ANNUAL REPORT ***2010***

AviChina

AviChina Industry & Technology Company Limited

中国航空科技工业股份有限公司

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

(Stock Code : 2357)

Contents

Company Profile

AviChina Industry & Technology Company Limited (the "Company") is a joint stock limited company incorporated on 30 April 2003. The Company's H Shares have been listed on the Stock Exchange since 30 October 2003. The stock code of the Company is "2357". The principal shareholders of the Company's domestic shares are AVIC, China Hua Rong Asset Management Corporation, China Cinda Asset Management Corporation and China Orient Asset Management Corporation, and the substantial shareholder of the Company's H shares is European Aeronautics Defence and Space Company (the "EADS").

The Company mostly operates through its subsidiaries. The Company and its subsidiaries (the "Group") are mainly engaged in:

- the development, manufacture, sales and upgrade of aviation products such as helicopters, trainers, general-purpose aircraft and regional jets for domestic and overseas customers;
- the co-development and manufacture of helicopters with foreign helicopter manufacturers; and
- the development, manufacture and sales of automobile engines (Business held for sale).

PRINCIPAL PRODUCTS OF THE GROUP:

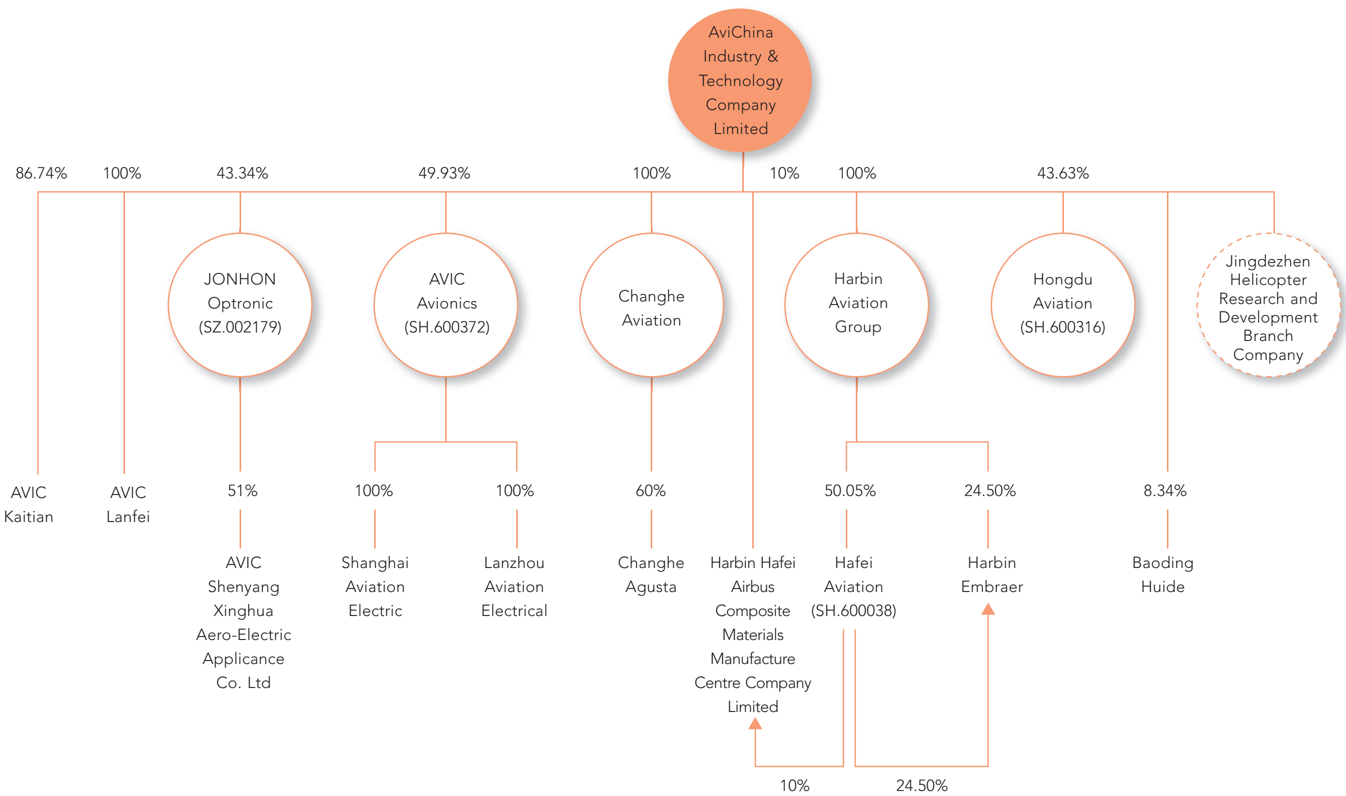
Aviation Products:

The Z-8, Z-9, Z-11 and HC-I20 series helicopters; K-8 series and CJ-6 trainers; Y-12 series multi-purpose aeroplanes and the N-5 series agricultural aeroplanes; EC-120 helicopters jointly produced by the Group and Eurocopter; CA109 helicopters jointly produced by the Group and Agusta; and ERJ-145 series regional jets jointly produced by the Group and Embraer-Empresa Brasileira de Aeronautica S.A.; aviation parts and components, aviation electrical engineering products and accessories.

Automobile Products (Business held for sale):

Dongan series auto engines (under 1.3 L), 4G1 and 4G9 series auto engines (from 1.3 L to 2.0 L) manufactured by the joint venture of the Group and Mitsubishi.

BUSINESS STRUCTURE OF THE GROUP (AS AT THE DATE OF THIS REPORT)



Financial Highlights

CONSOLIDATED PROFIT AND LOSS

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

	For the year ended 31 December		
	2010	2009 (restated)	Changes
Turnover	14,364	16,613	(13.54%)
Profit before taxation	1,866	998	86.97%
Net profit attributable to the equity holders of the Company	741	237	212.66%
Gross profit margin	20.81%	18.32%	2.49%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company (RMB)	0.151	0.051	196.08%

CONSOLIDATED ASSETS AND LIABILITIES

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

	As at 31 December		
	2010	2009 (restated)	Changes
Total assets	28,314	22,071	28.29%
Total liabilities	14,233	12,464	14.19%
Non-controlling interests	6,767	4,244	59.45%
Owner’s equity (other than non-controlling interests)	7,314	5,363	36.38%

The Group's financial information in the recent five years starting from 1 January 2006 is summarized as follows:

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

	As at 31 December/For the year ended 31 December				
	2010	2009 (restated)	2008 (restated)	2007 (restated)	2006 (restated)
Total assets	28,314	22,071	23,289	23,557	25,522
Total liabilities	14,233	12,464	17,158	16,422	16,989
Non-controlling interests	6,767	4,244	3,471	3,410	3,999
Owner's equity (other than non-controlling interests)	7,314	5,363	2,660	3,725	4,534
Turnover	14,364	16,613	16,768	16,884	17,404
Profit/(loss) before taxation	1,866	998	(618)	(718)	(429)
Net profit/(loss) attributable to the equity holders of the Company	741	237	(1,063)	(993)	(312)
Gross profit margin	20.81%	18.32%	10.31%	11.36%	11.55%
Basic and diluted earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company (RMB)	0.151	0.051	(0.229)	(0.214)	(0.067)

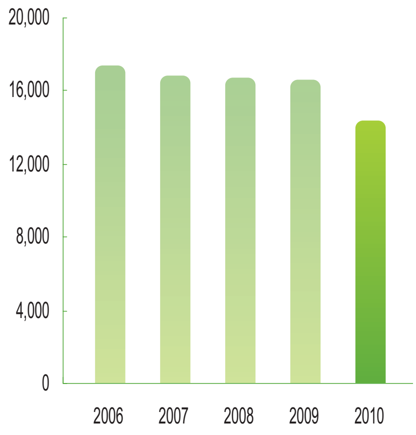
Financial Highlights

TOTAL ASSETS

(RMB million)

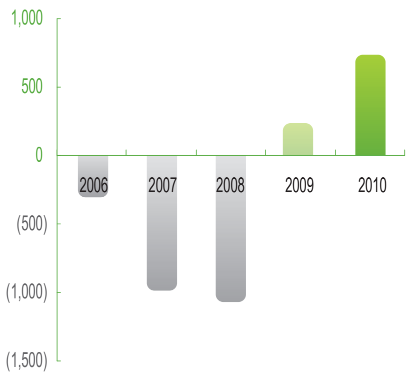
TURNOVER (COMPREHENSIVE BUSINESS)

(RMB million)



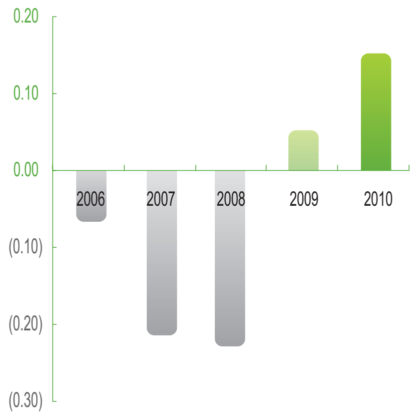
NET PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY HOLDERS (COMPREHENSIVE BUSINESS)

(RMB million)



BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE FOR PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY OF THE COMPANY (COMPREHENSIVE BUSINESS)

(RMB)



To all shareholders,

I hereby, on behalf of the Board, am pleased to announce that pursuant to the strategy adopted by the Group and with the effort of the directors and members of the management, the Company had strengthened its aviation business and successfully recorded a growth in profit.

Chairman
Mr. Lin Zuoming

ANNUAL RESULTS

For the year ended 31 December 2010, the Group recorded a turnover of the comprehensive business of RMB14,364 million, and the net profit attributable to the equity holders of the Company amounted to RMB741 million.

BUSINESS REVIEW

In 2010, the Group's aviation products recorded a sales revenue of RMB8,013 million, representing an increase of 41.72% from that of 2009.

2010 was a year during which the Group continued to push forward its business reorganization, improve its profitability and expand its profit base following the successful turnaround of the Group's business from loss to profit in 2009. During 2010, research and development of various aviation products of the Company progressed smoothly, assets reorganization and merger and acquisition projects were also conducted orderly and all the key tasks were successfully accomplished. On 10 March 2010, the Company completed the placing of approximately 330 million new Shares, the proceeds raised were fully utilized for acquisition of aviation assets so as to perfect the industry chain of the Company. In addition, the completion of the placing of new shares in Hongdu Aviation had provided funds for acquisition of aviation assets and investment in Jiangxi Commercial Aircraft Co., Ltd. for the manufacturing of the ancillary parts of the C919 large aircraft. The industry chain of the avionics business of the Company was further improved through the acquisition of avionics enterprises, namely AVIC Kaitian, AVIC Lanfei, Taiyuan Instrument, Qianshan Avionics, Shaanxi Baocheng, Shaanxi Huayan by AVIC Avionics by way of issue of consideration shares. The acquisition of the entire equity interest in Tianjin Aviation through the issue of Domestic Shares and partial cash payment has been launched, which will enable the Company to set foot in new aviation mechanical and electrical business. Through the implementation of a series of assets reorganization, the aviation industry chain was perfected and laid a solid foundation for the future development and profit improvement of the Company. At the same time, the Company actively applied for High–Tech Enterprise Certification from the State and had formally passed the initial assessment conducted by the Beijing Bureau of High-Tech Enterprise Certification on 31 August 2010. In order to motivate the management team and retain talents, the Company had applied to SASAC for approval of the restricted share incentive scheme of the Company. The scheme was formally approved by SASAC.

OUTLOOK

Year 2011 marks the commencement of China's Economic and Social Development in the 12th Five-year Plan ("Twelfth Five-year") and signifies a new starting point and an important opportunity in the history of the Company's development. The aviation manufacturing industry will encounter many new development opportunities as well as difficulties and challenges.

On the positive side, the PRC Government had clearly indicated its policy to develop and strengthen the aviation industry in the "**Decision of the State Council on Accelerating the Fostering and Development of Strategic Emerging Industries**". The gradual opening up of the low altitude airspace in different regions brings historical opportunities for the development of aviation manufacturing enterprises. The Group will tightly grasp such opportunities to expand its market share and improve its profitability. Nevertheless, the development of the Group still faces many difficulties and challenges. First of all, the gradual withdrawal of the economic stimulus package by the PRC Government requires our strategic preparation for economic transformation and slowing down of the GDP growth. Secondly, the State policy to encourage injection of capital by the public into the civil and military aviation equipment manufacturing industry poses competition to the monopoly advantage in aviation products market enjoyed by the Group. Thirdly, the low altitude airspace policy reform will bring opportunities as well as new competitors, which will intensify competition in the aviation products market. Fourthly, with the extension of the scale of operation of its aviation assets and enlargement of its capital base, the Company will face the challenge of how to increase its profitability. Fifthly, a new system of division of work in the global aviation industry is gradually created with more specialized division of work, the Company will need to deal with issues on how to gain its position in the industry chain amid the competitive environment, how to improve its research and development capabilities as well as how to lower its production cost. We will closely monitor the impact brought about by the macro-economic policies of the State and changes in the market competition environment in order to take precaution and corresponding measures in time to maintain the steady development of the Company.

In 2011, the Group will continue to explore into new aviation manufacturing business scope to further extend its industry chain, perfect the aviation business system of the Group and further improve its profitability. The Group will also optimize its management and governance model, strengthen its operation control, improve the management innovation system and upgrade the production management capabilities. The research and development of products will also be strengthened and international cooperation will be actively engaged. The Group will promote self-innovation capabilities and realize the striding development of its aviation technologies, reinforce the team building, put emphasis on the talent training, deepen the reform of the salary system and implement its share incentive scheme, strengthen its the capital strength, improve its market capitalization and financial results to actively make returns to the shareholders of the Company.

ACKNOWLEDGEMENT

Finally, I hereby, on behalf of the Board, would like to extend my earnest gratitude to shareholders for their constant confidence in and supports to the Company. I, myself, also would like to take this opportunity to express my appreciation to the management and all the employees of the Company for their hard work and contributions last year. With the full confidence for the future, I will work hard with my employees together to make the Company an aviation manufacturer with investment value.

Lin Zuoming
Chairman

Beijing, 29 March 2011

President
Mr. Tan Ruisong

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

SUMMARY

During the year of 2010, the Group continued to push forward its business reorganization. The Group had completed the acquisition of the equity interests in AVIC Kaitian and AVIC Lanfei and launched the assets reorganization of AVIC Avionics through continuous acquisition of avionics assets. As the procedures for the registration of the transfer of equity interests in each of Dongan Motor and JONHON Optronic were not completed by 31 December 2010, the business of the Group for the year 2010 still included the aviation segment business (continuing operations) and automobile segment business (discontinued operations).

For the year ended 31 December 2010, the comprehensive business (including continuing operations and discontinued operations) of the Group recorded a turnover of RMB14,364 million, representing a decrease of 13.54% as compared with RMB16,613 million in 2009. This is mainly attributable to the completion of the disposal of the entire vehicle business in 2009. Accordingly, the results during the reporting year no longer included the revenue derived from the entire vehicle business. In 2010, the aviation business of the Group underwent a rapid development with an increased sales volume of helicopters, resulting in a turnover of RMB8,013 million arising from the continuing operations of the Group during the reporting year, representing an increase of 41.72% as compared with that of last year.

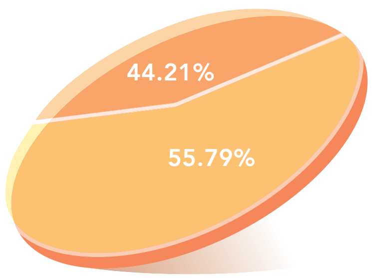
In 2010, benefitting from the rapid growth in the aviation business, net profit from the comprehensive business of the Group attributable to the equity holders of the Company amounted to RMB741 million, representing an increase of 212.66% as compared with that of last year, among which, net profit from the continuing operations attributable to the equity holders of the Company amounted to RMB359 million, representing an increase of 44.76% as compared with that of last year.

The following diagrams show the comparison between the consolidated operating results of the Company for the year ended 31 December 2010 with that of 2009:

CONSOLIDATED OPERATING RESULTS

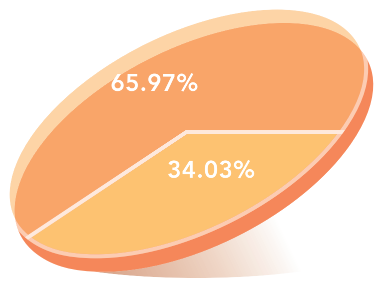
1 Composition of turnover (Comprehensive business)

Turnover composition in 2010



Automobile Business (Discontinued operation)
Aviation Business (Continuing operation)

Turnover composition in 2009



Automobile Business (Discontinued operation)
Aviation Business (Continuing operation)

The turnover of the comprehensive business of the Group for 2010 was RMB14,364 million, representing a decrease of 13.54% as compared with RMB16,613 million in 2009.

The turnover of the Group's aviation products in 2010 was RMB8,013 million, representing an increase of 41.72% as compared to that in 2009. The turnover of the Group's aviation products segment accounted for 55.79% of the total turnover of the Group, representing an increase of 21.76% from that of 34.03% in 2009.

The turnover of the Group's automobile products in 2010 was RMB6,351 million, representing a decrease of 42.05% as compared to that in 2009 which was mainly attributable to the completion of the disposal of the entire vehicle business during the year; such that the automobile business segment no longer included the revenue of the entire vehicle business, and only the revenue derived from the auto engine business was recorded. During the year, the turnover of the Group's automobile business segment accounted for 44.21% of the total turnover of the Group, representing a decrease of 21.76% from that of 65.97% in 2009.

The Group mainly conducts its business in the mainland China where its turnover is generated.

2 Selling and distribution expenses (Continuing operations)

The Group's selling and distribution expenses for its continuing operations for 2010 amounted to RMB77 million, representing an increase of RMB26 million, or 50.98% as compared with RMB51 million in 2009. This was mainly due to the increase in turnover. The selling and distribution expenses in 2010 accounted for 0.96% of the turnover for the year 2010, which is similar to that in 2009.

3 General and administrative expenses (Continuing operations)

The Group's general and administrative expenses for its continuing operations for 2010 amounted to RMB793 million, representing an increase of RMB58 million, or 7.89% as compared with RMB735 million in 2009. The main reason was the increase in research and development expenses incurred during the year. The general and administrative expenses for the year 2010 accounted for 9.90% of the turnover, representing a decrease of 3.10% as compared with 13.00% in 2009.

4 Operating profit (Continuing operations)

The operating profit derived from the continuing operations of the Group for 2010 amounted to RMB709 million, representing an increase of RMB190 million, or 36.61% as compared to that of RMB519 million in 2009. The main reason was the rapid growth in the revenue of the aviation business of the Group during the year.

5 Finance costs, net (Continuing operations)

The Group's net finance costs for its continuing operations in 2010 amounted to RMB29 million, representing a decrease of RMB39 million, or 57.35% as compared with that of RMB68 million in 2009. This was mainly resulted from the increase in interest income arising from the increase in bank deposits. Please refer to note 9 to the financial statements for details.

6 Income tax expense (Continuing operations)

The Group's income tax for its continuing operations in 2010 was RMB89 million, representing an increase of RMB28 million, or 45.90% from that of RMB61 million in 2009. The main reason was the increase in profit during the year. Please refer to note 10 to the financial statements for details.

7 Profit attributable to the non-controlling interests (Comprehensive business)

The profit attributable to the non-controlling interests of the Group's comprehensive business for 2010 was RMB906 million, representing an increase of RMB349 million as compared to RMB557 million in 2009. The main reason was the profit increase of certain non-wholly owned subsidiaries of the Group.

8 Net profit attributable to equity holders of the Company (Comprehensive business)

The comprehensive business of the Group recorded a profit attributable to the equity holders of the Company of RMB741 million, representing an increase of RMB504 million over that of RMB237 million in 2009. The main reasons were: (i) significant increase in the profit contribution from the aviation business due to the rapid growth in revenue of the aviation business; (ii) the completion of the reorganization and disposal of the loss-making entire vehicle business by the end of 2009, as a result of which the results during the year were no longer affected by the loss suffered from the entire vehicle business.

GUARANTEED AND SECURED LOANS

As at 31 December 2010, the Group's total borrowings amounted to RMB1,969 million, of which RMB45 million was secured by receivables with a net book value of RMB47 million.

Borrowings placed under guarantees amounted to RMB965 million, of which RMB735 million represented guarantees amongst the members of the Group and RMB230 million represented guarantees provided by AVIC and its subsidiaries.

EXCHANGE RATE RISKS

The Group mainly operates in the PRC with most of its transactions settled in Renminbi. The exposure to foreign currencies exchange risks mainly arise from transactions involving assets, liabilities, and operating activities of the Group and are primarily associated with United States Dollar, Euro-dollar and Hong Kong Dollar.

In addition, the Company has some deposits in Hong Kong Dollar, being part of the proceeds raised from the initial public offering in October 2003. The directors are of the opinion that the exchange rate risks to the Group are low and will not have any material adverse impact on the Group's financial results.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2010, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

CASH FLOW AND FINANCIAL RESOURCES

1. Liquidity and capital resources

As at 31 December 2010, the Group's net cash and cash equivalents amounted to RMB5,548 million which was mainly derived from the following sources:

- cash and bank deposits at the beginning of the year;
- proceeds raised from issuing of shares; and
- funds generated from its operations;

The Group's cash flow for each of the year 2010 and 2009 were as follows:

Unit: RMB million (except percentage)

Main items of cash flow	2010	2009 (restated)	Change (amount)	Change (percentage)
Net cash generated from operating activities	3,264	2,521	743	29.47%
of which: Net cash generated from continuing operations	2,265	1,069	1,196	111.88%
Net cash used in investing activities	(3,281)	(2,125)	(1,156)	54.40%
of which: Net cash used in continuing operations	(1,915)	(1,268)	(647)	51.03%
Net cash generated from financing activities	2,429	583	1,846	316.64%
of which: Net cash generated from continuing operations	2,984	50	2,934	5868.00%
Net increase in cash and cash equivalents	2,412	979	1,433	146.37%

2. Operating, investing and financing activities

Net cash inflows generated from operating activities of the comprehensive operations of the Group for the year 2010 increased by RMB743 million or 29.47% as compared with that of 2009, among which, net cash inflows generated from the continuing operations for the year 2010 increased by RMB1,196 million as compared with that of 2009, which was mainly due to the increase in sales revenue and interest income during the year.

Net cash outflows used in investing activities of the comprehensive operations of the Group for the year 2010 increased by RMB1,156 million or 54.40% as compared with that of 2009, among which, net cash outflows used in investing activities of continuing operations for the year increased by RMB647 million, which was mainly attributable to the following reasons: acquisition of certain aviation assets during the year; increase in external investments; and increase in term deposits with an initial term of over three months as compared to the closing balance of 2009.

Net cash inflows generated from financing activities of the comprehensive operations of the Group for the year 2010 increased by RMB1,846 million or 316.64% as compared with that in 2009, among which, net cash inflows generated from financing activities of continuing operations increased by RMB2,934 million as compared with that of 2009. This was mainly attributable to the placing of new shares by the Company and the raising of proceeds through the issuance of shares by subsidiaries of the Company during the year.

As at 31 December 2010, the total borrowings of the Group amounted to RMB1,969 million, of which the short-term borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB1,059 million, RMB551 million and RMB359 million, respectively.

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

Maturity	RMB million
Within one year	551
In the second year	236
In the third to fifth year	23
After the fifth year	100
Total	910

As at 31 December 2010, the Group's bank borrowings amounted to RMB1,742 million with an average interest rate of 5% per annum, representing 88.47% of the total borrowings. Other borrowings amounted to RMB227 million with an average interest rate of 5%, accounting for 11.53% of the total borrowings.

As at 31 December 2010, there were no borrowings denominated in foreign currencies.

GEARING RATIO

As at 31 December 2010, the Group's gearing ratio was 6.96% (31 December 2009: 11.82% as restated), which was arrived at by dividing the total borrowings by total assets as at 31 December 2010.

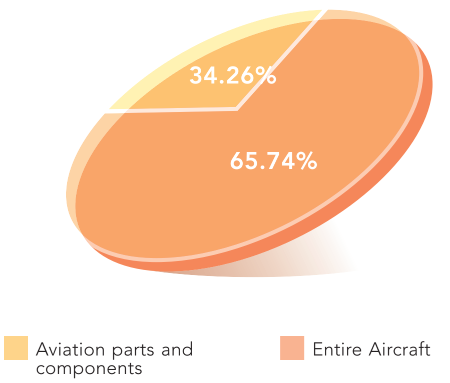
SEGMENT INFORMATION

The Group's principal operations comprise two segments, namely the aviation segment and the automobile segment.

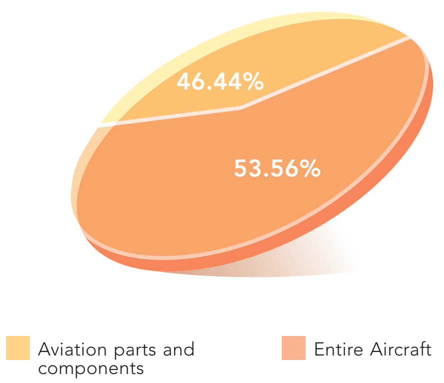
AVIATION SEGMENT (CONTINUING OPERATIONS)

Turnover

Turnover of Aviation Segment in 2010



Turnover of Aviation Segment in 2009



The Group's turnover derived from aviation products for 2010 was RMB8,013 million, representing an increase of RMB2,359 million, or a 41.72% increase from RMB5,654 million of 2009.

The Group's turnover derived from the entire aircraft business for 2010 was RMB5,268 million, representing an increase of 73.98% from that of 2009 and accounting for 65.74% of the total turnover of aviation products with an increase of approximately 12.00% over that of last year. The turnover derived from aviation parts and components for 2010 was RMB2,745 million, representing an increase of 4.53% from that of 2009 and accounting for 34.26% of the total turnover of aviation products with a decrease of approximately 12.00% from that of last year.

Gross Margin

Gross margin of the Group's aviation products for 2010 was 18.11%, representing a decrease of 2.89% as compared to that in 2009. This was mainly resulted from the change of the product sales structure of the Group during the year. The products sold during the year were those with a relatively lower gross profit margin.

Review and Outlook

In 2010, affected by the Eurozone debt crisis, the recovery of the global economy was slow. On the domestic front, China suffered from unusually severe weather conditions. Amid the complicated economic environment both domestically and overseas, the economic situation of China realized a steady and rapid growth under the guidance of the macro-control policy of the State Government. The rebound in international trade and business confidence promoted the fast recovery in the demand within the aviation industry. In addition, important supporting factors such as increase in the level of national income and upgrade in consumption hierarchies brought opportunities for the development of the Chinese aviation industry and the development of the Group's aviation business. Accordingly, the aviation business of the Group realized a steady increase.

In 2010, the Company continued to adhere to the strategy formulated by the Board, actively pushed forward assets reorganization and resource optimization and improved the industry chain. The acquisition of avionics assets and the launch of the acquisition of aviation mechanical and electrical business substantially enhanced the manufacturing capabilities of the Company in aviation products and ancillary products and further perfected the aviation business structure of the Company.

In 2010, the Company continued to expand its market. AVIC again participated in the 8th China International Aviation & Aerospace Exhibition with strong lineup, in which various products of the Group displayed at the exhibition and the flights demonstration had attracted the attention of the international aviation industry. At the Shanghai World Expo successfully held in 2010, China Aviation Pavilion exhibited the development of Chinese aviation industry with unique aviation elements.

As the largest helicopter manufacturer in China, the Group persisted in boosting the research, development and manufacture of helicopter products. The sales volume of helicopter steadily improved during the reporting period.

The Company continued to strengthen the development of trainer aircraft products to consolidate its market position as a leading manufacturer of trainer products in China. On 26 October 2010, the 6th L15 advanced trainer, of which the Group had participated in its investment and development, made its successful first flight.

General purpose aircraft of the Company also made great progress. On 10 December 2010, Y-12F aircraft successfully completed its screening test before the first flight, which provided assurance for the first scheduled flight. On 20 July 2010, the new 3rd N-5B model agriculture-forestry aircraft, which is self-developed by Hongdu Aviation, successfully completed its first flight in Nanchang, marking a substantial breakthrough in the research and development of the new generation of N-5B aircraft.

The Company was actively developing the newly injected aviation electronics business. With the establishment of an aviation emergency rescue system as well as the regulatory reform on low-altitude airspace, the Company, through continuous development of its avionics technologies and the market application and position of avionics products, has achieved advanced level for several of its technology projects, which have received domestic and overseas technical certifications.

At the same time, the Company actively enhanced its cooperation with international key players and extended its subcontract manufacturing. On 16 November 2010, Hafei Aviation and Aircelle, a subsidiary of the French SAFRAN group, signed a contract for the subcontract manufacturing of the nacelle fan cowl of F7X business jet of SAFRAN at the 8th China International Aviation & Aerospace Exhibition in Zhuhai. On 21 July 2010, Harbin Hafei Airbus Composite Materials Manufacture Centre Company Limited, entered into a belly fairing work-package contract for A350XWB with Alestis Aerospace SL, a Spanish company, at the Farnborough Airshow in the United Kingdom.

As the civil aviation transportation industry in China will sustain a rapid development trend in 2011, the demand in the PRC civil aviation market will also increase. As the aviation industry is listed as a strategic industry in the Twelfth Five-year, it will receive key support from the State Government. In addition, the acceleration of investments in the construction of civilian airport and the continuous improvement in the fundamental infrastructure for helicopter general aviation services will provide the Group with opportunities for sustainable development.

On the other hand, with the gradual withdrawal of the economic stimulus package by the PRC Government, the opening up of aviation equipment research system and the relaxation on low-altitude airspace restrictions, competition in the aviation products will intensify. The issues of how to quickly improve the research and development capability, lower the costs to fight off competition and how to further integrate into the international aviation industry chain to gain market share altogether put forward new challenges to the development of the Group.

In 2011, the Group will continue to adhere to the strategic objective of becoming a flagship manufacturer in China aviation industry with a completed chain of civil aviation products, seize the opportunities afforded by the strategy development provided by the Twelfth Five-year and the low altitude airspace policy reform and positively face the challenges by adopting the following plans:

1. Fully complete the R&D and manufacturing tasks through cautious organization and coordination and by strengthening the technology front. Improve the relationship with customers to bring about long-term orders during the implementation of the Twelfth Five-year.

2. Target the production needs of PRC's self-produced civil aircraft C919, ARJ21 and general-purpose aircraft; the demands for helicopters, avionics and aviation components upon the establishment of aviation emergency rescue system; prepare well for project biddings, formation of R&D projects, and work for the fulfillments of the standards for airworthiness certifications and product delivery.

3. Continue to develop international cooperation and subcontract manufacturing, strengthen the cooperation in subcontract manufacturing with reputable aviation manufacturers such as SAFRAN in France and Goodrich Corporation in America and realize the integration with world advanced technologies, procedures, standards and business model, and push forward the joint venture cooperation with international aviation enterprises.

4. Improve and perfect the marketing network for helicopter sales; train up a professional helicopter marketing team; attract aviation product customers through various means such as financing, leasing, trusteeship and operating leases, with a focus on strengthening the liaisons and communications with local government at all levels to strive for breakthroughs in sales.

5. Seize favorable opportunities to actively seek for, plan and implement merger and acquisition projects domestically and overseas; and train professional talents to prepare for the mergers and acquisitions in and outside China.

6. Continue to adhere to the strategic plan of the Group and closely cooperate with AVIC to further perfect the industry chain of the Company.

7. Implement share incentive scheme in time and complete the first phase of granting of restricted shares upon the approval by the shareholders of the Company at the general meeting.

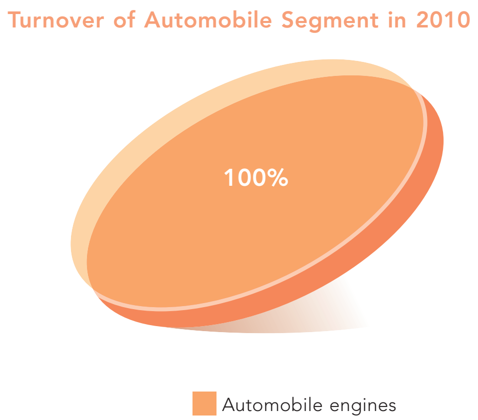
8. Strengthen various fundamental work and improve management capability. Reinforce internal control system of the Company and regulate the operation of the general meeting, the board and management system at the Company and subsidiaries level.

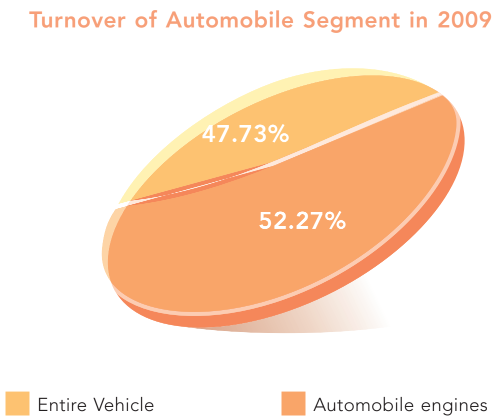
Orders for Aviation Products

As at the date of this report, the Group has received orders for 138 helicopters, 152 trainers, 25 general aeroplanes. The Group is endeavoring to get more orders for its aviation products.

AUTOMOBILE SEGMENT (DISCONTINUED OPERATIONS)

Turnover





As the disposal of the entire vehicle business was completed in 2009, the automobile business segment of the Group during 2010 only included automobile engine business but no longer included the entire vehicle business. As a result, the total turnover of automobile business during the period decreased by RMB4,608 million as compared with that in 2009. In addition, upon completion of the registration of the transfer of equity interest in each of Dongan Motor and JONHON Optronics, the results of Dongan Motor will no longer be consolidated into the accounts of the Company, the turnover and results of the Group will be decreased accordingly and the Group will no longer engage in any automobile business.

Gross Margin

Gross margin of the Group's automobile products for 2010 was 24.21%, which maintained at a similar level as compared with that in 2009.

Review and Outlook

The sales revenue of the Group's automobile engine products amounted to RMB6,351 million in the year of 2010.

As at the date of this report, the relevant procedures of swapping the Company's equity interest in Dongan Motor for AVIC's equity interest in JONHON Optronic have been completed. The Company no longer holds any equity interest in Dongan Motor and therefore the disposal of the automobile product businesses of the Group has been completed.

USE OF PROCEEDS

Adhering to the Company's strategy to dispose of its automobile business, certain investments in automobile projects were reduced. Up to 31 December 2010, the proceeds raised from the fund raising activities (including the proceeds raised from the placing conducted in March 2010) amounted to RMB1,890 million in total, which was used in the manufacture, research and development of new advanced trainers, helicopters and aviation composite materials as well as the acquisition of aviation assets and equity investment. The remaining balance was deposited in banks in the PRC as short term deposits.

EMPLOYEES

As of 31 December 2010, the Group had 26,364 employees. The Group has provided appropriate emoluments, benefits and training to its employees.

Employees breakdown (by business)

	Number of employees	Percentage to total number of employees (%)
Aviation	21,353	80.99
Vehicles and engines	4,986	18.91
Other businesses	25	0.10
Total	26,364	100

For the year ended 31 December 2010, total staff costs amounted to RMB1,259 million, representing an increase of RMB154 million as compared to that of RMB1,105 million (as restated) in 2009.

REMUNERATION OF EMPLOYEES

The Group's remuneration scheme is determined based on the principles of fairness and reasonableness and comparable standards with prevailing market benchmarks. Remuneration of employees comprises basic salary, contribution to a public housing fund, and contributions to pension plans. The Group will also, at its discretion, pay year-end bonus to employees according to their respective performance.

TRAINING FOR EMPLOYEES

The Group expects a high level of knowledge and skill in respect of the aviation manufacturing industry from its employees. Therefore, implementation of comprehensive employee training is the key to the Group's continuous development. Accordingly, the Group will continuously review its existing employee training scheme in order to provide comprehensive and systematic training to its employees.

In 2010, the Group actively established new training system to extend domestic and overseas training channels and reconstruct training mechanism and system. Through adoption of relevant management system and resource matching mechanism, the international talent training programme achieved prominent results. During the year, the Company organized certain training domestically and overseas in respect of laws and regulations for listed companies, securities and finance to related staff of the Company and its subsidiaries. The employees, through training, are able to continuously acquire new knowledge to improve their capabilities. This will in turn enhance the Group's competitiveness in the ever-changing market.

DIRECTORS

Executive Directors

Mr. Lin Zuoming（林左鳴）*(Chairman of Development and Strategy Committee)*

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

Mr. Lin has an interest in 708,590 Restricted Shares which were granted on 30 March 2011 under the initial grant of the Scheme and formed part of his remuneration package. Please refer to the circular and the announcement of the Company dated 24 February 2011 and 30 March 2011 for details of the Scheme and the initial grant thereunder.

Mr. Tan Ruisong（譚瑞松）

49, vice chairman of the Board and president of the Company. He is a researcher level senior engineer. He graduated from Beijing University of Aeronautics and Astronautics in 1983 with a bachelor degree majoring in manufacture and design of engines, and received his master degree in shipping and ocean engineering and Ph.D. degree in management science and engineering from Harbin Engineering University in 2002 and 2006, respectively. Mr. Tan commenced his career in aviation in July 1983, and used to be a technician, technical supervisor and workshop supervisor of National Dongan Machinery Factory. He had been the deputy chief engineer and deputy general manager of Harbin Dongan Engine Manufacturing Company, the general manager of Harbin Dongan Auto Engine Co., Ltd., member and vice chairman of the board and the general manager of Harbin Dongan Engine (Group) Co., Ltd., and the chairman of the board of Harbin Aviation Industry (Group) Co., Ltd, vice general manager of AVIC II. Mr. Tan has been appointed as a director of the Company since June 2005, the vice chairman of the Board and executive director since June 2006 and as the vice chairman of the Board, executive director and president of the Company since October 2008.

Mr. Tan has an interest in 636,950 Restricted Shares which were granted on 30 March 2011 under the initial grant of the Scheme and formed part of his remuneration package. Please refer to the circular and the announcement of the Company dated 24 February 2011 and 30 March 2011 for details of the Scheme and the initial grant thereunder.

Mr. Wu Xiandong（吳獻東）

46, executive director and a researcher. Mr. Wu also serves as the vice general manager of AVIC. He graduated from Beijing University of Aeronautics and Astronautics majoring in electro-mechanical control in manufacturing engineering and received his Ph.D. degree from the Moscow Aircraft Institute of Russia majoring in production organization in the aviation industry. He has been engaged in the aviation field since July 1987, joined former AVIC in 1996, and joined AVIC II in 1999. He used to be an assistant engineer in Harbin Dongan Engine Manufacturing Company, the general manager of Harbin Aviation Elec-Mec Company, the director of assets and enterprises management department of AVIC II and an assistant to the general manager of AVIC II and a vice general manager of AVIC II. Mr. Wu has been appointed as the vice chairman of the Board and the president of the Company from April 2003 to October 2008 and as the executive director of the Company since October 2008.

Mr. Wu has an interest in 636,950 Restricted Shares which were granted on 30 March 2011 under the initial grant of the Scheme and formed part of his remuneration package. Please refer to the circular and the announcement of the Company dated 24 February 2011 and 30 March 2011 for details of the Scheme and the initial grant thereunder.

Non-executive Directors

Mr. Gu Huizhong（顧惠忠）*(Member of Audit Committee)*

53, a master degree holder and researcher level senior accountant. Mr. Gu is also a vice general manager and the chief accountant of AVIC. He graduated from Zhengzhou Aviation Industry Management Institute in 1981 majoring in financial management, and received his master degree from Beijing University of Aeronautics and Astronautics in 2000 majoring in international finance. Mr. Gu commenced his career in aviation industry in July 1981, and used to be a staff, deputy director and director of Financial Departments of The Third Mechanical and Industrial Department, Aviation Industry Ministry and Aviation and Space Industry Ministry; director of International Affairs Financial Division of Financial Department of former AVIC since June 1993; general manager of Zhongzhen Accounting Consultative Corporation since August 1994; vice manager of Financial Department of former AVIC since November 1995; deputy director-general of Financial Department of State Commission of Science, Technology and Industry for National Defence since July 1998; vice general manager of AVIC I since June 1999; and hold a concurrent post as chief accountant of AVIC I since February 2005. Mr. Gu also serves as a member of board and general manager of AVIC Capital Co., Ltd. and chairman of the board of AVIC Capital Co., Ltd, China National Aero-Technology Import and Export Corporation, and AVIC-Vanke Co, Ltd. since December 2008. Mr. Gu has been appointed as a non-executive director of the Company since October 2008.

Mr. Gu has an interest in 636,950 Restricted Shares which were granted on 30 March 2011 under the initial grant of the Scheme and formed part of his remuneration package. Please refer to the circular and the announcement of the Company dated 24 February 2011 and 30 March 2011 for details of the Scheme and the initial grant thereunder.

Mr. Xu Zhanbin（徐占斌）

46, a Master degree holder and researcher. Mr. Xu is also a vice general manager of AVIC. He graduated from Shenyang Institute of Aeronautical Engineering with a bachelor in 1985 majoring in manufacture engineer of air vehicle, and received the EMBA degree of France HEC International Business School in 2008. Mr. Xu commenced his career in aviation industry in July 1985, and used to be a technician, regional manager, deputy director and director of Harbin Aircraft Group Co., Ltd.; vice general manager and director-general of Aircraft Sale Department of Harbin Aircraft Group Co., Ltd. since December 1998; a member of the board, vice general manager and administrative deputy director-general of Aviation Business Department of Harbin Aircraft Group Co., Ltd and a member of the board and administrative vice general manager of Hafei Aviation since March 2000; deputy chief engineer of AVIC II since December 2000 and vice general manager of AVIC II since November 2001. Mr. Xu has been appointed as a non-executive director of the Company since October 2008.

Mr. Xu has an interest in 636,950 Restricted Shares which were granted on 30 March 2011 under the initial grant of the Scheme and formed part of his remuneration package. Please refer to the circular and the announcement of the Company dated 24 February 2011 and 30 March 2011 for details of the Scheme and the initial grant thereunder.

Mr. Geng Ruguang（耿汝光）*(Member of Development and Strategy Committee)*

54, a doctor degree holder and researcher. Mr. Geng is also a vice general manager of AVIC. He graduated from Beijing University of Aeronautics and Astronautics with a bachelor degree in 1982 majoring in air vehicle design and received the EMBA degree of France HEC Senior International Business School in 2008 and the doctorate degree of management of Beijing University of Aeronautics and Astronautics in 2009. Mr. Geng commenced his career in aviation industry in 1982, and used to be an aircraft designer, assistant engineer, engineer, deputy director, director and deputy director-general of aviation departments of Aviation Industry Ministry, State Economic and Trade Commission, former AVIC and Aviation Business Department of AVIC I since July 1999; general manager assistant of AVIC I since July 2001; and vice general manager of AVIC I since July 2003. Mr. Geng also serves as chairman of the board of AVIC Aircraft Corporation Limited., Xi'an Aircraft Industry (Group) Corporation Ltd. and AVIC Capital Co. Ltd, and the chairman of the Supervisory Committee of Austria FACC. Mr. Geng has been appointed as a non-executive director of the Company since October 2008.

Mr. Geng has an interest in 636,950 Restricted Shares which were granted on 30 March 2011 under the initial grant of the Scheme and formed part of his remuneration package. Please refer to the circular and the announcement of the Company dated 24 February 2011 and 30 March 2011 for details of the Scheme and the initial grant thereunder.

Mr. Zhang Xinguo（張新國）

51, a doctorate degree holder majoring in engineering, doctorate degree holder majoring in management, researcher and supervisor of Ph.D. students. Mr. Zhang is also a vice general manager, Chief Information Officer of AVIC and the director of China Aeronautical Establishment. He graduated from Northwestern Polytechnical University with a bachelor degree in 1982 majoring in general dynamics. During the period from 1990 to 1991, Mr. Zhang received advanced training in University of Salford in the United Kingdom as a visiting student sponsored by government's scholarship. He received his Ph.D. degree from Beijing University of Aeronautics and Astronautics in 1995 majoring in air vehicle control, guidance and emulation and received his another Ph.D. degree from Administration College of Xi'an Jiaotong University in 2008 majoring in enterprise management. Mr. Zhang commenced his career in aviation industry in 1982, and used to be a system engineer, vice director and director of Flight Control Research Department of Xi'an Flight Automatic Control Research Institute; deputy director-general, chief engineer and director-general of Xi'an Flight Automatic Control Research Institute since June 1996; and vice general manager of AVIC I since August 2006. Mr. Zhang also serves as a member of board of AVIC Investment Co., Ltd.. Mr. Zhang has been appointed as a non-executive director of the Company since October 2008.

Mr. Zhang has an interest in 636,950 Restricted Shares which were granted on 30 March 2011 under the initial grant of the Scheme and formed part of his remuneration package. Please refer to the circular and the announcement of the Company dated 24 February 2011 and 30 March 2011 for details of the Scheme and the initial grant thereunder.

Mr. Gao Jianshe（高建設） *(Chairman of the Remuneration Committee)*

47, a doctorate degree holder and class one senior economist. Mr. Gao is also a vice general manager of AVIC. He graduated from Xiamen University with a bachelor in 1985 majoring in philosophy, and completed courses for master degree candidates majoring in educational economy and administration conducted by Beijing University of Aeronautics and Astronautics in 2001. He received his Ph.D. degree in management science and engineering from Beijing University of Aeronautics and Astronautics in 2008. Mr. Gao commenced his career in aviation industry in 1985, and used to be a staff, senior staff, deputy director, director of Human Resource and Labor Division of Aviation Industry Ministry, Aviation and Space Industry Ministry and former AVIC; deputy director-general and director-general of Human Resource Department of AVIC I since July 1999; and vice general manager of AVIC I since August 2006. Mr. Gao also serves as chairman of supervisory committees of AVIC I Consultant Co., Ltd. and AVIC I Investment Co., Ltd.. Mr. Gao has been appointed as a supervisor of the Company from August 2008 to June 2009 and was appointed as a non-executive director of the Company in June 2009.

Mr. Gao has an interest in 636,950 Restricted Shares which were granted on 30 March 2011 under the initial grant of the Scheme and formed part of his remuneration package. Please refer to the circular and the announcement of the Company dated 24 February 2011 and 30 March 2011 for details of the Scheme and the initial grant thereunder.

Mr. Li Fangyong（李方勇）

48, a doctorate degree holder and researcher. Mr. Li is also a vice general manager of AVIC. He graduated from Beijing University of Aeronautics and Astronautics with a bachelor degree in 1985 majoring in air vehicle manufacture. In July 2010, Mr. Li graduated from Beijing University of Aeronautics and Astronautics majoring in management science and engineering with a doctorate degree. Mr. Li commenced his career in aviation industry in 1985, and used to be a technician and head of Techniques Sector and deputy director-general of Engineering Department of Shenyang Aircraft Corporation; vice general manager, vice chairman of the board, general manager and chairman of the board of Shenyang Aircraft Corporation since July 1999; and vice general manager of AVIC I since September 2007. Mr. Li has been appointed as a non-executive director of the Company since October 2008.

Mr. Li has an interest in 636,950 Restricted Shares which were granted on 30 March 2011 under the initial grant of the Scheme and formed part of his remuneration package. Please refer to the circular and the announcement of the Company dated 24 February 2011 and 30 March 2011 for details of the Scheme and the initial grant thereunder.

Mr. Chen Yuanxian（陳元先）

51, a doctorate degree holder and researcher. He is also the vice general economist of AVIC and director-general of the Strategy and Planning Department of AVIC. Mr. Chen graduated from Nanjing University of Aeronautics and Astronautics with a bachelor degree majoring in man-machine engineering in 1982 and graduated from Beijing University of Aeronautics and Astronautics with a master degree and a doctorate degree majoring in man-machine engineering in 1988 and 1998, respectively. He commenced his career in the aviation industry from 1982 and used to be a technician, vice department director, deputy chief engineer and chief engineer of China Research Institute of Aero-Accessories. He had been the director of China Research Institute of Aero-Accessories since February 2000, director-general of Airborne Equipment Department of AVIC I since February 2003 and deputy chief engineer of AVIC I since June 2007. Mr. Chen has been appointed as a non-executive director of the Company since June 2009.

Mr. Chen has an interest in 426,280 Restricted Shares which were granted on 30 March 2011 under the initial grant of the Scheme and formed part of his remuneration package. Please refer to the circular and the announcement of the Company dated 24 February 2011 and 30 March 2011 for details of the Scheme and the initial grant thereunder.

Mr. Wang Yong（王勇）

54, a senior economist. He was appointed as the general manager of China Hua Rong Asset Management Corporation Changchun Office in April 2000. He has been appointed as the general manager of China Hua Rong Asset Management Corporation Harbin Office since December 2001, and as the deputy general manager of China Hua Rong Asset Management Corporation Harbin Office since December 2008. He graduated from Harbin Normal University in 1997 with a bachelor degree majoring in economics management. Mr. Wang commenced his career in the People's Bank of China, Lanxi County branch in 1977. He had been the manager of the credit and loan department and a vice president of Industrial and Commercial Bank of China, Suihua branch, the department head of credit and loan department of Industrial and Commercial Bank of China, Heilongjiang branch, the president of Industrial and Commercial Bank of China, Qiqihar branch. At present, Mr. Wang serves as a vice chairman of China First Heavy Industries (Group) Co., Ltd., a vice chairman of the board of Harbin Turbine Co., Ltd.. and a vice chairman of the board of Harbin Huaer Chemical Industry Co., Ltd. Mr. Wang has been appointed as a non-executive director of the Company since June 2005.

Mr. Maurice Savart *(Member of Development and Strategy Committee)*

52, Chairman of Airbus Asia Advisory Council. Mr. Maurice commenced his career in science and technology for national defence in 1982 when he worked at the Training and Cooperation Department of the Ministry of Defence of France. He used to be the area sales manager (Asia) of the Thomson-CSF/Aerospace Group, the business development director (Asia Pacific), vice president (North Asia) of the Lagardere Group, the managing director (North Asia) of Aerospatiale Lagardere International and the senior vice president of EADS in charge of business in north Asia. He has been the Chairman of Airbus Asia Advisory Council from late 2007. Mr. Maurice graduated from the School of Engineering of Ecole Nationale Superieure de Physique in France in 1980 and received his master degree in Science from the University of California in the USA in 1981 and a MBA degree from the School of Business Administration of Institut Superieur des Affaires in France in 1982. Mr. Savart has been appointed as a non-executive director of the Company since June 2004.

Independent Non-executive Directors

Mr. Guo Chongqing（郭重慶）*(Member of Audit Committee and Remuneration Committee)*

78, an academician of the Chinese Academy of Engineering and a professor of Tongji University, a professor of Shanghai Jiao Tong University, the consulting dean of the Mechanical Engineering Institute and Economics and Management Institute, the head of management and science department of the National Committee of Natural Science Funds and a member of the specialist committee of Chinese Association of Machine Building. He graduated from Harbin Polytechnical University in 1957 majoring in machinery manufacturing and was an assistant professor in the university. He had been the chief designer of a number of major national construction projects, and was awarded the "Chinese Master of Engineering Design". Mr. Guo has been appointed as an independent non-executive director of the Company since May 2003.

Mr. Li Xianzong（李現宗）*(Chairman of Audit Committee and Member of Remuneration Committee)*

54, a professor and supervisor for master degree students. Mr. Li graduated from Zhengzhou Institute of Aeronautical Industry Management in 1982. He then graduated from Tianjin Finance and Economics Academy in 1996 with a master degree majoring in accounting. Mr. Li was the deputy chairman and subsequently the chairman of the Accounting Department of Zhengzhou Institute of Aeronautical Industry Management. He is the deputy dean of Zhengzhou Institute of Aeronautical Industry Management. Mr. Li was an independent non-executive director of Guizhou Guihang Automobile Parts Joint Stock Company Limited. Mr. Li is also a member of the Association of Accounting in the PRC, non-practicing member of the Chinese Institute of Certified Public Accountants in the PRC, an asset appraiser, member of the Institute of International Internal Auditors, and a member of the third Council of the Chief Accountants' Association in the PRC. Mr. Li has been appointed as an independent non-executive director of the Company since December 2004.

Mr. Lau Chung Man, Louis（劉仲文）*(Member of Audit Committee and Remuneration Committee)*

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

Supervisors

Mr. Li Yuhai（李玉海）

52, a doctorate degree holder and researcher. Mr. Li is also a vice general manager of AVIC. He graduated from Northwestern Polytechnical University in 1982 with a bachelor degree majoring in structural intensity of air vehicle, and received his Ph.D. degree in engineering dynamics from Beijing University of Aeronautics and Astronautics in 2001. Mr. Li commenced his career in aviation industry in 1982, and used to be a designer, deputy team head, deputy director, director of Intensity Division of Shenyang Aircraft Research Institute; deputy director-general and director-general of Shenyang Aircraft Research Institute since June 1997; director-general of Aviation Products Department of AVIC I since March 2003; and vice general manager of AVIC I since August 2006. Mr. Li also serves as a visiting professor and supervisor for Ph.D. degree students in Beijing University of Aeronautics and Astronautics and visiting professor in Northwestern Polytechnical University. Mr. Li has been appointed as a supervisor of the Company since August 2008 and as the chairman of the Supervisory Committee since June 2009.

Mr. Tang Jianguo（湯建國）

59, a researcher. Mr. Tang is also a vice general manager of AVIC. He graduated from Beijing University of Aeronautics and Astronautics majoring in metallic materials and welding engineering. He commenced his career in the aviation industry in December 1971 and used to serve at Factory No.550 under the Ministry of Aviation Industry, Beijing University of Aeronautics and Astronautics, former AVIC, vice director and the director of the human resources department and director of development and research department of AVIC II, director of human resources department and chief director of China Aviation Economy Establishment and vice general manager of AVIC II. Mr. Tang has been appointed as a supervisor of the Company since April 2003, as the chairman of the Supervisory Committee from August 2006 to October 2008 and as supervisor of the Company since October 2008.

Ms. Bai Ping（白萍）

56, a master degree holder and class one senior accountant and a certified public accountant. Ms. Bai is also the deputy chief accountant and director-general of financial management department of AVIC. She graduated from Zhengzhou Aviation Industry Management Institute majoring in financial management. She also took the business administration diploma course in the faculty of economics, management and human resources training center in Beijing University of Aeronautics and Astronautics and an MBA course sponsored by the University of California, USA. She commenced her career in aviation industry in 1970 and served as a staff in the management office of electronic component division of Shaanxi Xingping Qinling Company, an auditor of the audit department of the Ministry of Aero-Space Industry, a deputy director and the director of the audit office under the finance department of former AVIC, and the director-general of the finance and audit department and deputy chief accountant of AVIC II. Ms. Bai has been appointed as a supervisor of the Company since April 2003.

Mr. Yu Guanghai（于廣海）

41, a bachelor degree holder and a senior economist. Mr. Yu is also a manager of Business Department I of China Orient Asset Management Corporation, Harbin Office, responsible for assets and stock management. Mr. Yu graduated from Heilongjiang University with a bachelor degree majoring in economics. From 1992, he worked in Bank of China, the International Business Department, Operation Department and Corporate Department of Heilongjiang branch, engaging in research, investment management, investment fund and credit and loan operations. He joined China Orient Asset Management Corporation, Harbin Office since 2000. Mr. Yu has been appointed as a supervisor of the Company since June 2009.

Mr. Wang Yuming（王玉明）

40, a bachelor degree holder and an economist. Mr. Wang is also the vice general manager of the Assets Preservation Department of China Construction Bank Corporation, Heilongjiang branch. He graduated from Lanzhou University with a bachelor degree in 1993 majoring in administrative management. He commenced his career in China Construction Bank Corporation, Heilongjiang branch in July 1993, and used to be a staff, deputy director and director of Human Resource Division and the president of China Construction Bank Corporation, Harbin Nangang branch since May 2002. Mr. Wang has been appointed as a supervisor of the Company since October 2008.

Senior Management

Mr. Wang Jun（王軍）

57, Vice president and chief financial officer, a class one senior accountant. Mr. Wang graduated from Zhengzhou Aviation Industry Management Institution majoring in finance and business management. He commenced his career in aviation industry in August 1969 and used to be a division chief of planning department, secretary of company officer, deputy director of financial department of Harbin Dongan Engine Manufacturing Company; general manager of Shanghai Andong Industry & Trading Corporation. From February 2002, he had been the general accountant, vice general manager of Harbin Dongan Engine Manufacturing Company; director, vice general manager of Harbin Dongan Engine (Group) Co., Ltd., director of Harbin Aviation Group; Chairman of the board of the directors of Dongan Heibao Co., Ltd.; Chairman of the board of the directors and general manager of Harbin Dongan Engine (Group) Co., Ltd.. Mr. Wang Jun was appointed as the vice president and chief financial officer of the Company on 9 April 2010.

Mr. Ni Xianping（倪先平）

55, a doctorate degree holder and researcher, vice president of the Company. He graduated with a bachelor degree majoring in helicopter design, a master degree majoring in helicopter design and a doctorate degree majoring in air vehicle design from Nanjing University of Aeronautics and Astronautics in 1982, 1987 and 2002, respectively. Mr. Ni commenced his career in aviation industry in 1982, and used to be an engineer, deputy director of pneumatic division, assistant to chief engineer, the director of the office of chief engineer, deputy chief engineer, deputy director-general and director-general of China Helicopter Research Institute; deputy chief engineer of China Aviation Industry Corporation II (AVIC II) and director-general of Helicopter Department of AVIC II since June 2003; and deputy chief engineer of AVIC II since January 2006. Mr. Ni also serves as member of board of AVIC Engine Company, Hongdu Aviation and CATIC. Mr. Ni has been appointed as vice president of the Company since June 2009.

Mr. Zheng Qiang（鄭強）

47, a master degree holder and researcher, vice president of the Company. He graduated from Northwestern Polytechnical University with bachelor degree majoring in aircraft design in 1988. Mr. Zheng commenced his career in aviation industry from 1988, and used to be an engineer, deputy director and director of Civil Aircraft Division of China Aviaiton System Engineering Research Institute (CASERI); deputy chief engineer and director of Aircraft Division of CASERI since March 1996; deputy director-general and director-general of CASERI since October 1996; deputy director-general and director-general of Civil Aircraft Department of AVIC I since August 2001; and assistant to the general manager of AVIC I since September 2004. Mr. Zheng also serves as member of board of AVIC Helicopter Company; member of board of AVIC Engine Company and member of board of AVIC Economy Research Institute. Mr. Zheng has been appointed as vice president of the Company since June 2009.

Mr. Zhang Kunhui（張昆輝）

48, a doctor degree holder, Natural Science researcher, researcher and supervisor of Ph.D. students, vice president of the Company. Mr. Zhang graduated from Nanjing University of Aeronautics and Astronautics (bachelor and master of engineering), Beijing University of Aeronautics and Astronautics (doctor of Communication and Information Systems). He commenced his career in aviation industry from July 1983 and used to be division chief, vice director, executive director, director of China Leihua Electronic Technology Research Institute. He was appointed as director of Radar and Avionics Institute of AVIC in March 2004. Mr. Zhang was appointed as the vice president of the Company on 9 April 2010.

Company Secretary

Mr. Yan Lingxi（閆靈喜）

41, a master degree holder, senior engineer, Company Secretary and Assistant to General Manager. He is also a director of Dongan Motor and AVIC Avionics and a supervisor of Hafei Aviation. He graduated from the Beijing University of Aeronautics and Astronautics with a bachelor degree in engineering in 1991 and with a master degree in management in 1999. He commenced his career in the aviation industry in July 1991 and worked in the reform bureau of the Ministry of Aero-Space Industry, the corporate management office of Nanjing Jincheng Machinery Factory, the corporate management department and the asset and business management department of former AVIC. He was appointed as a deputy division director and a division director of the corporate assets management department of AVIC II, and the director in the security and legal department of the Company. Mr. Yan has been appointed as the Secretary of the Company since April 2003, and Assistant to General Manager since May 2010.

The board of directors of AviChina Industry & Technology Company Limited presents its annual report of the Board together with the audited financial statements of the Group for the year ended 31 December 2010.

BUSINESS OF THE GROUP

The Group is principally engaged in the research, development, manufacture and sale of civil aviation products and automobile products.

RESULTS AND DIVIDEND

The results of the Group for 2010 are set out in the Consolidated Income Statement on page 59 of this Annual Report.

The Board recommended the payment of a final dividend for the year 2010 in an aggregate amount of RMB49,490,245, equivalent to RMB0.01 per share (2009: Nil), based on the existing number of total issued Shares of 4,949,024,500 Shares as at the date of this report, subject to adjustment based on the number of total issued Shares as at the Record Date (as defined below).

The final dividend will be paid to those shareholders whose names appear on the Company's register of members at the close of business on 27 May 2011 (the "Record Date"). The Company's register of members will be closed from 7 May 2011 to 27 May 2011 (both days inclusive), during which period no transfer of H Shares will be effected. In order to be entitled to receive the final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's H Shares Registrar, by not later than 4 p.m. on 6 May 2011.

Please refer to page 43 of this Annual Report regarding the acquisition of the entire equity interest in Tianjin Aviation. Conditional upon, among other things, the Tianjin Aviation Acquisition (as defined below) having been approved by, and the relevant valuation report having been filed with the state-owned assets supervision and administration authorities or its authorized representatives, the Consideration Shares may be issued on or before the Record Date and the proposed final per share dividend may be subject to adjustment if there is any change in the total number of Consideration Shares to be issued to AMES. Please refer to the announcement and circular of the Company dated 25 January 2011 and 21 February 2011 respectively for details of Tianjin Aviation Acquisition.

In accordance with Article 149 of the Articles of Association, the dividend will be declared in RMB to the Shareholders. The dividend for Domestic Shares will be paid in RMB within three months after the declaration date and the dividend for H Shares, calculated and declared in RMB, will be paid in Hong Kong dollars within three months after the declaration date. The amount denominated in Hong Kong dollars will be converted based on the average closing conversion rate between RMB and Hong Kong dollars issued by the People's Bank of China for the five working days prior to the declaration of dividends at the annual general meeting of the Company to be held on 27 May 2011.

SHARE CAPITAL

On 10 March 2010, the Company completed the placing of 334,633,402 H Shares, which comprised (1) 305,416,000 new H Shares allotted and issued by the Company; and (2) 29,217,402 H Shares converted from the same number of existing state-owned Domestic Shares of RMB1.00 each that were allocated by AVIC to the National Council for Social Security Fund of the PRC. Upon completion, the total number of issued shares of the Company increased from 4,643,608,500 Shares to 4,949,024,500 Shares. The total number of H Shares increased from 1,679,800,500 H Shares to 2,014,433,902 H Shares, and the number of the Domestic Shares was reduced by 29,217,402 Shares to 2,934,590,598 Shares as a result of the conversion of Domestic Shares to H Shares.

The Company's capital structure as at 31 December 2010 was as follows:

Class of shares	Number of shares as at 31 December 2010	Percentage of total number of shares in issue as at 31 December 2010 (%)
Domestic shares	2,934,590,598	59.30
Overseas listed foreign invested shares (H shares)	2,014,433,902	40.70
Total	4,949,024,500	100

FIVE-YEAR FINANCIAL HIGHLIGHTS

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

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, pursuant to the register kept under Section 336 of the Securities and Futures Ordinance (the "SFO"), shareholders holding 5% or more than 5% equity interests in the Company and associated corporations were as follows:

Name of Shareholders	Class of shares	Capacity	Number of shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage to share capital in issue	Nature of shares held
AVIC	Domestic shares	Beneficial owner	2,806,088,233	95.62%	56.70%	Long position
European Aeronautic Defence and Space Company – EADS N.V.	H shares	Interest of a party to an agreement to acquire interests in a listed corporation under s.317(1)(a) and s.318	248,909,827	12.36%	5.03%	Long position
The Hamon Investment Group Pte Limited	H Shares	Investment manager	161,680,000 (Note 1)	8.03%	3.27%	Long position
The Dreyfus Corporation (Note 2)	H Shares	Investment manager	107,326,000	5.33%	2.17%	Long position

Notes:

1. These H shares were held directly by various controlled corporations of The Hamon Investment Group Pte Limited, of which 30,378,000 H shares were held by Hamon Asset Management Limited, 107,326,000 H shares were held by Hamon U.S. Investment Advisors Limited and 23,976,000 H shares were held by Hamon Investment Management Limited.

2. A corporation controlled by The Bank of New York Mellon Corporation.

Save as disclosed above, as at 31 December 2010, the Company had not been notified of any interests and short positions in 5% or more than 5% of shares and underlying shares of the Company which had been recorded in the register kept under section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares for the year ended 31 December 2010.

PRE-EMPTIVE RIGHTS

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

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2010, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

FIXED ASSETS

Details of fixed assets of the Company are set out in note 17 to the financial statements.

RESERVES

Details of movement in reserves of the Group for the year ended 31 December 2010 are set out in the Consolidated Statement of Changes in Equity and note 38 to the financial statements.

DISTRIBUTABLE RETAINED EARNINGS

As at 31 December 2010, the Company had distributable retained earnings of RMB57,625,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's total purchases from the five largest suppliers accounted for 15.32% of the Group's total purchases, of which purchases from the largest supplier accounted for approximately 4.03% of the Group's total purchases. The Group's sales to the five largest customers accounted for 56.32% of the Group's total sales, of which, sales to the largest customer accounted for 16.59% of the Group's total sales.

Purchases of aviation segment from the five largest suppliers accounted for 24.57% of the total purchases in the Group's aviation segment, of which, purchases from the largest supplier accounted for 7.32% of the total purchases in the Group's aviation segment. Sales in the aviation segment to the five largest customers accounted for 63.38% of the total sales in the Group's aviation segment, of which, sales to the largest customer accounted for 29.73% of the total sales in the Group's aviation segment.

Purchases of automobile segment from the five largest suppliers accounted for 17.15% of the total purchases in the Group's automobile segment, of which, purchases from the largest supplier accounted for 6.49% of the total purchases in the Group's automobile segment. Sales in the automobile segment to the five largest customers accounted for 71.29% of the total sales in the Group's automobile segment, of which, sales to the largest customer accounted for 29.82% of the total sales in the Group's automobile segment.

During the reporting period, save for the connected transactions with AVIC Group, as disclosed in the section of Connected Transactions in the Annual Report, none of the directors, their associates or any shareholder holding more than 5% in the share capital of the Company has any interest in the above major suppliers and customers.

SUBSIDIARIES AND ASSOCIATES

Details of subsidiaries and associates are set out in note 44 to the financial statements.

DIRECTORS

Details of the directors of the Company during the financial year ended 31 December 2010 are set out from pages 21 to 27 of this annual report.

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

On 23 March 2010, the Company and AVIC entered into the equity acquisition agreements for the acquisition of the equity interests in each of AVIC Kaitian and AVIC Lanfei.

On 1 June 2010, (i) the Company; (ii) AVIC; (iii) AVIC Avionics Systems, a wholly-owned subsidiary of AVIC; and (iv) Hanzhong Aviation Industry (Group) Co., Ltd. ("Hanzhong Aviation"), an indirect 70% owned subsidiary of AVIC, entered into a subscription agreement with AVIC Avionics as subsequently amended and supplemented by a supplemental agreement dated 5 July 2010, pursuant to which, AVIC Avionics agreed to issue and each of the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation agreed to subscribe for a total of approximately 336 million new shares in AVIC Avionics. Upon completion of the transaction, the equity interest held by the Company in AVIC Avionics would be diluted from 49.93% to 44.54%. Such dilution constituted a deemed disposal by the Company of its approximately 5.39% equity interest in AVIC Avionics under the Listing Rules.

Details of the above mentioned transactions can be referred to in pages 40 to 41 of this annual report.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

During the year ended 31 December 2010, the Group engaged in several continuing connected transactions with AVIC Group (AVIC is a connected person of the Company as AVIC is the controlling shareholder of the Company), joint venture partners (who are connected persons of the Company as they hold at least 10% interests in the subsidiaries of the Company) and non-wholly owned subsidiaries of the Company (who are connected persons of the Company as AVIC or its associates hold 10% or more interests in them).

Set out below are continuing connected transactions of the Company for the year ended 31 December 2010, which are subject to reporting, announcement and independent Shareholders' approval requirements:

1. On 29 September 2008, the Company entered into a supplemental agreement with AVIC to renew the terms of the product and ancillary services mutual supply agreement ("Mutual Supply Agreement") for a further term of three years expiring on 31 December 2011, whereby AVIC Group has agreed to provide certain products and services to the Group and the Group has agreed to provide certain products and services to AVIC Group.

2. On 29 September 2008, the Company entered into a supplemental agreement with AVIC Group to renew the terms of the comprehensive services agreement ("Comprehensive Services Agreement") for a further term of three years expiring on 31 December 2011, whereby AVIC Group has agreed to provide certain social welfare and logistics services to the Group.

3. On 29 September 2008, the Company entered into a supplementary agreement with AVIC to renew the terms of the technology co-operation framework agreement ("Technology Co-operation Agreement") for a further term of three years expiring on 31 December 2011, whereby AVIC Group has agreed to transfer or grant a licence to the Group to use certain existing technologies required for the Group's business in connection with the production of aviation products and automobiles. The agreement has also provided for future co-operation between AVIC and the Group in respect of development of new technologies.

4. On 29 September 2008, the Company and its subsidiaries Hafei Motor Co., Ltd. ("Hafei Auto") and Dongan Engine entered into the Products and Services Mutual Supply and Guarantees Provision Agreement which will expire on 31 December 2011. On 6 November 2009, the Company and its subsidiaries entered into a supplementary agreement to exempt Hafei Auto's rights and responsibilities described in the Products and Services Mutual Supply and Guarantees Provision Agreement due to the cessation of Hafei Auto as a subsidiary of the Company. The Products and Services Mutual Supply and Guarantees Provision Agreement sets out general principles for transactions between the Company (or its wholly-owned subsidiaries) and non wholly-owned subsidiaries of the Company as well as transactions among non wholly-owned subsidiaries of the Company. Dongan Engine is a contracting party engaging in transactions according to the Products and Services Mutual Supply and Guarantees Provision Agreement.

5. On 2 June 2005, the Group entered into the Agusta Agreement with Agusta, a connected person by virtue of it being a substantial shareholder of Changhe Agusta (a joint venture established by the Group and Agusta), whereby Agusta agrees to provide to Changhe Agusta parts and components for manufacturing helicopters and assistance in manufacturing, assembling and selling helicopters.

6. On 1 April 2010, the Company and Aviation Industry Corporation Finance Company Limited ("AVIC Finance"),a subsidiary of AVIC, entered into the Financial Services Framework Agreement, pursuant to which AVIC Finance has agreed to provide the Group with deposit services, loan services, settlement services, guarantee services and other financial services subject to the terms and conditions provided therein with a term of three years.

Set out below are continuing connected transactions of the Company for the year ended 31 December 2010, which are subject to reporting and announcement requirements:

1. On 29 September 2008, the Company entered into a supplemental agreement with AVIC Group to revise the land use rights leasing agreement ("Land Use Rights Leasing Agreement") whereby AVIC has agreed to lease to the Group 35 pieces of land, with an aggregate area of approximately 2.5 million square metres at the annual rent of approximately RMB30 million. The land is used by the Group as workshops, warehouses, an administrative office and ancillary facilities.

2. On 29 September 2008, the Company entered into a supplementary agreement to the properties leasing agreement ("Properties Leasing Agreement") with AVIC whereby AVIC Group has agreed to lease to the Group certain properties with an aggregate gross floor area of approximately 121,000 square metres ("Rented Properties") at an annual rent of approximately RMB19 million. Similarly, the Group has agreed to lease to AVIC Group certain properties with an aggregate gross floor area of approximately 88,000 square meters ("Leased Properties") at an annual rent of approximately RMB2 million. The Rented Properties are built on leased lands and used by the Group as workshops, warehouses and ancillary facilities. The Leased Properties are used by AVIC Group as workshops, warehouses and ancillary facilities.

3. On 19 December 2009, the Company and its subsidiary Changhe Auto entered into the Changhe Auto Products and Services Mutual Supply and Guarantees Provision Agreement which will expire on 31 December 2011. The Changhe Auto Products and Services Mutual Supply and Guarantees Provision Agreement sets out general principles for transactions between the Company (or its wholly-owned subsidiaries) and non wholly-owned subsidiaries of the Company as well as transactions among non wholly-owned subsidiaries of the Company. Changhe Auto is a contracting party engaging in transactions according to the Products and Services Mutual Supply and Guarantees Provision Agreement.

Details of the above continuing connected transactions can be referred to in the announcements, circulars and supplementary circulars of the Company dated 29 September 2008, 21 November 2008 and 28 November 2008, respectively, the announcement and circular dated 1 April 2010 and 16 April 2010 respectively and announcements dated 6 November 2009 and 20 December 2009 respectively.

Set out below are the annual caps for the continuing connected transaction as compared with the actual transaction amounts incurred by the Group in 2010. For the year ended 31 December 2010, the continuing connected transactions of the Company were calculated on a consolidated basis as follows:

		Actual amount for 2010 RMB'M	Annual Cap RMB'M
1	Mutual Supply Agreement		
	(a) Annual expenditures of the Group	2,787	5,742
	(b) Annual revenues of the Group	6,916	9,513
2	Comprehensive Services Agreement		
	Annual expenditures of the Group	39	160
3	Land Use Rights Leasing Agreement		
	Annual expenditures of the Group	17	30
	Properties Leasing Agreement		
	(a) Annual expenditures of the Group	8	19
	(b) Annual revenues of the Group	1.7	2.0
4	Technology Co-operation Agreement		
	(a) Annual expenditures of the Group	16	86
	(b) Annual revenues of the Group	1	52
5	Products and Services Mutual Supply and Guarantees Provision Agreement		
	(a) Annual expenditures of Dongan Engine	–	2,420
	(b) Annual revenues of Dongan Engine	143	170
	(c) Annual guarantees provided by subsidiaries of the Group	–	1,960
6	Agusta Agreement		
	Annual expenditures of the Group	3	350
7	Changhe Auto Products and Services Mutual Supply and Guarantee Provision Agreement		
	Expenditures of the Group	69	72
	Revenue of the Group	1	3

		Maximum daily outstanding balance of deposits for 2010	Cap for the maximum daily outstanding balance of deposits for 2010
8	Financial Services Framework Agreement with AVIC Finance		
	Daily deposit amount (including accrued interests) placed by the group with AVIC Finance	427	2,000

The Board (including independent non-executive directors) has reviewed the above continuing connected transactions and confirmed that they had been entered into under the following conditions:

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

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

(c) The transactions were entered into in accordance with the relevant agreement governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

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

The Company's auditor has reviewed the relevant transactions, and have confirmed in a letter to the Directors stating that:

(a) The transactions have received the approval of the Board;

(b) The pricing of the transactions have been entered into in accordance with the pricing policies of the Group;

(c) The transactions have been entered into in accordance with the terms of the respective agreements governing the transactions; and

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

ONE-OFF CONNECTED TRANSACTIONS

1. On 23 March 2010, the Company and AVIC entered into: (1) Equity Acquisition Agreement I, pursuant to which the Company agreed to purchase and AVIC agreed to sell the 86.74% equity interest held by AVIC in AVIC Kaitian ("AVIC Kaitian Acquisition"); and (2) Equity Acquisition Agreement II, pursuant to which the Company agreed to purchase and AVIC agreed to sell the 100% equity interest held by AVIC in AVIC Lanfei ("AVIC Lanfei Acquisition", together with AVIC Kaitian Acquisition, collectively referred to as the "Acquisitions"). The final consideration amounts for the AVIC Kaitian Acquisition and AVIC Lanfei Acquisition, as filed with and confirmed by the state-owned assets supervision and management authorities or its authorized representatives, were RMB581,333,000 and RMB327,327,800, respectively.

   The Acquisitions constituted discloseable and connected transactions for the Company pursuant to Chapter 14 and Chapter 14A of the Listing Rules. The transactions were approved by the independent shareholders of the Company at the extraordinary general meeting held on 19 May 2010. Details of the transactions can be referred to in the announcements of the Company dated 23 March 2010 and 11 May 2010 and the circular of the Company dated 13 April 2010.

2. On 1 June 2010, (i) the Company; (ii) AVIC; (iii) AVIC Avionics Systems, a wholly-owned subsidiary of AVIC; and (iv) Hanzhong Aviation, an indirect 70% owned subsidiary of AVIC, entered into a subscription agreement, as subsequently amended and supplemented by the supplemental agreement dated 5 July 2010, with AVIC Avionics (the "Subscription Agreement"). Pursuant to the Subscription Agreement, AVIC Avionics agreed to issue and each of the Company, AVIC, Avionics Systems and Hanzhong Aviation agreed to subscribe for a total of approximately 336 million new shares in AVIC Avionics ("New AVIC Avionics Shares"), subject to adjustment, at a subscription price of not less than RMB7.59 per New AVIC Avionics Share (the "Subscription Price").

   The consideration for subscription of the New AVIC Avionics Shares by the parties under the Subscription Agreement would be satisfied as follows: (i) the Company would transfer its 86.74% and 100% equity interests in AVIC Kaitian and AVIC Lanfei, respectively, to AVIC Avionics for subscription of approximately 123,602,782 new AVIC Avionics Shares at the Subscription Price, which constituted a discloseable and connected transaction for the Company pursuant to Chapter 14 and Chapter 14A of the Listing Rules; (ii) AVIC would transfer its 3.56% equity interest in Qianshan Avionics to AVIC Avionics for subscription of approximately 1,347,093 New AVIC Avionics Shares at the Subscription Price ("AVIC Subscription"); (iii) Avionics Systems would transfer its 100% equity interests in each of Shaanxi Baocheng, Taiyuan Instrument as well as 12.90% equity interest in Shaanxi Huayan to AVIC Avionics for subscription of approximately 152,749,808 new AVIC Avionics Shares at the Subscription Price ("Avionics Systems Subscription"); and (iv) Hanzhong Aviation would transfer its 67.10% equity interest in Shaanxi Huayan and 96.44% equity interest in Qianshan Avionics to AVIC Avionics for subscription of 58,584,284 New AVIC Avionics Shares at the Subscription Price ("Hanzhong Aviation Subscription").

   The AVIC Subscription, Avionics Systems Subscription and Hanzhong Aviation Subscription constituted discloseable and connected transactions for the Company pursuant to Chapter 14 and Chapter 14A of the Listing Rules. Upon completion of the transactions contemplated under the Subscription Agreement, the equity interest held by the Company in AVIC Avionics would be diluted from 49.93% to 44.54%. Such dilution constituted a deemed disposal by the Company of its approximately 5.39% equity interest in AVIC Avionics, which also constituted a discloseable transaction for the Company under the Listing Rules. As disclosed previously, the accounts of AVIC Avionics would however continue to be consolidated in the accounts of the Company. The transactions were approved by the independent shareholders of the Company at the extraordinary general meeting held on 17 August 2010. Details of the transactions can be referred to in the announcements of the Company dated 2 June 2010 and 6 July 2010 and the circular of the Company dated 12 July 2010.

3. On 30 July 2010, (i) Hongdu Aviation, a non wholly-owned subsidiary of the Company; (ii) Jiangxi Provincial Investment Group Corp. ("Jiangxi Investment"); (iii) Xi'an Aircraft Industry (Group) Company Limited ("Xi'an Aircraft"); (iv) AVIC Aircraft Corporation Ltd. ("AVIC Aircraft"); (v) Jiangxi Copper Corporation ("Jiangxi Copper"); (vi) Jiangxi International Trust Co., Ltd. ("Jiangxi International Trust"); (vii) Jiangxi Rare Earth and Rare Metals Tungsten Group Corporation ("Jiangxi Tungsten Group"); and (viii) Jiangxi Tungsten Industry Group Co., Ltd. ("Jiangxi Tungsten Company") entered into a Promoters' Agreement for the establishment of a joint venture company namely, Jiangxi Hongdu Commercial Aircraft Corporation Limited (the "Joint Venture Company") with a registered capital of RMB1,200,000,000. The parties agreed to make capital contributions to the Joint Venture Company in proportion to their respective equity interests in the Joint Venture Company in two phases.

   Upon completion of the transactions contemplated under the Promoters' Agreement, the Joint Venture Company will be held as to 25.50%, 25%, 17.17%, 8.33%, 8.33%, 7.33%, 4.17% and 4.17% by Hongdu Aviation, Jiangxi Investment, Xi'an Aircraft, AVIC Aircraft, Jiangxi Copper, Jiangxi International Trust, Jiangxi Tungsten Group and Jiangxi Tungsten Company, respectively.

   As AVIC holds 100% equity interest in AVIC Aircraft and 85.91% equity interest in Xi'an Aircraft indirectly through AVIC Aircraft, the entering into of the Promoters' Agreement by Hongdu Aviation with, among other parties, Xi'an Aircraft and AVIC Aircraft constituted a connected transaction for the Company which is subject to reporting and announcement requirements but exempted from independent shareholders' approval under Chapter 14A of the Listing Rules. Details of the transaction can be referred to in the announcement of the Company dated 1 August 2010.

4. On 15 November 2010, (i) Hongdu Aviation, a non wholly-owned subsidiary of the Company, (ii) China Aviation Lithium Battery (Luoyang) Co., Ltd. ("AVIC Lithium"), (iii) Sichuan Chengfei Integration Technology Holdings Co., Ltd., (iv) China Airborne Missile Academy, (v) AVIC, (vi) AVIC Capital Holdings Co., Ltd., (vii) Hangjian Aviation Industry Equity Investment (Tianjin) Co., Ltd. and (viii) Luoyang Xinghang Investment Co.,Ltd. entered into an agreement (the "Capital Increase Agreement"), pursuant to which the parties to the Capital Investment Agreement agreed to make capital contribution of RMB1,333,000,000 in aggregate to AVIC Lithium (the "AVIC Lithium Capital Injection").

   The transaction constituted a connected transaction for the Company which is subject to reporting and announcement requirements but exempted from independent shareholders approval under Chapter 14A of the Listing Rules. Details of the transaction can be referred to in the announcements of the Company dated 16 November 2010.

EVENTS AFTER THE REPORTING YEAR

1. On 25 January 2011, the Company entered into an acquisition agreement with AMES pursuant to which, AMES agreed to sell and the Company agreed to purchase, subject to conditions, the entire equity interest in Tianjin Aviation for a consideration of RMB768,278,300, among which (i) as to 25% of the consideration, being RMB192,069,575 will be satisfied by the Company by way of cash; and (ii) as to 75% of the consideration, being approximately RMB576,208,725 will be satisfied by the Company by way of issuing 182,344,533 consideration shares to AMES at the issue price of HK$3.734 (equivalent to approximately RMB3.16) per Domestic Share in the capital of the Company (the "Consideration Shares") upon completion (the "Tianjin Aviation Acquisition"). The total amount of Consideration Shares to be issued to AMES by the Company is subject to change, if there is any adjustment to the asset valuation result confirmed by and filed with the state-owned assets supervision and administration authorities or its authorized representatives.

   The Tianjin Aviation Acquisition and the issue of the Consideration Shares constituted discloseable and connected transactions for the Company under the Listing Rules. Details of the transaction can be referred to in the announcement dated 25 January 2011 and circular dated 21 February 2011 respectively.

2. On 28 February 2011, the board of directors of AVIC Avionics announced that each of Avionics Systems and Shanghai Zhuri Investment Management Co., Ltd. ("Shanghai Zhuri") has agreed to inject RMB7,350,000 to Shanghai Aero-Sharp Electric Technologies Co., Ltd. ("Shanghai Aero-Sharp"), an indirect non wholly-owned subsidiary of the Company (the "Shanghai Aero-Sharp Capital Injection"). Shanghai Aero-Sharp is owned as to 65% and 35% by Shanghai Aviation Electric, an indirect subsidiary of the Company, and Mr. Jiang Haijiang ("Mr. Jiang") respectively. Following completion of the Shanghai Aero-Sharp Capital Injection, Shanghai Aero-Sharp will be owned as to 57.02%, 30.70%, 6.14% and 6.14% by Shanghai Aviation Electric, Mr. Jiang, Avionics System and Shanghai Zhuri respectively.

   The capital injection by Avionics System to Shanghai Aero-Sharp constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. Upon completion of the Shanghai Aero-Sharp Capital Injection, the equity interest held by the Company in Shanghai Aero-Sharp through its subsidiaries will be diluted by 7.98% from 65% to 57.02%. Such dilution constituted a deemed disposal by the Company of its 7.98% equity interest in Shanghai Aero-Sharp and a connected transaction under the Listing Rules. The above-mentioned connected transactions are subject to reporting and announcement requirements but exempted from independent shareholders approval under Chapter 14A of the Listing Rules. Details of the transaction can be referred to in the announcement of the Company dated 8 March 2011.

SIGNIFICANT EVENT DURING THE REPORTING YEAR

On 10 March 2010, the Company completed the placing of 334,633,402 H Shares (the "Placing Shares"). The Placing Shares comprised (1) 305,416,000 new H Shares allotted and issued by the Company; and (2) 29,217,402 H Shares converted from the same number of existing state-owned Domestic Shares of RMB1.00 each that were allocated by AVIC to the National Council for Social Security Fund of the PRC. Upon completion of the placing, the number of issued H Shares increased from 1,679,800,500 H Shares to 2,014,433,902 H Shares, the number of issued Domestic Shares had been reduced from 2,963,808,000 Shares to 2,934,590,598 Shares, and the total number of issued Shares of the Company increased from 4,643,608,500 Shares to 4,949,024,500 Shares.

CORPORATE GOVERNANCE

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Board, throughout the year ended 31 December 2010 and up to the date of this report, the Company maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

The financial statements for the year have been audited by PricewaterhouseCoopers. In the forthcoming annual general meeting, a resolution for the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and domestic auditors of the Company for the financial year of 2011 will be proposed. In the past three years, the auditors of the Company remained unchanged.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At the Board meeting convened on 9 April 2010, Mr. Wang Jun was appointed as a vice president and the chief financial officer of the Company and Mr. Zhang Kunhui was appointed as a vice president of the Company. Due to the reallocation of work, Mr. Li Yao resigned as a vice president and chief financial officer of the Company and Mr. Liu Chunhui and Mr. Tian Xueying resigned as vice presidents of the Company with effect from 9 April 2010.

Saved as disclosed above, for the year ended 31 December 2010, there was no other changes on directors, supervisors and senior management.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the reporting year, none of the Directors or Supervisors had any material interest, directly or indirectly, in any contract of significance to which the Company or its subsidiaries was a party.

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

As at 31 December 2010, none of the Directors, Supervisors and Chief Executive of the Company had interests or held short positions in the shares, underlying shares and/or debentures of its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded and kept in the register pursuant to section 352 of the SFO and be notified to the Company and the Stock Exchange pursuant to Part XV, Part 7 and Part 8 of the SFO.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of remuneration of the existing Directors, Supervisors and senior management are set out in note 16 to the financial statements.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2010, none of the Directors or Supervisors was entitled to acquire shares or debentures of the Company or its associated corporation (within the meaning of the SFO).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year of 2010.

Report of the Supervisory Committee

To all shareholders:

During the year of 2010, the Supervisory Committee strictly complied with the PRC Company Law, the Articles of Association and Procedural Rules for Meetings of Supervisory Committee and duly adhered to the principles of honesty and integrity in performing the supervisory duties and exercising the rights conferred on it by the Articles of Association, and also in good faith safeguarded the shareholders' interests in a diligent, pragmatic and serious manner.

The Supervisory Committee convened two meetings in 2010, at which 8 resolutions were considered and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2009 Annual Report, 2010 Interim Report, plans on distribution of profits for 2009 and the first six months of 2010 respectively, budgets for 2010 of the Company. The Supervisory Committee had also attended the Board meetings and the general meetings held in 2010 to monitor the validity of procedures undertaken leading to the convening of and decisions made during the board meetings and general meetings. Through convening supervisory committee meetings and attending board meetings and general meetings, the Supervisory Committee performed its duties of supervising the major operating activities of the Group, as well as the performance of directors and senior management officers in discharging their duties and provided advice to the Board.

The Supervisory Committee had reviewed the Report of the Board which the Board submitted to the general meeting, and considered that the report has fairly reflected the current position of the Company. In 2010, the Board and the senior management of the Company had duly exercised various powers conferred by the shareholders pursuant to the laws, performed various obligations, and used their best endeavors to make important contributions to the development of the Company.

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

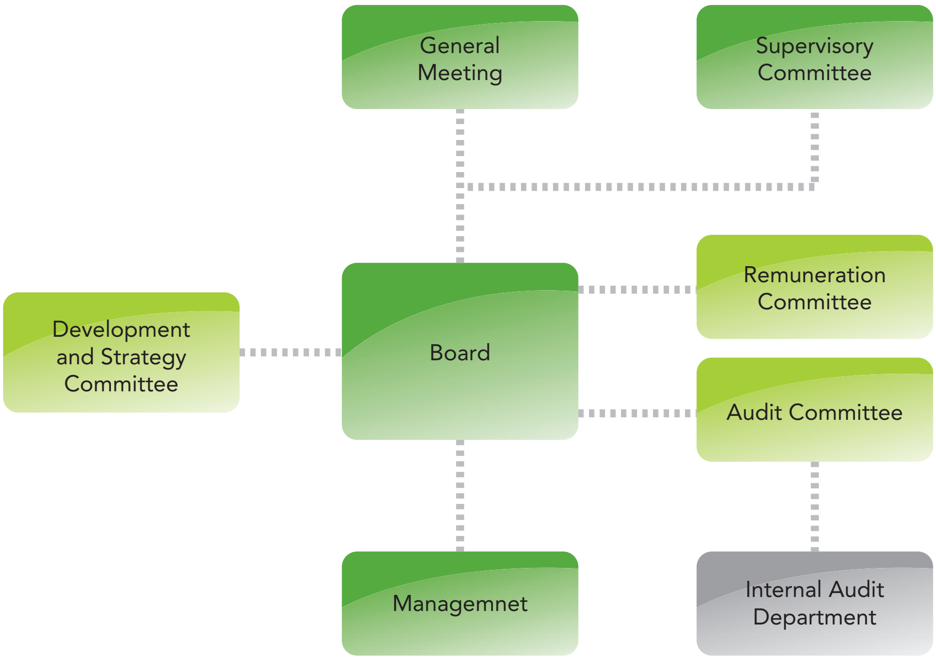
The Supervisory Committee is fully confident in the prospect of the Company. In 2011, the Supervisory Committee will continue to strictly perform its duties in accordance with the Articles of Association and the relevant requirements to safeguard shareholders' interests.

Li Yuhai
Chairman of the Supervisory Committee

Beijing, the PRC, 29 March 2011

The Company strictly complies with various applicable laws, rules and regulations as well as the Articles of Association to standardize its operation. In 2010, under the framework guidance of the Articles of Association, Procedural Rules for General Meetings, Procedural Rules for Board Meetings, Procedural Rules for Meetings of Supervisory Committee, Working Guidelines for the Management, Working Guidelines for the Audit Committee, Terms of Reference of the Remuneration Committee and Rules on Information Disclosure, the Company continuously enhanced its corporate governance standard through the co-ordination of general meetings, the Board and the relevant special committees of the Board, the Supervisory Committee and the management.

The governance structure of the Company is set out as follow:



CODE ON CORPORATE GOVERNANCE PRACTICES

The Board reviewed the corporate governance practices adopted by the Company and is of the view that the Company had complied with the principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Listing Rules during the reporting year.

THE BOARD

The Board is responsible for the leadership and supervision of the Company. The Board assumes the role to promote the business of the Company through directing and supervising the affairs of the Company.

DIRECTORS

The Board comprises fifteen Directors, including three executive Directors, namely, Mr. Lin Zuoming (Chairman), Mr. Tan Ruisong and Mr. Wu Xiandong, nine non-executive directors, namely, Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Gao Jianshe, Mr. Li Fangyong, Mr. Chen Yuanxian, Mr. Wang Yong and Mr. Maurice Savart and three independent non-executive directors, namely, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis. The Directors have contributed their comprehensive knowledge, skills and experience for the effective management of the Group. With extensive professional knowledge and experience, the independent non-executive directors have assumed the supervisory and balancing roles in order to protect the interests of shareholders of the Company and the Company as a whole. The Board believes that the independent non-executive directors are capable of making judgments independently and comply with the guidelines on the independence of independent non-executive directors as set out in Rule 3.13 of the Listing Rules. In addition, the Company had received a written confirmation from each independent non-executive director on their independency, based on which the Company considers that the independent non-executive directors are independent.

The Company adopts the formal procedures in the appointment of new directors. The Company has not established any nomination committee. The Board nominate new directors for approval by the shareholders of the Company pursuant to certain standards. These standards include relevant professional knowledge and industry experience, personal ethics, integrity and skills of directors, as well as their time commitment to the affairs of the Company.

Each director (including non-executive director) holds office for a period of three years, and is eligible for re-election upon the expiration of the term of office. A list of directors, their respective profiles and roles in the Board and special committees of the Board are set out in pages 21 to 27 of the Annual Report. Relevant information is also be published on the website of the Company. There are no relationship (including financial, business, family or other material or relevant relationships) among members of the Board.

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

RESPONSIBILITIES OF THE BOARD

The Board manages and supervises the Group on behalf of the shareholders of the Company. Each director is deemed to act in the best interest of the Company with prudence and honesty.

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

The Board will ensure the completeness of the financial information and the effectiveness of internal control and risk management procedures of the Group. The Board is also responsible for preparing the financial statements of the Group. All Group policies, material transactions or transactions leading to conflicts of interest are decided by the Board. On the other hand, the chief executive officer is responsible for attaining the business targets of the Company and managing the daily operations. Duties reserved to the Board and those delegated to management are clearly set out in the Procedural Rules for Board Meetings and Working Guidelines for the Management. The Board regularly reviews the duties and powers delegated to the chief executive officer to ensure such arrangements are appropriate.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and the chief executive officer have been clearly segregated to ensure a balance of power and authority. The current chairman of the Company, Mr. Lin Zuoming, is responsible for leading the Board to ensure the effective operation of the Board. The chief executive officer, Mr. Tan Ruisong, is responsible for business operations of the Company. The roles and duties of the chief executive officer are clearly set out in the Working Guidelines for the Management.

BOARD MEETINGS

The Board has four scheduled meetings every year in April, June, August and December respectively. Matters to be considered at these regular board meetings are put into writing. Further, additional board meetings are held as and when required, and reasonable notices are sent to the Directors before the convening of such meetings.

The company secretaries assist the chairman in preparing the agenda for each board meeting and consider the matters proposed by other directors for inclusion in the agenda. The agenda and relevant materials are usually delivered to the directors at least three days before the relevant board meeting date. The chairman should ensure that all directors are properly briefed on issues to be discussed at the board meeting and provided with relevant documents which contain analysis and background information.

The management has provided the directors and committee members with adequate and sufficient information on a timely basis. This will ensure that the directors and committee members are well-informed of the Company's latest development so that they may discharge their duties effectively. Every director has received comprehensive induction training upon his appointment. Directors are encouraged to constantly update their skills, knowledge and understanding of the business of the Group through the induction training, regular attendance to board meetings and committee meetings, and meetings with key personnel of the head office and various departments of the Group.

All directors have access to the services of the company secretaries. The board secretaries are responsible for ensuring that board procedures are followed and advising the Board accordingly. Directors, the audit committee and the remuneration committee may seek independent professional advice at the Company's expenses in discharging their duties.

Directors are encouraged to discuss issues of the Group openly and frankly at board meetings and every executive director is available for inquires raised by non-executive directors. Independent non-executive directors may convene meetings amongst themselves if necessary to discuss issues related to the Group. Board minutes as well as any materials related to the board meetings are kept by the company secretaries and made available for inspection by any member of the Board.

The Board has established a development & strategy committee, an audit committee and a remuneration committee to ensure good corporate governance. Duties of these committees are set out in accordance with the principles of the Code. Each committee reports directly to the Board. Minutes of committee meetings are kept by the Board Secretary. In 2010, the Company convened 2 meetings of the Audit Committee and 2 meetings of the Remuneration Committee.

Seven meetings were held by the Board during 2010. The chief executive officer and vice presidents, including the chief financial officer, attended these meetings to brief the Board and reply to issues relating to resolutions discussed at those meetings. The attendance of every director (including the circumstance of appointing another director on his behalf) in the board meetings, the audit committee meeting and the remuneration committee meetings in 2010 is set out below:

	Times of presence/Times of meetings should present		
Directors	The Board	Audit Committee	Remuneration Committee
Executive directors			
Mr. Lin Zuoming	7/7		
Mr. Tan Ruisong	7/7		
Mr. Wu Xiandong	7/7		
Non-executive directors			
Mr. Gu Huizhong	7/7	2/2	
Mr. Xu Zhanbin	7/7		
Mr. Geng Ruguang	7/7		
Mr. Zhang Xinguo	7/7		
Mr. Gao Jianshe	7/7		2/2
Mr. Li Fangyong	7/7		
Mr. Chen Yuanxian	7/7		
Mr. Wang Yong	7/7		
Mr. Maurice Savart	7/7		
Independent non-executive directors			
Mr. Guo Chongqing	7/7	2/2	2/2
Mr. Li Xianzong	7/7	2/2	2/2
Mr. Lau Chung Man, Louis	7/7	2/2	2/2

INTERESTS HELD AND SECURITIES TRANSACTIONS BY DIRECTORS

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

Interests of the Company held by the Directors as at 31 December 2010 have been disclosed on page 45 of the Report of the Board of this Annual Report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own guidelines for securities transactions by Directors, Supervisors and employees of the Company. All Directors and Supervisors have been provided with a copy of the Model Code upon appointments. Two months prior to the meeting of the Board for approving annual or interim results of the Company, written reminders of the restrictions on dealing in any securities or derivatives of the Company will be provided to the Directors and the Supervisors. All Directors and Supervisors of the Company have confirmed their compliance with the Model Code in 2010 upon specific enquiries with them.

Employees who may likely possess unpublished price sensitive information of the Group are also required to comply with the Model Code. The Company is not aware of any breach in this regard in 2010.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board has established a remuneration committee which comprises one non-executive director Mr. Gao Jianshe, as the chairman and three independent non-executive directors, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis. The remuneration committee is responsible for approving policies on remuneration of all Directors, Supervisors and senior management, as well as making recommendations to the Board on revising policies and structure for remuneration. In determining the remuneration of Directors and Supervisors, the Remuneration Committee will take into account factors such as the responsibilities and work experience of the Directors and Supervisors. The remuneration committee reports to the Board after every meeting. During the year ended 31 December 2010, the Remuneration Committee convened two meetings to consider the remuneration of the newly appointed senior management and approve the initial grant under the restricted share incentive scheme. Terms of reference of the remuneration committee are published on the website of the Company.

Details of the remunerations of the Directors, Supervisors and senior management of the Company for the year ended 31 December 2010 are set out in note 16 to the financial statement.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTS

The Directors are responsible for monitoring the preparation of the financial statements for every financial period and ensuring those financial statements provide a true and fair view on the results of operations, financial position and cash flow of the Group in the relevant financial period. In preparing the financial statements for the year ended 31 December 2010, the directors have:

— selected appropriate accounting policies and applied them consistently;

— adopted all the relevant standards in the International Financial Reporting Standards; and

— made a prudent and reasonable judgment and estimation and prepared financial statements on a going concern basis.

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

INTERNAL CONTROL

The Board is responsible for maintaining a steady, appropriate and efficient internal control system of the Group to safeguard the Group's assets. The Board reviews the effectiveness of the internal control system of the Group annually through the audit committee.

The Company has established an Internal Audit Department which acts as a daily operation office of the audit committee of the Board to monitor how the Company and its subsidiaries establish and improve their respective internal control systems and give guidance in this respect, to supervise and review the implementation of regulations on internal control systems at proper times. In 2010, the Internal Audit Department prepared an annual assessment list on the internal control system of the Company and requested the senior management of each subsidiary to provide statements on the healthiness, reasonableness and effective implementation of their respective internal control procedures. The Internal Audit Department then conducted an evaluation based on the activities mentioned above and reported the results of such evaluation to the audit committee and the Board.

The audit committee and the Board confirmed that the internal control system of the Group is effective in implementing the measures required in monitoring and controlling material aspects of the Group, preventing critical mistakes or severe damages to the Group, securing the safety of the Group's assets, ensuring proper maintenance of accounting records and compliance with laws and regulations as well as in accordance with the requirements on the internal control system set out in the Code as a whole.

However, due to inherent limits of the internal control system, the establishment of the Group's internal control system could manage potential risks but is not able to eliminate risks completely. Therefore, the internal control system could only provide a reasonable assurance, rather than an absolute assurance for the Group to achieve its operational targets. Likewise, the internal control system will not completely eliminate all material inaccurate statements made or damages done to the Group.

AUDIT COMMITTEE

The Board has established an audit committee and set out the terms of reference of the audit committee in accordance with the Guide for the Effective Audit Committee issued by the Hong Kong Institute of Certified Public Accountants.

The audit committee is responsible for monitoring the financial operation and audit procedures of the Company, assessing effectiveness of the internal control system and risk control system of the Company, maintaining effective communication with the management, internal audit department and external auditors of the Company, as well as performing other duties and responsibilities assigned by the Board. The audit committee comprises four members, namely, Mr. Guo Chongqing, Mr. Li Xianzong, Mr. Lau Chung Man, Louis, who are independent non-executive directors, and Mr. Gu Huizhong who is a non-executive director. Mr. Li Xianzong is the chairman of the committee. Mr. Li Xianzong, Mr. Lau Chung Man, Louis and Mr. Gu Huizhong have appropriate professional qualifications in accounting or related financial management expertise as required by the Listing Rules.

The terms of reference of the audit committee are published on the website of the Company.

The audit committee held two meetings during 2010 with the presence of all members of the audit committee, the Supervisors, the management, chief financial officer and external auditors of the Company. In 2010, the audit committee reviewed and evaluated the audit report of the Company's external auditors, the accounting principles and standards applied by the Group and the internal control system and the financial statements of the Company. The audit committee reported to the Board its scope of work, discussion results and advice after every meeting. During 2010, the audit committee:

— reviewed the audited financial statements and the relevant annual results announcement of the Group for the year ended 31 December 2009;

— reviewed the interim financial information and the relevant interim results announcement of the Group for the six months ended 30 June 2010;

— reviewed resolution relating to appointments of international and PRC auditors of the Company for the financial year 2010 and determination of their respective remunerations;

— review the financial reporting practice and internal supervision procedures; and

— reviewed the reports on operation results of the Company for the year 2009 and the first half of 2010, the self-assessment report on the internal control of the Company, reports from the external auditor on audit in the year 2009 and review on 2010 interim report and provided recommendations to the management of the Company.

The audit committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2010.

SUPERVISORY COMMITTEE

The Supervisory Committee is accountable to the general meetings of the Company. The committee comprises three supervisors selected from representatives of the Company's shareholders and two supervisors selected from employees of the Company. In 2010, the Supervisory Committee held two meetings and considered and approved 8 resolutions. It supervised, on behalf of shareholders of the Company, the financial position of the Group, the legality of directors and senior management of the Company during the performance of their duties, attended the board meetings and general meetings and fulfilled its duties diligently.

EXTERNAL AUDITORS

In 2010, the payment to the Company's external auditors in relation to auditing services amounted to RMB4.7 million. The payments mentioned above had been approved by the audit committee, the Board and the general meeting.

The Board has resolved to propose at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and PRC auditors of the Company to assume statutory audit work of the Company for the financial year 2011. The resolution is subject to the approval of shareholders at the annual general meeting of the Company for the year 2010.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on pages 57 to 58 of this annual report.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

The Board secretaries are responsible for information disclosure of the Company. The Company has established Rules on Information Disclosure to ensure information disclosed by the Company is accurate, complete and timely made. During the reporting year, the Company published its annual report, interim report and relevant announcements (including the overseas regulatory announcements which covered the announcements published by the subsidiaries of the Company whose shares are listed on other stock exchanges) in accordance with the Listing Rules and made detailed disclosures on material information and reported the progress of any significant issues relating to the Company.

General meetings of the Company have absolute power to perform its functions according to laws and regulations and make decisions on significant issues. The annual general meeting and extraordinary general meetings of the Company provide an open platform for shareholders to exchange opinions with the Board. In 2010, the Company convened one annual general meeting and three extraordinary general meetings, at which ten resolutions were considered and approved. Directors, Supervisors and management of the Company endeavored to attend the general meetings.

At the general meetings, each resolution such as the appointment of directors would be dealt with and resolved separately. The circular will also contain details of the proposed resolutions. Results of voting by poll are published on the websites of the Company and the Stock Exchange respectively.

The Company has assigned specific employees to assume the role of contacting and communicating with investors. During the reporting year, due to the change of information disclosure methods required by the Stock Exchange, the Company had put more efforts in the maintenance of its websites to ensure that information is disclosed accurately and in a timely manner. The Company not only renews and modifies its Chinese and English websites continuously, but also regularly publishes and updates business news and information contained in its website to help investors understand the up-to-date situation of the Company clearly and timely. Details on the businesses of the Group and announcements such as interim results and annual results could also be downloaded from the Company's websites.

The Company also emphasized the mutual communication with its investors. During 2010, the Company communicated effectively with its investors. Company Secretary and investor relationship team are in charge of the communication with shareholders, investors and other participants of the capital market. Through discussion with hundreds of analysts, fund managers and institutional shareholders at more than 80 meetings, shareholders and investors timely and fully understand the operations and development plans of the Company. Every year, senior management of the Company attend the presentation on annual results and interim results in Hong Kong and various activities of global roadshow to provide key information to the capital market and media and respond to the key concerns from investors. The annual general meetings and extraordinary general meetings also provide further platform and opportunities for shareholders to exchange opinions directly with members of the Board.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AVICHINA INDUSTRY & TECHNOLOGY COMPANY LIMITED
(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of AviChina Industry & Technology Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 59 to 140, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
Continuing operations			
Revenue	5	8,013,319	5,654,450
Cost of sales		(6,562,287)	(4,467,281)
Gross profit		1,451,032	1,187,169
Other income	6	30,948	40,841
Other gains, net	7	97,650	76,851
Selling and distribution expenses		(77,000)	(50,788)
General and administrative expenses		(793,387)	(735,405)
Operating profit		709,243	518,668
Finance income	9	73,196	46,675
Finance costs	9	(101,977)	(115,036)
Finance costs, net		(28,781)	(68,361)
Share of results of associates		31,623	33,363
Profit before income tax		712,085	483,670
Income tax expense	10	(89,112)	(60,987)
Profit for the year from continuing operations		622,973	422,683
Discontinued operations			
Profit for the year from discontinued operations	11	1,023,604	371,657
Profit for the year		1,646,577	794,340
Dividend	13	49,490	–
Attributable to:			
Equity holders of the Company		740,819	237,201
Non-controlling interests		905,758	557,139
		1,646,577	794,340
Basic and diluted earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company during the year from:		RMB	RMB
– continuing operations	14	0.073	0.053
– discontinued operations	14	0.078	(0.002)

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000 (Restated)
Profit for the year	1,646,577	794,340
Other comprehensive income/(expenses), net of tax		
Change in fair value of available-for-sale financial assets	247,803	131,228
Transfer from available-for-sale financial assets reserve to income statement upon disposal of available-for-sale financial assets	(76,916)	(19,074)
	170,887	112,154
Total comprehensive income for the year	1,817,464	906,494
Attributable to:		
Equity holders of the Company	851,311	306,984
Non-controlling interests	966,153	599,510
	1,817,464	906,494

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.

	Note	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)	Company 2010 RMB'000	Company 2009 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	17	2,518,412	2,165,566	21,263	20,863
Investment properties	18	52,147	53,806	–	–
Land use rights	19	267,787	275,526	–	–
Intangible assets	20	232,735	224,636	–	–
Interests in subsidiaries	21	–	–	3,244,507	2,108,620
Interests in associates	22	838,729	417,127	102,045	72,090
Available-for-sale financial assets	23	695,331	457,853	31,022	–
Deferred income tax assets	24	42,202	49,122	–	–
Total non-current assets		4,647,343	3,643,636	3,398,837	2,201,573
Current assets					
Accounts receivable	25	1,993,629	2,444,576	–	–
Advances to suppliers	26	392,878	320,176	–	–
Other receivables and prepayments	27	888,469	596,065	263,498	358,910
Inventories	28	4,629,099	3,414,363	–	–
Financial assets held for trading		–	101	–	–
Pledged deposits	30	64,659	85,114	–	–
Term deposits with initial term of over three months	31	2,464,852	1,441,516	2,332,723	868,000
Cash and cash equivalents		5,548,167	2,195,816	77,222	268,460
		15,981,753	10,497,727	2,673,443	1,495,370
Assets classified as held for sale	11	7,685,263	7,929,748	795,213	795,213
Total current assets		23,667,016	18,427,475	3,468,656	2,290,583
Total assets		28,314,359	22,071,111	6,867,493	4,492,156

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.

Balance Sheets

As at 31 December 2010

	Note	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)	Company 2010 RMB'000	Company 2009 RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	37	4,949,025	4,643,609	4,949,025	4,643,609
Reserves	38	2,364,854	719,635	681,341	(496,049)
		7,313,879	5,363,244	5,630,366	4,147,560
Non-controlling interests		6,767,493	4,244,319	–	–
Total equity		14,081,372	9,607,563	5,630,366	4,147,560
LIABILITIES					
Non-current liabilities					
Long-term borrowings	36	359,000	1,151,518	–	–
Deferred income from government grants		195,241	191,167	–	–
Deferred income tax liabilities	24	60,300	39,672	–	–
Total non-current liabilities		614,541	1,382,357	–	–
Current liabilities					
Accounts payable	32	4,516,979	3,222,236	–	–
Advances from customers	33	2,323,650	907,866	–	–
Other payables and accruals	34	806,430	872,756	14,168	30,298
Amounts payable to ultimate holding company	35	1,279,185	370,524	1,222,959	314,298
Current portion of long-term borrowings	36	551,000	436,000	–	–
Short-term borrowings	36	1,059,300	1,021,800	–	–
Current income tax liabilities		106,829	84,253	–	–
		10,643,373	6,915,435	1,237,127	344,596
Liabilities directly associated with assets classified as held for sale	11	2,975,073	4,165,756	–	–
Total current liabilities		13,618,446	11,081,191	1,237,127	344,596
Total liabilities		14,232,987	12,463,548	1,237,127	344,596
Total equity and liabilities		28,314,359	22,071,111	6,867,493	4,492,156
Net current assets		10,048,570	7,346,284	2,231,529	1,945,987
Total assets less current liabilities		14,695,913	10,989,920	5,630,366	4,147,560

Director — **Tan Ruisong**

Director — **Gu Huizhong**

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.

	Attributable to equity holders of the Company							
	Share capital	Capital reserve	Available-for-sale financial assets reserve	Statutory surplus reserve	Accumulated losses	Subtotal	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 37)	(Note38(b))		(Note38(c))	(Note38(d))			
For the year ended 31 December 2010								
Balance at 1 January 2010, as restated	4,643,609	2,843,653	129,515	31,178	(2,284,711)	5,363,244	4,244,319	9,607,563
Total comprehensive income for the year	–	–	110,492	–	740,819	851,311	966,153	1,817,464
Transactions with owners:								
Issuance of new shares (Note 37)	305,416	588,208	–	–	–	893,624	–	893,624
Deemed distribution to holding company (Note 2(a))	–	(908,661)	–	–	–	(908,661)	–	(908,661)
Partial disposal of interests in a subsidiary	–	1,114,361	–	–	–	1,114,361	1,642,631	2,756,992
Dividend to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	(85,610)	(85,610)
Transfer to statutory surplus reserve	–	–	–	6,403	(6,403)	–	–	–
	305,416	793,908	–	6,403	(6,403)	1,099,324	1,557,021	2,656,345
Balance at 31 December 2010	4,949,025	3,637,561	240,007	37,581	(1,550,295)	7,313,879	6,767,493	14,081,372

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to equity holders of the Company							
	Share capital	Capital reserve	Available-for-sale financial assets reserve	Statutory surplus reserve	Accumulated losses	Subtotal	Non-controlling interests	Total
	RMB'000 (Note 37)	RMB'000 (Note38(b))	RMB'000	RMB'000 (Note38(c))	RMB'000 (Note38(d))	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2009								
Balance at 1 January 2009, as restated	4,643,609	1,046,660	59,732	31,178	(2,487,552)	3,293,627	3,551,026	6,844,653
Total comprehensive income for the year, as restated	–	–	69,783	–	237,201	306,984	599,510	906,494
Transactions with owners:								
Distributions of net liabilities of automobile businesses to holding company	–	1,675,277	–	–	–	1,675,277	101,765	1,777,042
Partial disposal of interests in a subsidiary	–	121,716	–	–	–	121,716	92,660	214,376
Contribution from non-controlling shareholder of a subsidiary	–	–	–	–	–	–	1,440	1,440
Dividend to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	(102,082)	(102,082)
Distributions to previous shareholder (Note 2(a))	–	–	–	–	(34,360)	(34,360)	–	(34,360)
	–	1,796,993	–	–	(34,360)	1,762,633	93,783	1,856,416
Balance at 31 December 2009, as restated	4,643,609	2,843,653	129,515	31,178	(2,284,711)	5,363,244	4,244,319	9,607,563

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.

	Note	2010 RMB'000	2009 RMB'000 (Restated)
Cash flows from operating activities			
Net cash generated from operations	39(a)	2,359,738	1,215,462
Interest received		73,196	46,675
Interest paid		(98,532)	(126,721)
Enterprise income tax paid		(69,130)	(66,357)
Net cash generated from operating activities of continuing operations		2,265,272	1,069,059
Net cash generated from operating activities of discontinued operations	11	998,928	1,451,804
Net cash generated from operating activities		3,264,200	2,520,863
Cash flows from investing activities			
Purchase of property, plant and equipment		(693,697)	(249,557)
Purchase of land use rights		–	(1,049)
Payments for intangible assets		(8,417)	(14,285)
Addition of available-for-sale financial assets		(38,000)	(64,000)
Disposal of available-for-sale financial assets		122,922	86,003
Decrease/(increase) in pledged deposits		20,455	(40,745)
Increase in term deposits with initial term of over three months		(1,023,336)	(505,006)
Proceeds from sale of property, plant and equipment	39(b)	90,618	3,713
Net cash outflow from distribution of automobile businesses		–	(409,171)
Additional investments in associates		(391,014)	(82,057)
Dividends received from associates		1,035	3,699
Dividends received from available-for-sale financial assets		4,119	4,848
Net cash used in investing activities of continuing operations		(1,915,315)	(1,267,607)
Net cash used in investing activities of discontinued operations	11	(1,366,113)	(856,896)
Net cash used in investing activities		(3,281,428)	(2,124,503)

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
Cash flows from financing activities			
Issuance of new shares	37	893,624	–
Proceeds from borrowings		1,229,300	2,060,800
Repayments of borrowings		(1,869,318)	(2,089,971)
Contributions from non-controlling shareholders of a subsidiary	1(e)(i)	2,254,010	1,440
Partial disposal of interests in a subsidiary	1(e)(ii)	502,982	214,376
Dividend paid to non-controlling shareholders of subsidiaries		(26,344)	(102,082)
Distributions to previous shareholder		–	(34,360)
Net cash generated from financing activities of continuing operations		2,984,254	50,203
Net cash (used in)/generated from financing activities of discontinued operations	11	(555,058)	532,452
Net cash generated from financing activities		2,429,196	582,655
Net increase in cash and cash equivalents		2,411,968	979,015
Cash and cash equivalents at 1 January		3,617,682	2,638,667
Cash and cash equivalents at 31 December		6,029,650	3,617,682
Analysis:			
Cash and cash equivalents	39(d)	5,548,167	2,195,816
Cash and cash equivalents classified as held for sale	11	481,483	1,421,866
		6,029,650	3,617,682

The notes on pages 67 to 140 are an integral part of these consolidated financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

AviChina Industry & Technology Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 30 April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation of China Aviation Industry Corporation II ("AVIC II"). AVIC II merged with China Aviation Industry Corporation I ("AVIC I") to form Aviation Industry Corporation of China ("AVIC") on 6 November 2008. The Company's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30 October 2003.

The Company and its subsidiaries are collectively referred to as the "Group". The Group is principally engaged in the research, development, manufacture and sale of aviation and automobile products.

The Company's directors regard AVIC, a company established in the PRC, as being the ultimate holding company of the Company. AVIC, AVIC I and AVIC II are all state-owned enterprises under control of the State Council of the PRC government.

These consolidated financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated, and have been approved for issue by the Board of Directors on 29 March 2011.

Reorganisation and change of structure of the Group

(a) On 4 November 2009, the Company and AVIC entered into an equity swap agreement, pursuant to which the Company will distribute to AVIC its entire 54.51% equity interests in Harbin Dongan Auto Engine Co., Ltd. ("Dongan Motor") which had been valued at approximately RMB2.4 billion.

This consideration was satisfied by AVIC by:

- transferring its entire 43.34% equity interests in China Aviation Optical-Electrical Technology Co., Ltd. ("JONHON Optronic") being valued at approximately RMB1.8 billion to the Company; and

- settling approximately RMB0.6 billion in cash.

This equity swap transaction has been completed on 17 March 2011 (Note 43(a)).

(b) On 19 May 2010, the Company completed the acquisition from AVIC the entire 100% and 86.74% equity interests in Lanzhou Flight Control Co., Ltd. ("AVIC Lanfei") and Chengdu CAIC Electronics Co., Ltd. ("AVIC Kaitian") respectively, for an aggregate cash consideration of approximately RMB0.9 billion.

AVIC Lanfei is engaged in the research, manufacture and sale of aviation auto control equipments and instruments. AVIC Kaitian is engaged in the research, manufacture and sale of air data systems and various types of aviation instruments.

(c) On 1 June 2010, China AVIC Avionics Equipment Co., Ltd. ("AVIC Avionics", a subsidiary of the Company), and the Company entered into a subscription agreement, pursuant to which AVIC Avionics will issue and the Company will subscribe approximately 124 million new shares of AVIC Avionics (equivalent to approximately RMB0.9 billion). The share issuance would be satisfied by the Company by transferring its then entire 100% and 86.74% equity interests in AVIC Lanfei and AVIC Kaitian respectively, being valued at an aggregate of approximately RMB0.9 billion, to AVIC Avionics.

1 ORGANISATION AND PRINCIPAL ACTIVITIES (continued)

Reorganisation and change of structure of the Group (continued)

(d) On 1 June 2010, AVIC Avionics, AVIC and certain of AVIC's other subsidiaries entered into a subscription agreement, pursuant to which AVIC Avionics would issue and AVIC and certain of its other subsidiaries would subscribe an aggregate of approximately 213 million new shares of AVIC Avionics (equivalent to approximately RMB1.6 billion). The share issuance would be satisfied by AVIC and certain of its other subsidiaries by transferring their entire 100%, 100%, 80% and 100% equity interests in Shaanxi Baocheng Aviation Instrument Co., Ltd. ("Shaanxi Baocheng"), AVIC Taiyuan Aviation Instrument Co., Ltd. ("Taiyuan Instrument"), AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. ("Shaanxi Huayan") and AVIC Shaanxi Qianshan Avionics Co., Ltd. ("Qianshan Avionics") respectively, being valued at an aggregate of approximately RMB1.6 billion, to AVIC Avionics.

Upon this share issuance, the equity interests held by the Company in AVIC Avionics will be diluted to 44.54%. On the same day, the Company, AVIC and certain of its other subsidiaries entered into an agreement that upon the abovementioned share issuance, AVIC and certain of its other subsidiaries undertake to exercise their then entire 35% voting rights in AVIC Avionics in accordance with the instructions of the Company. Accordingly, although the Company will hold less than 50% equity interests in AVIC Avionics, AVIC Avionics will remain as a subsidiary of the Company due to such agreement.

The proposed transactions in (c) and (d) were approved by the independent shareholders of the Company and China Securities Regulatory Commission on 17 August 2010 and 23 February 2011 respectively and are yet to be completed on the date of approval of these financial statements (Note 43 (b) and (c)).

(e) (i) On 30 June 2010, Jiangxi Hongdu Aviation Industry Co., Ltd. ("Hongdu Aviation", a subsidiary of the Company) issued approximately 95 million new shares to the Company, Jiangxi Hongdu Aviation Industry Group Co., Ltd. ("Hongdu Group", another of AVIC's subsidiary), and other independent investors for an aggregate cash consideration of approximately RMB2.5 billion, in which approximately RMB0.25 billion were subscribed by the Company. The balance of RMB2.25 billion is accounted for as contributions from non-controlling shareholders of a subsidiary.

(ii) Further, during 2010 the Company disposed of an aggregate of approximately 10 million A shares of Hongdu Aviation at market price with net proceeds of approximately RMB0.5 billion.

Upon the abovementioned transactions (i) and (ii), the equity interests held by the Company in Hongdu Aviation were reduced from 55.29% to 43.63%. Although the Company holds less than 50% equity interests in Hongdu Aviation, Hongdu Aviation remains as a subsidiary of the Company due to the presence of de facto control based on the following:

- Other than the Company's interests in Hongdu Aviation, the shareholding structure of Hongdu Aviation is diversified with dispersed shareholding;

- Presentation of other shareholders in general meetings, in person or by proxy, is also widely dispersed. The Company is thus able to control the majority of effective votes in general meetings, and accordingly allows it to nominate and appoint the majority of the Board of Hongdu Aviation;

1 ORGANISATION AND PRINCIPAL ACTIVITIES (continued)

Reorganisation and change of structure of the Group (continued)

(e) (continued)

- Hongdu Aviation considers the Company as its sole controlling shareholder;

- The Company and Hongdu Group entered into an agreement that Hongdu Group undertakes to exercise its entire 4.4% voting rights in accordance with the instructions of the Company.

Given that Hongdu Aviation remains as a subsidiary of the Company, the aggregate gain on dilution/disposal of approximately RMB1.1 billion has been accounted for directly as an addition to the Group's equity for the year ended 31 December 2010.

(f) On 25 January 2011, the Company and AVIC Mechanical & Electrical Systems Co., Ltd. ("AMES", a subsidiary of AVIC) entered into an agreement, pursuant to which the Company will acquire from AMES its entire 100% equity interests in Tianjin Aviation Mechanical and Electrical Co., Ltd. ("Tianjin Aviation") for a consideration of approximately RMB0.8 billion.

This proposed transaction has been approved by the independent shareholders of the Company on the date of approval of these financial statements and is yet to be completed (Note 43 (d)).

2 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets held for trading, as appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) Restatement of prior year's financial statements due to business combinations under common control

Corresponding to Note 1(b), given that the Company, AVIC Lanfei and AVIC Kaitian are all under common control of AVIC immediately before and after the business combinations, the Company applied the principles of merger accounting in preparing these consolidated financial statements of the Group.

By applying the principles of merger accounting, these consolidated financial statements of the Group also includes the financial positions, results and cash flows of AVIC Lanfei and AVIC Kaitian as if they had been combined with the Group throughout the two years ended 31 December 2010. Comparative figures as at 31 December 2009 and for the year then ended have been restated as a result of such. The cash consideration of approximately RMB0.9 billion paid by the Company to AVIC was accounted for as a deemed distribution to holding company.

2 BASIS OF PREPARATION (continued)

(a) Restatement of prior year's financial statements due to business combinations under common control (continued)

During the year ended 31 December 2009, AVIC Lanfei and AVIC Kaitian made cash distributions to AVIC amounting to an aggregate of approximately RMB34,360,000, which were accounted for as distributions to the previous shareholder.

The following are reconciliations of the effects arising from the common control combinations of AVIC Lanfei and AVIC Kaitian on the consolidated balance sheet as at 31 December 2009, consolidated income statement and consolidated cash flow statement for the year ended 31 December 2009.

(i) The consolidated balance sheet as at 31 December 2009:

	Balances as previously reported RMB'000	Merger of AVIC Lanfei and AVIC Kaitian RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000
Total non-current assets	2,962,194	681,442	–	3,643,636
Total current assets	17,382,144	1,084,184	(38,853)	18,427,475
Total non-current liabilities	1,180,216	202,141	–	1,382,357
Total current liabilities	10,337,149	782,895	(38,853)	11,081,191
Total equity	8,826,973	780,590	–	9,607,563

(ii) The consolidated income statement for the year ended 31 December 2009:

	Balances as previously reported RMB'000	Merger of AVIC Lanfei and AVIC Kaitian RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000
Continuing operations				
Revenues	5,098,210	643,188	(86,948)	5,654,450
Profit for the year from continuing operations	337,479	85,204	–	422,683
Discontinued operations				
Profit for the year from discontinued operations	371,657	–	–	371,657
Profit for the year	709,136	85,204	–	794,340

2 BASIS OF PREPARATION (continued)

(a) Restatement of prior year's financial statements due to business combinations under common control (continued)

(iii) The consolidated cash flow statement for the year ended 31 December 2009:

	Balances as previously reported RMB'000	Merger of AVIC Lanfei and AVIC Kaitian RMB'000	Balances as restated RMB'000
Net cash generated from operating activities	2,420,436	100,427	2,520,863
Net cash used in investing activities	(1,786,220)	(338,283)	(2,124,503)
Net cash generated from financing activities	365,690	216,965	582,655

(b) New/revised standards, amendments to standards and interpretations

The following new/revised standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2010:

IFRS 1 (Revised)	First-time Adoption of IFRSs
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
IFRS 3 (Revised)	Business Combinations
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible Hedge Items
IFRIC 17	Distributions of Non-cash Assets to Owners

The adoption of the above new/revised standards, amendments to standards and interpretation does not have any significant impact to the results and financial position of the Group for the year ended 31 December 2010.

In addition, the International Accounting Standards Board also published a number of amendments to existing standards effective 1 January 2010 under its annual improvement projects. Except for certain presentational changes as described below, these amendments also do not have any significant impact to the results and financial position of the Group.

– IFRS 8 (Amendment), "Operating segments". This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The Group has not disclosed the measure of segment assets because this is not regularly reported to the Board of Directors. IFRS 8 (Amendment) is applied retrospectively.

2 BASIS OF PREPARATION (continued)

(b) New/revised standards, amendments to standards and interpretations (continued)

Since 2009, the Group has early adopted IAS 24 (Revised), "Related Party Disclosures" which is effective for annual periods beginning on or after 1 January 2011. The amendment introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose the name of the government and the nature of their relationship, the nature and amount of any individually-significant transactions, and the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party.

Standards, amendments and interpretations that are not yet effective and have not been early adopted:

		Effective for accounting periods beginning on or after
New or revised standards, interpretations and amendments		
IAS 12 (Amendment)	Income Taxes	1 January 2012
IAS 32 (Amendment)	Classification of Rights Issue	1 February 2010
IFRS 1 (Amendment)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 July 2010
IFRS 9	Financial Instruments	1 January 2013
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Improvements to existing standards		
IAS 1	Presentation of Financial Statements	1 January 2011
IAS 27	Consolidated and Separate Financial Statements	1 July 2010
IAS 34	Interim Financial Reporting	1 January 2011
IFRS 3 (Revised)	Business Combinations	1 July 2010
IFRS 7	Financial instruments: Disclosures	1 January 2011
IFRIC 13	Customer Loyalty Programmes	1 January 2011

Management is in the process of assessing the impact of these new/revised standards, amendments to standards and interpretations to the financial statements of the Group.

3 PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(i) Merger accounting and subsidiaries

The financial statements incorporate the financial position, results and cash flows of the companies comprising the Group in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

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

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control (whichever period is shorter).

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

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights or has de facto control. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. De facto control exists where the Group owns less than 50% of the voting shares in an entity, but is deemed to have control for reasons other than potential voting rights, contract or other statutory means. For example, control is achievable if the balance of other shareholdings is dispersed and the other shareholders have not organised their interests in such a way that they exercise more votes than the Group. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

(i) Merger accounting and subsidiaries (continued)

Except for combination of businesses under common control by using merger accounting as described in Note 2(a), the Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, interests in subsidiaries are stated at cost less provision for impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Transactions and non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

(iii) Associates (continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been aligned where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are carried at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(b) Property, plant and equipment

Property, plant and equipment other than construction-in-progress are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis to write off the cost less accumulated impairment losses of each asset to their residual values over their estimated useful lives as follows:

Buildings	20 – 45 years
Plant and equipment	3 – 16 years
Furniture and fixtures, other equipment and motor vehicles	5 – 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3 (g)).

Gains and losses on disposals are determined by comparing net sales proceeds and the carrying amount of the relevant assets, and are included in the income statement.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Construction-in-progress

Construction-in-progress represents buildings, plant and machinery under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. All other borrowing costs are expensed. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought to use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in Note 3(b) to the financial statements.

(d) Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies in the Group, are classified as investment properties.

Investment properties are carried at cost, including related transaction costs, less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over their estimated useful lives of 20 to 50 years. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

(e) Land use rights

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

IAS 17 (Amendment) 'Leases' deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Land use rights", and amortised over the lease term on a straight-line basis over the period of the land use rights. The amendment has been applied retrospectively for annual periods beginning 1 January 2010. The Group has reassessed the classification of unexpired land use rights on the basis of information existing at the inception of those leases with no change in its classification.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Intangible assets

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet their criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its expected useful life, not exceeding five years; and tested for impairment according to Note 3(g) below.

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

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

(g) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation/ depreciation and are at least tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- Financial assets at fair value through profit or loss

  Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

- Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise accounts and other receivables.

- Held-to-maturity investments

  Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any financial asset in this category.

- Available-for-sale financial assets

  Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Financial assets (continued)

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement when the Group's right to receive payments is established.

Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted investments), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. However, if the range of reasonable fair value estimate is significant and the probabilities of the various estimate cannot be reasonably assessed, such financial assets are carried at cost less accumulated impairment losses.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of receivables is described in Note 3(k).

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Contracts in progress

Contracts in progress in connection with the manufacturing of aircraft are accounted for under construction contracts.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred and that it is probable to be recoverable; and contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the percentage of completion method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within "accounts receivable".

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

(k) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within "general and administrative expenses". When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and term deposit with initial terms of less than three months.

(m) Assets (or disposal groups) held for sale and discontinued operations

Assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Non-current assets while they are classified as held for sale or while they are part of a disposal group classified as held for sale are not depreciated (amortised).

A discontinued operation is a component of the Group that may be a major line of business or geographical area of operations that has been disposed of or is held for sale. The results and cash flows of that component are separately reported as "discontinued operations" in the income statement and cash flow statement, respectively. The difference between the consideration received and receivable and the book value of net assets disposed of is recorded as gain/loss on disposal in the consolidated income statement in the year of disposal. The comparative income statement and cash flow statement are also reclassified as "discontinued operations". The assets and liabilities of such component classified as "discontinued operations" or "held for sale" is presented separately in assets and liabilities, respectively, of the consolidated balance sheet, from the date it is first determined to be discontinued operations or assets/liabilities held for sale, and are de-recognised upon the completion of the disposal.

(n) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities (including accounts payables) are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. An equity instrument is any contract that does not meet the definition of financial liability and evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(o) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Borrowing costs

Borrowing costs incurred for the construction of qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed as incurred.

(q) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the relevant tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Employee benefits

(i) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(ii) Housing benefits

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

(s) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised on a straight-line basis over the lease term.

(t) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities such as equity instruments held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in the fair value reserve in equity.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(t) Foreign currency translation (continued)

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a Functional Currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

(u) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts after eliminated sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Group. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue and income are recognised as follows:

(i) Turnover represents revenues recognised on sales of automobiles and aviation products. Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Recognition policy of revenue relating to long-term construction contracts is disclosed in Note 3(j) above.

(iii) Dividend income and income from investments are recognised when the right to receive payment is established.

(iv) Revenue from the provision of services is recognised when the services are rendered.

(v) Rental income under operating leases is recognised on a straight-line basis over the lease periods.

(vi) Interest income from bank deposits is recognised on a time proportion basis using the effective interest method.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(v) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income from government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(w) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Depreciation and amortisation

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

(ii) Development costs

The Group's management determines the capitalisation of development costs when it is probable that the project will be a success considering its commercial and technology feasibility. It could change significantly as a result of technological innovations and the changes of estimated projections. Management will write-off or write-down development costs when there are adverse changes in technological innovations or estimated projections.

(iii) Impairment of account and other receivables

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(iv) Inventories

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

(v) Revenue recognition

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

(vi) Income taxes

The Group is subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 SEGMENT INFORMATION

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

The Board of Directors considers the business from a product perspective:

- Aviation – manufacturing, assembly, sales and servicing of helicopters, trainers and other aircrafts ("entire aircrafts")
- Aviation – manufacturing and sales of aviation parts and components ("aviation parts & components")
- Automobiles – manufacturing, assembly, sales and servicing of automobiles and automobile engines

The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the consolidated income statement.

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

5 SEGMENT INFORMATION (continued)

	(Continuing operations)		(Discontinued operations)
	Aviation-entire aircrafts RMB'000	Aviation-parts & components RMB'000	Automobiles RMB'000
For the year ended 31 December 2010			
Total segment revenue	5,268,174	2,960,375	6,351,052
Inter-segment revenue	–	(215,230)	–
Revenue (from external customers)	5,268,174	2,745,145	6,351,052
Segment results	300,683	374,222	1,093,667
Depreciation and amortisation	141,957	78,749	285,859
Provision for impairments	5,122	3,266	13,745
Finance costs	88,841	13,136	54,163
Share of results of associates	36,155	(4,532)	5,383
Income tax expense	42,365	46,747	129,853
For the year ended 31 December 2009 (restated)			
Total segment revenue	3,027,764	2,759,835	10,958,986
Inter-segment revenue	–	(133,149)	–
Revenue (from external customers)	3,027,764	2,626,686	10,958,986
Segment results	182,683	301,953	482,620
Depreciation and amortisation	107,773	74,177	589,720
Provision/(reversal of provision) for impairments	20,822	(6,875)	33,881
Finance costs	106,612	8,424	130,246
Share of results of associates	34,926	(1,563)	2,533
Income tax expense	31,744	29,243	142,658

5 SEGMENT INFORMATION (continued)

Reconciliation of segment results to profit for the year:

	2010 RMB'000	2009 RMB'000 (Restated)
Segment result for entire aircrafts and aviation components & parts	674,905	484,636
Finance income	73,196	46,675
Corporate overheads	(36,016)	(47,641)
Profit before income tax for continuing operations	712,085	483,670
Income tax expense	(89,112)	(60,987)
Profit for the year from continuing operations	622,973	422,683
Segment result for automobiles	1,093,667	482,620
Finance income	59,790	31,695
Profit before income tax for discontinued operations	1,153,457	514,315
Income tax expense	(129,853)	(142,658)
Profit for the year from discontinued operations	1,023,604	371,657

6 OTHER INCOME

	2010 RMB'000	2009 RMB'000 (Restated)
Rental income	18,827	20,440
Profit from sale of scrap materials	3,434	2,045
Income from rendering of maintenance and other services	4,568	13,507
Dividend income from available-for-sale financial assets	4,119	4,849
	30,948	40,841

7 OTHER GAINS, NET

	2010 RMB'000	2009 RMB'000 (Restated)
Gain/(loss) on disposal of:		
– Property, plant and equipment	736	(241)
– Available-for-sale financial assets	90,491	62,225
– Financial assets held for trading	6,423	14,867
	97,650	76,851

8 EXPENSES BY NATURE

	2010 RMB'000	2009 RMB'000 (Restated)
Advertising costs	2,624	1,954
Amortisation on:		
– Intangible assets	318	75
– Land use rights	7,739	7,407
Auditors' remuneration	7,578	7,517
Changes in inventories of finished goods and work-in-progress	(724,864)	95,621
Contract costs incurred	3,995,842	2,112,445
Depreciation on:		
– Investment properties	1,659	1,605
– Property, plant and equipment	210,990	172,863
Less: amortisation of deferred income from government grants	(16,476)	(14,408)
	196,173	160,060
Fuel	158,374	129,581
Insurance	12,401	13,341
Operating lease rentals	29,711	24,760
Provision/(reversal of provision) for impairment:		
– Available-for-sale financial assets	142	75
– Inventories	14,775	12,765
– Receivables	(6,529)	1,107
Raw materials and consumables used	1,542,260	818,125
Repairs and maintenance expense	75,575	58,668
Research expenditures and development costs	180,523	172,806
Staff costs, including directors' emoluments (Note 15)	1,258,504	1,104,836
Sub-contracting charges	223,884	248,592
Sundries	382,625	226,700
Transportation expenses	23,659	15,342
Travelling	51,360	41,697
Total cost of sales, selling and distribution expenses, and general and administrative expenses	7,432,674	5,253,474

9 FINANCE COSTS, NET

	2010 RMB'000	2009 RMB'000 (Restated)
Finance income:		
Interest income on bank balances and deposits	73,196	46,675
Finance costs:		
Interest expense on bank borrowings		
– Wholly repayable within 5 years	91,359	113,564
– Not wholly repayable within 5 years	10,977	13,085
Interest expense on other borrowings		
– Wholly repayable within 5 years	986	1,376
	103,322	128,025
Less: Amount capitalised in property, plant and equipment (note)	(4,790)	(15,850)
	98,532	112,175
Exchange (gains)/losses	(16)	731
Other finance costs	3,461	2,130
	101,977	115,036
	28,781	68,361

Note:

Interest rates per annum at which finance costs were capitalised	4.82%-5.31%	4.78%-5.64%

10 INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000 (Restated)
Current income tax	91,706	66,188
Deferred income tax	(2,594)	(5,201)
	89,112	60,987

Notes:

(a) Except for certain subsidiaries which are taxed at a preferential rate of 15% (2009:15%), in accordance with the relevant PRC enterprise income tax rules and regulations, provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25% (2009: 25%) on the assessable income of the Group.

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

	2010 RMB'000	2009 RMB'000 (Restated)
Profit before income tax from continuing operations	712,085	483,670
Tax calculated at the statutory tax rate of 25%	178,021	120,918
Preferential tax rates on the income of certain subsidiaries	(70,446)	(44,438)
Non-taxable income	(23,388)	(19,446)
Expenses not deductible for tax purposes	8,663	9,457
Tax losses for which no deferred income tax asset was recognised	123	879
Utilisation of previously unrecognised tax losses	(8)	(3,166)
Effect of changes in future tax rates	–	341
Others	(3,853)	(3,558)
Tax charge	89,112	60,987

(c) Share of taxation attributable to associates for the year ended 31 December 2010 is RMB10,541,000 (2009: RMB11,121,000).

11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The aggregate results and cash flows of the discontinued operations related to the Group's automobile businesses were as follows:

	2010 RMB'000	2009 RMB'000
Revenue	6,351,052	10,958,986
Expenses	(5,197,595)	(10,444,671)
Profit before income tax	1,153,457	514,315
Income tax expense	(129,853)	(142,658)
Profit from discontinued operations	1,023,604	371,657
Net cash generated from operating activities	998,928	1,451,804
Net cash used in investing activities	(1,366,113)	(856,896)
Net cash (used in)/generated from financing activities*	(555,058)	532,452
Net cash (outflows)/inflows	(922,243)	1,127,360

* In 2010, dividends of approximately RMB18 million paid to entities included in continuing operations have been eliminated upon consolidation.

11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

The assets/liabilities held for sale as at 31 December related to the distribution of the Group's automobile businesses set out in note 1(a) were as follows:

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Assets classified as held for sale				
Property, plant and equipment	1,911,952	1,591,322	–	–
Land use rights	62,276	62,276	–	–
Interests in subsidiaries	–	–	795,213	795,213
Interests in associates	26,838	23,704	–	–
Deferred income tax assets	72,670	119,961	–	–
Accounts receivable	1,863,260	1,764,880	–	–
Advances to suppliers	18,118	79,359	–	–
Other receivables and prepayments	42,140	64,687	–	–
Inventories	776,057	1,314,691	–	–
Pledged deposits	55,469	205,754	–	–
Term deposits with initial term of over three months	2,375,000	1,281,248	–	–
Cash and cash equivalents	481,483	1,421,866	–	–
	7,685,263	7,929,748	795,213	795,213
Liabilities directly associated with assets classified as held for sale				
Long-term borrowings	200,000	200,000	–	–
Accounts payable	1,470,661	2,014,966	–	–
Advances from customers	135,792	61,333	–	–
Other payables and accruals	940,607	1,053,207	–	–
Short-term borrowings	198,526	694,318	–	–
Current income tax liabilities	29,487	141,932	–	–
	2,975,073	4,165,756	–	–

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a profit of RMB589,182,000 (2009: a loss of RMB13,726,000).

13 DIVIDEND

	2010 RMB'000	2009 RMB'000
Final dividend, proposed of RMB0.01* (2009: Nil) per share	49,490	–

* subject to adjustment depending on the total number of issued shares of the Company at the record date (i.e. the record date to be announced by the Company for determining entitlement to the 2010 final dividend) with the aggregate amount of final dividend remains unchanged.

This final dividend is proposed by the directors at a meeting held on the date of approval of these financial statements, which is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2011.

14 EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2010 RMB'000	2009 RMB'000 (Restated)
Profit/(loss) attributable to equity holders of the Company from		
– continuing operations	359,388	248,301
– discontinued operations	381,431	(11,100)
	740,819	237,201
Weighted average number of ordinary shares in issue (thousands)	4,891,289	4,643,609

There was no dilution effect on the basic earnings/(loss) per share for the years ended 31 December 2009 and 2010 as there were no potential dilutive shares outstanding during the years ended 31 December 2009 and 2010.

15 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2010 RMB'000	2009 RMB'000 (Restated)
Wages, salaries and bonuses	810,631	711,650
Housing benefits	97,276	85,398
Contributions to pension plans	162,126	142,330
Welfare and other expenses	188,471	165,458
	1,258,504	1,104,836

16 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The emoluments of each of the directors of the Company for the years ended 31 December 2010 and 2009 are set out below.

	Year ended 31 December 2010				
Name of director	Fee RMB'000	Basic salaries, housing allowance, other allowances and benefits in kind RMB'000	Bonuses RMB'000	Employer's contributions to retirement schemes RMB'000	Total RMB'000
Executive directors					
Lin Zuoming	–	450	–	–	450
Tan Ruisong	–	500	–	–	500
Wu Xiandong	–	450	–	–	450
Non-executive directors					
Gu Huizhong	380	–	–	–	380
Xu Zhanbin	380	–	–	–	380
Geng Ruguang	380	–	–	–	380
Zhang Xinguo	380	–	–	–	380
Gao Jianshe	380	–	–	–	380
Li Fangyong	380	–	–	–	380
Chen Yuanxian	320	–	–	–	320
Wang Yong	60	–	–	–	60
Maurice Savart	60	–	–	–	60
Independent non-executive directors					
Lau Chungman	150	–	–	–	150
Guo Chongqing	100	–	–	–	100
Li Xianzong	100	–	–	–	100
	3,070	1,400	–	–	4,470

16 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

	Year ended 31 December 2009				
Name of director	Fee RMB'000	Basic salaries, housing allowance, other allowances and benefits in kind RMB'000	Bonuses RMB'000	Employer's contributions to retirement schemes RMB'000	Total RMB'000
Executive directors					
Lin Zuoming	–	320	–	–	320
Tan Ruisong	–	335	–	–	335
Wu Xiandong	–	310	–	–	310
Non-executive directors					
Gu Huizhong	253	–	–	–	253
Xu Zhanbin	253	–	–	–	253
Geng Ruguang	253	–	–	–	253
Zhang Xinguo	253	–	–	–	253
Gao Jianshe (note(i))	253	–	–	–	253
Li Fangyong	253	–	–	–	253
Chen Yuanxian (note(i))	162	–	–	–	162
Wang Yong	48	–	–	–	48
Maurice Savart	30	–	–	–	30
Independent non-executive directors					
Lau Chungman	135	–	–	–	135
Guo Chongqing	80	–	–	–	80
Li Xianzong	80	–	–	–	80
	2,053	965	–	–	3,018

Notes:

(i) Appointed on 9 June 2009

16 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Supervisors' emoluments

The emoluments of each of the supervisors of the Company for the years ended 31 December 2010 and 2009 are set out below.

	Year ended 31 December 2010				
Name of supervisor	Fee	Basic salaries, housing allowance, other allowances and benefits in kind	Bonuses	Employer's contributions to retirement schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Supervisors					
Li Yuhai	380	–	–	–	380
Tang Jianguo	380	–	–	–	380
Bai Ping	320	–	–	–	320
Wang Yuming	40	–	–	–	40
Yu Guanghai	40	–	–	–	40
	1,160	–	–	–	1,160

16 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Supervisors' emoluments (continued)

	Year ended 31 December 2009				
Name of supervisor	Fee RMB'000	Basic salaries, housing allowance, other allowances and benefits in kind RMB'000	Bonuses RMB'000	Employer's contributions to retirement schemes RMB'000	Total RMB'000
Supervisors					
Li Yuhai	253	–	–	–	253
Tang Jianguo	253	–	–	–	253
Bai Ping	222	–	–	–	222
Wang Yuming	33	–	–	–	33
Yu Guanghai (note(i))	20	–	–	–	20
Hu Wenming (note(ii))	–	–	–	–	–
Gao Jianshe (note(ii))	–	–	–	–	–
Yu Yan (note(ii))	–	–	–	–	–
Independent supervisors					
Zheng Li (note(ii))	–	–	–	–	–
Xie Zhihua (note(ii))	–	–	–	–	–
	781	–	–	–	781

Notes:

(i) Appointed on 9 June 2009

(ii) Resigned on 9 June 2009

(c) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year included five (2009: five) directors/supervisors whose emoluments are reflected in the analyses presented above.

(d) No directors or supervisors of the Company waived any emoluments during the years ended 31 December 2009 and 2010. During the year, no emoluments have been paid by the Group to the directors or supervisors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2009: Nil).

17 PROPERTY, PLANT AND EQUIPMENT

	Group				
	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture and fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost					
As at 1 January 2010	370,922	1,177,383	1,560,792	615,935	3,725,032
Additions	221,248	129,878	263,746	46,249	661,121
Transfer upon completion	(108,001)	19,875	48,500	39,626	–
Disposals/write-off	–	(27,142)	(31,750)	(74,225)	(133,117)
As at 31 December 2010	484,169	1,299,994	1,841,288	627,585	4,253,036
Accumulated depreciation and impairment					
As at 1 January 2010	–	465,497	773,951	320,018	1,559,466
Depreciation	–	25,085	155,459	30,446	210,990
Disposals/write-off	–	(11,508)	(13,973)	(10,351)	(35,832)
As at 31 December 2010	–	479,074	915,437	340,113	1,734,624
Net book value					
As at 31 December 2010	484,169	820,920	925,851	287,472	2,518,412

17 PROPERTY, PLANT AND EQUIPMENT (continued)

	Group				
	Construction in progress RMB'000 (Restated)	Buildings RMB'000 (Restated)	Plant and equipment RMB'000 (Restated)	Furniture and fixtures, other equipment and motor vehicles RMB'000 (Restated)	Total RMB'000 (Restated)
Cost					
As at 1 January 2009	748,812	2,716,883	9,749,677	1,063,394	14,278,766
Additions	769,376	22,269	106,431	22,902	920,978
Transfer upon completion	(698,693)	197,627	465,729	35,337	–
Disposals/write-off	(12,263)	(16,065)	(58,067)	(44,860)	(131,255)
Distribution of automobile businesses	(250,777)	(1,225,428)	(5,661,957)	(378,262)	(7,516,424)
Transfer to assets classified as held for sale	(185,533)	(517,903)	(3,041,021)	(82,576)	(3,827,033)
As at 31 December 2009	370,922	1,177,383	1,560,792	615,935	3,725,032
Accumulated depreciation and impairment					
As at 1 January 2009	–	881,589	5,392,730	552,756	6,827,075
Depreciation	–	63,175	620,886	69,832	753,893
Disposals/write-off	–	(13,389)	(21,660)	(31,864)	(66,913)
Distribution of automobile businesses	–	(296,746)	(3,209,640)	(212,492)	(3,718,878)
Transfer to assets classified as held for sale	–	(169,132)	(2,008,365)	(58,214)	(2,235,711)
As at 31 December 2009	–	465,497	773,951	320,018	1,559,466
Net book value					
As at 31 December 2009	370,922	711,886	786,841	295,917	2,165,566

17 PROPERTY, PLANT AND EQUIPMENT (continued)

	Company			
	Buildings RMB'000	Plant and equipment RMB'000	Furniture and fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost				
As at 1 January 2010	14,220	6,637	9,816	30,673
Additions	427	–	1,159	1,586
As at 31 December 2010	14,647	6,637	10,975	32,259
Accumulated depreciation and impairment				
As at 1 January 2010	38	4,096	5,676	9,810
Depreciation	447	60	679	1,186
As at 31 December 2010	485	4,156	6,355	10,996
Net book value				
As at 31 December 2010	14,162	2,481	4,620	21,263
Cost				
As at 1 January 2009	–	6,637	8,914	15,551
Additions	14,220	–	902	15,122
As at 31 December 2009	14,220	6,637	9,816	30,673
Accumulated depreciation and impairment				
As at 1 January 2009	–	3,958	4,805	8,763
Depreciation	38	138	871	1,047
As at 31 December 2009	38	4,096	5,676	9,810
Net book value				
As at 31 December 2009	14,182	2,541	4,140	20,863

17 PROPERTY, PLANT AND EQUIPMENT (continued)

Note:

As at 31 December 2010, certain of the Group's property, plant and equipment with carrying value of approximately RMB306,960,000 (2009: RMB292,979,000) were situated on leasehold land in the PRC which are granted by AVIC for the Group's use at no cost or have been leased from certain fellow subsidiaries under long-term leases. The remaining period of the Group's rights on the leasehold land at 31 December 2010 ranged from 12 to 39 years (2009: 13 to 40 years).

18 INVESTMENT PROPERTIES

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Cost		
As at 1 January	61,371	55,495
Addition	–	5,876
As at 31 December	61,371	61,371
Accumulated depreciation		
As at 1 January	7,565	5,960
Depreciation	1,659	1,605
As at 31 December	9,224	7,565
Net book value		
As at 31 December	52,147	53,806
At valuation (note)	55,431	54,882

Note:

All investment properties are located in the PRC and their valuations as at 31 December 2010 and 2009 stated above were determined on an open market value basis.

19 LAND USE RIGHTS

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Cost		
As at 1 January	318,764	435,343
Additions	–	1,050
Distribution of automobile businesses	–	(32,750)
Transfer to assets classified as held for sale	–	(84,879)
As at 31 December	318,764	318,764
Accumulated amortisation		
As at 1 January	43,238	61,942
Amortisation	7,739	15,236
Distribution of automobile businesses	–	(11,337)
Transfer to assets classified as held for sale	–	(22,603)
As at 31 December	50,977	43,238
Net book amount		
As at 31 December	267,787	275,526

20 INTANGIBLE ASSETS

	Development costs RMB'000 (note)	Group Technology know-how RMB'000	Total RMB'000
Cost			
As at 1 January 2010	224,017	750	224,767
Additions	4,917	3,500	8,417
As at 31 December 2010	228,934	4,250	233,184
Accumulated amortisation and impairment			
As at 1 January 2010	–	131	131
Amortisation	–	318	318
As at 31 December 2010	–	449	449
Net book amount			
As at 31 December 2010	228,934	3,801	232,735
	(Restated)	(Restated)	(Restated)
Cost			
As at 1 January 2009	611,582	33,733	645,315
Additions	10,284	–	10,284
Distribution of automobile businesses	(175,605)	(32,983)	(208,588)
Transfer to assets classified as held for sale	(222,244)	–	(222,244)
As at 31 December 2009	224,017	750	224,767
Accumulated amortisation and impairment			
As at 1 January 2009	394,625	9,876	404,501
Amortisation	3,224	1,725	4,949
Distribution of automobile businesses	(175,605)	(11,470)	(187,075)
Transfer to assets classified as held for sale	(222,244)	–	(222,244)
As at 31 December 2009	–	131	131
Net book amount			
As at 31 December 2009	224,017	619	224,636

Note:

The Group is in the process of developing a new model of aircraft. As at 31 December 2010, the aggregate amounts of such development costs incurred by the Group amounted to RMB201,486,000 (2009: RMB201,486,000).

21 INTERESTS IN SUBSIDIARIES

	Company 2010 RMB'000	2009 RMB'000
Investments, at cost		
– Shares listed in the PRC	1,523,977	1,311,137
– Unlisted investments	1,620,530	552,483
	3,144,507	1,863,620
Loans to subsidiaries (note)	100,000	245,000
	3,244,507	2,108,620
Market value of listed shares	19,041,540	12,749,603

Particulars of principal subsidiaries of the Group as at 31 December 2010 are set out in Note 44.

Note:

Loans to subsidiaries are unsecured and non-interest bearing. These loans have no fixed terms of repayment and are regarded as equity contributions to the subsidiaries.

22 SHARE OF RESULTS OF/INTERESTS IN ASSOCIATES

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Share of net assets, as at 1 January	417,127	330,968
Share of results of associates		
– profit before income tax	42,164	44,484
– income tax expense	(10,541)	(11,121)
	31,623	33,363
Dividends received from associates	(1,035)	(3,699)
New investments	391,014	82,057
Distribution of automobile businesses	–	(4,531)
Transfer to assets classified as held for sale	–	(21,031)
Share of net assets, as at 31 December	838,729	417,127

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted investment, at cost	102,045	72,090

Particulars of principal associates of the Group as at 31 December 2010 are set out in Note 44.

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Listed equity securities, at fair value	473,347	296,498	–	–
Unlisted investments (note)	222,426	161,655	31,022	–
Less: provision for impairment	(442)	(300)	–	–
	221,984	161,355	31,022	–
	695,331	457,853	31,022	–

Note:

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

24 DEFERRED INCOME TAXES

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates enacted or substantively enacted by the balance sheet date.

The movement on the deferred income tax accounts is as follows:

Deferred income tax assets:

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
As at 1 January	49,122	126,987
(Charged)/credited to consolidated income statement	(6,920)	42,096
Transfer to assets classified as held for sale	–	(119,961)
As at 31 December	42,202	49,122

Deferred income tax liabilities:

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
As at 1 January	(39,672)	(36,949)
Credited to consolidated income statement	9,514	13,492
Charged to available-for-sale financial assets reserve	(30,142)	(16,215)
As at 31 December	(60,300)	(39,672)

24 DEFERRED INCOME TAXES (continued)

The deferred income taxes are provided for, prior to offsetting of balances within the same tax jurisdiction, in respect of:

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Deferred income tax assets:		
Provision for impairment of receivables	14,367	13,597
Provision for impairment of inventories	14,857	12,619
Other temporary differences	46,997	46,672
	76,221	72,888
Deferred income tax liabilities:		
Development costs	26,473	25,734
Fair value changes on available-for-sale financial assets	67,846	37,704
	94,319	63,438
Total deferred income tax assets less total deferred income tax liabilities	(18,098)	9,450

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Representing:		
Deferred income tax assets	42,202	49,122
Deferred income tax liabilities	(60,300)	(39,672)
Total deferred income tax assets less total deferred income tax liabilities	(18,098)	9,450

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB25 million (2009: RMB36 million) in respect of tax losses amounting to approximately RMB121 million (2009: RMB143 million) that can be carried forward against future taxable income. These unrecognised tax losses are expiring within 5 years.

25 ACCOUNTS RECEIVABLE

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Trade receivables, gross (note (a))		
– Fellow subsidiaries (note (b))	1,268,206	1,617,241
– Others	307,277	433,825
	1,575,483	2,051,066
Less: provision for impairment of receivables	(79,452)	(85,981)
	1,496,031	1,965,085
Notes receivable (note (c))		
– Fellow subsidiaries (Note 41(b))	467,808	380,221
– Others	29,790	99,270
	497,598	479,491
	1,993,629	2,444,576

Notes:

(a) Certain of the Group's sales were on advance payment or documents against payment. Sales to small, new or short-term customers are normally expected to be settled shortly after delivery. A credit period of up to six months may be granted in respect of sales to customers with good credit history and long-established relationship with the Group. Terms offered to related parties are similar to those offered to third parties. Ageing analysis of trade receivables is as follows:

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Current to 1 year	1,458,024	1,908,278
1 year to 2 years	49,716	62,964
2 years to 3 years	14,656	16,504
Over 3 years	53,087	63,320
	1,575,483	2,051,066

The credit quality of accounts receivable that are neither past due nor impaired can be assessed by reference to the historical information about counter parties default rates. The existing counter parties do not have significant default in the past.

25 ACCOUNTS RECEIVABLE (continued)

Notes: (continued)

(a) (continued)

As of 31 December 2010, trade receivables of RMB360,224,000 (2009: RMB552,887,000 as restated) were past due but not impaired. These relate mainly to a number of customers in the aviation segment for whom there is no recent history of default. The ageing analysis of these past due but not impaired receivables is as follows:

	Group	
	2010 RMB'000	2009 RMB'000 (Restated)
Up to 1 year	314,087	490,551
1 year to 2 years	46,137	62,336
	360,224	552,887

As of 31 December 2010, trade receivables of RMB79,452,000 (2009: RMB85,981,000 as restated) were impaired. The individually impaired receivables mainly relate to smaller customers which are in financial difficulties. The ageing of these impaired receivables is as follows:

	Group	
	2010 RMB'000	2009 RMB'000 (Restated)
Current to 1 year	8,130	5,529
1 year to 2 years	3,579	628
2 years to 3 years	14,656	16,504
Over 3 years	53,087	63,320
	79,452	85,981

Movements on the provision for impairment of accounts receivable are as follows:

	Group	
	2010 RMB'000	2009 RMB'000 (Restated)
At 1 January	85,981	240,246
Provision for impairment of accounts receivable	1,454	32,602
Unused amounts reversed	(7,983)	(10,402)
Write-off	–	(966)
Distribution of automobile businesses	–	(74,969)
Transfer to assets classified as held for sale	–	(100,530)
At 31 December	79,452	85,981

(b) Trade receivables from these related companies are unsecured, non-interest bearing and are repayable in accordance with the relevant trading terms. Details of these balances are disclosed in Note 41(b).

(c) Substantially all of the notes receivable are bank acceptance notes with average maturity period of within six months.

(d) Substantially all of the accounts receivable are denominated in RMB and the carrying amounts of accounts receivable approximate their fair values.

(e) Certain trade receivables were pledged as security for bank loans (Note 36 (g)) as at 31 December 2010.

26 ADVANCES TO SUPPLIERS

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
– Fellow subsidiaries (Note 41(b))	134,124	123,652
– Others	258,754	196,524
	392,878	320,176

In the ordinary course of business, the Group is required to make advance payments to certain suppliers according to the terms of respective agreements. The advance payments made to these parties are unsecured, non-interest bearing and will be settled or utilised in accordance with the terms of relevant agreements.

27 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Amounts due from customers for contract work (Note 29)	381,083	123,683	–	–
Dividends receivable from subsidiaries	–	–	143,140	178,994
Other advances to (note)				
– ultimate holding company	4,898	5,921	–	–
– fellow subsidiaries	112,425	179,919	109,351	109,351
Other receivables	263,545	187,147	–	70,000
Prepayments and deposits	42,836	48,743	11,007	565
Other current assets	83,682	50,652	–	–
	888,469	596,065	263,498	358,910

Note:

Other advances mainly represent current account balances with the respective related companies which are unsecured, non-interest bearing and are repayable on demand. Details of these balances are disclosed in Note 41(b).

28 INVENTORIES

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Raw materials	2,635,904	2,136,889
Work in progress	1,853,310	1,159,131
Finished goods	175,414	144,729
Consumables	64,668	59,036
	4,729,296	3,499,785
Less: provision for impairment losses	(100,197)	(85,422)
	4,629,099	3,414,363

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB6,430,811,000 (2009: RMB4,409,434,000 as restated).

29 CONTRACTS IN PROGRESS

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Contracts in progress at balance sheet date:		
Amounts due from customers for contract work (Note 27)	381,083	123,683
Total of contract costs incurred and profits recognised to date	6,438,762	3,066,660

At 31 December 2010, no retentions were held by customers for contract work (2009: Nil).

30 PLEDGED DEPOSITS

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Renminbi denominated deposits	64,659	85,114

As at 31 December 2010, trade finance facilities utilised by the Group for issuing notes payable to its suppliers amounting to RMB474,426,000 (2009: RMB465,813,000 as restated) were secured by these pledged deposits (Note 32(c)).

Pledged deposits earn interest at rates ranging from 0.36% to 2.50% (2009: 0.36% to 1.98%). The conversion of Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

31 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

Term deposits with initial term of over three months are denominated in the following currencies:

	Group		Company	
	2010	2009	2010	2009
Currency	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Renminbi *	2,423,129	1,441,516	2,291,000	868,000
Hong Kong Dollar	41,723	–	41,723	–
	2,464,852	1,441,516	2,332,723	868,000

The weighted average effective interest rates of the Group and the Company on term deposits with initial term of over three months were 2.53% (2009: 2.20%) and 2.51% (2009: 2.13%) per annum respectively.

* The conversion of Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

32 ACCOUNTS PAYABLE

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Trade payables (note (a))		
– Fellow subsidiaries (note (b))	883,396	662,954
– Others	2,726,193	1,749,803
	3,609,589	2,412,757
Notes payable (note (c))		
– Fellow subsidiaries (Note 41 (b))	551,327	526,064
– Others	356,063	283,415
	907,390	809,479
	4,516,979	3,222,236

32 ACCOUNTS PAYABLE (continued)

Notes:

(a) The normal credit period for trade payables generally ranges from 0 to 6 months. Ageing analysis of trade payables is as follows:

	Group	
	2010 RMB'000	2009 RMB'000 (Restated)
Current to 1 year	2,899,319	1,722,081
1 year to 2 years	513,078	504,068
2 years to 3 years	123,517	123,535
Over 3 years	73,675	63,073
	3,609,589	2,412,757

(b) Trade payables to fellow subsidiaries are unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms. Details of these balances are disclosed in Note 41(b).

(c) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months. As at 31 December 2010, notes payable of RMB474,426,000 (2009: RMB465,813,000 as restated) were secured by pledged deposits to the extent of RMB64,659,000 (2009: RMB85,114,000 as restated).

(d) The carrying amounts of accounts payable approximate their fair values.

33 ADVANCES FROM CUSTOMERS

	Group	
	2010 RMB'000	2009 RMB'000 (Restated)
– Fellow subsidiaries (Note 41(b))	2,097,230	727,123
– Others	226,420	180,743
	2,323,650	907,866

In the ordinary course of the Group's business, certain of the Group's customers are required to pay advance deposits according to terms of the respective agreements. The advances from related parties are unsecured, non-interest bearing and will be settled or utilised in accordance with the terms of relevant agreements.

34 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Payable for property, plant and equipment				
– Fellow subsidiaries (note (i))	40	19,239	–	–
– Others	15,942	5,700	8	–
Wages, salaries, bonuses and other employee benefits	311,528	315,371	7,611	720
Accrued expenses	327,831	308,233	4,700	4,500
Deferred income from government grants	17,071	19,190	–	–
Consumption tax, business tax and other taxes payable	18,619	16,090	807	114
Other advances from (note (ii))				
– Ultimate holding company	5,738	12,731	154	7,287
– Fellow subsidiaries	51,710	78,635	674	17,660
Other current liabilities	57,951	97,567	214	17
	806,430	872,756	14,168	30,298

Notes:

(i) Payable for property, plant and equipment is unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms.

(ii) Other advances mainly represent current account balances with the respective related companies which are unsecured, non-interest bearing and are repayable on demand.

Details of these balances with related parties are disclosed in Note 41(b).

35 AMOUNTS PAYABLE TO ULTIMATE HOLDING COMPANY

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Payable for acquisition of subsidiaries (Note 1(b))	908,661	–	908,661	–
Others	370,524	370,524	314,298	314,298
	1,279,185	370,524	1,222,959	314,298

These amounts due to ultimate holding company are unsecured, non-interest bearing and with no fixed repayment terms.

36 BORROWINGS

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Short-term borrowings		
Bank borrowings		
– Secured (note (g))	137,000	355,000
– Unsecured	760,300	642,800
	897,300	997,800
Other borrowings (note (c))		
– Secured (note (g))	28,000	–
– Unsecured	134,000	24,000
	1,059,300	1,021,800
Current portion of long-term borrowings	551,000	436,000
	1,610,300	1,457,800
Long-term borrowings		
Bank borrowings		
– Secured (note (g))	845,000	1,433,890
Other borrowings (note (c))		
– Secured (note (g))	–	108,628
– Unsecured	65,000	45,000
	910,000	1,587,518
Less: Current portion of long-term borrowings	(551,000)	(436,000)
	359,000	1,151,518
Total borrowings	1,969,300	2,609,318

36 BORROWINGS (continued)

Notes:

(a) The long-term borrowings are analysed as follows:

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Wholly repayable within five years		
– Bank borrowings	745,000	1,224,000
– Other borrowings	65,000	153,628
	810,000	1,377,628
Not wholly repayable within five years		
– Bank borrowings	100,000	209,890
	100,000	209,890
	910,000	1,587,518

(b) The long-term borrowings are repayable as follows:

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Bank borrowings		
– Within one year	551,000	436,000
– In the second year	191,000	596,000
– In the third to fifth year	3,000	192,000
– After the fifth year	100,000	209,890
	845,000	1,433,890
Other borrowings		
– In the second year	45,000	–
– In the third to fifth year	20,000	153,628
	65,000	153,628
	910,000	1,587,518

(c) As at 31 December 2010 and 2009, other borrowings represent loans granted by a fellow subsidiary of the Group which bear interests at 4% to 5% per annum.

36 BORROWINGS (continued)

Notes: (continued)

(d) The exposure of the total borrowings of the Group to interest rate changes is as follows:

	Group 2010 RMB'000	2009 RMB'000 (Restated)
Bank borrowings		
– Fixed rates	978,300	1,270,800
– Floating rates	764,000	1,160,890
	1,742,300	2,431,690
Other borrowings		
– Fixed rates	227,000	177,628
	1,969,300	2,609,318

The annual effective interest rates of long-term and short-term borrowings at balance sheet date were as follows:

	Group 2010	2009
Weighted average effective interest rates		
– Bank borrowings	5%	4%
– Other borrowings	5%	4%

(e) The carrying amounts of long-term and short-term borrowings are denominated in the following currencies:

	Group 2010 RMB'000	2009 RMB'000 (Restated)
Currency		
Renminbi	1,969,300	2,600,690
United States Dollar	–	8,628
	1,969,300	2,609,318

36 BORROWINGS (continued)

Notes: (continued)

(f) The carrying amount and fair value of non-current portion of long-term borrowings are as follows:

	Group			
	Carrying amount		Fair value	
	2010 RMB'000	2009 RMB'000 (Restated)	2010 RMB'000	2009 RMB'000 (Restated)
Bank borrowings	294,000	997,890	285,630	956,158
Other borrowings	65,000	153,628	61,811	144,340
	359,000	1,151,518	347,441	1,100,498

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristic as at the balance sheet dates. Such discount rates ranged from 5.85% to 6.40% as at 31 December 2010 (2009: 5.40% to 5.94%), depending on the type of the debt.

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

	Group	
	2010 RMB'000	2009 RMB'000 (Restated)
Securities over the Group's assets, at carrying value		
– Accounts receivable (Note 25(e))	46,970	56,765
Guarantees provided by		
– Related companies (Note 41(c))	230,000	772,518
– Subsidiaries within the Group (cross guarantees)	735,000	1,080,000
	965,000	1,852,518

(h) As at 31 December 2010, the Group had the following undrawn committed borrowing facilities.

	Group	
	2010 RMB'000	2009 RMB'000 (Restated)
At floating rates		
– Expiring within one year	1,303,090	1,020,200

37 SHARE CAPITAL

	Company	
	2010	2009
	RMB'000	RMB'000
Registered:	4,949,025	4,643,609
Issued and fully paid:		
2,934,590,598 (2009: 2,963,808,000) Domestic Shares of RMB1 each	2,934,591	2,963,808
2,014,433,902 (2009: 1,679,800,500) H Shares of RMB1 each	2,014,434	1,679,801
	4,949,025	4,643,609

On 10 March 2010, the Company issued 334,633,402 H Shares with par value of RMB1 each at HK$3.40 per share, of which 29,217,402 H Shares issued in exchange of the Domestic Shares held by AVIC and 305,416,000 new H shares for placement to independent investors. The net proceeds of the placement amounted to approximately RMB893,624,000.

The H Shares rank pari passu in all respects with the Domestic Shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars and H Shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any other country other than the PRC. The transfer of the Domestic Shares is subject to such restrictions as the PRC laws may impose from time to time.

38 RESERVES

	Company			
	Capital reserve RMB'000 (Note (b))	Statutory surplus reserve RMB'000 (Note (c))	Accumulated losses/(retained earnings) RMB'000 (Note (d))	Total RMB'000
Balance at 1 January 2010	(2,073)	31,178	(525,154)	(496,049)
Issuance of new shares	588,208	–	–	588,208
Profit for the year	–	–	589,182	589,182
Transfer to statutory surplus reserve	–	6,403	(6,403)	–
At 31 December 2010	586,135	37,581	57,625	681,341
Balance at 1 January 2009	(2,073)	31,178	(511,428)	(482,323)
Loss for the year	–	–	(13,726)	(13,726)
At 31 December 2009	(2,073)	31,178	(525,154)	(496,049)

Notes:

(a) Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 63 to 64.

(b) Capital reserve

Capital reserve of the Company represents (i) the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment, set off by net premium on issue of shares upon listing of the Company; and (ii) the difference between the fair value of shares issued and their respective par value.

Capital reserves of the Group also included reserves arising from the issuance of additional shares by subsidiaries, capital contributions in associates and disposals to non-controlling interests without change in control.

(c) Statutory surplus reserve

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

(d) Retained earnings available for distribution

In accordance with the relevant PRC regulations and Articles of Association of the Company, retained earnings available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with the PRC GAAP and the amount determined in accordance with IFRS. As at 31 December 2010, the retained earnings available for distribution was approximately RMB57,625,000 (2009: Nil).

39 CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations of continuing operations:

	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Profit before income tax	712,085	483,670
Adjustments for:		
Share of results of associates	(31,623)	(33,363)
(Gain)/loss on disposal of		
– Property, plant and equipment	(736)	241
– Available-for-sale financial assets	(90,491)	(62,225)
Amortisation on		
– Intangible assets	318	75
– Land use rights	7,739	7,407
Depreciation on		
– Investment properties	1,659	1,605
– Property, plant and equipment	210,990	172,863
Provision/(reversal of provision) for impairment		
– Available-for-sale financial assets	142	75
– Inventories	14,775	12,765
– Receivables	(6,529)	1,107
Dividend income from available-for-sale financial assets	(4,119)	(4,849)
Interest income	(73,196)	(46,675)
Interest expense	98,532	112,175
	839,546	644,871
Changes in working capital:		
– Decrease in accounts receivable	457,476	236,888
– (Increase)/decrease in advances to suppliers, other receivables and prepayments	(365,106)	296,080
– Increase in inventories	(1,229,511)	(307,581)
– Decrease in financial assets held for trading	101	11,387
– Increase in accounts payable	1,294,743	70,560
– Decrease in amounts payable to ultimate holding company	–	(150,000)
– Increase in advance from customers, other payables and accruals	1,362,489	413,257
Net cash generated from operations of continuing operations	2,359,738	1,215,462

39 CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Net book amount	97,285	64,342
Gain/(loss) on sale of property, plant and equipment (Note 7)	736	(241)
Receivables from sale of property, plant and equipment	(7,403)	(60,388)
Proceeds from sale of property, plant and equipment	90,618	3,713

(c) Distribution of automobile businesses:

	Group	
	2010	2009
	RMB'000	RMB'000
Non-current assets	–	3,875,106
Current assets	–	4,561,942
Total assets	–	8,437,048
Total liabilities	–	(10,103,739)
Non-controlling interests	–	101,765
Net liabilities distributed	–	(1,564,926)
Total consideration	–	110,351
	–	1,675,277
Net cash outflow from distribution is determined as follows:		
Proceeds received	–	1,000
Less: cash and cash equivalents distributed	–	(410,171)
	–	(409,171)

39 CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Analysis of cash and cash equivalents

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Bank balances and cash	5,491,467	2,057,750	60,522	203,460
Term deposits with initial term of less than three months	56,700	138,066	16,700	65,000
	5,548,167	2,195,816	77,222	268,460

The cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Renminbi*	5,431,582	2,119,753	68,540	255,519
Other currencies	116,585	76,063	8,682	12,941
	5,548,167	2,195,816	77,222	268,460

The weighted average effective interest rate of the Group and the Company on term deposits with initial term of less than three months were 2% (2009: 2%) per annum. Bank balances earn interest at floating rates based on daily bank deposit rates.

* The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

40 COMMITMENTS

(a) Capital commitments

The Group and the Company have the following capital commitments not provided for as at 31 December 2010:

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Acquisition of property, plant and equipment				
– Authorised but not contracted for	138,917	21,350	–	–
– Contracted but not provided for	22,531	9,992	–	–
	161,448	31,342	–	–
Construction commitments				
– Authorised but not contracted for	25,150	31,000	–	–
– Contracted but not provided for	795	1,697	–	–
	25,945	32,697	–	–
Investments in an associate				
– Contracted but not provided for	6,000	122,908	–	61,454
	193,393	186,947	–	61,454

40 COMMITMENTS (continued)

(b) Operating lease commitments

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases as at 31 December 2010:

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Land and buildings		
– Not later than one year	27,437	12,829
– Later than one year and not later than five years	41,377	33,102
– Later than five years	–	57,928
	68,814	103,859

Generally, the Group's operating leases are for terms of 1 to 20 years. The Company did not have any significant operating lease commitment as at 31 December 2010 (2009: Nil).

41 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by AVIC, which owns 56.70% (2009: 61.06%) of the Company's shares as at 31 December 2010. The remaining 43.30% (2009: 38.94%) of the shares are widely held.

Related parties refer to entities in which AVIC has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; or directors or officers of the Company and of its ultimate holding company, associates or jointly controlled entity. Given that the PRC government still owns a significant portion of the productive assets in the PRC despite the continuous reform of the government structure, a majority of the Group's business activities had been conducted with enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"), including AVIC, its subsidiaries, associates and jointly controlled entities in the ordinary course of business.

In accordance with IAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than entities under AVIC (also a state-owned enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither AVIC nor the PRC government publishes financial statements for public use. In the normal course of the Group's business, it may either enter into various transactions with one or more of such state-owned enterprises and their subsidiaries. However, as mentioned in note 2(b), the Company early adopts IAS 24 (revised 2009) which grants exemptions on disclosure requirements about government-related entities.

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions in addition to the related party information shown elsewhere in the financial statements. Management of the Group are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(a) Significant transactions with related parties:

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Income		
Revenue from sale of goods and materials		
– Fellow subsidiaries	6,917,238	5,134,369
Income from rendering of services		
– Fellow subsidiaries	4,568	13,507
Expenses		
Purchases of goods and raw materials		
– Fellow subsidiaries	2,789,720	2,251,633
Service fees payable		
– Ultimate holding company	6,700	8,298
– Fellow subsidiaries	91,289	89,086
Rental expenses		
– Ultimate holding company	–	5,132
– Fellow subsidiaries	11,235	22,051
Key management compensations		
– Salaries, bonuses and other welfares	7,260	4,863

In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of the Group's business and were determined based on mutually agreed terms.

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Significant balances with related parties:

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Assets		
Trade receivables		
– Fellow subsidiaries	1,268,206	1,617,241
Notes receivable		
– Fellow subsidiaries	467,808	380,221
Advances to suppliers		
– Fellow subsidiaries	134,124	123,652
Other receivables and prepayments		
– Ultimate holding company	4,898	5,921
– Fellow subsidiaries	112,425	179,919
Liabilities		
Trade payables		
– Fellow subsidiaries	883,396	662,954
Notes payable		
– Fellow subsidiaries	551,327	526,064
Advances from customers		
– Fellow subsidiaries	2,097,230	727,123
Other payables and accruals		
– Ultimate holding company	5,738	12,731
– Fellow subsidiaries	51,710	97,874

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(c) Other items:

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Guarantees on bank loans granted to the Group from		
– Ultimate holding company	20,000	423,890
– Fellow subsidiaries	210,000	348,628

In addition, AVIC granted certain leasehold land for the Group's use at no cost, details of which are disclosed in Note 17.

42 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including: interest-rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Interest-rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the bank deposits and cash and cash equivalents, details of which have been disclosed in Notes 30, 31 and 39(d). The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 36. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. As of 31 December 2010, 61% (2009: 56%) of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2010, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, profit for the year would have been RMB27,426,000 higher/lower.

(ii) Price risk

The Group is principally exposed to equity securities price risk in respect of investments held by the Group which are classified as available-for-sale financial assets. Some of these financial assets are publicly traded in recognised stock exchanges. At 31 December 2010, if the quoted market price of these equity investments held by the Group had increased/decreased by 10%, with all other variables held constant, equity would have been RMB40,234,000 higher/lower as a result of the changes in fair value of available-for-sale financial assets.

42 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(iii) Credit risk

The carrying amounts of bank deposits and balances, receivables, available-for-sale financial assets and financial assets held for trading included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

91% (2009: 92%) of the Group's pledged deposits, term deposits and cash and cash equivalents are held in state-owned financial institutions, which management believes are of high credit quality. Most of the Group's available-for-sale financial assets and financial assets at fair value through profit or loss are also publicly traded in recognised stock exchanges. Management does not expect any losses from non-performance by these counterparties.

The Group has no significant concentrations of credit risk. The carrying amount of receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to these financial assets. Ageing analysis of the Group's accounts receivable is disclosed in Note 25(a). The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally, the Group does not require collaterals from trade debtors. Management makes periodic collective assessment as well as individual assessment on the recoverability of account and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities.

The Group's primary cash requirements have been for additions of and upgrades on property, plant and equipment, payment on related debts and payment for purchases and operating expenses. The Group finances its working capital requirements through a combination of internal resources and long-term and short-term bank borrowings.

As at 31 December 2010, the net current assets of the Group amounted to RMB10,048,570,000 (2009: RMB7,346,284,000 as restated). Management monitors regularly the Group's current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed banking facilities to meet its working capital requirements. The amount of undrawn credit facilities at the balance sheet date are disclosed in Note 36(h) to the financial statements. The directors believe that the Group's current operating cash flows and credit facilities from PRC banks are sufficient for financing its capital commitments in the near future and for working capital purposes.

42 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk (continued)

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2010				
Bank and other borrowings	1,719,631	251,788	43,061	106,400
Accounts and other payables	5,287,719	–	–	–
Amounts payable to ultimate holding company	1,279,185	–	–	–
At 31 December 2009 (restated)				
Bank and other borrowings	1,563,135	642,361	400,767	221,734
Accounts and other payables	4,059,712	–	–	–
Amounts payable to ultimate holding company	370,524	–	–	–
Company				
At 31 December 2010				
Other payables	13,361	–	–	–
Amounts payable to ultimate holding company	1,222,959	–	–	–
At 31 December 2009				
Other payables	30,184	–	–	–
Amounts payable to ultimate holding company	314,298	–	–	–

42 FINANCIAL RISK MANAGEMENT (continued)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may consider the macro economic conditions, prevailing borrowing rates in the market and adequacy of cash flows generating from operations and may raise funding through capital market or bank borrowings as necessary.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheet. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2010 and at 31 December 2009 were as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Net debt (Note 36)	1,969,300	2,609,318
Total equity	14,081,372	9,607,563
Total capital	16,050,672	12,216,881
Gearing ratio	12%	21%

The decrease in the gearing ratio during 2010 resulted primarily from the increase in cash and cash equivalents as a result of the net cash generated from operations and subscription of new shares of a subsidiary by non-controlling shareholders (Note 1 (e)(i)).

42 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, deposits, trade receivables, notes receivable and other receivables, and the Group's current financial liabilities, including trade and other payables and current borrowings, approximate their fair values. The fair values of non-current portion of borrowings are disclosed in Note 36(f) to the financial statements.

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

43 SUBSEQUENT EVENTS

(a) Further to Note 1(a), prior to the completion of the equity swap transaction AVIC holds 43.34% equity interests and has de facto control over JONHON Optronic. The Company continues to have de facto control over JONHON Optronic immediately after the acquisition of JONHON Optronic from AVIC. Accordingly, the acquisition will be accounted for using merger accounting given that the Company and JONHON Optronic are under common control of AVIC before and after the acquisition.

By applying the principles of merging accounting, the consolidated financial statements of the Group will include the financial positions, results and cash flows of JONHON Optronic as if it had been combined with the Group throughout the year ending 31 December 2011. Comparative figures as at 31 December 2010 and for the year then ended will be re-presented on the same basis. According to latest financial information of JONHON Optronic, it had total assets and net assets of approximately RMB2,611 million and RMB1,172 million respectively as at 30 September 2010, and recorded a revenue and net profit of approximately RMB1,075 million and RMB113 million respectively for the nine-month period then ended.

In addition, the net carrying value of Dongan Motor being distributed to AVIC will be recognised in the equity of the Group as similar to the distributions of other automobile businesses to holding company in prior year.

(b) Upon completion of the proposed transactions in Notes 1(c) and 1(d), the Company's effective interests in AVIC Lanfei and AVIC Kaitian will be diluted to 44.54% and 38.63% respectively. Any gain/loss on dilution will be recognised in the equity of the Group given that AVIC Avionics will remain as a subsidiary of the Company.

(c) The acquisitions in Note 1(d) will be accounted for using merger accounting given the Company, Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics are under common control of AVIC before and after the acquisitions. According to latest financial information, in aggregate, these acquirees had total assets and net assets of approximately RMB3,191 million and RMB1,308 million respectively as at 30 September 2010, and recorded revenue and net profit of approximately RMB1,132 million and RMB130 million respectively for the nine-month period then ended.

43 SUBSEQUENT EVENTS (continued)

(d) The acquisition in Note 1(f) will be accounted for using merger accounting given the Company and Tianjin Aviation are under common control of AVIC before and after the acquisition. This acquiree had total assets and net assets of approximately RMB1,102 million and RMB622 million respectively as at 31 December 2010, and recorded revenue and net profit of approximately RMB413 million and RMB106 million respectively for the year then ended.

(e) On 29 March 2011, the Company has adopted a restricted share incentive scheme (the "Scheme") with a duration of 10 years. The objective of the Scheme is to closely align the interests and benefits and risk-sharing among the Company, its shareholders and employees in order to maximise the proactiveness of its senior management and key employees.

For this purpose, a trustee was appointed to purchase from the market and hold the restricted shares for the benefit of the Scheme participants before they are vested. As a result of such, this trust will be consolidated in the Group's financial statements as a special purpose entity.

Upon the grant of restricted shares to a Scheme participant, 50% of the grant price is funded by the Company with the remaining funded by the Scheme participant. These restricted shares vest gradually after the Scheme participants complete a period of service of 3 to 5 years from the date of grant.

No restricted shares have been purchased or granted up to the date of these financial statements.

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Subsidiaries				
Directly held				
Harbin Aviation Industry Group Ltd (哈爾濱航空工業(集團)有限責任公司)	RMB125,930,863	100%	Limited liability company	Manufacture and sale of general-purpose aeroplane and helicopter
Jiangxi Changhe Aviation Industry Company Limited (江西昌河航空工業有限公司)	RMB270,142,916	100%	Limited liability company	Manufacture and sale of general-purpose aeroplane and helicopter
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	RMB693,882,551	43.63%	Joint stock company (listed on the Shanghai Stock Exchange)	Design, development, manufacture and sale of basic trainers, general– purpose aeroplane and other aero products, including parts and components
Harbin Dongan Auto Engine Co., Ltd. (哈爾濱東安汽車動力股份有限公司)	RMB462,080,000	54.51%	Joint stock company (listed on the Shanghai Stock Exchange)	Manufacture and sale of automobile engine
China AVIC Avionics Equipment Co., Ltd. (中航航空電子設備股份有限公司)	RMB484,625,174	49.93%	Joint stock company (listed on the Shanghai Stock Exchange)	Holding investments engaged in aviation equipment business

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Indirectly held				
Hafei Aviation Industry Co., Ltd. (哈飛航空工業股份有限公司)	RMB300,393,899	50.05%	Joint stock company (listed on the Shanghai Stock Exchange)	Research, development, design, manufacture and sale of aero products, including parts and components
Harbin Dongan Automotive Engine Manufacturing Co., Ltd. (哈爾濱東安汽車發動機製造有限公司)	RMB450,888,750	34.62%	Equity joint venture	Manufacture and sale of automobile engines
Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司)	RMB60,000,000	49.93%	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司)	RMB173,542,800	49.93%	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司)	RMB146,773,263	100%	Limited liability company	Research, manufacture and sale of aviation auto control equipments and instruments
Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司)	RMB321,680,000	86.74%	Joint stock company	Research, manufacture and sale of air data systems and various types of aviation instruments

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Associates				
Indirectly held				
Harbin Embraer Aircraft Industry Co., Ltd. (哈爾濱安博威飛機工業有限公司)	USD25,000,000	49%	Limited liability company	Production of regional jets and provision of relevant sales and after-sale services
Harbin Hafei Airbus Composite Materials Manufacturing Centre Company Limited. (哈爾濱哈飛空客複合材料製造中心有限公司)	RMB1,020,329,930	20%	Limited liability company	Production of commercial aircraft components and parts
Jiangxi Hongdu Commercial Aircraft Corporation Limited (江西洪都商用飛機股份有限公司)	RMB1,200,000,000	25.50%	Joint stock company	Production of commercial aircraft components and parts

Notes:

(i) All the above subsidiaries and associates are established and operating in the PRC.

(ii) The English names of certain subsidiaries and associates referred to herein represent management's best effort at translating the Chinese names of these companies as no English names have been registered.

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings indicated.

"Agusta"	Agusta S. p. A.
"AMES"	AVIC Electromechanical Systems Company Limited (中航機電系統有限公司), a wholly-owned subsidiary of AVIC
"Articles of Association"	Articles and Association of the Company (as amended from time to time)
"AVIC"	Aviation Industry Corporation of China (中國航空工業集團公司), a controlling shareholder of the Company holding 56.70% equity interests of the Company as at 31 December 2010
"AVIC Avionics"	China AVIC Avionics Equipment Co., Ltd., (中航航空電子設備股份有限公司) formerly named as Jiangxi Changhe Automobile Co., Ltd., a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange with 49.93% of its equity interest being held directly by the Company
"AVIC Avionics Systems"	AVIC Avionics Systems Co., Ltd., (中航航空電子系統有限責任公司), a wholly-owned subsidiary of AVIC
"AVIC Group"	AVIC and its subsidiaries (excluding the Group)
"AVIC I"	China Aviation Industry Corporation I (中國航空工業第一集團公司), the predecessor of AVIC
"AVIC II"	China Aviation Industry Corporation II (中國航空工業第二集團公司), a former controlling shareholder of the Company and the predecessor of AVIC
"AVIC Kaitian"	Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), a limited liability company established in the PRC
"AVIC Lanfei"	Lanzhou Flight Control Co., Ltd., (蘭州飛行控制有限責任公司), a limited liability company established in the PRC
"AviChina", "the Company"	AviChina Industry & Technology Company Limited (中國航空科技工業股份有限公司), a joint stock limited company established in the PRC with limited liability on 30 April 2003
"Baoding Huide"	Baoding Huide Wind Power Engineering Co., Ltd. (保定惠德風電工程有限公司), a subsidiary with 8.34% of its interests being held by the Company
"Board" or "Board of Directors"	the board of directors of the Company

"Changhe Agusta"	Jiangxi Changhe-Agusta Helicopter Co., Ltd. (江西昌河阿古斯特直升機有限責任公司), a sino-foreign joint venture held as to 60% by Changhe Aviation and 40% by Agusta
"Changhe Auto"	Jiangxi Changhe Automobile Co., Ltd. (江西昌河汽車股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 49.93% of its interests being directly held by the Company, the name of Changhe Auto was changed into AVIC Avionics on 21 December 2009
"Changhe Aviation"	Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司), a wholly-owned subsidiary of the Company
"Directors"	the director(s) of the Company
"Domestic Shares"	ordinary shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi by PRC nationals and/or PRC corporate entities
"Dongan Engine"	Harbin Dongan Automotive Engine Manufacturing Co., Ltd. (哈爾濱東安汽車發動機製造有限公司), a sino-foreign joint venture with 36% and 15% of its interests being held by Dongan Motor and Harbin Aviation Group
"Dongan Motor"	Harbin Dongan Auto Engine Co., Ltd. (哈爾濱東安汽車動力股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange, which the Company had 54.51% equity interest during the reporting period, but such equity interest had been disposed of by the Company with effect from 17 March 2011
"Eurocopter"	a subsidiary of European Aeronautic Defence and Space Company ("EADS")
"Former AVIC"	Aviation Industry of China Corporation (中國航空工業總公司), the predecessor of AVIC I and AVIC II
"Group"	the Company and its subsidiaries
"H Shares"	overseas listed foreign invested shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are traded in Hong Kong dollars and listed on the Stock Exchange
"Hafei Aviation"	Hafei Aviation Industry Co., Ltd. (哈飛航空工業股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 50.05% of its interests being held by Harbin Aviation Group

"Harbin Aviation Group"	Harbin Aviation Industry (Group) Co., Ltd. (哈爾濱航空工業(集團)有限公司), a wholly-owned subsidiary of the Company
"Hongdu Aviation"	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 55.29% of its interests being held by the Company
"Hongdu Group"	Jiangxi Hongdu Aviation Industry Group Corporation (江西洪都航空工業(集團)有限責任公司), a wholly-owned subsidiary of AVIC
"JONHON Optronic"	China Aviation Optical-Electrical Technology Co., Ltd., (中航光電科技股份有限公司), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, which the Company became the registered holder of 43.34% of its equity interest with effect from 17 March 2011
"Lanzhou Aviation Electrical"	Lanzhou Wanli Aviation Electrical Co., Ltd. (蘭州萬里航空機電有限責任公司), a wholly-owned subsidiary of AVIC Avionics
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Mitsubishi"	Mitsubishi Motor Corporation (三菱自動車工業株式會社), a substantial shareholder of Dongan Engine
"Qianshan Avionics"	AVIC Shaanxi Qianshan Avionics Co., Ltd., a limited liability company established in the PRC
"Restricted Shares"	the H Shares granted/to be granted under the Scheme and has the meanings ascribed to such term in the Scheme
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council
"Scheme"	the restricted share incentive scheme adopted by the Company at the extraordinary general meeting of the Company held on 29 March 2011
"Shaanxi Baocheng"	Shaanxi Baocheng Aviation Instrument Co., Ltd., a limited liability company established in the PRC
"Shaanxi Huayan"	AVIC Shaanxi Huayan Aero-Instrument Co., Ltd., a limited liability company established in the PRC
"Shanghai Aviation Electric"	Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司), a wholly-owned subsidiary of AVIC Avionics
"Shares"	Domestic Shares and H Shares

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisors"	the supervisor(s) of the Company
"Taiyuan Instrument"	AVIC Taiyuan Aviation Instrument Co., Ltd., a limited liability company established in the PRC
"the Group"	AviChina and all or any of its subsidiaries
"the PRC"	People's Republic of China
"Tianjin Aviation"	Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司), a limited liability company established in the PRC
"trainer"	aeroplanes designed and used for pilot training purposes

BOARD OF DIRECTORS

Executive Director (Chairman)	Lin Zuoming
Executive Director (Vice Chairman)	Tan Ruisong
Executive Director	Wu Xiandong
Non-Executive Director	Gu Huizhong
Non-Executive Director	Xu Zhanbin
Non-Executive Director	Geng Ruguang
Non-Executive Director	Zhang Xinguo
Non-Executive Director	Gao Jianshe
Non-Executive Director	Li Fangyong
Non-Executive Director	Chen Yuanxian
Non-Executive Director	Wang Yong
Non-Executive Director	Maurice Savart
Independent Non-Executive Director	Guo Chongqing
Independent Non-Executive Director	Li Xianzong
Independent Non-Executive Director	Lau Chung Man, Louis

SUPERVISORY COMMITTEE

Chairman	Li Yuhai
Supervisors	Tang Jianguo
	Bai Ping
	Wang Yuming
	Yu Guanghai

SENIOR MANAGEMENT

President	Tan Ruisong
Vice President	Wang Jun
	Ni Xianping
	Zheng Qiang
	Zhang Kunhui
Company Secretary	Yan Lingxi

THE LEGAL NAME OF THE COMPANY

中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited

Abbreviation name in Chinese:	中航科工
Abbreviation name in English:	AVICHINA
Legal representative:	Lin Zuoming

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 15/F, United Center, Queensway 95, Hong Kong

AUTHORISED REPRESENTATIVES

Wu Xiandong　　Yan Lingxi

PRINCIPAL BANKERS

Shanghai Pudong Development Bank
No.588, Pudong South Road, Pudong New District, Shanghai

Bank of Communications
No.188 Yin Cheng Zhong Lu, Pudong New District, Shanghai, the PRC

China Minsheng Banking Corp., Ltd.
No.2 Fuxingmen Street, Xicheng District, Beijing, the PRC

Bank of China
No.1 Fuxingmen nei Street, Xicheng District, Beijing, the PRC

PLACE OF LISTING, STOCK NAME AND STOCK CODE

Main Board of The Stock Exchange of Hong Kong Limited (H Shares), AVICHINA, 2357

REGISTERED ADDRESS

8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing, the PRC

WEBSITE

www.avichina.com

Corporate Information

CORRESPONDENCE ADDRESS

Postal Code: 100009
P.O. Box 1655, Beijing, the PRC

Telephone: 86-10-58354309
Facsimile: 86-10-58354300/10
E-mail Box: avichina@avichina.com

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Room 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2010 will be held at 9:00 a.m. on Friday, 27 May 2011 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC.

AUDITORS

International Auditors

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

Auditors in the PRC

PricewaterhouseCoopers Zhong Tian CPAs Limited Company
11/F, PricewaterhouseCoopers Center,
No. 202 Hu Bin Road,
Shanghai, the PRC

LEGAL ADVISERS

As to Hong Kong law

Baker & McKenzie
23rd Floor,
One Pacific Place,
88 Queensway,
Hong Kong

As to PRC law

Beijing Jiayuan Law Firm
F407, Ocean Plaza,
158 Fuxingmennei Street,
Xicheng District,
Beijing, the PRC