB8.65, and the consideration for the 149,087,820 A shares in AVIC Sunda to be disposed by the Company to the purchaser shall be adjusted from RMB1,334,336,000 to RMB1,289,610,000.

(b) The amount represents the carrying amount of the Group's 22.35% equity interest in AVIC Sunda as at 1 January 2019.

(c) The amount represents estimated value-added tax and surcharges on disposal of AVIC Sunda as if the disposal had been completed on 1 January 2019, and it is assumed that the taxes would be settled by cash.

(d) The transaction costs represent professional fee directly attributable to the disposal of AVIC Sunda which are estimated to be RMB1,772,000 and it is assumed that the fees would be settled by cash.

ii. The cash consideration received upon completion of the disposal of Weihai Shipyard amounted to RMB585,736,000. The adjustment reflects the estimated gain on disposal before taxation for approximately RMB264,672,000.

The calculation of the estimated gain on the disposal of Weihai Shipyard to be recognised in profit or loss, as if the disposal had been completed on 1 January 2019, is as follows:

	Notes	*RMB'000*
Cash Consideration	*(a)*	585,736
Add: net liabilities of Weihai Shipyard derecognized	*(b)*	943,686
Less: disposal of Weihai Shipyard Shareholder's Loans and Corresponding Interests	*(c)*	(979,736)
Less: estimated transaction costs	*(d)*	(325)
Less: non-controlling interests derecognized on completion of the disposal of Weihai Shipyard	*(e)*	(284,689)
Gain on the disposal of Weihai Shipyard before income taxation		264,672
Net cash and cash equivalents received:		
Cash received upon the disposal of Weihai Shipyard	*(a)*	585,736
Less: estimated transaction costs	*(d)*	(325)
		585,411

Notes:

(a) The amount represents the consideration of the 69.77% interest in Weihai Shipyard of RMB1 and the proceeds from the disposal of shareholder's loans and corresponding interests of RMB585,736,000.

(b) The amount of net liabilities of Weihai Shipyard derecognized was prepared by the directors for the year ended 31 December 2018 on which no review report has been published.

(c) The amount represents the Weihai Shipyard shareholder's loan with the principal amount of RMB950,000,000 and the corresponding interests of approximately RMB29,736,000 as if the disposal had been completed on 1 January 2019.

(d) The transaction costs represent professional fee directly attributable to the disposal of Weihai Shipyard which are estimated to be RMB325,000 and it is assumed that the fees would be settled by cash.

(e) The non-controlling interests derecognized on completion of the disposal of Weihai Shipyard included: 1) the carrying amount of non-controlling interests in the unaudited financial statement of Weihai Shipyard amounting to RMB842,000; 2) the non-controlling interests of 30.23% of the net liabilities of Weihai Shipyard in the unaudited consolidated financial statements of the Group amounting to RMB285,531,000.

iii. The cash consideration received upon completion of the disposal of AVIC Maritime amounted to S$31,642,000 (equivalent to RMB158,407,000). For the purpose of pro forma and for the sake of convenience, it is assumed that no adjustments would be required to be made against the consideration. The actual consideration is subject to changes at date when the disposal of AVIC Maritime is completed. The adjustment reflects the estimated gain on disposal before taxation for approximately RMB6,970,000.

The calculation of the estimated gain on the disposal of AVIC Maritime to be recognised in profit or loss, as if the disposal had been completed on 1 January 2019, is as follows:

	Notes	*RMB'000*
Cash Consideration	*(a)*	158,407
Less: net assets of AVIC Maritime derecognized	*(b)*	(252,701)
Less: cumulative currency translation differences of AVIC Maritime recycled to profit or loss	*(c)*	(15,318)
Less: estimated value added tax and surcharges	*(d)*	(2,440)
Less: estimated transaction costs	*(e)*	(2,470)
Add: non-controlling interests derecognized on completion of the disposal of AVIC Maritime	*(f)*	121,492
Gain on the disposal of AVIC Maritime before income taxation		6,970
Net cash and cash equivalents received:		
Cash received upon the disposal of AVIC Maritime	*(a)*	158,407
Less: estimated value added tax and surcharges	*(d)*	(2,440)
Less: estimated transaction costs	*(e)*	(2,470)
		153,497

Notes:

(a) The amount represented the minimum bidding price for the entire issued share capital of AVIC Maritime of S$31,642,000 (equivalent to RMB158,407,000). Exchange rate of S$1.00 = RMB5.0062 is used by the Group, as if the disposal of AVIC Maritime had been completed on 1 January 2019. Such exchange rate has been used, where applicable, for the purpose of pro forma only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

(b) The amount of net assets of AVIC Maritime was extracted from the unaudited consolidated statement of financial position of AVIC Maritime as at 31 December 2018, set out in Appendix II to this circular.

(c) The amount represents the cumulative currency translation differences related to foreign operations of the AVIC Maritime to be released to profit or loss as if the disposal of AVIC Maritime had been completed on 1 January 2019.

(d) The amount represents estimated value-added tax and surcharges on disposal of AVIC Maritime as if the disposal had been completed on 1 January 2019, and it is assumed that the taxes would be settled by cash.

(e) The transaction costs represent professional fee directly attributable to the disposal of AVIC Maritime which are estimated to be RMB2,470,000 and it is assumed that the fees would be settled by cash.

(f) The non-controlling interests derecognized on completion of the disposal of AVIC Maritime included: 1) the carrying amount of non-controlling interests in the unaudited consolidated financial statements of AVIC Maritime amounting to RMB75,079,000, as extracted from the unaudited consolidated statement of financial position of AVIC Maritime as at 30 June 2019, set out in Appendix II to this circular; 2) the non-controlling interests of 26.13% of the net assets of AVIC Maritime in the unaudited consolidated financial statements of the Group amounting to RMB46,413,000.

iv. Based on the difference between the considerations and investment cost of Weihai Shipyard, AVIC Sunda and AVIC Maritime recorded in the book of the Company, no income tax effect on the Disposals is expected.

7. The adjustment represents the reinstatement of transactions and cash flows with the Remaining Group recognised by the Group and previously being eliminated in the financial performance and cash flows of the Group during the period ended 30 June 2019.

8. Pro forma adjustments are not expected to have a continuing effect on the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Remaining Group.

9. Other than set out above, no other adjustments have been made to reflect any trading result or other transactions that the Group entered into subsequent to 30 June 2019.

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF AVIC INTERNATIONAL HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of AVIC International Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of financial position as at 30 June 2019, the unaudited pro forma statement of profit or loss for the period ended 30 June 2019, the unaudited pro forma statement of profit or loss and other comprehensive income for the period ended 30 June 2019, the unaudited pro forma statement of cash flows for the period ended 30 June 2019 and related notes as set out on pages III-1 to III-19 of the circular issued by the Company dated 25 October 2019 (the "**Circular**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-1 to III-19 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the disposal of 69.77% equity interest and shareholder's loan in AVIC Weihai Shipyard Company Limited ("**Weihai Shipyard**"), 22.35% equity interest in AVIC Sunda Holding Company Limited ("**AVIC Sunda**") and 73.87% equity interest in AVIC International Maritime Holdings Limited ("**AVIC Maritime**") (collectively referred to as the "Target Companies" pursuant to the implementation agreements dated 26 April 2019 and 27 August 2019 entered into among the Company, independent third parties and the Target Companies (the "**Disposals**") on the Group's financial position as at 30 June 2019 and the Group's financial performance and cash flows for the period ended 30 June 2019 as if the Disposals had taken place at 30 June 2019 and 1 January 2019 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's condensed consolidated financial statements for the period ended 30 June 2019, on which a review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2019 or 1 January 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 25 October 2019

Upon completion of the AVIC Maritime Disposal, AVIC Maritime will cease to be a subsidiary of the Company and the Company will no longer own any equity interest in AVIC Maritime.

*The following is the management discussion and analysis on the Remaining Group for the years ended 31 December 2016 ("**FY 2016**"), 2017 ("**FY 2017**") and 2018 ("**FY 2018**")and the six months ended 30 June 2019 ("**1H 2019**"). The financial information of the Remaining Group is based on the accountants' report of the Company as set out in the 2016, 2017 and 2018 annual report and the unaudited financial information of the Company as set out in the 2019 interim report.*

The Company is a company established in the PRC and the H share of which are listed on the Stock Exchange. The Company is an investment holding company. The Remaining Group is principally engaged in the manufacturing and sales of flat panel displays and modules, printed circuit boards and watches, engineering, Procurement Construction ("**EPC**") projects, shipping business and trade and logistic business.

BUSINESS AND FINANCIAL REVIEW

1H 2019

BUSINESS REVIEW

1H 2019 witnessed an intricate international economic environment where international business was faced by various risks and uncertainties, while domestic demands experienced a decline. Coupled with the effect of trade frictions, investment, consummation and exportation experienced a weak rebound, and the growth of domestic economic slowed down. Confronted by such complex and grim external environment, the Remaining Group quickened its pace to strip away the real estate business, with reform and restructuring underway to promote value growth within the corporate. During 1H 2019, we recorded the revenue from principal activities of approximately RMB26,000,873,000, representing an increase of approximately 6.9% over the same period of the previous year of RMB24,316,165,000. The earnings attributable to shareholders of the Company (net of minority interests) amounted to approximately RMB223,865,000, representing a increase of approximately 12.2% over the same period of the previous year of RMB199,591,000.

High-tech Electronic Products Business

In respect of the high-tech electronic products business, the Remaining Group is engaged in research and development ("**R&D**"), design, manufacture, sales and service of flat panel displays ("**FPD**") and printed circuit boards and packaging substrate ("**PCB**") products mainly through its subsidiaries, namely Tianma Micro-electronics Co., Ltd ("**Tianma Company**") and Shennan Circuits Co., Ltd. ("**SCC**"). During 1H 2019, the

Remaining Group's revenue generated from the high-tech electronic products business and net profit performance are as follows:

	Revenue from January to June 2019 *RMB'000*	Year-on-year increase	Net profit from January to June 2019 *RMB'000*	Year-on-year increase
High-tech electronic products business	19,147,073	13.2%	1,080,011	–3.4%
of which: FPD	14,472,593	4.9%	609,472	–24.3%
PCB	4,674,480	49.9%	470,539	50.6%

(1) FPD

Tianma Company continued to focus on the market development of small and medium-sized FPDs, with products mainly applied to the mobile smart terminal market such as smartphones and tablets as well as professional displays such as those for in-vehicle products, medical service, point of sale ("**POS**") terminals and human machine interface, and actively developed the Internet of Things/new applications such as augmented reality, virtual reality, unmanned flying vehicles and robotics.

During 1H 2019, the competition in the small and medium-sized display market is increasingly fierce. Facing the difficult market environment, Tianma Company continued to optimize its product structure, enhance the transformation of high-value added products, and increase the market share of high-profitability professional display products such as for middle to high-end smartphones, in-vehicle products and medical service. In the intelligent terminal market, our upgrade, iteration, mass production and shipment of new liquid crystal display (液晶顯示器) full displays such as water-drop screen and blind-hole screen took the lead in the technology for full-display products, supporting the launch of various mobile intelligent terminal brands. In particular, we saw a continuous ramp-up in mass production at Phase I of Low Temperature Poly-silicon Active-matrix Organic Light-emitting Diode (低溫多晶硅有源矩陣有機發光二極體) ("**LTPS AMOLED**") Project (Wuhan) and the accelerated construction of Phase II Project (Wuhan). In the professional display market, in-vehicle products have become the fastest-growing field of Tianma Company. During 1H 2019, owing to its continuous increase in R&D investment and recruitment, Tianma Company recorded an increase in R&D expenses compared with the same period of last year, together with a decline in net profit.

(2) PCB

SCC's PCB products cover middle to high-end multilayer PCBs, packaging substrate and printed circuit board assembly ("**PCBA**"), which are mainly applied to high-tech fields such as telecommunications, medical service, industrial control, aviation and servers.

During 1H 2019, driven by the expansion of 4G networks and 5G base station developments, downstream markets such as communications and servers continued to display a positive trend and the demands continued to increase. Accordingly, SCC achieved an increase in both revenue and net profit. SCC actively grasped the communications market opportunities to maintain the first-mover advantage with ample orders, with the increase in PCB business output leading to a significant year-on-year increase in revenue; packaging substrate and printed circuit board assembly ("**PCBA**") continued to consolidate and enhance the market segment advantages, attaining great growth in business output; and the packaging substrate business of Wuxi project proceeded smoothly and commenced trial production in June. Meanwhile, work was done to vigorously promote the construction, automation and information transformation of professional factories, with a view to raising labor and equipment efficiency, which resulted in the continuously improving profitability of the Company. On 18 October 2019, the application for the proposed issuance of a share convertible bonds by SCC (the "**Proposed Issuance**") has been approved by the Issuance Review Committee of China Securities Regulatory Commission ("**CSRC**"). The funds raised under the Proposed Issuance will mainly be used in the general high-speed and high-density multilayer PCBs (Phase II) project, which will help SCC to consolidate its leading position in the PCB field and further enhance its advanced manufacturing advantages.

Retail and Consumer Products Business

In respect of the retails and consumer products business, the Remaining Group is engaged in the production and brand operation of middle to high-end watches as well as the chain sales and services of luxury watches through its subsidiary, Fiyta. During 1H 2019, the revenue generated from the retails and consumer products business of the Remaining Group and net profit performance are as follows:

	Revenue from January to June 2019 *RMB'000*	**Year-on-year increase**	**Net profit from January to June 2019** *RMB'000*	**Year-on-year increase**
Retails and consumer products	1,770,959	5.4%	127,118	13.1%

During 1H 2019, the growth of domestic consumer market continued to slow down, with a year-on-year increase of 8.4% recorded in the total retail sales of social consumer products. Under the growth divergence in the watches and clocks industry, the growth of high-end watches was relatively better, while the mid-end watches and domestic watches faced greater pressure of growth. During 1H 2019, Fiyta finished restructuring its brand portfolios and implemented comprehensive cost and expenses control, which resulted in effective control of the expenses, a significant decline in purchase costs, and higher profit. In respect of the luxury watches retail business, the brand channel synergies have been boosted through training, which led to the increase in frontline sales as reflected in a year-on-year increase of 7.4% in yield per unit for comparable stores, driving the increase in Fiyta Holdings Limited's ("**Fiyta**") revenue.

International Engineering and Trading and Logistics Business

The Remaining Group is engaged in engineering contracting, mechatronics engineering and tendering agency businesses through its subsidiaries, namely China National Aero-Technology International Engineering Company ("**Engineering Company**"), AVIC International Beijing Company Limited ("**Beijing Company**"), China National Aero-Technology Guangzhou Company Limited ("**Guangzhou Company**"), AVIC International Xiamen Company Limited ("**Xiamen Company**") and AVIC International Trade & Economic Development Company Limited ("**TED Company**").

During 1H 2019, affected by international economic and trading environment as well as industry cycle, the international engineering and trading and logistics business saw a major decline in revenue and net profit, which was mainly manifested in the following aspects: 1) Under a sluggish global economy, the revenue from the international engineering business was lower than expected as the Angola airport project has not officially commenced according to the schedule; 2) AVIC International Renewable Energy Company Limited ("**RE Company**") made its bad debt provisions in accordance with the principle of prudence. To sum up, the revenue generated from the international engineering and trading and logistics business was approximately RMB4,686,917,000, representing a decrease of approximately 12.0% over the same period of the previous year of approximately RMB5,328,148,000. The loss was approximately RMB362,422,000, representing an increase of approximately RMB227,556,000 as compared to the loss of approximately RMB134,866,000 for the previous year.

In addition, in order to further focus on principal business, reduce loss-making businesses, and improve profitability, the Remaining Group transferred its 20% equity interest and shareholder's loan in Chengdu Jujin Trading Co., Ltd. ("**Chengdu Jujin**").

BUSINESS PROSPECTS

Looking ahead, the second half of 2019 will see global economic fluctuation and the further increase in downward pressure on domestic economy. Despite the external challenges, the Remaining Group will maintain its strategic theme of "Reform and Restructure, Focus and Breakthrough, and Value Growth," with an aim to seize market opportunities and enhance the order acquisition capability, accelerate market expansion and project execution, strive to optimize the product structure and adjust the customer structure, as well as speed up the operational improvement of or withdrawal from loss-making businesses through innovative business models to achieve our whole-year operational target.

High-tech Electronic Products Business

In respect of the high-tech electronic products business, the Remaining Group will closely monitor the changes in external environment and markets, continue to improve its market share, strengthen connections with customers in its advantageous fields, reinforce the expansion of new markets and new customers, and lay a solid foundation for reserving orders for new factories. The Remaining Group will continue to optimize its product structure, and effectively integrate market expansion with customer classification management to increase customer coverage and penetration of high value-added products. Tianma Company will seize the opportunity to initiate the re-finance project in the capital market, to accelerate the phase II construction of G6 AMOLED production line of Wuhan Tianma Microelectronics Co., Ltd. ("**Wuhan Tianma**") and improve the mass production capacity and quality. SCC will proactively promote its project in relation to the Proposed Issuance of A share convertible bonds to further consolidate its leading position in the PCB field.

Retails and Consumer Products Business

With deep combination of consumption demands of the customers, Fiyta will accelerate the optimization of its existing channel structures and increase yield per unit, continue to facilitate the cultivation of new brands and expansion of new business and new markets. It will also continue to strengthen the cost and expense control and improve operating efficiency, speed up the execution of smart retail projects in an orderly manner, and fully promote the continuous improvement of operating results.

International Engineering and Trading and Logistics Business

In the second half of 2019, the international engineering business of the Remaining Group will speed up the construction progress of its key projects, focus on the implementation of the Angolan airport project, and promote the early delivery of Algeria project. In respect of the mechatronics engineering business, we will further strengthen our operations control, vigorously promote the execution of key projects, and endeavor to improve the operation as early as possible. Regarding the cement engineering business, we will focus on the key markets, spare no efforts to obtain orders, sign new contracts for the commencement of cement and building materials and petrochemical engineering projects, and facilitate the execution of projects on hand in an orderly manner.

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2019, the total cash and cash equivalents of the Remaining Group amounted to approximately RMB9,946,017,000, including cash in Hong Kong Dollars, US Dollars, Japanese Yen, and Korean Won, which have been converted into Renminbi (31 December 2018: RMB8,265,088,000). The Remaining Group's total current borrowings amounted to approximately RMB12,983,776,000; and total non-current borrowings amounted to approximately RMB19,319,799,000 with an annual interest rate ranging from 0.79% to 6.16%. The Remaining Group has further strengthened and perfected its regulations in respect of the management of tradable financial assets, and formulated the procedures of decision-making, implementation and risk control.

During 1H 2019, our capital expenditure amounted to approximately RMB3,631,229,000, the details of which are set forth below:

Company Name	Project Name	Amount of Expenditure *(Unit: RMB'000)*
Tianma Company	Wuhan Tianma – G6 LTPS AMOLED production line	1,851,760
SCC	PCB substrate business technological transformation projects in 2019	639,324
Tianma Company	Production capacity improvement and technological transformation projects, etc.	609,866
Tianma Company	Xiamen Tianma Microelectronics Co., Ltd. (廈門天馬微電子有限公司) ("**Xiamen Tianma Company**") – G6 LTPS and colored filter production line	421,707
Tianma Company	Organic light-emitting – G5.5 AMOLED mass production line	68,023
Fiyta	Ancillary construction for the watch industrial base in Guangming New Area	26,650
AVIC Lutong Company Limited ("**Lutong Company**")	Construction and maintenance of the bitumen base in Tianjin	8,590
Shenzhen Aero- Fasteners MFG Company Limited ("**Aero Fasteners MFG**")	Hengyang Songmu Industrial Park Project	1,504
Aero Fasteners MFG	Phase I of the sewage treatment station project	3,805

PLEDGED ASSETS

As of 30 June 2019, certain subsidiaries of the Remaining Group had secured bank loans totaling approximately RMB6,783,837,000 (As of 31 December 2018: approximately RMB6,347,533,000). The loans were secured by the plants, buildings and land use rights of the Remaining Group. The details are as follows:

Name of Company	Name of Collateral	Type of Borrowings	Net Value of the Collaterals	Amount of Expenditure
				(Unit: RMB'000)
Beijing Company	Land of the AVIC International Beijing Aviation City Project and the buildings thereon	Pledged against long-term borrowing	546,900	620,500
Beijing Company	AVIC Industrial Park's real estates in Beijing Yizhuang Economic-Technological Development Zone	Pledged against long-term borrowing	75,831	208,587
Montres Chouriet SA	Real estates in Switzerland	Pledged against long-term borrowing	14,609	4,763
Tianma Company	Tianlong real estate and its land use rights	Pledged against long-term borrowing	224,914	500,000
Tianma Company	Land of the Wuhan Tianma G6 Project	Pledged against long-term borrowing	363,887	4,400,000
Tianma Company	Organic light-emitting house buildings	Pledged against long-term borrowing	322,588	284,450
Wuxi Shennan Circuits Co., Ltd. (無錫深南電路有限公司)	Houses and buildings and their land use rights	Pledged against long-term borrowing	644,023	480,314
Nantong Shennan Circuits Co., Ltd. (南通深南電路有限公司)	Land use rights	Pledged against long-term borrowing	99,736	251,224
Hunan AVIC Fastening Systems	Houses and buildings and their land use rights	Pledged against long-term borrowing	143,432	34,000

LOAN-TO-SHAREHOLDERS' EQUITY RATIO

As of 30 June 2019, the Remaining Group's loan-to-shareholders' equity ratio (bank borrowings divided by shareholders' equity) was 80.26% (As of 31 December 2018: 73.92%).

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During 1H 2019, the Company had no entrusted deposit or overdue term deposit in any form.

EMPLOYEES AND REMUNERATION

As of 30 June 2019, the Remaining Group had approximately 59,969 (the corresponding period of 2018: 59,432) employees, with employee-related costs of approximately RMB3,546,030,000 (the corresponding period of 2018: RMB2,971,920,000). The Remaining Group has formulated market-competitive remuneration policies with reference to market conditions and individual employees' performance.

FOREIGN EXCHANGE RISKS

As the Remaining Group's products are mainly distributed domestically and its export business is mainly settled in US dollar or HK dollar, the Remaining Group has been managing its foreign exchange risks and does not expect any material adverse impact.

CONTINGENT LIABILITIES

As at 30 June 2019 and 31 December 2018, the Remaining Group had the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Remaining Group	Guarantee	Guarantee's relationship with the Remaining Group	30 June 2019 Outstanding amounts guaranteed *(RMB'000)*	31 December 2018 Outstanding amounts guaranteed *(RMB'000)*
Beijing Company	Subsidiary of the Remaining Group	Tuofu Yuanyang Shipping Company Limited (拓富遠洋海運有限公司)	Independent third party	89,200	105,260

MATERIAL ACQUISITIONS AND DISPOSALS

1. Discloseable Transaction, Connected Transaction, Very Substantial Acquisition and Very Substantial Disposal – Acquisition of Two Subject Companies Including Xiamen Tianma by Tianma Company and Proposed Placing of A Shares by Tianma Company

On 10 September 2018, Tianma Company entered into two separate supplemental agreements (the "**Supplemental Agreements**") with (a) AVIC International, AVIC Shenzhen, Xiamen Company, and Xiamen Jincai Industrial Development Company Limited (廈門金財產業發展有限公司) (the "**Xiamen Tianma Supplemental Agreement**"); and (b) Shanghai Industrial Investment (Group) Co., Ltd. (上海工業投資(集團)有限公司) and Shanghai Zhangjiang (Group) Co., Ltd. (上海張江(集團)有限公司) (the "**Tianma Organic Supplemental Agreement**") respectively, in relation to the price determination and placing price of the placing shares for the proposed A shares placing, pursuant to which the term in the framework agreements dated 10 March 2017 that "the placing price of Placing Shares shall not be lower than the issue price of the Consideration Shares" shall be deleted.

For details, please refer to the announcement published on 10 September 2018, the circular published on 13 November 2018 and the announcement of written shareholders' approval published on 28 September 2018 by the Company.

With the receipt of written approval from China Securities Regulatory Commission (中國證券監督管理委員會) (the "**CSRC**") for Tianma Company to issue consideration shares for the acquisitions of two subject companies including Xiamen Tianma Microelectronics Company Limited (廈門天馬微電子有限公司) (the "**Xiamen Tianma**") and the proposed A shares placing, on 2 February 2018, Tianma Company completed the acquisitions and consideration issue.

Due to changes and fluctuations in the environment of the capital market, the proposed A shares placing could not be completed within twelve months from the date of issue of written approval by CSRC which was 11 January 2018, and therefore, the validity period for the written approval from CSRC expired automatically on 10 January 2019. For details, please refer to the announcement of the Company published on 10 January 2019 and the circular of the Company published on 13 November 2018.

2. Discloseable and Connected Transaction – Potential Disposal of Equity Interest and Creditor's Rights of Chengdu Jujin by Chengdu Raise

On 27 June 2018, the Board announced that Chengdu Raise, a non-wholly owned subsidiary of the Company, would conduct the formal process of public tender in relation to the disposal (the "**Chengdu Jujin Disposal**") of (i) its 20% equity interest (the "**Chengdu Jujin Equity Interest**") in Chengdu Jujin Trading Co., Ltd. (成都聚錦商貿有限公司) ("**Chengdu Jujin**") and (ii) the creditor's rights in Chengdu Jujin held by it (the "**Chengdu Jujin Creditor's Rights**") (collectively, the "**Chengdu Jujin Interest**") through China Beijing Equity Exchange (北京產權交易所) (the "**CBEE**") after the preliminary disclosure.

It was proposed that Chengdu Raise would, jointly with Beijing Raise Science Co., Ltd. ("**Beijing Raise**"), conduct the disposal of their respective 20% and 80% equity interest and their respective creditor's rights in Chengdu Jujin through CBEE. Upon completion of the Chengdu Jujin Disposal, Chengdu Raise will no longer have any interests in Chengdu Jujin.

For details, please refer to the announcements of the Company published on 15 June 2018 and 27 June 2018, the circular of the Company dated 27 July 2018 and the poll results report of the extraordinary general meeting of the Company dated 13 August 2018.

The formal process of the public tender in respect of the Chengdu Jujin Disposal, which had been approved by the independent shareholders on 10 August 2018, expired on 22 November 2018. During the publication period for the public tender which commenced on 28 September 2018 and lasted for 20 Business Days, there was no potential bidder indicating interest in purchasing the Chengdu Jujin Interest.

On 28 December 2018, the Board decided to conduct a new public tender in relation to the disposal of Chengdu Jujin Interest and re-comply with the Listing Rules in relation to the disposal of Chengdu Jujin Interest.

For details, please refer to the announcement of the Company dated 28 December 2018, the circular of the Company dated 31 January 2019 and the poll results announcement of the extraordinary general meeting of the Company dated 19 February 2019.

The formal process of the public tender in respect of the Chengdu Jujin Disposal under the new appraisal approved by the independent shareholders on 19 February 2019 had been commenced on 21 February 2019. On 10 April 2019, Chengdu Raise and Beijing Raise entered into the Equity Transaction Agreement (the "**Equity Transaction Agreement**") with Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) in respect of the disposal of Chengdu Jujin Interest held by Chengdu Raise and the disposal of the interest and rights in Chengdu Jujin held by Beijing Raise which includes the 80% equity interest in Chengdu Jujin held by Beijing Raise and creditor's rights in Chengdu Jujin held by Beijing Raise at an aggregate consideration of

RMB2,213,869,547. The consideration for the disposal of Chengdu Jujin Interest is RMB509,198,972 among which the consideration for Chengdu Jujin Equity Interest is RMB311,400,000. The consideration for the disposal of the interest and rights held by Beijing Raise is RMB1,704,670,575 among which the consideration for 80% equity interest in Chengdu Jujin held by Beijing Raise is RMB1,245,600,000.

For the purpose of guaranteeing the payment of consideration by Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司), on 10 April 2019 Chengdu Raise, Beijing Raise, Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) and Sichuan Languang Development Company Limited (四川藍光發展股份有限公司) entered into the payment guarantee agreement (the "**Payment Guarantee Agreement**"), pursuant to which Sichuan Languang Development Company Limited (四川藍光發展股份有限公司) guaranteed to pay the guaranteed payment which relates to the remaining consideration owed by Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) to Chengdu Raise and Beijing Raise. The term of the Payment Guarantee Agreement shall be two years after the expiration of the performance period for the obligations of Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) under the Equity Transaction Agreement.

Upon completion of the Chengdu Jujin Disposal, Chengdu Raise will cease to have any equity interest in Chengdu Jujin, for details please refer to the announcement of the Company dated 10 April 2019.

3. Major Transaction – Possible Major Transaction Involving Proposed Issuance of A Share Convertible Bonds by SCC: Deemed Disposal of Interest in SCC by the Company

On 8 April 2019, the board of directors of SCC (a non-wholly owned subsidiary of the Company) had resolved to issue convertible bonds of SCC in the maximum amount of RMB1,520,000,000, which was calculated at the initial conversion price of RMB57.90 (before ex-rights and ex-dividend), the convertible bonds of SCC can be converted to a maximum of 26,252,158 conversion shares (before ex-rights and ex-dividend).

During 1H 2019, the Company directly holds 69.05% equity interest in SCC. Following the completion of the Proposed Issuance and assuming the maximum amount of the convertible bonds of SCC were successfully placed in full and full conversion of the convertible bonds of SCC at the initial conversion price, the Proposed Issuance will have the effect of diluting the Company's percentage share of the issued share capital of SCC from approximately 69.05% to approximately 63.19%, which will constitute a deemed disposal of the Company.

SCC had received the Reply on Issues related to the Issuance of convertible corporate bonds by SCC (關於深南電路發行可轉換公司債券有關問題的批覆) issued by State-owned Assets Supervision and Administration Commission of the State Council ("**SASAC**") on 30 May 2019. At the shareholder's meeting of SCC held on 6 June 2019, the Proposed Issuance had been approved by the shareholders of SCC.

On 26 June 2019, SCC had received the acceptance notice issued by CSRC related to the application materials submitted by SCC in relation to the Proposed Issuance.

On 26 July 2019, SCC had received the Notice of Suspension of Review of the Administrative Approval Application from CSRC (No.191509) (《中國證監會行政許可申請中止審查通知書》(191509號)). As the audit institution engaged by SCC for the Proposed Issuance was investigated by the CSRC for allegedly violating the securities laws and regulations of the People's Republic of China (the "**PRC**") in handling audit matters of other listed companies and the investigation has not been closed, in consideration of the fact that the above matters are regulated by provisions relating to the suspension of review under the Regulations on the Implementation of the Administrative Approval of CSRC (《中國證監會行政許可實施程序規定》), the CSRC decided to suspend the application of SCC for the Proposed Issuance.

On 19 August 2019, SCC received the Notice of Resumption of Review of the Administrative Approval Application From CSRC (No. 191509) (《中國證監會行政許可申請恢復審查通知書》(191509號)) that the CSRC decided to resume the review of the application of SCC for the Proposed Issuance in accordance with the relevant provisions of the Regulations on the Procedures for the Implementation of the Administrative Approval of CSRC (《中國證監會行政許可實施程序規定》). On 18 October 2019, the Issuance Review Committee of CSRC has reviewed the application for the Proposed Issuance of SCC. According to the meeting results of the Issuance Review Committee of CSRC, the application of SCC has been approved. At the date of circular, SCC has not received the formal approval in writing.

For details, please refer to the announcements of the Company dated 8 April 2019, 24 April 2019, 29 April 2019, 30 May 2019, 6 June 2019, 26 June 2019, 26 July 2019, 19 August 2019 and 20 October 2019, and the circular dated 20 June 2019.

4. Discloseable Transaction – Master Cooperation Agreement

On 2 July 2019, Wuhan Tianma Microelectronics Co., Ltd. ("**Wuhan Tianma**") and Applied Materials East Asia Pte. Ltd. entered into the master cooperation agreement (the "**Master Cooperation Agreement**"), pursuant to which the parties collaborate in relation to the 6th generation project phase 2 of Wuhan Tianma according to the terms set out therein. The term of the Master Cooperation Agreement commences from the date of the Master Cooperation Agreement to 31 July 2019 with the aggregate amount of consideration not exceeding US$80,000,000 (equivalent to approximately RMB548,000,000).

For details, please refer to the announcement of the Company dated 2 July 2019.

5. Discloseable Transaction Master Cooperation Agreement

On 10 September 2019, Wuhan Tianma, SFA Engineering (Shenzhen) Co., Ltd. ("**SFA (SZ)**") and SFA Engineering Corp. ("**SFA Engineering**") entered into the Master Cooperation Agreement, pursuant to which the parties agreed to collaborate in relation to the G6 Project Phase 2 according to the terms set out therein. The term of the Master Cooperation Agreement commences from the date of the Master Cooperation Agreement to 31 December 2019 with the aggregate amount of consideration not exceeding RMB710,890,000, among which the maximum aggregated consideration payable to SFA Engineering being US$90,000,000 (equivalent to approximately RMB640,890,000) and the maximum aggregated consideration payable to SFA (SZ) being RMB70,000,000.

For details, please refer to the announcement of the Company dated 10 September 2019.

FY 2018

BUSINESS REVIEW

The year of 2018 witnessed an intricate macroeconomic environment at home and abroad, escalating international trade frictions, growing downward pressure in the domestic economy, accelerating cross-sector competition and integration within the industry, as well as enhanced policy requirements on security and environmental protection. Confronted by such complex and grim external environment, the Remaining Group closely followed its strategic theme of "Reform and Restructure, Focus and Breakthrough, and Value Growth", further optimized its business structure, and expedited its exit from established businesses including real estate development business.

For the year ended 31 December 2018, the Remaining Group recorded revenue of approximately RMB52,813,589,000, which represented an increase of approximately 18.8% over the previous year of approximately RMB44,444,675,000. Due to the loss in the international engineering and trading and logistics business caused by macro-environment and industry fluctuations, the Remaining Group recorded a loss attributable to owners of the Company of approximately RMB161,675,000, representing a decline of approximately RMB815,562,000 compared with the profit of approximately RMB653,887,000 for the previous year.

High-Tech Electronic Products Business: Fast-tracking Industrial Upgrade and Promoting Efficiency Growth

	Revenue in 2018	Year-on-year change	Net profit in 2018	Year-on-year change
	RMB'000		*RMB'000*	
High-Tech electronic products	35,926,003	23.94%	1,618,270	–17.01%
of which: FPD	28,537,031	21.52%	914,585	–38.86%
PCB	7,388,972	34.28%	703,685	54.96%

In respect of high-tech electronic products, the Remaining Group is engaged in R&D, design, manufacture, sales and service of FPD and PCB products mainly through its subsidiaries, namely Tianma Company and SCC. During FY 2018, the Remaining Group kept abreast of market demand in high-tech electronic products, expedited its industrial upgrade mainly through the development of pioneering products and construction of key projects, and promoted operational efficiency growth by optimizing its customer structure and improving key operational capabilities.

(I) FPD: Continued growth in business scale and sustained industry leadership in innovative technologies

Tianma Company focuses on the market development of FPD, with products mainly applied to the displays of consumer products such as smartphones and tablets as well as professional displays such as those for in-vehicle products, medical service and industrial control.

During FY 2018, Tianma Company completed its acquisition of 100% equity interest in Xiamen Tianma Company and 60% equity interest in Shanghai Tianma Organic Light Emitting Display Technology Co., Ltd (上海天馬有機發光顯示技術有限公司) ("**Tianma Organic Company**"), which improved the R&D and production capabilities in emerging display technologies such as low temperature poly-silicon ("**LTPS**") and AMOLED, further expanded the business scale and boosted its industry influence.

Tianma Company maintained its strategic presence in visionary technologies such as flexible display and in-cell/on-cell integration touch technology, obtained a number of technological awards, and established its leading position in high-end small and medium-sized displays. Specifically, Tianma Company ranked first globally in LTPS smartphone panels and liquid-crystal display (LCD) full displays, with the consistently highest shipment worldwide; its thin-film transistor (TFT) shipment also led the Market of Mainland China and surged to top three around the globe; and continued to lead the world in its share in market segments such as POS terminal and aviation electronics. As a key project, the Wuhan G6 AMOLED production line realized partial mass production while Phase II of the project has commenced officially.

During FY 2018, Tianma Company saw a decline in gross profit margin and an increase in three items of expenses due to the ramp-up of its production capacity. Meanwhile, due to the operational risks among some customers, provision of approximately RMB492 million was made for bad debts in accounts receivable by Tianma Company on a prudent basis, resulting in a year-on-year decrease in its profit.

(II) PCB: A fresh record high in output and a significant rise in profitability

SCC's PCB products cover middle to high-end multilayer PCBs, PCBA, which are mainly applied to high-tech fields such as telecommunications, aviation, medical service, new energy vehicles and industrial control.

In 2018, SCC, with its focus on key customers, worked vigorously on obtaining orders and delivering quality, actively grasping the market opportunities communications, medical service and industrial control, continuously optimized product structure, and established its presence in smart manufacturing at a faster pace. As a result, SCC continued to record fresh historic highs in three of its business segments, namely PCB, packaging substrate and PCBA, with substantial growth in both revenue and profit.

While maintaining its leading advantage in high-tech fields such as communications and aviation, SCC has been actively establishing its presence in smart manufacturing. Its smart factory in Nantong had an auspicious start with annual gross profit exceeding expectations, setting a new benchmark for leading industrial production capacity; and the substrate factory in Wuxi completed construction ahead of schedule. As such, leveraging on its leading technology, superior product quality and premium service, SCC has earned high recognition from its core customers, and enhanced its market leadership position continuously.

During FY 2018, SCC adopted a restricted share incentive scheme on 12 November 2018, and completed granting 2,800,000 restricted shares to 145 employees on 28 January 2019. For details of the restricted share incentive scheme, please refer to the announcements of the Company dated 12 November 2018 and 28 January 2019.

Retails and Consumer Products Business: Proceeding with Transformation and Upgrading and Steadily Promoting Business Model Innovation

	Revenue in 2018 *RMB'000*	Year-on-year change	Net profit in 2018 *RMB'000*	Year-on-year change
Retails and consumer products business	3,376,464	1.61%	183,080	–18.43%

In respect of retails and consumer products, the Remaining Group is engaged in the production and brand operation of middle to high-end watches as well as chain sales and services of luxury watches through its subsidiary, Fiyta. During FY 2018, the retails and consumer products business focused on the application of digital and intelligent technological approaches to promote transformation and upgrading, innovate business models, and strive for connotative growth of daily operations.

In 2018, Fiyta upgraded its products and reshaped its brand in an in-depth manner, accelerated organizational reform, and beefed up the support and synergy to its own brands from professional platforms such as R&D and design. Fiyta aerospace watches and application projects won the fifth China Industry Award (中國工業大獎), the highest industrial award set up by the State Council of the PRC. Harmony worked on channel optimization with full force, leading to effective improvement in per customer transaction and customer service, appreciably enhanced capability in meticulous operation, and major profit growth. In addition, Fiyta achieved initial breakthrough in its exploration of smart watches, and made steady progress in business model innovation.

During FY 2018, Fiyta adopted a restricted share incentive scheme on 12 November 2018, and completed granting 4,224,000 restricted shares to 128 employees on 28 January 2019. For details of the restricted share incentive scheme, please refer to the announcements of the Company dated 12 November 2018 and 28 January 2019.

International Engineering and Trading and Logistics Business

The Remaining Group is engaged in engineering contracting, cement engineering, mechatronics engineering, ship engineering and tendering agency businesses through its subsidiaries, namely Engineering Company, Beijing Company, AVIC Maritime and TED Company.

During FY 2018, affected by international economic and trading environment as well as industry cycle, the international engineering and trading and logistics business saw a major decline in profit, which was mainly manifested in the following aspects: 1) Under a sluggish global economy, there was a severe shortfall in newly signed orders for cement engineering, causing the dramatic fall in revenue. Taking into account the downbeat cement sector and the sliding corporate operating results, provision was made for impairment on goodwill of KHD Humboldt Wedag International AG (KHD) based on the principle of prudence, which resulted in a considerable loss in the cement and mechatronics engineering businesses; 2) in line with the principle of prudence, TED Company made bad debt provisions for the debts of investment enterprises accounted for using the equity method that incurred losses for three consecutive years and were unable to repay debts. Based on the aforementioned, the Remaining Group recorded revenue of approximately RMB12,714,524,000 from international engineering and trading and logistics segment for the year, representing an increase of approximately 11.46% over the previous year of RMB11,407,631,000. The loss amounted to approximately RMB893,928,000, representing an increase of approximately RMB801,755,000 as compared to the loss approximately RMB92,173,000 for the previous year.

Faced by changes in international economic environment and difficulties in operation within the industry, the Remaining Group has been closely focused on upgrading core capabilities in international engineering and trading and logistics business. Discussions have taken place on business model to have a clear view of the direction of business development, with step-by-step implementation under renewed annual strategies, all in an effort to intensively work on internal operation and improve quality and efficiency. On top of that, three cross-enterprise professional committees have been established, covering project review, project operation and financial resources sharing, to coordinate overall strategic collaboration and enhance risk control. Furthermore, the Remaining Group continued with expansion of its key business and in key countries under the "Belt and Road" initiative. As a result, 17 new projects were entered into for the engineering contracting business over the year, with a contract amount of US$3.5 billion. By improving internal management, the Engineering Company managed to turn loss into profit for its daily operation, and ranked 118th among the world's top 250 international contractors compiled by the American Engineering News-Record (ENR) in 2018.

BUSINESS PROSPECTS

In 2019, against the backdrop of a complex and grim external environment and downward pressure on the economy, PRC still possesses enough resilience and enormous potential in its development, with economic momentum remaining positive in the long run. The current macro picture presents not just a challenge, but a strategic opportunity for development of the Remaining Group. As the PRC seeks to drive high-quality development of the manufacturing sector, the in-depth integration of advanced manufacturing and the modern service sector as well as the Belt and Road Initiative, the Remaining Group will gain even more room for development for its three core principal businesses, namely high-tech electronic products, retails and consumer products business as well as international engineering, trading and logistics. Based on the strategic orientation of its focus on principal businesses, the Remaining Group will continue to strip away its real estate business, which is expected to generate certain investment revenue.

In 2019, the Remaining Group will work on prospective subject studies to bolster its strategic leadership and enhance its ability to respond to the external environment. The Remaining Group will put into practice its strategic theme of "Reform and Restructure, Focus and Breakthrough, and Value Growth", maintain and widen the leadership of its advantageous businesses, boost strategic and operational management capabilities, carry out various reforms and development initiatives with solid efforts, convert its development drive, enhance risk resistance and attain high-quality development with full force.

High-tech Electronic Products Business

As for high-tech electronic products business, the Remaining Group will keep on evolving towards the high-end part of the industrial chain, achieving breakthroughs in developing visionary products and constructing key projects at a faster rate, continuously improve its technological R&D and advanced manufacturing capabilities, and effectively improve the return on investment of major projects by improving the yield, upgrading technological process and smart manufacturing.

As for the FPD business, the Remaining Group will push for commercial success in its organic light-emitting diode (OLED) business, and ensure significant progress in ramping up the yield and production capacity of Wuhan G6 Phase I and the Shanghai G5.5 production line as well as the construction of Wuhan G6 Phase II. As for the PCB business, the Remaining Group will fully capitalize on the market opportunities of 5G construction, promote the construction of smart factories, enable the Wuxi substrate factory to connect production lines and commence production, and explore its transformation from a component manufacturer to a solution provider with the development into a moderately light asset model.

Retails and Consumer Products Business

As to retails and consumer products business, the Remaining Group will further its efforts to comprehend and cater to customer demand, strengthen customer-oriented philosophy and improve its adaptability in responding to the market. Efforts will be made to materialize the multibrand management platform and a comprehensive service provider model for luxury watches. Work will also be done to effectively raise organizational efficiency, and cultivate the capabilities in product and service innovation as well as brand operation.

Fiyta will reshape its brand at a deeper level, expand channels continuously and deepen brand and channel integration. Fiyta will also enhance business synergy, bolster cross-sector cooperation, build a business ecosystem centered on consumer demand with continuous efforts and innovate profit models to drive value growth. In the meantime, Fiyta will quicken its pace to develop new growth points such as smart watches and precision manufacturing.

International Engineering and Trading and Logistics Business

In 2019, in respect of international engineering and trading and logistics business, the Remaining Group will build on the established mechanism of international business collaboration, deepen business resource integration and standardize common business processes. Meanwhile, the Remaining Group will meet its responsibilities with more rigorous control over key links and improve the operation of continuously loss-making businesses in a practical manner so that such loss can be reduced and even turned into profit.

In respect of engineering contracting business, the Remaining Group will focus on core markets and key business, and continue to work intensively on Southeast Asia, Far East and the "Belt and Road" regions; vigorously expand the aviation infrastructure business and innovate business models; and spare no effort to facilitate smooth execution of major projects such as Angola International Airport and Southern Sri Lanka Highway. In respect of cement construction, the Remaining Group will intensify its market development, strive to enter into contracts for core projects, properly execute the ongoing projects, and ensure that the commenced projects deliver their expected profits; KHD will optimize its organizational structure, lower purchase cost, and boost the actual profit margin of project implementation.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2018, the cash and cash equivalents of the Remaining Group amounted to approximately RMB8,265,088,000 (2017 (Restated): RMB13,068,010,000), which were mainly derived from the following sources: cash and bank deposits at the beginning of the year; bank loans, borrowings from related parties and revenue from operations.

As at 31 December 2018, the total borrowings of the Remaining Group amounted to approximately RMB29,108,472,000 (2017 (Restated): RMB29,459,834,000) with annual interest rate ranging from 0.00% to 6.16% (2017 (Restated): 0.00% to 6.53%), of which current borrowings totalled approximately RMB10,640,954,000 (2017 (Restated): RMB13,646,137,000) and non-current borrowings totalled approximately RMB18,467,518,000 (2017 (Restated): RMB15,813,697,000).

During the year ended 31 December 2018, the capital expenditure of the Remaining Group amounted to approximately RMB8,729,488,000, the details of which are set forth below:

Company Name	**Project Name**	**Amount** *RMB'000*
Tianma Company	Project for the sixth-generation LTPS AMOLED production lines of Wuhan Tianma, and various technological transformation projects	7,298,483
SCC	Wuxi project for semiconductor IC substrates for communications purposes, the digital general multilayer PCB project, and various technological transformation projects	1,123,505
Lutong Company	Construction and maintenance of bitumen bases	25,891
Hunan AVIC Fastening Systems Co., Ltd.	Hengyang Songmu Industrial Park Project (equipment installation)	19,738
Beijing Company	Project infrastructure investment and aviation city renovation for the Remaining Group's company in East Africa	75,121
Guangzhou Company	Rice-Pakistan Power Station Engineering, Procurement Construction (EPC) Project	12,743
Engineering Company	Capital expenditure on overseas project companies	34,267
Xiamen Company	AVIC Zijin Plaza (中航紫金廣場)	10,088
Fiyta	Ancillary construction for the watch industrial base in Guangming New District, and other project	129,652
		8,729,488

PLEDGED ASSETS

As at 31 December 2018, bank loans of RMB6,347,533,000 (31 December 2017 (Restated): RMB2,533,085,000) of the Remaining Group were secured by the following:

	2018	2017
	RMB'000	*RMB'000* (Restated)
Investment properties	1,954,602	–
Buildings	1,156,502	1,167,465
Land use rights	622,392	375,821
Pledged bank deposits	7,094	–
Construction-in-progress	–	27,042
Inventories	–	4,688
	3,740,590	1,575,016

LOAN-TO-EQUITY RATIO

As at 31 December 2018, the Remaining Group's loan-to-shareholders' equity ratio (total borrowings divided by shareholders' equity) was 73.92% (2017 (Restated): 78.53%), whilst the liability-to-shareholders' equity ratio (total liabilities divided by shareholders' equity) was 143.91% (2017 (Restated): 143.48%).

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During the year ended 31 December 2018, the Company did not have entrusted deposits or overdue term deposits in any form.

EMPLOYEES AND REMUNERATION

As Tianma Company completed its asset restructuring in 2018, the number of the Remaining Group's employees increased to 61,874 (2017: 39,057), with staff costs increased to approximately RMB6,264,809,000 (2017 (Restated): RMB5,083,713,000). The Remaining Group has formulated market-competitive remuneration policies with reference to market conditions and individual employees' performance.

FOREIGN EXCHANGE RISKS

As the Remaining Group's products are mainly distributed domestically and its export business is mainly settled in US dollar or HK dollar, the Remaining Group has been managing its foreign exchange risks and does not expect any material adverse impact.

CONTINGENT LIABILITIES

As at 31 December 2018 and 31 December 2017, the Remaining Group had the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Remaining Group	Guarantee	Guarantee's relationship with the Remaining Group	2018 Outstanding amounts guaranteed *RMB'000*	2017 Outstanding amounts guaranteed *RMB'000*
Tianma Company	Subsidiary of the Remaining Group	Shanghai Tianma Organic Light-Emitting Technology-Company Limited (the "**Tianma Organic Company**")* (上海天馬有機發光顯示技術有限公司)	Associate	–	757,386
Beijing Company	Subsidiary of the Remaining Group	Tuofu Yuanyang Shipping Company Limited* (拓富遠洋海運有限公司)	Third Party	105,260	126,168
Engineering Company	Subsidiary of the Remaining Group	CATIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associate	–	53,900
				105,260	937,454

* *For identification purpose only*

MATERIAL ACQUISITIONS AND DISPOSALS

1. Discloseable Transaction, Connected Transaction, Very Substantial Acquisition and Very Substantial Disposal – Acquisition of Two Subject Companies Including Xiamen Tianma Company by Tianma Company and Proposed Placing of A Shares by Tianma Company

On 10 March 2017, Tianma Company entered into two separate framework agreements (the "**Xiamen Tianma Framework Agreement**" and the "**Tianma Organic Framework Agreement**", collectively, the "**Framework Agreements**") with (a) AVIC International, AVIC International Shenzhen Company Limited ("**AVIC Shenzhen**"), AVIC International Xiamen Company Limited ("**Xiamen Company**") and Xiamen Jincai

Industrial Development Company Limited (廈門金財產業發展有限公司) ("**Xiamen Jincai**") in relation to the acquisition of 100% equity interest in Xiamen Tianma Company; and (b) Shanghai Industrial Investment (Group) Co., Ltd. ("**Shanghai Investment Company**") and Shanghai Zhangjiang (Group) Co., Ltd. ("**Shanghai Zhangjiang Company**") in relation to the acquisition of 60% equity interest in Tianma Organic Company (the "**Xiamen Tianma Acquisition**" and the "**Tianma Organic Acquisition**", collectively, the "**Acquisitions**").

Pursuant to the Framework Agreements, the consideration for the Acquisitions will be fully settled by issue of consideration shares (the "**Consideration Shares**") to the vendors under the Framework Agreements upon completion of the respective Acquisitions at an issue price of RMB17.23 per A share, which was determined with reference to and not lower than the benchmarked price of the A shares, being 90% of the Average Price for the Acquisitions (as defined in the announcement of the Company dated 10 March 2017). The maximum number of Consideration Shares to be issued under the Xiamen Tianma Framework Agreement and the Tianma Organic Framework Agreement will be 613,821,008 and 39,267,579, respectively.

Based on the maximum number of Consideration Shares to be allotted and issued and the issue price of RMB17.23 per A share, it is expected that the maximum consideration for the Xiamen Tianma Acquisition and the Tianma Organic Acquisition will be RMB10,576,135,967.80 and RMB676,580,386.17, respectively.

The Acquisitions are not inter-conditional with each other.

Pursuant to the Framework Agreements, Tianma Company proposes to issue not more than 111,987,085 new A shares (the "**Placing Shares**") to not more than 10 investors (the "**Proposed A Shares Placing**"). The placing price of the Placing Shares shall not be lower than 90% of the Average Price for the Proposed A Shares Placing (as defined in the announcement of the Company dated 10 March 2017 and the circular of the Company dated 28 May 2017) and shall not be lower than the issue price of the Consideration Shares under the Framework Agreements, which is subject to the rules and regulations of China Securities Regulatory Commission (中國證券監督管理委員會) (the "**CSRC**") and Shenzhen Stock Exchange. The proceeds to be raised under the Proposed A Shares Placing will be used for the construction of LTPS and colour filter (CF) production line of Xiamen Tianma Company, including expenses on purchase of equipment and installation, which is in line with the requirement of CSRC. The success or failure of the Proposed A Shares Placing would not affect the Acquisitions and the Consideration Issue.

Assuming the Acquisitions have been completed, upon issue of the Consideration Shares (the "**Consideration Issue**") (assuming the maximum number of Consideration Shares as provided under the Framework Agreements are issued), the equity interest of the Company held in Tianma Company will be diluted from approximately 20.81% to approximately 15.98% (including 1.79% equity interest held by Xiamen Company, a wholly-owned subsidiary of the Company). If Tianma Company proceeds with the Proposed A Shares Placing after completion of the Acquisitions, the equity interests of the Company held in Tianma Company will be further diluted to approximately 15.16%

(including 1.70% equity interest held by Xiamen Company, a wholly-owned subsidiary of the Company) of the enlarged issued share capital of Tianma Company (assuming 111,987,085 new A Shares are issued) upon completion of the Proposed A Shares Placing. The Acquisitions and the Proposed A Shares Placing have been approved by the independent shareholders of the Company at the extraordinary general meeting held on 12 June 2017. For details, please refer to the announcement of the Company published on 10 March 2017, the circular despatched on 28 May 2017 and the poll results announcement of the extraordinary general meeting of the Company dated 12 June 2017.

On 23 August 2017, Tianma Company entered into the following formal agreements (collectively, the "**Formal Agreements**") in relation to the Xiamen Tianma Acquisition and the Tianma Organic Acquisition as contemplated under the Framework Agreements:

(1) the asset acquisition agreement in relation to the acquisition of an aggregate of 100% equity interest in Xiamen Tianma Company with AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai at an aggregate consideration of RMB10,452,506,800 (equivalent to approximately HK$12,241,681,897) (the "**Xiamen Tianma Formal Agreement**"); and

(2) the asset acquisition agreement in relation to the acquisition of an aggregate of 60% equity interest in Tianma Organic Company with Shanghai Investment Company and Shanghai Zhangjiang Company at an aggregate consideration of RMB656,900,600 (equivalent to approximately HK$769,343,501) (the "**Tianma Organic Formal Agreement**").

Considering that Tianma Company has already distributed dividend for the year of 2016 on 26 July 2017, the issue price of the Consideration Shares under the Acquisitions and the proposed issue price of the Proposed A Shares Placing was adjusted to RMB17.17 per A share. The consideration under the Acquisitions will be settled in full by the issue of a total of 647,024,307 A shares by Tianma Company as Consideration Shares, and the number of Placing Shares will be not more than 110,658,124. For details, please refer to the announcement of the Company dated 23 August 2017.

Each of the Acquisitions and the Proposed A Shares Placing has been approved by State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會) and the general meeting of Tianma Company. For more details, please refer to the announcements of the Company dated 8 September and 15 September 2017.

On 6 December 2017, Tianma Company was informed by CSRC that the Consideration Issue and the Proposed A Shares Placing had been approved at the 68th conference meeting for 2017 of the Review Committee of Merger, Acquisition and Reorganisation of Listed Companies (上市公司併購重組審核委員會) of CSRC convened on 6 December 2017. For details, please refer to the announcement of the Company published on 6 December 2017.

On 15 January 2018, Tianma Company received a written approval from CSRC issued on 11 January 2018 on the Consideration Issue and the Proposed A Shares Placing with a validity period of twelve months from the date of issue. For details, please refer to the Company's announcement published on 15 January 2018.

On 18 January 2018, Tianma Company completed the Acquisitions of two subject companies, namely Xiamen Tianma Company and Tianma Organic Company. On the date of completion of the Acquisitions, each of Shanghai Tianma Microelectronics Co., Ltd. (上海天馬微電子有限公司) ("**Shanghai Tianma**") and Xiamen Tianma Company became wholly-owned subsidiaries of Tianma Company; hence, the entrusted management agreement signed between Shanghai Tianma and Xiamen Tianma Company on 4 March 2016 has been terminated. Tianma Company issued an aggregate of 647,024,307 A shares (equivalent to the total number of Consideration Shares under the Acquisitions) to six transferees, including AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai. Such A shares were listed on the Shenzhen Stock Exchange on 2 February 2018. For more details, please refer to the announcements of the Company published on 22 January 2018 and 31 January 2018.

On 12 April 2018, the closing price of the Consideration Shares fell below the issue price, which is RMB17.17 per A share, in consecutive 20 trading days within six months after completion of the Xiamen Tianma Acquisition. According to the undertaking made by AVIC International, AVIC Shenzhen and Xiamen Company, the lock-up period of 89,488,555 A shares, 93,141,147 A shares and 36,525,940 A shares held by AVIC International, AVIC Shenzhen and Xiamen Company respectively, shall automatically be extended for six months. For more details, please refer to the announcement of the Company published on 12 April 2018.

On 10 September 2018, Tianma Company entered into two separate supplemental agreements (the "**Supplemental Agreements**") with (a) AVIC International, AVIC Shenzhen, Xiamen Company, and Xiamen Jincai (the "**Xiamen Tianma Supplemental Agreement**"); and (b) Shanghai Investment Company and Shanghai Zhangjiang Company (the "**Tianma Organic Supplemental Agreement**") respectively, in relation to the price determination and placing price of the Placing Shares for the Proposed A Shares Placing, pursuant to which the term in the Framework Agreements that "the placing price of Placing Shares shall not be lower than the issue price of the Consideration Shares" shall be deleted.

As the entering into of the Xiamen Tianma Supplemental Agreement and the Tianma Organic Supplemental Agreement constitutes a material variation to the terms of Proposed A Shares Placing under the Framework Agreements previously approved by the independent shareholders on 12 June 2017, the Company made an announcement pursuant to the requirements under Rule 14.36 of the Listing Rules with regard to the variation.

For details, please refer to the announcement published on 10 September 2018, the circular published on 13 November 2018 and the announcement of written shareholders' approval published on 28 September 2018 by the Company.

With the receipt of written approval from CSRC for Tianma Company to issue Consideration Shares for the Acquisitions of two subject companies including Xiamen Tianma Company and the Proposed A Shares Placing, on 2 February 2018, Tianma Company completed the Acquisitions and Consideration Issue.

Due to changes and fluctuations in the environment of the capital market, the Proposed A Shares Placing could not be completed within twelve months from the date of issue of written approval by CSRC which was 11 January 2018, and therefore, the validity period for the written approval from CSRC expired automatically on 10 January 2019. For details, please refer to the announcement of the Company published on 10 January 2019 and the circular of the Company published on 13 November 2018.

2. Proposed Mandate in Relation to the Possible Major Disposal and Connected Transaction

On 17 May 2017, the Board resolved to dispose of 47.12% equity interest (the "**AVIC Vanke Interest**") in AVIC International Vanke Company Limited ("**AVIC Vanke**") held by the Company. As the Company and AVIC International both are state-owned enterprises and the AVIC Vanke Interest constitutes state-owned assets, the disposal of the AVIC Vanke Interest by the Company (the "**Proposed Disposal**") is required to be conducted through public tender via an equity exchange in accordance with the relevant laws and regulations of the governing the disposal of state-owned assets. It was proposed that the Company would, jointly with AVIC International, conduct the disposal of the 60% interest in AVIC Vanke in aggregate in relation to their respective 47.12% and 12.88% equity interest in AVIC Vanke through China Beijing Equity Exchange.

Based on the preliminary appraised value of AVIC Vanke as at 31 December 2016, it was expected that the minimum bidding price for the Proposed Disposal shall be in the range of RMB1,780,440,000 to RMB1,876,680,000. The minimum bidding price of the AVIC Vanke Interest will be determined based on the appraised value of AVIC Vanke with reference to prevailing market prices, subject to the approval from relevant regulatory authorities of state-owned assets in the PRC.

The final consideration will depend on the final bidding price offered by the successful bidder for the AVIC Vanke Interest, but will in any event be no less than the relevant minimum bidding price.

The Proposed Disposal was approved by the independent shareholders of the Company at the extraordinary general meeting held on 11 October 2017. For details, please refer to the announcements of the Company dated 17 May 2017 and 18 May 2017, the circular of the Company dated 22 September 2017 and the poll results announcement of the extraordinary general meeting of the Company dated 11 October 2017.

On 23 October 2017, the draft appraisal report of AVIC Vanke in relation to the Proposed Disposal was approved by Aviation Industry Group and the final appraised value of the 100% equity interest in AVIC Vanke was RMB3,847,131,600, pursuant to which, the minimum bidding price for the Proposed Disposal was set at

RMB1,812,768,410. On 3 November 2017, the formal process of public tender in respect of the Proposed Disposal was set to take place at China Beijing Equity Exchange ("**CBEE**") on 6 November 2017 in accordance with the relevant requirements applicable to the transfer of state-owned equity interest. The minimum bidding price for the Proposed Disposal was RMB1,812,768,410, which was determined with reference to the appraised value of AVIC Vanke approved by Aviation Industry Group.

On 2 January 2018, the Company and AVIC International entered into an equity transaction agreement with Hengqin Zhong Chang Sheng Qi Hang Investment Centre (Limited Partnership) (橫琴中長勝啟航投資中心(有限合夥)) in respect of the Proposed Disposal and the disposal of 12.88% equity interest in AVIC Vanke held by AVIC International at an aggregate consideration of RMB2,348,278,960. The consideration for the disposal of AVIC Vanke Interest was RMB1,844,181,743.25. Upon completion of the Proposed Disposal, the Company ceased to have any equity interest in AVIC Vanke. For details, please refer to the announcement of the Company published on 2 January 2018.

3. Connected Transaction – Potential Disposal of 24.5% Equity Interest in AVIC Construction Engineering through Public Tender

On 29 November 2017, the Board resolved to approve Engineering Company (a wholly-owned subsidiary of the Company) and AVIC Shenzhen to conduct the disposal of the 75.5% interest in AVIC Construction Engineering Company Limited ("**AVIC Construction Engineering**") in aggregate in relation to their respective 24.5% and 51% equity interest in AVIC Construction Engineering through CBEE. Based on the appraised value of AVIC Construction Engineering as at 30 June 2017, it is expected that the minimum bidding price for the disposal of 24.5% equity interest in AVIC Construction Engineering held by Engineering Company (the "**Potential Disposal**") would not be lower than RMB39,440,500.

The public tender process for the Potential Disposal commenced on 30 November 2017. On 23 January 2018, Engineering Company and AVIC Shenzhen entered into an equity transaction agreement with Shenzhen Lian Heng Investment Company Limited (深圳市聯恒投資有限公司) ("**Shenzhen Lian Heng**") in respect of the disposal of 24.5% equity interest in AVIC Construction Engineering held by Engineering Company and the disposal of 51% equity interest in AVIC Construction Engineering held by AVIC Shenzhen at an aggregate consideration of RMB121,541,200. The consideration for the disposal of 24.5% equity interest in AVIC Construction Engineering was RMB39,440,520.

On 9 February 2018, AVIC Construction Engineering completed assets transfer and the registration for such industrial and commercial changes. Upon completion of the Potential Disposal, the Engineering Company no longer holds any equity interest in AVIC Construction Engineering. For details, please refer to the announcement published by the Company on 23 January 2018.

4. Discloseable and Connected Transaction – Potential Disposal of Equity Interest and Creditor's Rights of Chengdu Jujin by Chengdu Raise

On 27 June 2018, the Board announced that Chengdu Raise, a non-wholly owned subsidiary of the Company, would conduct the formal process of public tender in relation to the disposal (the "**Chengdu Jujin Disposal**") of (i) its 20% equity interest in Chengdu Jujin Trading Co., Ltd. (成都聚錦商貿有限公司) ("**Chengdu Jujin**") (the "**Chengdu Jujin Equity Interest**") and (ii) the creditor's rights in Chengdu Jujin held by it (the "**Chengdu Jujin Creditor's Rights**") (collectively, the "**Chengdu Jujin Interest**") through CBEE after the preliminary disclosure.

It was proposed that Chengdu Raise would, jointly with Beijing Raise Science Co., Ltd. ("**Beijing Raise**"), conduct the disposal of their respective 20% and 80% equity interest and their respective creditor's rights in Chengdu Jujin through CBEE. Upon completion of the Chengdu Jujin Disposal, Chengdu Raise will no longer have any interests in Chengdu Jujin.

Based on (i) the preliminary appraised value of Chengdu Jujin as at 31 October 2017 and (ii) the audited financial statements of Chengdu Jujin for the year ended 31 December 2017, the preliminary appraised value of Chengdu Jujin Equity Interest is approximately RMB229,087,240 and the audited result for Chengdu Jujin Creditor's Rights is approximately RMB190,000,000. Therefore, the preliminary minimum bidding price for the Potential Disposal shall be approximately RMB419,087,240. As disclosed in the announcement of the Company dated 26 September 2018, the final minimum bidding price for the Chengdu Jujin Disposal shall be RMB426,886,221, which was determined with reference to the Chengdu Jujin Creditor's Rights and the appraised value of the entire equity interest of Chengdu Jujin approved by Aviation Industry Group.

The Chengdu Jujin Disposal was approved by the independent shareholders of the Company at the extraordinary general meeting held on 13 August 2018. For details, please refer to the announcements of the Company published on 15 June 2018 and 27 June 2018, the circular of the Company dated 27 July 2018 and the poll results announcement of the extraordinary general meeting of the Company dated 13 August 2018.

The formal process of the public tender in respect of the Chengdu Jujin Disposal, which had been approved by the independent shareholders on 10 August 2018, expired on 22 November 2018. During the publication period for the public tender which commenced on 28 September 2018 and lasted for 20 Business Days, there was no potential bidder indicating interest in purchasing the Chengdu Jujin Interest.

On 28 December 2018, the Board decided to conduct a new public tender in relation to the disposal of Chengdu Jujin Interest and re-comply with the Listing Rules in relation to the disposal of Chengdu Jujin Interest.

Based on (i) the new preliminary appraised value of Chengdu Jujin as at 31 August 2018 and (ii) the audited financial statements of Chengdu Jujin for eight months ended 31 August 2018, the new preliminary appraised value for Chengdu Jujin Equity Interest is approximately RMB204,242,160 and the audited result for Chengdu Jujin Creditor's Rights including interest is approximately RMB197,798,972. Therefore, for the purpose of proceeding with the Chengdu Jujin Disposal, the Board decided that the new preliminary minimum bidding price for the Chengdu Jujin Disposal shall be approximately RMB402,041,132.

The final minimum bidding price for the Chengdu Jujin Disposal will be determined with reference to the market price and subject to the final appraised value of Chengdu Jujin, but will in any event be no less than the new preliminary minimum bidding price. As disclosed in the announcement of the Company dated 19 February 2019, the final minimum bidding price is RMB403,998,972, which was determined with reference to the Chengdu Jujin Creditor's Rights and the new appraised value of the entire equity interest of Chengdu Jujin.

The final consideration will depend on the final bidding price offered by the successful bidder for the Chengdu Jujin Interest, but will in any event be no less than the new preliminary minimum bidding price.

The Potential Disposal was approved by the independent shareholders of the Company on the extraordinary general meeting held on 19 February 2019. For details, please refer to the announcement of the Company dated on 28 December 2018, the circular of the Company dated 31 January 2019 and the poll results announcement of the extraordinary general meeting of the Company dated 19 February 2019.

5. Connected Transactions – Capital Increase Agreement

Upon completion of the Capital Increase, (i) the registered capital of AVIC Xifei will be increased from RMB1.9 billion to RMB8.622 billion; and (ii) the equity interest of AVIC Xifei will be held as to approximately 11.5494%, 18.8895%, 20.7889%, 2.3540%, 1.7655%, 1.7655%, 1.1770%, 18.6114% and 23.0988% by Aviation Industry Group, AVIC Aircraft, Xi'an Aircraft Industry, AVIC Airborne Systems, the Company, AVIC International Aviation Development, AVIC Aviation Electronics Systems, Shaanxi Aviation Industry Development and Xi'an Industrial Investment, respectively. Accordingly, the equity interest in AVIC Xifei held by the Company will be diluted from 7.895% to 1.7655%.

Pursuant to section 34 of the Company Law of the PRC, the Company has the right of first refusal in relation to the Capital Increase. As the Company decided not to exercise the option to subscribe for the increased registered capital of AVIC Xifei, the waiver of right of first refusal by the Company in relation to the Capital Increase also constitutes a connected transaction pursuant to Rule 14A.24(2)(b) of the Listing Rules.

6. Connected Transaction – Disposal of 60% Equity Interest in AVIC International Simulation Technology Services Co., Ltd.

On 24 October 2018, the Company (as vendor) and AVIC International (as purchaser) entered into an equity transfer agreement (the "**Equity Transfer Agreement**"), pursuant to which the Company agreed to sell and AVIC International agreed to purchase 60% equity interest in AVIC International Simulation Technology Service Co., Ltd. held by the Company at the consideration of RMB31,611,120.

FY 2017

BUSINESS REVIEW

In 2017, the global economy was complicated and changeable with the macro-environment pressure remaining unabated. Strategically centered on "Business Focus, Reform and Innovation, and Value Growth", the Remaining Group further sharpened its focus on principal business, deepened its management reform and sought to promote quality and efficiency-oriented development.

During the year ended 31 December 2017, the Remaining Group recorded a consolidated revenue of approximately RMB44,444,675,000 (Restated), representing an increase of approximately 22.7% over approximately RMB36,218,427,000 (Restated) for the previous year. The profit attributable to the equity holders of the Remaining Group was approximately RMB653,887,000 (Restated), representing a decrease of approximately 32.85% from approximately RMB973,750,000 (Restated) for the previous year.

High-tech Electronic Products

As for the high-tech electronic business, the Remaining Group is engaged in R&D, design, manufacture, sales and service of FPD and PCB products mainly through its subsidiaries, namely Tianma Company and SCC. During the Year, the Remaining Group secured market opportunities for its business of high-tech electronic products, strengthened profit management, improved the added value of products through technology and product innovation, and committed concrete efforts to boost technical reserve and meticulous management. During the year ended 31 December 2017, the Remaining Group's revenue generated from the high-tech electronic products segment was approximately RMB28,985,560,000 (restated), representing an increase of approximately 44.71% as compared with RMB20,029,659,000 (restated) for the same period of last year; and the net profit was approximately RMB1,949,874,000 (restated), representing an increase of approximately 55.04% over the same period of previous year of approximately RMB1,257,680,000 (restated).

(1) FPD

Tianma Company focuses on the market development of FPD, with products mainly applied to the displays of consumer products such as smartphones and tablets as well as professional displays such as those for automobiles, medical treatment and industrial control.

During FY 2017, Tianma Company continued to optimize its product structure and seize the earliest market opportunities such as full screen FPD. As a result, Tianma Company experienced a growing proportion of the application of its high-end smartphones and a rapid increase of its in-vehicle products which enjoyed a relatively high added value. Tianma Company never ceased to engage its key strategic customers with intensive efforts and closely follow the mainstream customers in the industry. While further optimizing its customer structure, Tianma Company constantly expanded its new user base and managed to step into three emerging markets, namely industrial laptops, multi-function printers and virtual reality. In an attempt to grasp the market opportunities driven by the demand from the end users of a-Si consumer goods and price increase, Tianma Company was ahead of its competitors in respect of matching its production capacity with customer demands, which led to a significant increase in orders throughout the Year. During FY 2017, Tianma Company finished the construction of its Wuhan 6th-generation AMOLED production line (G6 Project) in April. The production line, capable of manufacturing both rigid and flexible products, has commenced its trial production of samples in small batches.

During FY 2017, the Review Committee of Merger, Acquisition and Reorganization of Listed Companies (上市公司並購重組審核委員會) of China Securities Regulatory Commission (the "**CSRC**") granted unconditional approval for the reorganization of material assets and financing proposals of Tianma Company, the completion of which took place on 22 January 2018. Accordingly, Xiamen Tianma Company has become a wholly-owned subsidiary of Tianma Company and Shanghai Tianma Organic Light Emitting Display Technology Co., Ltd. ("**Tianma Organic Company**") has become an indirect wholly-owned subsidiary of Tianma Company.

(2) PCB

Intensively engaged in PCB interconnection on a continuous basis, SCC is committed to providing its customers with one-stop service that centers on interconnection and covers design, production, material purchasing, assembly, processing and testing. Its products are extensively applied to such high-tech areas as communications, aerospace, medical service and industry control.

During FY 2017, the spin-off and initial public offering of SCC were approved by CSRC, with SCC formally listed on Shenzhen Stock Exchange on 13 December 2017 (stock code: 002916).

As for its PCB business during FY 2017, SCC seized the opportunities brought by telecommunications customers. Orders surged in comparison with the same period of the previous year. For the whole year, output remained at a high level, with robust delivery and continuously improving profitability. As for its printed circuit board assembly business, SCC attained a quick breakthrough in the output of its integrated projects, with the output value of the whole year experiencing substantial year-on-year growth. In addition, the SCC witnessed a sharp increase in its packaging substrate business, owing to the growing contribution from major customers, with substantial year-on-year growth in revenue and profit. On top of that, infrastructure construction took place smoothly at SCC's Nantong factory, with successful installation of press, electroplating lines and other major equipment.

Retails and Consumer Products

In respect of its retails and consumer products segment, the Remaining Group is engaged in the R&D and brand operation of middle to high-end wrist watches as well as chain sales and service of luxury watches through its subsidiary, Fiyta. For the year ended 31 December 2017, the revenue generated from the retails and consumer products segment of the Remaining Group amounted to approximately RMB3,322,928,000, representing an increase of approximately 12.07% as compared with RMB2,965,074,000 for the same period of last year. The net profit was approximately RMB224,432,000, representing an increase of approximately 17.31% over the same period of previous year of approximately RMB191,321,000.

During FY 2017, Fiyta took the initiative in grasping the opportunities brought by a recovering watch market, and made great efforts to develop new brands and business and improve channel efficiency. This led to growth in both revenue and profit. During FY 2017, Fiyta capitalized on consumer demand, accelerated its brand cultivation and development. Fiyta watches have been displayed at Hall 1 of Baselworld The World Watch and Jewelry Show in Switzerland for seven consecutive years and was among the first batch of "China Made" products selected by Ministry of Commerce, which evidenced the progress of Fiyta's international drive. The brands of "Jonas & Verus" and "Beijing" also enjoyed rapid development. Apart from that, Fiyta was active in transforming its business model, which was translated into steady improvement in its E-commerce and technology services business. Harmony has further materialized its role as an integrated service provider for prestigious watches. Furthermore, internal management has been strengthened, together with continuous optimization of product and channel structures, faster integration of information-based development, intelligent approaches and internal operation. This was also translated into a substantially higher output per shop and further improvement in operational efficiency.

Trading and Logistics

The Remaining Group is engaged in mechatronics engineering and general contracting of cement construction through Beijing Company, as well as bitumen and mechatronics products through Guangzhou Company. For the year ended 31 December 2017, the Remaining Group's revenue generated from the trading and logistics business was approximately RMB6,896,089,000 (Restated), representing a decrease of approximately 23.56% from approximately RMB9,021,620,000 (Restated) for the previous year. The loss was approximately RMB265,687,000 (Restated), representing a decrease of approximately RMB512,369,000 (Restated) when compared to the net profit of approximately RMB246,682,000 (Restated) recorded for the previous year.

In respect of the mechatronics engineering business, the Remaining Group is mainly engaged in the engineering procurement construction (EPC) for cement and mechatronics projects as well as the construction material and petrochemical business through Beijing Company. During FY 2017, Beijing Company was strongly committed to the key markets under the "Belt and Road" initiative. As such, projects were expanded and came into effect more quickly, and ongoing projects took place smoothly. The Remaining Group also went deeper in innovatively replicating its business model in East Africa, as the East Africa Industrial Park in Kenya completed construction and started operation. KHD Humboldt Wedag International AG enjoyed better operation, as the company adopted measures to secure orders, improve management and reduce costs. During FY 2017, Beijing Company entered into four new projects, totaling more than US$2.7 billion. However, there was insufficient settlement of orders due to the impact of global economy and industry environment, which resulted in a considerable loss recorded by Beijing Company.

Real Estate

The Remaining Group is engaged in engineering contracting through Engineering Company. During 2017, the real estate business of the Remaining Group recorded a revenue of approximately RMB4,517,885,000, representing an increase of approximately 27.47% over the revenue recorded last year of approximately RMB3,544,146,000. The net profit was approximately RMB273,519,000, representing an increase of approximately 1,201.79% over approximately RMB21,011,000 for last year. The net profit comprises the investment gain totalling approximately RMB107,260,000 from share of results of AVIC Real Estate, an associated company, and gain on disposal of AVIC Vanke Company Limited ("**AVIC Vanke**"), a jointly-controlled company.

During FY 2017, the Remaining Group further focused on its principal business and gradually stepped away from the residential property development business. Specifically, the Remaining Group disposed of its equity interest in AVIC Vanke, and Engineering Company completed the disposal of its equity interest in Hangfa Investment Management Co., Ltd. (航發投資管理有限公司) and obtained an aggregate investment profit of approximately RMB444,404,000. The Remaining Group sustained a positive momentum in its EPC business. Throughout the Year, it entered into 19 EPC contracts which totaled more than USD1.8 billion. Among them, 14 were international engineering projects with a contract amount of over USD1.7 billion, while the remaining five were domestic engineering projects with a total contract amount of approximately RMB0.6 billion. Engineering Company has seen the brand influence of its aviation facility projects greatly improved. During FY 2017, it had four ongoing aviation facility projects, in addition to the successful completion and delivery of the runway project for Bandaranaike International Airport in Sri Lanka.

BUSINESS PROSPECTS

In 2018, the Remaining Group will revolve around the strategic theme of "Reform and Reconstruction, Focus on Breakthrough, and Value Growth" and improve its management structure, systems and procedures. It will also work on restructuring its business model to focus on the principal business, continue to optimize resource allocation and improve corporate operation, quality, efficiency as well as internal value.

High-tech Electronic Products

The Remaining Group's FPD business will further focus on the consumer products market and professional display, actively engaged itself in such emerging markets as smart home furnishings, smart wear and augmented reality/virtual reality, and promote the integration between military and civilian sectors for the application of relevant products. The Remaining Group will not cease to improve its operational efficiency and productivity by focusing on the market, strengthening capabilities and optimizing costs, and waste no time to improve the output of Wuhan G6 Production Line. In respect of the PCB business, the Remaining Group will enhance its product advantages, actively obtain orders, enhance production and operational efficiency by building professional factories and intelligent systems, and step up the pace to improve the production capacity of its factory in Nantong and construct its substrate factory in Wuxi. All such efforts aim to help the Remaining Group secure a leading position in the industry.

Retails and Consumer Products

In respect of the retails and consumer products business, the Remaining Group will maintain its business layout of "Products + Channels", stick to intensive development, and strengthen and optimize the existing business, so as to enhance the output per shop and further enhance brand image. The Remaining Group will also rely on its resources and capabilities to explore development opportunities, fresh business and new markets, and further its transformation through innovative business models and institutional reform. All such measures aim to improve the quality of development.

Trading and Logistics

As for the mechatronics engineering business, the Remaining Group will commit intensive efforts to developing the "Belt and Road" market, increasing international development and obtaining orders proactively. It will continue to improve the operation and management of KHD Humboldt Wedag International AG.

Real Estate

In 2018, the Remaining Group will continue to step away from the residential property development business. As for its international engineering business, the Remaining Group will vigorously expand the markets in countries along the "Belt and Road" initiative and African countries, actively seize market opportunities in key overseas regions, and intensively work on the engineering projects for aviation facilities, overseas transportation and urban infrastructure. In addition, the Remaining Group will enhance the ability of executing the projects on hand, promote lean management and cost risk control, and strive to enhance profitability.

CAPITAL STRUCTURE

	2017	2016
	(RMB'000)	*(RMB'000)*
	(Restated)	(Restated)
Total borrowings	29,459,834	22,529,943
Total liabilities	53,827,469	44,194,011
Non-controlling interests	23,903,423	21,795,613
Equity attributable to owners of the Company	13,612,245	12,449,600
Total assets	91,343,137	78,439,223
Borrowings to equity ratio*	78.53%	65.79%
Liabilities to equity ratio*	143.48%	129.05%

* Borrowings to equity ratio = Total borrowings at the end of the year/Total equity of the Company at the end of the year

* Liabilities to equity ratio = Total liabilities at the end of the year/Total equity of the Company at the end of the year

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2017, the cash and cash equivalents of the Remaining Group amounted to approximately RMB13,068,010,000 (Restated) (2016: RMB9,048,769,000 (Restated)), which were mainly derived from the following sources:

- Cash and bank deposits at the beginning of the year;
- Bank loans, borrowings from related parties; and
- Revenue from operations.

As at 31 December 2017, the total borrowings of the Remaining Group amounted to approximately RMB29,459,834,000 (Restated) (2016: RMB22,529,943 (Restated)) with annual interest rate ranging from 0% to 6.88% (2016: 0% to 6.44%), of which the current borrowings amounted to approximately RMB13,646,137,000 (Restated) (2016: RMB10,102,552,000 (Restated)) and the non-current borrowings amounted to RMB15,813,697,000 (Restated) (2016: RMB12,427,391,000 (Restated)).

During the year ended 31 December 2017, the capital expenditure of the Remaining Group amounted to approximately RMB8,281,833,000, the details of which are set forth below:

Company Name	Project Name	Amount *RMB'000*
Fiyta	Ancillary construction for the watch industrial base in Guangming New Area, and purchase of other long-term assets	43,244
Engineering Company	Purchase of a new office building in Colombo, capital of Sri Lanka	58,686
Hunan AVIC Fastening Systems Co., Ltd. (湖南中航緊固系統有限公司)	Hengyang Songmu Industrial Park Project	62,166
Heng Yang AVIC Electroplating Centre Co., Ltd. (衡陽中航電鍍中心有限公司)	Phase I of the sewage treatment station project	26,299
Xiamen Company	Self-owned part of AVIC Zijin Plaza (中航紫金廣場)	5,926
Tianma Company	Project of the 6th generation of AMOLED production lines for Wuhan Tian Ma, and various technological transformation projects	7,350,366
AVIC International Renewable Energy Development Co., Ltd. ("**RED Company**")	Integrated Energy Saving Project in Tai An	8,282
SCC	Research and development projects, technological transformation projects, and base construction for Nantong Project and Wuxi Shennan	624,317
Guangzhou Company	Project construction and maintenance of the bitumen base	57,769
Beijing Company	Installation of cement equipment, project of Humboldt China Design Institute, expansion of East-African Operation Centre, and investment projects in Cuba and Zambia	44,778
Total		8,281,833

The Remaining Group is expected to incur a capital expenditure of approximately RMB16,547,930,000 for the year ended 31 December 2018, with details as follows:

Company Name	**Project Name**	**2018 Amount** *(RMB' 000)*
Tianma Company	Wuhan Tianma G6 project, Xiamen Tianma G6 project, the organic light-emittng G5.5 line project, etc.	14,372,830
SCC	Multilayer printed circuit board project and technological transformation project	1,031,540
Fiyta	Engineering investment in the timepiece industrial base in Guang Ming New District, etc.	363,000
Engineering Company	Acquisition of upstream and downstream enterprises	500,000
Aero Fasteners MFG	Construction and equipment investment in the Hengyang factory	101,000
Xiamen Company	Project on the office building of AVIC Zijin Plaza	27,500
AVIC Lutong Industrial Co., Ltd.	Construction of the bitumen base in Tianjin and other related construction at the base	71,000
RED Company	Projects in Luoyuan County, Dong'an, Tian'an, etc.	74,460
Beijing Company	Establishment of the engineering machinery operations center	6,600
Total		16,547,930

PLEDGED ASSETS

As at 31 December 2017, bank loans of RMB2,533,085,000 (31 December 2016: RMB948,043,000) of the Remaining Group were secured by the following:

	2017	**2016**
	RMB'000	*RMB'000*
Trade and other receivables	–	199,877
Buildings	1,167,465	942,810
Construction-in-process	27,042	–
Land use rights	375,821	200,327
Inventory	4,688	–
	1,575,016	1,343,014

LOAN-TO-EQUITY RATIO

As at 31 December 2017, the Remaining Group's loan-to-equity ratio (total borrowings divided by shareholders' equity) was 78.53% (2016: 65.79%), whilst the liability-to-equity ratio (total liabilities divided by shareholders' equity) was 143.48% (2016: 129.05%).

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During the year ended 31 December 2017, the Company did not have entrusted deposit or overdue term deposit in any form.

EMPLOYEES AND REMUNERATION

As at 31 December 2017, the Remaining Group had approximately 39,057 employees (2016: 38,406), with employee-related costs of approximately RMB4,220,025,000 (2016: RMB4,031,585,000). The Remaining Group formulated market-competitive remuneration policies with reference to market conditions and individual employees' performance.

FOREIGN EXCHANGE RISK

As the Remaining Group's products are mainly distributed domestically and its export business is mainly settled in US dollar or HK dollar, due to the greater fluctuation of exchange rate in recent years, the Remaining Group has been managing its foreign exchange risks and actively addressing the exposure to foreign exchange fluctuation.

FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2017, the Remaining Group had the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Company	Guaranteed party	Guaranteed party's relationship with the Company	2017 Outstanding amounts guaranteed *RMB'000*	2016 Outstanding amounts guaranteed *RMB'000*
Beijing Company	Subsidiary of the Company	Tuofu Yuanyang Shipping Company Limited* (拓富遠洋海運有限公司)	Third Party	126,168	–
Engineering Company	Subsidiary of the Company	CATIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associated company	53,900	–
Beijing Company	Subsidiary of the Company	Taizhou AVIC Shipbuilding Heavy Industry Limited* (泰州中航船舶重工有限公司)	Third Party	–	347,040
Beijing Company	Subsidiary of the Company	Zhengli Ocean Engineering Company Limited* (正力海洋工程有限公司)	Third party	–	11,710
TED Company	Subsidiary of the Company	AVIC Wang Xin Beijing Science and Technology Co., Ltd.* (中航網信(北京)科技有限公司)	Associated company	–	25,000
Engineering Company	Subsidiary of the Company	CATIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associated company	–	127,400
The Company	–	Shenzhen AVIC Resources Co., Ltd.* (深圳中航資源有限公司)	Fellow subsidiary	–	714,000
The Company	–	Qinghai AVIC Resources Co., Ltd.* (青海中航資源有限公司)	Fellow subsidiary	–	475,470
The Company	–	Kunming AVIC Phosphorus Chemical Co., Ltd.* (昆明市中航磷化工有限公司)	Fellow subsidiary	–	34,000

Guarantor	Guarantor's relationship with the Company	Guaranteed party	Guaranteed party's relationship with the Company	2017 Outstanding amounts guaranteed *RMB'000*	2016 Outstanding amounts guaranteed *RMB'000*
The Company	–	Yunnan Hongfu Fertilizer Co., Ltd.* (雲南紅富化肥有限公司)	Fellow subsidiary	–	6,430
The Company	–	Qinghai AVIC Silicon Material Co., Ltd.* (青海中航矽材料有限公司)	Fellow subsidiary	–	23,344
				180,068	1,764,394

* The English names of these companies are management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

MATERIAL ACQUISITIONS AND DISPOSALS

1. Discloseable Transaction, Connected Transaction, Very Substantial Acquisition and Very Substantial Disposal – Acquisition of 2 Subject Companies Including Xiamen Tianma by Tianma Company and Proposed A Shares Placing of Tianma Company

On 10 March 2017, Tianma Company entered into two separate framework agreements (the "**Xiamen Tianma Framework Agreement**" and the "**Tianma Organic Framework Agreement**", collectively, the "**Framework Agreements**") with (a) AVIC International, AVIC International Shenzhen Company Limited ("**AVIC Shenzhen**"), China National Aero Technology Xiamen Company Limited (中國航空技術廈門有限公司) (the "**Xiamen Company**") and Xiamen Jincai Industrial Development Company Limited (廈門金財產業發展有限公司) ("**Xiamen Jincai**") in relation to the acquisition of 100% equity interest in Xiamen Tianma Company; and (b) Shanghai Industrial Investment (Group) Co., Ltd. ("**Shanghai Investment Company**") and Shanghai Zhangjiang (Group) Co., Ltd. ("**Shanghai Zhangjiang Company**") in relation to the acquisition of 60% equity interest in Tianma Organic Company (the "**Xiamen Tianma Acquisition**" and the "**Tianma Organic Acquisition**", collectively, the "**Acquisitions**").

Pursuant to the Framework Agreements, the consideration for the Acquisitions will be fully settled by issue of consideration shares (the "**Consideration Shares**") to the vendors under the Framework Agreements upon completion of the respective Acquisitions at an issue price of RMB17.23 per A share, which was determined with reference to and not lower than the benchmarked price of the A shares, being 90% of the Average Price for the Acquisitions (as defined in the announcement of the Company dated 10 March 2017). The maximum number of Consideration Shares to be issued under the Xiamen Tianma Framework Agreement and the Tianma Organic Framework Agreement will be 613,821,008 and 39,267,579, respectively.

Based on the maximum number of Consideration Shares to be allotted and issued and the issue price of RMB17.23 per A share, it is expected that the maximum consideration for the Xiamen Tianma Acquisition and the Tianma Organic Acquisition will be RMB10,576,135,967.80 and RMB676,580,386.17, respectively.

The Acquisitions are not inter-conditional with each other.

Pursuant to the Framework Agreements, Tianma Company proposes to issue not more than 111,987,085 new A shares (the "**Placing Shares**") to not more than 10 investors (the "**Proposed A Shares Placing**"). The placing price of the Placing Shares shall not be lower than 90% of the Average Price for the Proposed A Shares Placing (as defined in the announcement of the Company dated 10 March 2017) and shall not be lower than the issue price of the Consideration Shares pursuant to the Framework Agreements, which is subject to the rules and regulations of CSRC and Shenzhen Stock Exchange. The proceeds to be raised under the Proposed A Shares Placing will be used for the construction of LTPS and colour filter (CF) production line of Xiamen Tianma Company, including expenses on purchase of equipment and installation which is in line with the requirement of CSRC. The success or failure of the Proposed A Shares Placing would not affect the Acquisitions and the Consideration Issue.

Assuming the Acquisitions have been completed, upon issue of the Consideration Shares (the "**Consideration Issue**") (assuming the maximum number of Consideration Shares as provided under the Framework Agreements are issued), the equity interest of the Company held in Tianma Company will be diluted from approximately 20.81% to approximately 15.98% (including 1.79% equity interest held by Xiamen Company, a wholly-owned subsidiary of the Company). If Tianma Company proceeds with the Proposed A Shares Placing after completion of the Acquisitions, the equity interests of the Company held in Tianma Company will be further diluted to approximately 15.16% (including 1.70% equity interest held by Xiamen Company, a wholly-owned subsidiary of the Company) of the enlarged issued share capital of Tianma Company (assuming 111,987,085 new A Shares are issued) upon completion of the Proposed A shares Placing. Such dilution in interest in Tianma Company as a result of the Consideration Issue and the Proposed A Shares Placing will constitute a deemed disposal of interest in Tianma Company held by the Company pursuant to Rule 14.29 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) for the Consideration Issue and the Proposed A Shares Placing exceed(s) 75%, the dilution of the Company's equity interest in Tianma Company as a result of the Consideration Issue and the Proposed A Shares Placing constitutes a very substantial disposal of the Company under Rule 14.06 of the Listing Rules and the transactions are therefore subject to announcement, reporting and Shareholders' approval requirements under Chapter 14 of the Listing Rules. The Acquisitions and the Proposed A shares Placing have been approved by the independent shareholders of the Company at the extraordinary general meeting held on 12 June 2017. Please refer to the announcement of the Company dated 10 March 2017, the circular dated 28 May 2017 and the extraordinary general meeting's poll result announcement of the Company dated 12 June 2017 for details.

The asset appraisal reports of Xiamen Tianma Company and Tianma Organic Company have been filed with the SASAC on 17 August 2017 and 22 August 2017, respectively.

On 23 August 2017, Tianma Company entered into the following formal agreements (collectively, the "**Formal Agreements**") in relation to the Xiamen Tianma Acquisition and the Tianma Organic Acquisition as contemplated under the Framework Agreements:

(1) the asset acquisition agreement (the "**Xiamen Tianma Formal Agreement**") in relation to the acquisition of an aggregate of 100% equity interest in Xiamen Tianma Company with AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai for an aggregate consideration of RMB10,452,506,800 (equivalent to approximately HK$12,241,681,897); and

(2) the asset acquisition agreement (the "**Tianma Organic Formal Agreement**") in relation to the acquisition of an aggregate of 60% equity interest in Tianma Organic Company with Shanghai Investment Company and Shanghai Zhangjiang Company for an aggregate consideration of RMB656,900,600 (equivalent to approximately HK$769,343,501).

As Tianma Company has already distributed dividend for the year of 2016 on 26 July 2017, the issue price of the Consideration Shares and the placing price of the Placing Shares was adjusted to RMB17.17 per A Share and the consideration under the Acquisitions will be settled in full by a total of 647,024,307 A shares to be allotted and issued by Tianma Company as Consideration Shares and the number of Placing Shares will be 110,658,124. For details, please refer to the announcement of the Company dated 23 August 2017.

Each of the Acquisitions and the Proposed A Shares Placing has been approved by SASAC and the shareholder's meeting of Tianma Company. Please refer to the announcement of the Company dated 8 September and 15 September 2017 for more details.

On 6 December 2017, Tianma Company was informed by CSRC that the Consideration Issue and the Proposed A Shares Placing had been approved at the 68th conference meeting for 2017 of the Review Committee of Merger, Acquisition and Reorganisation of Listed Companies (上市公司並購重組審核委員會) of the CSRC convened on 6 December 2017. Please refer to the announcement of the Company dated 6 December 2017 for details.

On 15 January 2018, Tianma Company received a written approval from CSRC issued on 11 January 2018 on the Consideration Issue and the Proposed A Shares Placing with a validity period of twelve months from the date of issue. For details, please refer to the announcement issued by the Company on 15 January 2018.

On 31 January 2018, Tianma Company completed assets transfer for its acquisition of two subject companies, namely Xiamen Tianma Company and Tianma Organic Company. On the date of assets transfer completion, Shanghai Tianma and Xiamen Tianma Company became the wholly-owned subsidiaries of Tianma Company respectively; hence, the Entrusted Management Agreement signed between Shanghai Tianma and Xiamen Tianma Company on 4 March 2016 has been terminated. Tianma Company issued an aggregate of 647,024,307 A Shares (equivalent to the total number of Consideration Shares under the Acquisitions) to six transferees, including AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai. Such A Shares were listed on the Shenzhen Stock Exchange on 2 February 2018. Please refer to the announcements of the Company dated 22 January 2018 and 31 January 2018 for more information.

2. Proposed Mandate in Relation to the Possible Major Disposal and Connected Transaction

On 17 May 2017, the Board resolved to dispose of 47.12% equity interest in AVIC International Vanke Company Limited ("**AVIC Vanke**") (the "**AVIC Vanke Interest**") held by the Company. As the Company and AVIC International both are state-owned enterprises and the AVIC Vanke Interest constitutes State-owned assets, the disposal of the AVIC Vanke Interest by the Company is required to go through the process of public tender through an equity exchange in accordance with the relevant laws and regulations of the PRC governing the disposal of State-owned assets. It is proposed that the Company will, jointly with AVIC International, conduct the disposal of the 60% interest in AVIC Vanke in aggregate in relation to their respective 47.12% and 12.88% equity interest in AVIC Vanke through China Beijing Equity Exchange.

Based on the preliminary appraised value of AVIC Vanke as at 31 December 2016, it is expected that the minimum bidding price for the Proposed Disposal shall be in the range of RMB1,780,440,000 to RMB1,876,680,000. The minimum bidding price of the AVIC Vanke Interest will be determined based on the appraised value of AVIC Vanke with reference to prevailing market prices subject to the approval from relevant regulatory authorities of State-owned assets in the PRC.

The final consideration will depend on the final bid price offered by the successful bidder for the AVIC Vanke Interest, but will in any event be no less than the relevant minimum bidding price.

The Proposed Disposal has been approved by the independent shareholders of the Company at the extraordinary general meeting. For details, please refer to the announcements of the Company dated 17 May and 18 May 2017, the circular of the Company dated 22 September 2017, and the poll results of the extraordinary general meeting dated 11 October 2017.

On 23 October 2017, the draft appraisal report of AVIC Vanke in relation to the Proposed Disposal was approved by Aviation Industry and the final appraised value of the 100% equity interest in AVIC Vanke was RMB3,847,131,600, pursuant to which, the minimum bidding price for the Proposed Disposal was set at RMB1,812,768,410. On 3 November 2017, the formal process of public tender in respect of the Proposed Disposal was set to take place at China Beijing Equity Exchange ("**CBEE**") (北京產權交易所) on 6 November 2017 in accordance with the relevant requirements applicable to the transfer of state-owned equity interest. The minimum bidding price for the Proposed Disposal was RMB1,812,768,410, which was determined with reference to the appraised value of AVIC Vanke approved by Aviation Industry.

On 2 January 2018, the Company and AVIC International entered into an equity transaction agreement with Hengqin Zhong Chang Sheng Qi Hang Investment Centre (Limited Partnership) (橫琴中長勝啟航投資中心(有限合夥)) in respect of the disposal of AVIC Vanke Interest and the disposal of 12.88% equity interest in AVIC Vanke held by AVIC International at an aggregate consideration of RMB2,348,278,960. The consideration for the disposal of AVIC Vanke Interest was RMB1,844,181,743.25. Upon completion of the Potential Disposal, the Company will cease to have any equity interest in AVIC Vanke. For details, please refer to the announcement issued by the Company on 2 January 2018.

3. Disposal of 75% Equity Interest in GIB Company

On 16 June 2017, the Company announced that it intended to dispose of its 75% equity interest in Guangdong International Building Industrial Co., Ltd. (廣東國際大廈實業有限公司) ("**GIB Company**") through a public tender process. The formal procedures for the public tender are proposed to commence on 24 August 2017. The base price for transfer of the 75% equity interest in GIB Company shall be RMB297,000,000.

Based on the base price of the tender for transfer of 75% equity interest in GIB Company of RMB297,000,000, one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the potential disposal is/are expected to be more than 5% but less than 25%. As such, the potential disposal, if materialized, may constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules. For details, please refer to the announcements of the Company dated 16 June 2017 and 23 August 2017.

4. Proposed Spin-off and Separate Listing of SCC on the Shenzhen Stock Exchange and Possible Major Disposal for the Company

On 13 May 2016, the Board issued an announcement in relation to possible spin-off and separate listing of SCC, a subsidiary of the Company which is mainly engaged in the PCB business, on Shenzhen Stock Exchange (the "**Proposed Spin-off**"). It is proposed that SCC will offer not more than 70,000,000 shares (the "**Offer Shares**"), including new shares to be issued by SCC and up to 35,000,000 existing shares to be sold by the Company. The indicative offer price of the A shares of SCC is expected to be RMB32.86 per A share and the expected maximum proceeds raised from the proposed A share listing of SCC will be RMB2,300,000,000. The offer price per A share of SCC will depend on the domestic market condition of PRC at the time of the proposed A share listing with reference to the quotation from target subscribers or determined otherwise as agreed between SCC and the lead underwriter. The Board expected that the Company will have an interest of not less than 50% in SCC upon the completion of the Proposed Spin-off and proposed A share listing, SCC will thus remain as a non-wholly owned subsidiary of the Company. The Proposed Spin-off was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 26 July 2016. Please refer to the announcements of the Company issued on 10 April 2015 and 13 May 2016, the poll results announcement of the extraordinary general meeting of the Company dated 26 July 2016 and the circular despatched by the Company dated 21 June 2016, respectively, for more details.

On 24 October 2017, the listing of SCC's A shares on Shenzhen Stock Exchange was approved at the tenth meeting of the seventeenth session of Issuance Examination Commission of CSRC. On 17 November 2017, SCC received a formal approval in writing from CSRC with a validity period of 12 months from 17 November 2017.

On 6 December 2017, SCC issued 70,000,000 A shares at the offer price of RMB19.30 each upon completion of its initial price inquiry. The subscription payment of both online and offline offer shares was completed on 4 December 2017. The total amount of proceeds raised from SCC offering was RMB1,351,000,000. After deducting the offering cost, the net proceeds raised from the offering amounted to RMB1,268,000,000. The A shares of SCC (stock code: 002916) were listed on the Shenzhen Stock Exchange on 13 December 2017. Upon completion of the offering, the Company holds 195,278,970 A shares of SCC, representing 69.7425% of the total equity capital of SCC, which remains a non-wholly-owned subsidiary of the Company. For details, please refer to the announcements issued by the Company on 24 October, 17 November, 6 December and 11 December 2017.

5. Connected Transaction – Potential Disposal of 24.5% Equity Interest in AVIC Construction Engineering through Public Tender

On 29 November 2017, the Board resolved to approve that the Engineering Company (a wholly-owned subsidiary of the Company) and AVIC Shenzhen would conduct the disposal of the 75.5% interest in AVIC Construction Engineering Company Limited ("**AVIC Construction Engineering**") in aggregate in relation to their respective

24.5% and 51% equity interest in AVIC Construction Engineering through CBEE. Based on the appraised value of AVIC Construction Engineering as at 30 June 2017, it is expected that the minimum bidding price for the disposal of 24.5% equity interest in AVIC Construction Engineering (the "**Potential Disposal**") would not be lower than RMB39,440,500.

The public tender process for the Potential Disposal commenced on 30 November 2017. On 23 January 2018, the Engineering Company and AVIC Shenzhen entered into an equity transaction agreement with Shenzhen Lian Heng Investment Company Limited (深圳市聯恒投資有限公司) ("**Shenzhen Lian Heng**") in respect of the disposal of 24.5% equity interest in AVIC Construction Engineering held by Engineering Company and the disposal of 51% equity interest in AVIC Construction Engineering held by AVIC Shenzhen at an aggregate consideration of RMB121,541,200. The consideration for the disposal of 24.5% equity interest in AVIC Construction Engineering was RMB39,440,520. On 9 February 2018, AVIC Construction Engineering completed assets transfer and the registration for such industrial and commercial changes. Upon completion of the Potential Disposal, the Engineering Company no longer holds any equity interest in AVIC Construction Engineering. For details, please refer to the announcement issued by the Company on 23 January 2018.

FY 2016

BUSINESS REVIEW

2016 was a year when global macro-economy had been experiencing a complex situation along with greater uncertainties, severe fluctuation and frequent geo-political risks, and the economic recovery had been running slowly while domestic economy was under increasing downward pressure. The efficient market demands continued with a lingering weakness. Facing the severe economic situation both in the PRC and abroad, the Remaining Group had been pushing the supply-side structural reform forward proactively which was in line with China's overall strategies with strategic theme of "Reform and Innovation, Reinforcing execution and Focusing on Value Growth", firmly establishing strategic transformation, accelerating the adjustment of business structure and industry upgrading and speeding up the innovation of commercial models and mechanism reform. The efficiency and effectiveness of some business operation had been significantly improved.

During the year ended 31 December 2016, the Remaining Group recorded a consolidated revenue of approximately RMB36,218,427,000 (Restated). The profit attributable to the equity holders of the Remaining Group was approximately RMB973,750,000 (Restated).

High-tech Electronic Products

As for the business of high-tech electronic products, the Remaining Group engages in R&D, design, production, sales and service of FPD and PCB products mainly through its subsidiaries, such as Tianma and SCC. The business of high-tech electronic products of the year has seized the market opportunities to reinforce the precise operation continuously and strive to improve the operating profits. During the year ended 31 December 2016, the Remaining Group's turnover generated from high-tech electronic products section was approximately RMB20,029,659,000 (restated) and the profit after taxation was approximately RMB1,257,680,000 (restated).

(1) FPD

Tianma focuses on the display business and its products include small-to-medium size FPD and display modules, which is mainly applied in professional areas including e-commerce, industrial control and medical treatment. Meanwhile, we are also engaged in the new display markets of 3D LED monitors and intelligent wearable devices proactively.

During FY 2016, Tianma continued to optimize its product structure and rapidly increased the product proportion of medium-and-high end smartphones. The display monitor sales for professional areas, such as automotive and medical treatment, have experienced a rapid growth, while the intelligent wearable devices had been put into mass production successfully. The R&D of key technologies and core products has made a smooth progress. LTPS in-cell and AMOLED have achieved its mass production while we have completed the development of flexible technology platform. The customer structure continued its optimization and the ratio of high marginal customers and large customers continued to increase. The main factory of product line project of the Wuhan 6th generation of AMOLED has reached its caps in advance, which created the quickest construction in the industry. Tianma has proactively promoted the share issuance for asset acquisitions and fund-raising.

In 2016, the advanced technologies of Tianma have been named with national awards in the industry, which boosted our brand popularity in the capital market and marked our solid leading position in the industry.

(2) PCB

SCC mainly engages in producing PCB products which comprise the R&D, manufacture and sales of middle-to-high end multi-layer PCB products and packaging substrate. They are mainly used in high technology fields such as telecommunication, aeronautics and astronautics, medical services and industrial control.

During FY 2016, SCC has grasped the opportunities in the industry to focus on the markets with quality customers and emphasised on developing key customers and reinforced the precise operation continuously to reach a historic height in its operating results. PCB business segment maintained a stable delivery with high production. During the year of 2016, we have focused on the professional markets including mass telecommunication, motor vehicles, servers, optical connection, avionics, rigid-flex and thick copper. The purchase orders in the market have significantly increased. The productivity of Wuxi factory has successfully made a large climb. The optimisation of purchase order structure and production line of electric fitting business has achieved with significant efficiency. The output values of telecommunication and medical treatment increased rapidly and profit margin continues to increase. The customer exploration of packaging substrate business was in a proactive progress with a gradual shift to semi-conductor supply chain, and it has engaged with the leading customers in MIC area.

In 2016, SCC has continued to promote the spin-off and IPO in the Shenzhen Stock Exchange of the PRC. It completed the examination for approval by The Stock Exchange of Hong Kong Limited and SASAC, and submitted the filing information to CSRC.

Retails and Consumer Products

The retails and consumer products section of the Remaining Group engages in the R&D and brand operation of middle to high-end watches and chain sales of prestigious watches through its subsidiary, Fiyta. For the year ended 31 December 2016, the turnover generated from the retail and consumer products section of the Remaining Group amounted to approximately RMB2,965,074,000. The profit after taxation was approximately RMB191,321,000.

In 2016, the high-end consumption in China continued its depression. Fiyta has proactively promoted the innovation of commercial model, accelerated the production and channel optimisation and alternation. The distribution channel sales of Fiyta's watch have increased in proportion while the amounts of overseas internet spots and selling scale have achieved a rapid growth. Harmony continued to promote the improvements of channel structure and product structure, while devoting great effort on upgrading the sales efficiency in single store. Fiyta have strived to promote the online-and-offline integration by setting e-commerce and technical service business as our breakthrough point, which continued to make a vigorous growth in e-commerce business. During FY 2016, Fiyta has entered into exclusive authorisation agreement with Beijing Watch and accelerated the coordinated development with Beijing Watch.

Real Estate

The Remaining Group engages in real estate development business through its subsidiaries Chengdu AVIC Raise Real Estate Company Limited ("**Chengdu Raise**") and Beijing AVIC Ruixin Investment and Management Company Limited ("**Beijing Ruixin**"), and engages in overseas engineering contracting and overseas development through Engineering Company. During the year of 2016, the real estate business section of the Remaining Group recorded a turnover of approximately RMB3,544,146,000. The profit after taxation was approximately RMB21,011,000. Profit after taxation comprises losses on investments from the jointly controlled entity and the associate, AVIC Vanke and AVIC Real Estate Company Limited (中航地產股份有限公司) ("**AVIC Real Estate**") of approximately RMB222,154,000 in total.

(1) Real Estate Development

The domestic real estate development projects of the Remaining Group are mainly involved in commercial complexes in small to medium cities. In 2016, Chengdu Raise and Beijing Ruixin have accelerated the project developments and sales payment return, in which businesses have made a smooth progress.

(2) Engineering Contracting

The engineering contracting business of the Remaining Group mainly comprises contracting of international and domestic construction projects, which accelerated the shifting of overseas aviation infrastructure construction and services. During FY 2016, the engineering contracting projects of the Remaining Group have continued to maintain a positive momentum in development. The Remaining Group entered into 32 contracts with a total contract sum of approximately RMB5.4 billion. Engineering Company has put a large effort on upgrading the professionalism of aviation infrastructure construction business. There were 2 newly-executed aviation projects, and the Hangar Project in Ethiopia (埃塞俄比亞機庫項目) has been successfully completed for delivery.

Trading and Logistics

The Remaining Group engages in mechatronics engineering, ship engineering, tendering agency and energy management through its subsidiaries such as Beijing Company, Guangzhou Company, Xiamen Company, TED Company and RED Company. For the year ended 31 December 2016, the Remaining Group's turnover generated from trading and logistics business was approximately RMB9,021,620,000 (Restated). The profit after taxation for the year was approximately RMB246,682,000 (Restated).

The mechatronics engineering business of the Remaining Group mainly engages in EPC of fundamental facilities in and outside China, such as cement, petroleum, electricity stations and bitumen. In 2016, the mechatronics engineering business of the Remaining Group strengthened project exploration and execution, deepened the promotion of innovation in commercial model and continued to enhance the professional capabilities of EPC business. The first project in Venezuela and project in Malaysia of the mechatronics engineering business have been delivered. The second project in Venezuela has been progressing under orders. The Remaining Group have cultivated the markets of countries under the "the Belt and Road" deeply, which has continued to increase our brand influence. The bitumen business has put a large effort in handling the adverse impact of price depression in bulk consumer goods, such as petrol. We have strived to improve our raw material supply of bitumen. Both expansion of modified bitumen species and project delivery have achieved a proactive progress.

BUSINESS PROSPECTS

In 2017, the global economy will be positioned to a re-adjustment of balancing and the economy in China will have greater downward pressure. Facing various external and internal adverse factors and challenges, the Remaining Group will deeply promote the strategic transformation, speed up the business consolidation and setting of core businesses, continue the optimisation of business structure and resource deployment with reformation and innovation as our motivation, improve management structure and system progress organisation, continue to promote innovation of commercial model and reformation of systems and mechanisms, enhance the profit management and value creation, strengthen the problem-solving and risk prevention and control, accelerate the connection of capital markets and pursue the value growth.

High-tech Electronic Products

(1) FPD

Smart home devices driven by "Internet +" and the technology of wearable devices have become a trend of mobile smart terminal sector. The technology of internet has driven the continuous growth of demand for professional display sectors, such as automotive display, medical display, smart house and intelligent industries. The growing trend of large screen, high resolution and integration of touch screen has become the next focus point of growth. In 2017, Tianma will grasp the market opportunities, deeply cultivate the mobile smart terminal and professional display market, optimise the product structure and customer structure, enhance the development of strategic customers, accelerate the R&D and mass production of key technology and focused products, such as IN-CELL and AMOLED, match the markets with technology optimisation production lines. We will emphasise the emerging strategic markets to expand our integrated modules and speed up the upgrading of overall capabilities of solutions. We will continue to promote the construction of the Wuhan 6th generation of AMOLED and strive to complete the reorganisation of material assets and related financing.

(2) PCB

The PCB business of the Remaining Group will focus on the theme of "grab the market, enhance the technology and optimise the operation" as strategies to continue the expansion of shares in core markets, such as telecommunication and medical industry control. We will accelerate to enter into new markets of automotive electronics and optical connection. The Remaining Group will maintain the strategy of large customers, deepen the strategic cooperation with international leading customers and vigorously develop the new strategic customers with high growth capabilities. We will keep close to the market hotspots and customers' demands and accelerate the promotion of new products and new project development. We will maintain our technological leading path, integrate our core technological capabilities and create an integrated cross-sector modules and products. We will continue to promote the construction of professional product lines, upgrade our product technological capabilities and will orderly promote the smart production. In 2017, SCC will promote the project of Nantong infrastructure construction orderly and accelerate the progress IPO in Shenzhen Stock Exchange of the PRC.

Retails and Consumer Products

The retails and consumer products business of the Remaining Group will maintain a business model of "Products + Channels" to speed up the output growth of single stores and structure optimisation of products and channels, so as to further increase our domestic market share and promote our internationalisation development orderly. We will deeply promote the innovation establishment of commercial models, speed up the business development of e-commerce and technological services. We will reinforce the synergies between channels and brand, as well as supporting platform and first-tier websites and strengthen the building of synergies.

Real Estate

(1) Real Estate Development

It is expected that the real estate industry will experience greater destocking pressure in 2017. The real estate business of the Remaining Group will put a large effort on promotion of destocking in real estate in China and overseas and sales payment return, while striving to launch the business reorganisation of real estate development.

(2) Engineering Contracting

It is expected that the Remaining Group will grasp the market opportunities in the key regions under the "Belt and Road" and African region and speed up the project expansion and execution of international engineering construction projects, in particular the aviation infrastructure projects, in 2017. We will integrate the social resources, speed up the improvement of professional abilities in design consultation of aviation infrastructure, facility construction and operation and maintenance. We will reinforce the project execution and control, promote precise management and cost and risk control, ensure the delivery on schedule and accelerate the expansion of space for profit making.

Trading and Logistics

The trading and logistics business will focus on the core markets and key businesses, leverage our channeling advantages and business experience to speed up our development of professionalism.

The mechatronics engineering business of the Remaining Group will focus on the core industries and core regions, deeply promote the individual market researches, and speed up the project expansion and execution, as well as the upgrading of professionalism. We will further explore the optimised mode of business development, accelerate the business transformation and put full effort to boost our operating results.

CAPITAL STRUCTURE

	2016 *(RMB'000)* (Restated)
Total borrowings	22,529,943
Total liabilities	44,194,011
Non-controlling interests	21,795,613
Equity attributable to owners of the Company	12,449,600
Total assets	78,439,223
Borrowings to equity ratio*	65.79%
Liabilities to equity ratio*	129.05%

* Borrowings to equity ratio = Total borrowings at the end of the year/Total equity of the Company at the end of the year

* Liabilities to equity ratio = Total liabilities at the end of the year/Total equity of the Company at the end of the year

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2016, the cash and cash equivalents of the Remaining Group amounted to approximately RMB9,048,769,000 (Restated), which were mainly derived from the following sources:

- Cash and bank deposits at the beginning of the year;
- Bank loans, borrowings from related parties; and
- Revenue from operations.

As at 31 December 2016, the total borrowings of the Remaining Group amounted to approximately RMB22,529,943,000 (Restated) with annual interest rate ranging from 0% to 6.44% (2015: 0% to 10%), of which the current borrowings amounted to approximately RMB10,102,552,000 (Restated) and the non-current borrowings amounted to RMB12,427,391,000 (Restated).

During the year ended 31 December 2016, the capital expenditure of the Remaining Group amounted to approximately RMB3,973,426,000, the details of which are set forth below:

Company Name	Project Name	2016 Amount *(RMB'000)*
Tianma	6th generation line investment project of Wuhan Tian Ma Microelectronics Co., Ltd. (武漢天馬微電子有限公司), Shanghai Tianma 4.5th generation line of technology modification project, 5th generation line of technology modification project of Shanghai AVIC Opto-electronics Limited (上海中航光電子有限公司) and NLT production line of technology modification project, etc.	3,033,750
SCC	No.8 Building investment, project of research and development and technological transformation and the project of Wuxi Shennan Base	390,587
Aero Fasteners MFG	Phase I construction project and Phase II plant project of AFM Company	189,508
Fiyta	Timepiece industrial base in Guang Ming New District	125,695
Beijing Company	Yizhuang Aviation City Project	81,642
Guangzhou Company	Purchase of fixed assets of bitumen base	69,760
Xiamen Company	Project on office building of Xiamen Zijin AVIC Real Estate Company Limited	58,326
Engineering Company	Hotel company project of AVIC International in Sri Lanka and acquisition of equity interest in Kenya Rivers	6,742
RED Company	New energy and energy-saving projects in various places	17,416
	Total	3,973,426

LIQUIDITY AND CAPITAL RESOURCES

It is expected that the capital expenditure of the Remaining Group for the year ending 31 December 2017 amounted to RMB7,685,972,000, details of which are set forth as follows:

Company Name	Project Name	2017 Amount *(RMB'000)*
Tianma	6th generation line investment project of Wuhan Tian Ma, technology modification project of generation line and purchase project of fixed assets	6,887,670
SCC	Research and development project, technology modification project and project of Nantong infrastructure construction and Wuxi Shennan infrastructure construction	578,452
Aero Fasteners MFG	Phase I construction project and Phase II plant project, and purchase of fixed assets	87,150
Fiyta	Timepiece industrial base in Guang Ming New District	30,000
Beijing Company	Installation of cement equipment, project of Humboldt China Design Institute, expansion of East-African Operation Center and investment projects in Cuba and Gambia	30,000
Guangzhou Company	Construction and maintenance of bitumen storage project	72,700
	Total	7,685,972

PLEDGED ASSETS

As at 31 December 2016, the pledged assets of the Remaining Group amounted to approximately RMB1,343,014,000, details of which are set forth below:

	2016	2015
	RMB'000	*RMB'000*
Buildings	942,810	563,446
Investment properties	–	932,440
Construction-in-progress	–	879,240
Land use rights	200,327	521,660
Trade and other receivables	199,877	–
	1,343,014	2,896,786

DEBT RATIO

The Remaining Group's borrowings to shareholders' equity ratio (the ratio of total borrowings to shareholders' equity) were 65.79%, whilst the liabilities to shareholders' equity ratio (the ratio of total liabilities to shareholders' equity) were 129.05% for the Year.

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSIT

During the year ended 31 December 2016, the Company did not have entrusted deposit and overdue term deposit in any form.

EMPLOYEES AND REMUNERATION

As at 31 December 2016, the Remaining Group had approximately 38,406 employees (2015: 40,480) with employee-related costs of approximately RMB4,031,585,000 (2015: RMB3,865,196,000). The Remaining Group formulated its competitive remuneration policy based on market condition and individual employee's performance.

FOREIGN EXCHANGE RISK

The Remaining Group may be subject to fluctuations of foreign exchange rates, but it has no material foreign exchange risk as the Remaining Group's products are mainly distributed in domestic market and its export business is mainly settled in US dollar, Euro or HK dollar.

FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2016, the Remaining Group had the following financial guarantees outstanding:

Guarantor	Guarantor's relationship with the Remaining Group	Guarantee	Guarantee's relationship with the Remaining Group	Outstanding amounts guaranteed *RMB'000*
Beijing Company	Subsidiary of the Remaining Group	Taizhou AVIC Shipbuilding Heavy Industry Limited* (泰州中航船舶重工有限公司)	Third Party	347,040
Beijing Company	Subsidiary of the Remaining Group	Zhengli Ocean Engineering Company Limited* (正力海洋工程有限公司)	Third party	11,710
TED Company	Subsidiary of the Remaining Group	AVIC Wangxin Company Limited* (中航網信(北京)科技有限公司)	Associate	25,000
Engineering Company	Subsidiary of the Remaining Group	AVIC Construction Engineering Company Limited* (中航建築工程有限公司)	Associate	127,400
The Company	Holding Company	Shenzhen AVIC Resources Co., Ltd. * (深圳中航資源有限公司)	Fellow subsidiaries	714,000
The Company	Holding Company	Qinghai AVIC Resources Co., Ltd. * (青海中航資源有限公司)	Fellow subsidiaries	475,470
The Company	Holding Company	Kunming AVIC Phosphorus Chemical Co., Ltd. * (昆明市中航磷化工有限公司)	Fellow subsidiaries	34,000
The Company	Holding Company	Yunnan Hongfu Fertilizer Co., Ltd. * (雲南紅富化肥有限公司)	Fellow subsidiaries	6,430
The Company	Holding Company	Qinghai AVIC Silicon Material Co., Ltd* (青海中航矽材料有限公司)	Fellow subsidiaries	23,344
				1,764,394

* The English names of these companies are management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

MATERIAL ACQUISITIONS AND DISPOSALS

1. Discloseable Transaction – Provision of Guarantee

On 8 March 2016, Shanghai Tianma Microelectronics Co., Ltd. (上海天馬微電子有限公司) ("**Shanghai Tianma**") (an indirect non-wholly owned subsidiary of the Company) entered into the guarantee agreement with Agricultural Bank of China Limited Shanghai Chuansha Sub-branch (中國農業銀行股份有限公司上海川沙支行) (the "**Bank**"), pursuant to which Shanghai Tianma guaranteed to pay an aggregate amount of not exceeding RMB40,000,000 in respect of the debt with an aggregate amount of not exceeding RMB100,000,000 applied to the Bank by Shanghai Tianma Organic Light-Emitting Technology Company Limited (上海天馬有機發光顯示技術有限公司) ("**Tianma Technology Company**") (the "**Debt**") in accordance with proportion of Shanghai Tianma's shareholding in Tianma Technology Company for settling the guaranteed liabilities. The term shall be two years commencing from the expiry date of the Debt (the "**Provision of Guarantee**").

Tianma Technology Company is owned as to 40%, 20% and 40% by Shanghai Tianma, Shanghai Zhang Jiang (Group) Co., Ltd. (上海張江(集團)有限公司) and Shanghai Industrial Investment (Group) Co., Ltd. (上海工業投資(集團)有限公司) respectively. As the applicable percentage ratios under the Listing Rules in relation to the Provision of Guarantee, when aggregated with the guarantee provided by Shanghai Tianma in favour of a bank on 19 March 2015 in relation to the debt of Tianma Technology Company (details of which are set out in the announcement of the Company dated 19 March 2015), are more than 5% but less than 25%, the transactions contemplated under the Provision of Guarantee constitute a discloseable transaction of the Company. For details, please refer to the announcement of the Company dated 8 March 2016.

2. Proposed spin-off and separate listing of Shennan Circuits Co., Ltd ("Shennan Circuits") on the Shenzhen Stock Exchange of the PRC (the "Shenzhen Stock Exchange") and possible major disposal for the Company

On 13 May 2016, the Board issued an announcement in relation to possible spin-off and separate listing of Shennan Circuits, a subsidiary of the Company which is mainly engaged in the PCB business, on the Shenzhen Stock Exchange (the "**Proposed Spin-off**"). It is proposed that Shennan Circuits will offer not more than 70,000,000 shares (the "**Offer Shares**"), including new shares to be issued by Shennan Circuits and up to 35,000,000 existing shares to be sold by the Company. The indicative offer price of the A shares of Shennan Circuits is expected to be RMB32.86 per A share and the expected maximum proceeds raised from the proposed A share listing of Shenan Circuits will be RMB2,300,000,000. The offer price per A share of Shennan Circuits will depend on the domestic market condition of China at the time of the proposed A share listing with reference to the quotation from target subscribers or determined otherwise as agreed between Shennan Circuits and the lead underwriter. The Board expected that the Company will have an interest of not less than 50% in Shennan Circuits upon the completion of the Proposed Spin-off and proposed A share listing, Shennan Circuits will thus remain as a non-wholly owned subsidiary of the Company. The Proposed Spin-off was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 26 July 2016. Please refer to the announcements of the Company issued on 10 April 2015 and 13 May 2016, the poll results announcement of the extraordinary general meeting of the Company dated 26 July 2016 and the circular despatched by the Company dated 21 June 2016, respectively, for more details.

3. Discloseable Transaction – Construction Framework Agreements

On 7 September 2016, Wuhan Tian Ma Microelectronics Co., Ltd. (武漢天馬微電子有限公司) ("**Wuhan Tianma**") and China Twentieth Metallurgical Group Corporation Limited (中國二十冶集團有限公司) ("**China Twentieth Metallurgical Group**") entered into the construction framework agreement (the "**Twentieth Metallurgical Group Construction Framework Agreement**"), pursuant to which the parties agreed to collaborate in relation to the Twentieth Metallurgical Group Project according to the terms set out therein. The term of the Twentieth Metallurgical Group Cooperation commenced from the date of the Twentieth Metallurgical Group Construction Framework Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding RMB250,000,000.

On 7 September 2016, Wuhan Tianma and Shanghai Baoye Group Company Limited (上海寶冶集團有限公司) ("**Shanghai Baoye Group**") entered into the construction framework agreement (the "**Shanghai Baoye Construction Framework Agreement**"), pursuant to which the parties agreed to collaborate in relation to the Shanghai Baoye Project according to the terms set out therein. The term of the Shanghai Baoye Cooperation commenced from the date of the Shanghai Baoye Construction Framework Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding RMB1,000,000,000.

For details, please refer to the announcement of the Company issued on 7 September 2016.

4. Discloseable Transaction – Construction Framework Agreements

On 3 November 2016, Wuhan Tianma and Jiangsu Provincial Construction Group Co., Ltd. (江蘇省建築工程集團有限公司) ("**Jiangsu Construction**") entered into the construction framework agreement (the "**Jiangsu Construction Framework Agreement**"), pursuant to which the parties agreed to collaborate in relation to the construction works of the general contracting of the construction of the support buildings of G6 Project (the "**Jiangsu Construction Project**") according to the terms set out therein. The term of the Jiangsu Construction cooperation commenced from the date of the Jiangsu Construction Framework Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding RMB500,000,000.

On 3 November 2016, Wuhan Tianma and The Fourth Construction Co., Ltd. of China Electronics System Engineering (中國電子系統工程第四建設有限公司) ("**CEFOC**") entered into the construction framework agreement (the "**CEFOC Construction Framework Agreement**"), pursuant to which the parties agreed to collaborate in relation to the construction works of the pipeline system and the construction works of the cleaning room of the M1 plant of the G6 Project (the "**CEFOC Project**") according to the terms set out therein. The term of the CEFOC cooperation commenced from the date of the CEFOC Framework Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding RMB500,000,000.

5. Discloseable Transaction – Master Cooperation Agreements and Acknowledgment of Cooperation

On 17 November 2016, Wuhan Tianma and Canon Inc. entered into master cooperation agreement (the "**Canon Inc. Master Cooperation Agreement**"), pursuant to which the parties agreed to collaborate in relation to the construction project of the Sixth Generation of LTPS AMOLED production line (the "**G6 Project**") according to the terms set out therein. The term of the Canon Inc. Master Cooperation Agreement commenced from the date of the Canon Inc. Master Cooperation Agreement to 31 December 2016 with the aggregate amount of consideration not exceeding JPY9,000,000,000 (equivalent to approximately RMB586,261,000).

On 17 November 2016, Wuhan Tianma and Applied Materials South East Asia Pte. Ltd. ("**AMSEA**") entered into the acknowledgment of cooperation (the "**AMSEA Acknowledgement of Cooperation**"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The effective term of year of the AMSEA Acknowledgement of Cooperation is 2016 with the aggregate amount of consideration not exceeding USD90,000,000 (equivalent to approximately RMB611,325,000).

On 17 November 2016, Wuhan Tianma, Daifuku Co., Ltd and Daifuku (Suzhou) Cleanroom Automation Co., Ltd. (大福自動搬送設備(蘇州)有限公司) ("**Daifuku (Suzhou)**") entered into the master cooperation agreement (the "**Daifuku Master Cooperation Agreement**"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the Daifuku Master Cooperation Agreement commenced from the date of the Daifuku Master Cooperation Agreement to 31 December 2016 with the aggregate amount of consideration with Daifuku Co., Ltd not exceeding JPY3,700,000,000 (equivalent to approximately RMB241,014,300) and the aggregate amount of consideration with Daifuku (Suzhou) not exceeding RMB200,000,000.

On 17 November 2016, Wuhan Tianma and Marubeni Corporation (丸紅株式會社) entered into the master cooperation agreement (the "**Marubeni Master Cooperation Agreement**"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the Marubeni Master Cooperation Agreement commenced from the date of the Marubeni Master Cooperation Agreement to 30 June 2017 with the aggregate amount of consideration not exceeding JPY10,000,000,000 (equivalent to approximately RMB651,390,000).

On 17 November 2016, Wuhan Tianma and Tokyo Electron Limited entered into the master cooperation agreement (the "**Tokyo Electron Master Cooperation Agreement**"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the Tokyo Electron Master Cooperation Agreement commenced from the date of the Tokyo Electron Master Cooperation Agreement to 31 December 2016 with the aggregate amount of consideration not exceeding JPY5,000,000,000 (equivalent to approximately RMB325,695,000).

On 17 November 2016, Wuhan Tianma and Tera Semicon Corporation entered into the master cooperation agreement (the "**Tera Semicon Master Cooperation Agreement**"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the Tera Semicon Master Cooperation Agreement commences from the date of the Tera Semicon Master Cooperation Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding USD70,000,000 (equivalent to approximately RMB475,475,000).

On 17 November 2016, Wuhan Tianma and SCREEN Finetech Solutions Co., Ltd. ("**SFS**") entered into the master cooperation agreement (the "**SFS Master Cooperation Agreement**"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the SFS Master Cooperation Agreement commenced from the date of the SFS Master Cooperation Agreement to 31 December 2016 with the aggregate amount of consideration not exceeding JPY7,000,000,000 (equivalent to approximately RMB455,973,000).

On 17 November 2016, Wuhan Tianma and Nissin Ion Equipment Co., Ltd. ("**NIE**") entered into the master cooperation agreement (the "**NIE Master Cooperation Agreement**"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the NIE Master Cooperation Agreement commenced from the date of the NIE Master Cooperation Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding JPY8,500,000,000 (equivalent to approximately RMB553,681,500).

On 17 November 2016, Wuhan Tianma and Advanced Process Systems Corporation ("**APSC**") entered into the master cooperation agreement (the "**APSC Master Cooperation Agreement**"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the APSC Master Cooperation Agreement commenced from the date of the APSC Master Cooperation Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding USD100,000,000 (equivalent to approximately RMB679,250,000).

For details, please refer to the announcement of the Company issued on 17 November 2016.

6. Discloseable Transaction – Construction Framework Agreement

On 24 November 2016, Wuhan Tianma and Yaxiang System Jicheng Technology (Suzhou) Holdings Limited (亞翔系統集成科技(蘇州)股份有限公司) ("**Yaxiang System**") entered into the construction framework agreement (the "**Construction Framework Agreement**"), pursuant to which the parties agreed to collaborate in relation to the construction and installation works of clean rooms, CDA system, vacuum system and general electricity of G6 Project (the "**Construction Project**") according to the terms set out therein. The term of the cooperation between Wuhan Tianma and Yaxiang System in relation to the Construction Project under the Construction Framework Agreement commenced from the date of the Construction Framework Agreement to 31 December 2017 with the aggregate amount of consideration not exceeding RMB400,000,000.

For details, please refer to the announcement of the Company issued on 24 November 2016.

7. Discloseable Transaction – Master Cooperation Agreement

On 7 December 2016, Wuhan Tianma and ULVAC, Inc entered into the master cooperation agreement ("**ULVAC Master Cooperation Agreement**"), pursuant to which the parties agreed to collaborate in relation to the G6 Project according to the terms set out therein. The term of the ULVAC Master Cooperation Agreement commenced from the date of the ULVAC Master Cooperation Agreement to 30 June 2017 with the aggregate amount of consideration not exceeding JPY17,200,000,000 (equivalent to approximately RMB1,032,000,000).

For details, please refer to the announcement of the Company issued on 7 December 2016.

8. Discloseable Transaction – Disposal of 75% Equity Interest in Guangdong Hangyue

On 27 October 2016, the Company intended to dispose of its 75% equity interest in Guangdong Hangyue Industrial Co., Ltd. (廣東航粵實業有限公司) ("**Guangdong Hangyue**") through a public tender process. On 2 December 2016, the board of the Company agreed the upset price for disposal of the 75% equity interest in Guangdong Hangyue through the Public Tender to be conducted on the China Beijing Equity Exchange shall be RMB600 million.

On 31 December 2016, the Company entered into the equity transaction agreement (the "**Equity Transaction Agreement**") with Pearl River Life Insurance Limited Company (珠江人壽保險股份有限公司) in respect of disposal of 75% equity interest in Guangdong Hangyue for a consideration of RMB600,000,000.

As one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Equity Transaction Agreement and the transactions contemplated thereunder is/are more than 5% but all of them are less than 25%, the Equity Transaction Agreement and the transactions contemplated thereunder constitute a discloseable transactions for the Company. For details, please refer to the announcements of the Company issued on 27 October 2016, 2 December 2016 and 31 December 2016, respectively.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors having made all reasonable enquiries confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

DISCLOSURE OF INTEREST

Directors, supervisors and chief executives

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, none of the Directors or supervisors or chief executives of the Company was interested in any share, underlying share or debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any Director or supervisor or chief executive of the Company were taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register maintained by the Company under section 352 of the SFO or which was required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors or the chief executive of the Company, the following are the details of the persons (other than the Directors, supervisors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long position in the Shares:

Name of Shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total issued share capital
Domestic Shares				
Aviation Industry Corporation of China, Ltd ("**Aviation Industry Group**")	Interest of controlled corporations	1,634,608,792 Domestic Shares *(Note 1)*	196.24%	140.17%

Name of Shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total issued share capital
AVIC International Holding Corporation ("**AVIC International**")	Interest of controlled corporation	1,634,608,792 Domestic Shares *(Note 1)*	196.24%	140.17%
AVIC International Shenzhen Company Limited ("**AVIC Shenzhen**")	Beneficial owner	429,774,574 Domestic Shares *(Note 1)*	51.60%	36.85%
H shares				
CK Hutchison Holdings Limited	Interest of controlled corporations	31,680,000 H shares *(Note 2)*	9.50%	2.71%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	31,680,000 H shares *(Note 2)*	9.50%	2.71%
Cheung Kong Investment Company Limited	Interest of controlled corporation	11,950,000 H shares *(Note 2)*	3.58%	1.02%
Empire Grand Limited	Beneficial owner	11,950,000 H shares *(Note 2)*	3.58%	1.02%
Hutchison Whampoa Limited	Interest of controlled corporation	19,730,000 H shares *(Note 2)*	5.92%	1.69%
Hutchison International Limited	Beneficial owner	19,730,000 H shares *(Note 2)*	5.92%	1.69%

Notes:

1. Aviation Industry Group owns 91.14% of the equity interest in AVIC International which in turn owns 100% equity interest in AVIC Shenzhen. Hence, Aviation Industry Group is deemed, or taken to be, interested in all the Shares in which AVIC International and AVIC Shenzhen are interested in, respectively. AVIC International owns 100% of the equity interest in AVIC Shenzhen. Hence, AVIC International is deemed, or taken to be, interested in all the Shares in which AVIC Shenzhen is interested. As at the Latest Practicable Date:

   (1) AVIC International held: (A) 437,264,906 domestic shares, representing approximately 37.50% of the issued share capital of the Company; and (B) perpetual subordinated convertible securities in the outstanding amount of RMB2,663,465,514 which may be converted into 767,569,312 domestic shares at the initial conversion price of RMB3.47 (subject to the adjustment pursuant to the terms of perpetual subordinated convertible securities).

(2) AVIC Shenzhen held: (A) 395,709,091 domestic shares, representing approximately 33.93% of the issued share capital of the Company; and (B) perpetual subordinated convertible securities in the outstanding amount of RMB118,207,225 which may be converted into 34,065,483 domestic shares at the initial conversion price of RMB3.47 (subject to the adjustment pursuant to the terms of perpetual subordinated convertible securities).

2. Empire Grand Limited ("**Empire Grand**") holds 11,950,000 H shares and Empire Grand is a wholly-owned subsidiary of Cheung Kong Investment Company Limited, which in turn is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited ("**CKH**"). Accordingly, CKH was deemed to be interested in the 11,950,000 H shares held by Empire Grand. Hutchison International Limited ("**HIL**") holds 19,730,000 H shares and HIL is a wholly-owned subsidiary of Hutchison Whampoa Limited. Hutchison Whampoa Limited was deemed to be interested in the 19,730,000 H shares held by HIL. CKH is entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of Hutchison Whampoa Limited. Accordingly, CKH was deemed to be interested in the 19,730,000 H shares held by HIL. In addition, CKH is a wholly-owned subsidiary of CK Hutchison Holdings Limited. Accordingly, CK Hutchison Holdings Limited ("**CK Hutchison**") was deemed to be interested in the 31,680,000 H shares in total held by Empire Grand and HIL.

Long position in shares of members of the Group:

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Kabao Commerce and Trade Co., Ltd* (卡寶商貿有限公司)	Beijing Kaibao Cleaning Equipment Co., Ltd* (北京凱堡清潔設備有限公司) (a subsidiary of the AVIC International Beijing Company Limited (中國航空技術北京有限公司) ("**Beijing Company**"))	25%
Aviation Industry Corporation of China Chengdu Aircraft Design Institute* (中國航空工業集團公司成都飛機設計研究所)	Chengdu AVIC Raise Real Estate Company Limited* (成都中航瑞賽置業有限公司) ("**Chengdu Raise**")	30%
Chengdu Cheng Fei Enterprise Management Co., Ltd.* (成都成飛企業管理有限公司)	Cheungdu Raise	10%
Jiliang Group Qin Zhou Port Grain and Oil Transportation & Sale Co., Ltd.* (吉糧集團欽州港糧油運銷有限公司)	Guang Xi AVIC Lu Tong Bitumen Co., Ltd.* (廣西中航路通瀝青有限公司) (a subsidiary of AVIC Lu Tong Industrial Co., Ltd.* ("**AVIC Lu Tong**") (中航路通實業有限公司))	44%
Zhang Zhihua (張志華)	Guang Xi AVIC Lu Tong Bitumen Co., Ltd (廣西中航路通瀝青有限公司) (a subsidiary of AVIC Lu Tong)	5%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Guizhou Transportation Logistics Group Co., Ltd* (貴州省交通物流集團有限公司)	Guizhou Qian He Logistics Co., Ltd.* (貴州黔和物流有限公司) (a subsidiary of AVIC Lu Tong)	45%
Hu Nan Hong Yi Building Materials Commerce and Trading Co., Ltd.* (湖南省弘易建材商貿有限公司)	Hu Nan AVIC Lu Tong Bitumen Co., Ltd.* (湖南中航路通瀝青有限公司) (a subsidiary of AVIC Lu Tong)	15%
Zhang Zhonghua (張仲華)	Beijing AVIC Lu Tong Bituminous Materials Co., Ltd.* (北京中航路通瀝青材料有限公司) (a subsidiary of AVIC Lu Tong)	30%
Liang Rong (梁嶸)	Beijing AVIC Lu Tong Bituminous Materials Co., Ltd.* (北京中航路通瀝青材料有限公司) (a subsidiary of AVIC Lu Tong)	19%
Sun Dawei (孫大為)	Station 68 Limited* (68站有限公司) (an indirect subsidiary of FIYTA (Group) Co., Ltd. ("**FIYTA**"))	20%
Chen Zhaozhong (陳昭仲)	Station 68 Limited* (68站有限公司) (an indirect subsidiary of FIYTA)	20%
Jiangsu Zhenjiang Shipyard (Group) Co., Ltd.* (江蘇省鎮江船廠(集團)有限公司)	AVIC Zhenjiang Shipyard Marine Pte Ltd (a subsidiary of AVIC International Maritime Holdings Limited)	40%
MOS Glaretec GmbH	Glaretec Gmbh (an indirect subsidiary of Shennan Circuit Co., Ltd* (深南電路股份有限公司))	48%
Laos Jeddah Group Co., Ltd.* (老撾吉達蓬集團有限公司)	AVIC International Investment (Laos) Limited* (中航國際投資(老撾)有限公司) (a subsidiary of China National Aero-Technology International Engineering Co., Ltd* (中國航空技術國際工程有限公司))	40%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
AVIC Trust Co., Ltd.* (中航信託股份有限公司)	Guangdong International Building Industry Co., Ltd* (廣東國際大廈實業有限公司)	25%
Fuzhou Kaizelin Economic and Trade Co., Ltd* (福州凱澤林經貿有限公司)	AVIC (Xiamen) Medical Technology Co., Ltd* (中航(廈門)醫療科技有限公司) (a subsidiary of Xiamen Company)	49%
Inner Mongolia Mountain Road Energy Group Co., Ltd* (內蒙古山路能源集團有限責任公司)	AVIC Photosyn (Shanghai) Renewable Energy Co., LTD* (中航光合(上海)新能源有限公司) (a subsidiary of AVIC International Renewable Energy Development Co., Ltd (中航國際新能源發展有限公司))	49%
Jin Si Fang Investment (Beijing) Co., Ltd.* (金四方投資(北京)有限公司)	Zhong He Zhong (Beijing) Guang Dian Technology Co., Ltd.* (中和中(北京)光電科技有限公司) (an indirect subsidiary of the Company)	17.4%
Shijiazhuang Fangqiu Trade Co., Ltd.* (石家莊方遒貿易有限公司)	Zhong He Zhong (Beijing) Guang Dian Technology Co., Ltd.* (中和中(北京)光電科技有限公司) (an indirect subsidiary of the Company)	22.6%

* *For identification purpose only*

Save as disclosed above and so far as was known to the Directors, as at the Latest Practicable Date, no other person (other than the Directors, the supervisors or chief executives of the Company) had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Interests in the Group's assets or contracts or arrangements significant to the Group

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest in any asset which have been, since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the businesses of the Group.

Service Contracts

As at the Latest Practicable Date, there was no existing or proposed service contract, excluding contract expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation) between any of the Directors or supervisors of the Company and any member of the Group.

Competing Interests

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's businesses) which competes or is likely to compete either directly or indirectly with the Group's businesses (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling shareholder).

Material Adverse Changes

The Directors confirm that there was no material adverse changes in the financial or trading position of the Group since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up).

Litigation

On 13 June 2014, Tang Energy Group Limited (the "**Tang Energy**"), Soaring Wind Energy LLC. ("**Soaring Wind**") and its other group members (collectively, the "**Claimants**") filed an arbitration claim with the American Arbitration Association against CATIC USA Inc ("**CATIC USA**"), the controlling shareholders of the Company and subsidiaries of the Company (including, among others, Aviation Industry Group, AVIC International and AVIC International Renewable Energy Development Co., Ltd ("**RED Company**") (collectively, the "**Respondents**") in respect of a dispute (the "**Dispute**") arising out of a joint venture agreement (the "**Arbitration Claim**"). The Arbitration Claim is the claim brought by the Claimants against the Respondents in respect of a dispute arising out of a joint venture agreement (the "**JV Agreement**") entered into between Tang Energy and CATIC USA in 2008 whereby the Claimants treated CATIC USA as the agent of Aviation Industry Group in the USA, and all involved Aviation Industry Group and their subsidiaries are deemed as a "single group", all of which shall be bound by the exclusivity provisions under the JV Agreement. Therefore, the Claimants seek damages totalling US$2.25 billion from the Respondents for the alleged breach of the JV Agreement. After the Respondents receiving final decision on the Arbitration Claim issued by the International Centre for Dispute Resolution of International Arbitration Tribunal in December 2015 (the "**Decision**"), pursuant to which the Respondents were jointly and severally liable to pay to the Claimants damages and fees (including but not limited to compensation, attorneys' fees and expenses) in relation to the Dispute in the total amount (the "**Amount**") of approximately US$71,000,000, the Group had engaged a law firm to assist in the Arbitration Claim and has taken further legal action against the Decision. In March 2016, the Group had filed an application to the competent court to oppose the enforcement of the Decision and request the revocation of the Decision (the "**Opposition Application**"). On 15 August 2018, the Respondents received the orders issued by the United States District Court Northern District of Texas Dallas Division. It was ordered that the aforesaid Decision against AVIC USA shall be effective, and the requests made by the Claimants' against other Respondents shall be determined by the court in a separate action. The Company will made further announcement if there is further development. For details, please refer to the Company's announcements published on 29 April 2015, 22 December 2015, and 15 August 2018.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any litigation or claim of material importance pending or threatened against any member of the Group.

Experts' Qualifications and Consent

The following are the qualifications of the experts (the "**Experts**") who have been named in this circular or have given opinion or advice which are contained in this circular:

Name	Qualification
Deloitte Touche Tohmatsu	certified public accountants
PricewaterhouseCoopers	certified public accountants

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report and the references to its name in the form and context in which it appears.

As at the Latest Practicable Date, none of the Experts was beneficially interested in any direct or indirect shareholdings in any member of the Group, nor any right to subscribe for or to nominate persons to subscribe for shares in any members of the Group, nor any interests, directly or indirectly, in any assets which have been acquired or disposed of by or leased to or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, the date to which the latest published audited financial statements of the Group was made up.

Material contracts

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular which is or may be material:

(1) the master cooperation agreement dated 10 September 2019 entered into among Wuhan Tian Ma Microelectronics Co., Ltd. (武漢天馬微電子有限公司) ("**Wuhan Tian Ma**"), SFA Engineering Corp. and SFA Engineering (Shenzhen) Co., Ltd. (三發機電(深圳)有限公司) in relation to the purchase of production equipment necessary for the G6 Project Phase 2 by Wuhan Tian Ma at the consideration not exceeding RMB710,890,000;

(2) the Implementation Agreement;

(3) the underwriting agreement dated 9 July 2019 entered into between Shennan Circuits Co., Ltd. (深南電路股份有限公司) ("**SCC**") and AVIC Securities Co., Ltd. (中航證券有限公司) ("**AVIC Securities**"), pursuant to which SCC agreed to engage AVIC Securities as the lead underwriter in its proposed issuance of its A share convertible bonds in the maximum amount of RMB1,520,000,000 at the sponsorship and underwriting services fees in the total amount of RMB7,000,000;

(4) the master cooperation agreement dated 2 July 2019 entered into between Wuhan Tian Ma and Applied Materials South East Asia Pte. Ltd. in relation to the purchase of production equipment necessary for the construction project of the Sixth Generation of LTPS AMOLED production line project phase 2 by Wuhan Tian Ma at the consideration not exceeding US$80,000,000 (equivalent to approximately RMB548,000,000);

(5) the Weihai Shipyard equity transaction agreement dated 26 April 2019 entered into between the Company and China Merchants Offshore Engineering Investment (Shen Zhen) Co., Ltd.* (深圳市招商局海工投資有限公司) ("**CMOEI**") in relation to the disposal of 69.77% equity interest in AVIC Weihai Shipyard Company Limited* (中航威海船廠有限公司) and the shareholder's loan by the Company to CMOEI at the consideration of not exceeding RMB620,000,000;

(6) the AVIC Sunda equity transfer agreement dated 26 April 2019 entered into between the Company and China Merchants Shekou Industrial Zone Holdings Co., Ltd.* (招商局蛇口工業區控股股份有限公司) ("**CMSK**") in relation to the disposal of 149,087,820 A shares in AVIC Sunda Holding Company Limited (中航善達股份有限公司) by the Company to CMSK at the consideration of RMB1,289,609,643;

(7) the equity transaction agreement dated 10 April 2019 entered into among Chengdu AVIC Raise Real Estate Company Limited (成都中航瑞賽置業有限公司) ("**Chengdu Raise**") and Beijing Raise Science Company Limited (北京瑞賽科技有限公司) ("**Beijing Raise**") as vendors and Chengdu Pidu Hong Jing Real Estate Company Limited (成都郫都泓璟置業有限公司) ("**Chengdu Pidu Hong Jing**") as purchaser, pursuant to which Chengdu Raise and Beijing Raise agreed to transfer 20% and 80% equity interest and their respective creditor's rights in Chengdu Jujin Trading Co., Ltd. (成都聚錦商貿有限公司) to Chengdu Pidu Hong Jing at an aggregate consideration of RMB2,213,869,547;

(8) the payment guarantee agreement dated 10 April 2019 entered into among Chengdu Raise and Beijing Raise as creditors, Chengdu Pidu Hong Jing as debtor and Sichuan Languang Development Company Limited (四川藍光發展股份有限公司) as guarantor, pursuant to which the guarantor provided a payment guarantee of RMB1,182,869,547 in respect of the consideration payable by Chengdu Pidu Hong Jing to Chengdu Raise and Beijing Raise;

(9) the capital increase agreement dated 17 November 2018 entered into among the Company, Aviation Industry Corporation of China, Ltd. (中國航空工業集團有限公司) ("**Aviation Industry Group**"), Shaanxi Aviation Industry Development Group Co., Ltd. (陝西航空產業發展集團有限公司 ("**Shaanxi Aviation Industry Development**"), Xi'an Industrial Investment Group Co., Ltd. (西安工業投資集團有限公司) ("**Xi'an Industrial Investment**"), AVIC Aircraft Corporation (中航飛機股份有限公司) ("**AVIC Aircraft**"), Xi'an Aircraft Industry (Group) Co., Ltd. (西安飛機工業(集團)有限責任公司) ("**Xi'an Aircraft Industry**"), AVIC Airborne Systems Co., Ltd. (中航機載系統有限公司), AVIC International Aviation Development Co., Ltd. (中航國際航空發展有限公司) and AVIC Aviation Electronics Systems Co., Ltd. (中航航空電子系統有限責任公司), pursuant to which Aviation Industry Group, Shaanxi Aviation Industry Development, Xi'an Industrial Investment, AVIC Aircraft and Xi'an Aircraft Industry agreed to make capital contributions in the total sum of approximately RMB6.723 billion to AVIC Xifei Civil Aircraft Co., Ltd. (中航西飛民用飛機有限責任公司) ("**AVIC Xifei**"); and the Company decided not to exercise the right of first refusal in relation to the said capital increase and its shareholding in AVIC Xifei was diluted from 7.895% to 1.7655%;

(10) the equity transfer agreement dated 24 October 2018 entered into between the Company as vendor and AVIC International as purchaser, pursuant to which the Company agreed to sell and AVIC International agreed to purchase 60% equity interest in AVIC International Simulation Technology Service Co., Ltd. (中航國際模擬科技服務有限公司) at the consideration of RMB31,611,120;

(11) the 2018 financial services agreement dated 26 September 2018 entered into between the Company and AVIC Finance Co., Ltd. ("**AVIC Finance**"), pursuant to which AVIC Finance agreed to provide to the Group a range of financial services as the Company may request from time to time for a term commencing from the effective date of the agreement to 31 December 2021 at the annual cap of RMB4,000,000,000 for the deposit services to be provided AVIC Finance and US$26,000,000 for the foreign exchange services to be provided AVIC Finance for each of the financial year during the term of the 2018 financial services agreement;

(12) the supplemental agreement dated 10 September 2018 entered into among Tian Ma Micro-electronics Company Limited ("**Tian Ma**"), AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai Industrial Development Company Limited (廈門金財產業發展有限公司) ("**Xiamen Jincai**"), pursuant to which that the term in the framework agreement entered into among Tian Ma, AVIC International, AVIC Shenzhen, Xiamen Company and Xiamen Jincai on 10 March 2017 that the "placing price of placing shares for the proposed A shares placing shall not be lower than the issue price of the consideration shares" shall be deleted;

(13) the supplemental agreement dated 10 September 2018 entered into among Tian Ma, Shanghai Industrial Investment (Group) Co., Ltd. (上海工業投資(集團)有限公司) ("**Shanghai Investment Company**") and Shanghai Zhangjiang (Group) Co., Ltd. (上海張江(集團)有限公司) ("**Shanghai Zhangjiang Company**"), pursuant to which that the term in the framework agreement entered into among Tian Ma, Shanghai Investment Company and Shanghai Zhangjiang Company on 10 March 2017 that the "placing price of placing shares for the proposed A shares placing shall not be lower than the issue price of the consideration shares" shall be deleted;

(14) the equity transaction agreement dated 23 January 2018 entered into between the China National Aero Technology International Engineering Company Limited (中國航空技術國際工程有限公司) (the "**International Engineering Company**") and AVIC Shenzhen as the vendors and Shenzhen Lian Heng Investment Company Limited (深圳市聯恒投資有限公司) as the purchaser in respect of the disposal of the 24.5% equity interest (the "**AVIC Construction Engineering Interest**") in AVIC Construction Engineering Company Limited (中航建築工程有限公司) (the "**AVIC Construction Engineering**") held by the International Engineering Company and the disposal of 51% equity interest in AVIC Construction Engineering held by AVIC Shenzhen at an aggregate consideration of RMB121,541,200 with the consideration of RMB39,440,520 for AVIC Construction Engineering Interest and the consideration of RMB82,100,680 for the disposal of 51% equity interest in AVIC Construction Engineering held by AVIC Shenzhen;

(15) the equity transaction agreement dated 2 January 2018 entered into between the Company and AVIC International as the vendors and Hengqin Zhong Chang Sheng Qi Hang Investment Centre (Limited Partnership) (橫琴中長勝啟航投資中心(有限合夥)) as the purchaser in respect of the disposal of the 47.12% equity interest (the "**AVIC Vanke Interest**") in AVIC International Vanke Company Limited (中航萬科有限公司) (the "**AVIC Vanke**") held by the Company and the disposal of 12.88% equity interest in AVIC Vanke held by AVIC International at an aggregate consideration of RMB2,348,278,960 with the consideration of RMB1,844,181,743.25 for the disposal of AVIC Vanke Interest and the consideration of RMB504,097,216.75 for the disposal of 12.88% equity interest in AVIC Vanke held by AVIC International; and

(16) the equity transaction agreement dated 8 November 2017 entered into between International Engineering Company, a wholly-owned subsidiary of the Company, as vendor and Shenzhen Yunli Hotel Management Co., Ltd (深圳雲裡酒店管理有限公司) as purchaser in respect of the disposal of 20% equity interest in Hangfa Investment Management Co., Ltd (航發投資管理有限公司) which is held by International Engineering Company at a consideration of RMB664,417,540.

MISCELLANEOUS

(1) Mr. Xiao Zhang Lin ("**Mr. Xiao**") is the company secretary of the Company. Mr. Xiao, aged 42, holds an MBA degree from Shanghai Jiao Tong University (上海交通大學). He was appointed as a joint company secretary of the Company in February 2018. In 2015, Mr. Xiao was recognized as a senior engineer by Aviation Industry Group. Currently, he is the head of the strategy and operations management department of the Company, the company secretary, and a director of AVIC Sunda Holding Company Limited, Shennan Circuit Co., Ltd., Fiyta Holdings Limited and Rainbow Department Store Company Limited.

(2) The registered office of the Company is situated at 39/F, AVIC Center Building, No.1018 Huafu Road, Futian District, Shenzhen, PRC.

(3) The principal place of business in Hong Kong of the Company is situated at Room 1603, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong.

(4) The H Share registrar of the Company, Hong Kong Registrars Limited, is situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(5) Save as otherwise stipulated in this circular, in the event of any inconsistency between the English version and the Chinese version, the English version shall prevail.

DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Room 1603, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong on any business days from the date of this circular up to and including 14 days (except public holidays) thereafter:

(1) the articles of association of the Company;

(2) the letter from the Board, the text of which is set out on pages 5 to 18 of this circular;

(3) the unaudited historical financial information of AVIC Maritime for the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 and 2019 reviewed by PricewaterhouseCoopers, the text of which is set out in Appendix II to this circular;

(4) the accountants' report issued by Deloitte Touche Tohmatsu in connection with the unaudited pro forma financial information of the Remaining Group, the text of which is set out in Appendix III to this circular;

(5) a written statement setting out the adjustments made by Deloitte Touche Tohmatsu in arriving at the figures shown in the unaudited pro forma financial information of the Remaining Group under Appendix III to this circular;

(6) the written expert consent referred to under the section headed ''Experts' Qualifications and Consent'' in this appendix;

(7) the material contracts mentioned in the paragraph headed "Material Contracts" in this appendix;

(8) the Company's 2016, 2017 and 2018 annual reports, and the Company's 2019 interim report;

(9) this circular.

中航國際控股股份有限公司
AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00161)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of AVIC International Holdings Limited (the "**Company**") will be held at 39/F, AVIC Center Building, No. 1018 Huafu Road, Futian District, Shenzhen, the People's Republic of China (the "**PRC**") on Monday, 11 November 2019 at 3:00 p.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution:

ORDINARY RESOLUTION

1. "**THAT** the implementation agreement (the "**Implementation Agreement**") dated 27 August 2019 entered into between the Company and China Merchants Industry Investment Limited and the transactions contemplated thereunder be approved, ratified and confirmed; and any one director of the Company be and is hereby authorised to do all such acts and things, negotiate, approve, sign, initial, ratify and/or execute all documents which may in his/her opinion be necessary, desirable or expedient to implement and give effect to any matters arising from, relating to or incidental to the Implementation Agreement and the transactions contemplated thereunder."

By order of the Board
AVIC International Holdings Limited
Liu Hong De
Chairman

Shenzhen, the PRC, 24 September 2019

Notes:

1. **Eligibility for the EGM**

   Shareholders of the Company who intend to attend the EGM must deliver all instruments of transfer, accompanied by the relevant share certificates, to the legal address of the Company (for holders of domestic shares) or to the H share registrar of the Company, Hong Kong Registrars Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares) on or before 4:30 p.m. on 11 October 2019 (Friday).

2. **Registration procedures for the EGM**

   (a) A shareholder or his proxy should produce proof of identity when attending the EGM;

   (b) Shareholders of the Company who intend to attend the EGM should return the confirmation slip for the EGM to the Company on or before 21 October 2019 (Monday); and

   (c) Shareholders of the Company may send the above confirmation slip to the legal address of the Company in person, by post or by facsimile.

3. Proxy

(a) A shareholder of the Company eligible to attend the EGM is entitled to appoint one or more proxies to attend and vote on his behalf in accordance with the articles of association of the Company. A proxy need not be a shareholder of the Company;

(b) A proxy shall be appointed by a written instrument signed by the appointer or its attorney. If the proxy form is signed by the attorney of the appointer, the power of the attorney or other authorisation document(s) of such attorney should be notarised;

(c) To be valid, the power of attorney or other authorisation document(s) which have been notarised together with the completed proxy form, must be delivered to the legal address of the Company (for holders of domestic shares) or to the H share registrar of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H shares) not less than 24 hours before the time designed for the holding of the EGM or not less than 24 hours before the time appointed for taking the poll; and

(d) A shareholder of the Company who has appointed more than one proxy shall only vote on a poll at the EGM.

4. Closure of register of members of the Company

The register of members of the Company will be closed from 12 October 2019 (Saturday) to 11 November 2019 (Monday) (both days inclusive), during which no transfer of shares of the Company will be effected. Holders of shares whose names stand on the register of members of the Company at 4:30 p.m. on 11 October 2019 (Friday) are entitled to attend and vote at the EGM.

5. The EGM is expected not to last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.

Legal address of the Company:
39/F, AVIC Center Building
No. 1018 Huafu Road
Futian District, Shenzhen
Guangdong Province
the People's Republic of China
Tel.: 0755-2124 6901
Fax: 0755-8379 0228
Postal code: 518031
Websites: www.avic161.com

As at the date of this notice, the Board comprises a total of 9 Directors, Mr. Liu Hong De, Mr. Lai Wei Xuan, Mr. You Lei, Mr. Liu Jun, Mr. Fu Fang Xing and Mr. Chen Hong Liang as executive Directors; and Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Wei Wei as independent non-executive Directors.

* *For identification purpose only*