

1 ORGANISATION AND PRINCIPAL ACTIVITIES

AviChina Industry & Technology Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 30th April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation (the "Reorganisation") of China Aviation Industry Corporation II ("AVIC II"). The Company's H Shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30th 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 automobile and aviation products.

The Company's directors regard AVIC II, a company established in the PRC, as being the ultimate holding company of the Company.

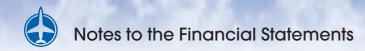
These consolidated financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated, and have been approved for issue by the Board of Directors on 2nd April 2007.

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 and financial liabilities (including derivative instruments) at fair value through profit or loss, 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 judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

In preparing these financial statements, the directors have taken into account all information that could reasonably be expected to be available and have ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future. Under these circumstances, the directors consider that it is proper to prepare the financial statements on a going concern basis notwithstanding that at 31st December 2006, the Group's current liabilities exceeded its current assets by RMB899,352,000.



2 BASIS OF PREPARATION (continued)

The following amendments to standards and interpretations are mandatory for financial year ended 31st December 2006.

IAS 19 (Amendment) Actuarial Gains and Losses, Group Plans and Disclosures;

IAS 21 (Amendment) Net Investment in a Foreign Operation;

IAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intra-group Transactions;

IAS 39 (Amendment) The Fair Value Option;

IAS 39 and

IFRS 4 (Amendment) Financial Guarantee Contracts;

IFRS 1 and

IFRS 6 (Amendment) First-time Adoption of International Financial Reporting

Standards and Exploration for and Evaluation of Mineral Resources;

IFRIC 4 Determining whether an Arrangement contains a Lease;
IFRIC 5 Rights to Interests arising from Decommissioning, arising

from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

IFRIC 6 Liabilities arising from Participating in a Specific

Market - Waste Electrical and Electronic Equipment.

The adoption of the above amendments to standards and interpretation did not have any significant financial impact to the Group.

The Group has not early adopted the following new/revised standards or interpretations that have been issued but are not yet effective. The directors anticipate that the adoption of these Standards or interpretations in future periods will not result in substantial changes to the Group's accounting policies.

IAS 1(Amendment) Presentation of Financial Statements: Capital disclosures

IFRS 7 Financial Instruments: Disclosures

IFRS 8 Operating Segments, effective for accounting periods

beginning on or after 1st January 2009

IFRIC 7 Applying the Restatement Approach under IAS 29,

Financial Reporting in Hyperinflationary Economies;

IFRIC 8 Scope of IFRS 2;

IFRIC 9 Reassessment of embedded derivatives
IFRIC 10 Interim Financial Reporting and Impairment
IFRIC 11 IFRS 2 - Group and Treasury Share Transactions

IFRIC 12 Service Concession Arrangements.



3 PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

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

(i) Subsidiaries

Subsidiaries are all entities (including special purpose 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. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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.

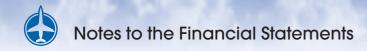
The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, 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 but considered an impairment indicator 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 carried at cost less accumulated impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority 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 minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.



3 PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

(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 (net of any accumulated impairment loss) identified on acquisition.

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 changed 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 are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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. 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 12 - 45 years
Plant and equipment 5 - 18 years
Furniture and fixtures, other equipment and motor vehicles 4 - 10 years



3 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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(f)).

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

(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. 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 into 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.

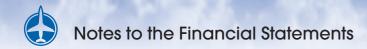
(d) Land use rights

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 are situated for periods varying from 30 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

(e) 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(f) 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.



PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Intangible assets (continued)

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 6 years.

(f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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.

(a) Financial assets

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.

(ii) 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 balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 3(j)).

(iii) 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.



3 PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Financial assets (continued)

(iv) 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 classified as "Other non-current financial assets" and included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

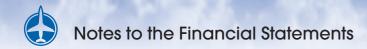
Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments 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, including interest and dividend income, are recognised in the income statement in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

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 estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, such financial assets are carried at cost less accumulated impairment losses.



3 PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Financial assets (continued)

The Group assesses at each balance sheet date 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.

(h) 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 labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. 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.

(i) 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).



3 PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Such provision for impairment of accounts receivable 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 cash flows, discounted at the effective interest rate. The carrying amount of the asset 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".

(k) Cash and cash equivalents

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

(I) 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 balance sheet date.

(m) Borrowings costs

Borrowing costs incurred for the construction of property, plant and equipment (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.

(n) Deferred income tax

Deferred income tax is provided in full, 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 substantially 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.



3 PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Deferred income tax (continued)

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

(o) 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) Early retirement benefits

Early retirement benefits are recognised as expense in the period the Group reaches agreements with the relevant employees for the early retirement.

(iii) Housing benefits

The Group sold staff quarters to its employees, subject to a number of eligibility requirements, at preferential prices. When staff quarters are identified as being subject to sale under these arrangements, the carrying value of the staff quarters is written down to the net recoverable amount. Upon sale, any difference between sales proceeds and the carrying amount of the staff quarters is charged to the income statement.

The above discounted quarters allocation plans were phased out in accordance with the policies of the PRC government. In 1998, the State Council of the PRC issued a circular which stipulated that the sale of quarters to employees at preferential prices should be withdrawn. In 2000, the State Council further issued a circular stating that cash subsidies should be made to the employees following the withdrawal of allocation of staff quarters. However, the specific timetable and procedures of implementation of these policies are to be determined by individual provincial or municipal government based on the particular situation of the province or municipality.



3 PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Employee benefits (continued)

(iii) Housing benefits (continued)

Based on the relevant detailed local government regulations promulgated, certain entities within the Group have adopted cash housing subsidy plans. In accordance with these plans, for those eligible employees who have not been allocated with quarters at all or who have not been allocated with quarters up to the prescribed standards before the discounted quarters sale plans were terminated, the Group is required to pay them one-off cash housing subsidies based on their years of service, positions and other criteria. These cash housing subsidies are charged to the income statement in the year in which it was determined that the payment of such subsidies is probable and the amounts can be reasonably estimated. Based on the available information and its best estimate, the Group estimated the required provision for these cash housing subsidies which was charged to the income statement in the year ended 31st December 2000 when the State Council circular in respect of cash subsidies was issued.

Pursuant to the Reorganisation, AVIC II would bear any further one-off cash housing subsidies in excess of the amount provided for in the consolidated balance sheet of the Group. Employees joining the Group after the incorporation of the Company would not be entitled to any one-off cash housing subsidies.

In addition, 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.

(p) Provisions

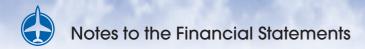
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been realiably estimated. Provisions are not recognised for future operating losses.

Warranty obligations are accrued at the time the sales are recognised, based on the estimated amounts of fulfilling the total obligations, including handling and transportation costs. The assumptions used to estimate warranty expenses are evaluated periodically and based on historical experience.

(q) 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.



3 PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Foreign currency translation (continued)

(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 financial statements are presented in Renminbi ("RMB"), which is the Company's functional and 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.

(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 as a separate component of equity.



3 PRINCIPAL ACCOUNTING POLICIES (continued)

(s) 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. Revenue is recognised as follows:

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.

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

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

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

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

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

(t) 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.

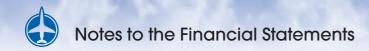
Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income from government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(u) Dividend distribution

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

(v) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. During the year, the Group did not enter into any derivative financial instruments.



3 PRINCIPAL ACCOUNTING POLICIES (continued)

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services with a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has determined business segments be presented as the primary reporting format. The Group's operations are principally carried out in the PRC and the related assets are located there. Accordingly, no geographical segments are presented.

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment are included as unallocated costs. Unallocated costs mainly represent corporate expenses.

Segment assets consist primarily of property, plant and equipment, land use rights, intangible assets, deferred income tax assets, investments in associates, inventories, operating receivables, deposits and cash and cash equivalents, and mainly exclude corporate assets. Segment liabilities comprise operating liabilities, current and deferred income tax liabilities, and exclude corporate liabilities. Capital expenditures mainly comprise additions to property, plant and equipment, land use rights and intangible assets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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 Group makes estimates and assumptions concerning the future. 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 deprecation/amortisation charges for the property, plant and equipment 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.



4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(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 non-financial assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 3(f). The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates. Detailed sensitivity analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

(iv) Impairment of account and other receivables

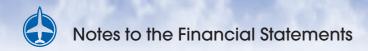
Provision for impairment of account and other receivables is determined based on the evaluation of collectibility of account and other receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past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

(v) 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 make provision for impairment on obsolete and slow-moving items or write-off or write-down inventories to net realisable value.

(vi) 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. Base 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. Management is confident that the actual outcome will not materially differ from the estimates made at the balance sheet date.



4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(vii) 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.

(viii) Provisions

The Group gives warranties on certain automobile and aviation products and undertakes to repair or replace items that fail to perform satisfactorily based on certain pre-determined conditions. Management estimates the related warranty claims based on historical warranty claim information including level of repairs and returns as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labor costs. Any increase or decrease in the provision would affect profit or loss in future years.

5 SEGMENT INFORMATION

The Group is principally engaged in the manufacturing, assembly, sales and servicing of automobiles and civilian aircrafts.

(a) Primary reporting format - business segments

The Group is organised into two main business segments:

- Automobiles manufacturing, assembly, sales and servicing of automobiles.
- Aviation manufacturing, assembly, sales and servicing of helicopters, trainers and other aircrafts.

All segment revenues were made to external parties.

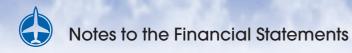
As at and for the year ended 31st December 2006



SEGMENT INFORMATION (continued)

Primary reporting format - business segments

	Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Operating results	KIVIB 000	RIVID UUU	RIVID UUU
Segment revenue	4,427,598	12,682,910	17,110,508
Segment results	404,140	(619,988)	(215,848)
Unallocated income			6,591
Unallocated costs			(36,775)
Operating loss			(246,032)
Finance costs, net	(81,951)	(190,331)	(272,282)
Share of results of associates	42,540	2,511	45,051
Loss before income tax			(473,263)
Income tax expense			(13,399)
Loss for the year			(486,662)
Assets			
Segment assets	7,720,276	15,976,945	23,697,221
Interests in associates	192,339	55,628	247,967
Unallocated assets			865,338
Total assets			24,810,526
Liabilities			
Segment liabilities	5,119,222	11,051,521	16,170,743
Unallocated liabilities			517,671
Total liabilities			16,688,414
Other segment information			
Capital expenditures	157,655	1,045,909	1,203,564
Depreciation	70,266	857,847	928,113
Amortisation	1,277	125,572	126,849
Provisions for impairment	30,248	75,706	105,954



5 **SEGMENT INFORMATION** (continued)

	As at and for the	As at and for the year ended 31st		
	Aviation	Automobiles	Total	
	RMB'000	RMB'000	RMB'000	
Operating results				
Segment revenue	3,550,166	10,715,942	14,266,108	
Segment results	275,125	108,887	384,012	
Unallocated income			2,031	
Unallocated costs			(37,840)	
Operating profit			348,203	
Finance costs, net	(77,167)	(76,729)	(153,896)	
Share of results of associates	50,023	(4,656)	45,367	
Profit before income tax			239,674	
Income tax expense			(52,078)	
Profit for the year			187,596	
Assets				
Segment assets	7,114,388	14,400,585	21,514,973	
Interests in associates	182,184	70,679	252,863	
Unallocated assets			943,666	
Total assets			22,711,502	
Liabilities				
Segment liabilities	3,715,239	9,653,737	13,368,976	
Unallocated liabilities			633,320	
Total liabilities			14,002,296	
Other segment information				
Capital expenditures	<u>256,714</u>	2,307,396	2,564,110	
Depreciation	117,521	546,568	664,089	
Amortisation	656	98,836	99,492	
Provisions for impairment	30,456	112,388	142,844	

2006

2005

5 **SEGMENT INFORMATION** (continued)

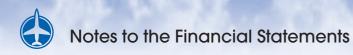
(b) Secondary reporting format - geographical segments

All assets and operations of the Group for the year were located in the PRC, which is considered as one geographical location in an economic environment with similar risk and returns.

No geographical segments analysis is presented as less than 10% of the Group's revenue from external customers and assets is attributable to markets not located in the PRC.

6 OTHER INCOME

	RMB'000	RMB'000
Interest income on bank balances and deposits	78,256	73,968
Profit from sale of scrap materials	19,699	16,511
Gain on disposal of other financial assets		
at fair value through profit or loss	6,591	2,031
Income from government grants	66,223	96,634
Refund of value-added tax and real estate tax	1,878	4,706
Rental income from plant and equipment	2,012	5,069
Income from rendering of other services, net	8,599	9,838
	183.258	208.757



7 OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging/(crediting) the following:

	2006 RMB'000	2005 RMB'000
Auditors' remuneration	7,780	6,840
Amortisation		
Land use rightsIntangible assets	2,983 123,866	4,904 94,588
Amortisation of deferred income relating to government grants	(18,396)	(21,746)
Costs of inventories sold	15,204,907	12,395,184
Depreciation on property, plant and equipment (Note 15)	928,113	664,089
(Gain)/loss on disposal - Property, plant and equipment - A subsidiary (Note 18 (b)) - Associates	(12,780) 3 9,811	9,513 1,918 —
Operating lease rentals - Land and buildings - Property, plant and equipment	41,029 —	38,515 430
Provision/(reversal of provision) for impairment - Receivables - Inventories	22,126 121	33,877 (13,941)
- Other non-current financial assets	12,355	25,000
- Property, plant and equipment (Note 15)	642	1,305
- Intangible assets (Note 17)	70,710	96,603
Repairs and maintenance expense on property, plant and equipment	24,301	15,670
Research expenditures and development costs charged to income statement directly	230,712	86,714
Staff costs, including directors' emoluments (Note 13)	997,118	793,454
Warranty expenses (Note 34)	154,841	59,235

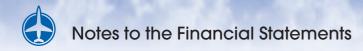
FINANCE COSTS, NET

	2006	2005
	RMB'000	RMB'000
Interest expense on bank borrowings		
		001 7/5
- Wholly repayable within 5 years	313,986	281,765
- Not wholly repayable within 5 years	15,618	854
Interest expense on other borrowings		
- Wholly repayable within 5 years	9,707	661
- Not wholly repayable within 5 years	121	121
	339,432	283,401
Less: Amount capitalised in property, plant and equipment (note)	(59,252)	(36,918)
Government interest subsidies	(27,119)	(37,100)
	253,061	209,383
Exchange losses/(gains), net	14,487	(57,993)
Other finance costs	4,734	2,506
	272,282	153,896

Note:

Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining a qualifying asset. Interest rates on such capitalised borrowings are as follows:

	2006	2005
Interest rates per annum at which finance costs were capitalised	3.74% - 5.81%	3.68% - 5.58%



9 INCOME TAX EXPENSE

	2006	2005
	RMB'000	RMB'000
PRC enterprise income tax	52,686	64,621
Deferred income taxes	(39,287)	(12,543)
	13,399	52,078

Notes:

- (a) Except for certain subsidiaries which are taxed at preferential rates ranging from 7.5% to 33% (2005: 7.5% to 33%), 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 33% of the assessable income of the Group as determined for the year (2005: 33%).
- (b) The reconciliation between the Group's actual tax charge and the amount which is calculated based on the statutory tax rate of 33% in the PRC is as follows:

	2006	2005
	RMB'000	RMB'000
(Loss)/profit before income tax	(473,263)	239,674
Tax calculated at the statutory tax rate of 33% (2005: 33%)	(156,177)	79,092
Preferential tax rates on the income of certain subsidiaries	(91,449)	(47,049)
Non-taxable income	(63,662)	(47,894)
Expenses not deductible for tax purposes	26,951	20,479
Tax losses for which no deferred income tax asset was recognised	314,119	69,856
Utilisation of previously unrecognised tax losses	_	(25,280)
Others	(16,383)	2,874
Tax charge	13,399	52,078

⁽c) Share of taxation attributable to associates for the year ended 31st December 2006 of RMB 772,000 (2005: RMB 2,202,000) is included in the consolidated income statement as share of results of associates.

10 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB 166,985,000 (2005: profit of RMB 69,645,000).



11 DIVIDEND

	2006	2005
	RMB'000	RMB'000
Final dividend, proposed, of RMB Nil (2005: RMB 0.0105) per share		48,758

The board of directors do not recommend the payment of a dividend for the year ended 31st December 2006.

12 (LOSS)/EARNINGS PER SHARE

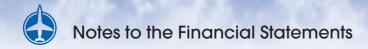
The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to equity holders of the Company of RMB 331,079,000 (2005: profit of RMB118,072,000) and based on the weighted average number of 4,643,608,500 (2005: 4,643,608,500) shares in issue during the year.

There was no dilution effect on the basic (loss)/earnings per share for the years ended 31st December 2006 and 2005 as there were no potential dilutive shares outstanding during the years ended 31st December 2006 and 2005.

13 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

Wages, salaries and bonuses
Housing benefits
Contributions to pension plans
Welfare and other expenses

2006	2005
RMB'000	RMB'000
690,103	531,077
55,305	26,408
128,072	122,398
123,638	113,571
997,118	793,454



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

(a) Directors' emoluments

The emoluments of each of the directors of the Company for the years ended 31st December 2006 and 2005 are set out below.

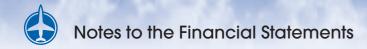
Year ended 31st December 2006

rear ended 31st December 2000					
	1	Basic salaries,			
		housing			
		allowances,			
		other		Employer's	
		allowances		contributions	
		and benefits		to retirement	
Name of director	Fees	in kind	Bonuses	schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Zhang Hongbiao	_	180	_	_	180
Wu Xiandong	_	160	_	_	160
Tan Ruisong (note (i))	_	140	_	_	140
Non-executive directors					
Liang Zhenhe	120	_	_	_	120
Song Jingang	120	_	_	_	120
Tian Min	120	_	_	_	120
Chen Huaiqiu	120	_	_	_	120
Wang Bin	120	_	_	_	120
Wang Yong	35	_	_	_	35
Maurice Savart	_	_	_	_	_
Independent non-					
executive directors					
Dr. The Hon. Li Kwok-Po,					
David (note (ii))	64	_	_	_	64
Guo Chongqing	62	_	_	_	62
Li Xianzong	62	_	_	_	62
Lau Chungman (note (iii))	63				63
	886	480	_	_	1,366

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

(a) Directors' emoluments (continued)

	Year ended 31st December 2005					
	В	asic salaries,				
		housing				
		allowances,				
		other	Employer's			
		allowances	C	ontributions		
	•	and benefits	to	o retirement		
Name of director	Fees	in kind	Bonuses	schemes	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Executive directors						
Zhang Hongbiao	_	180	_	_	180	
Wu Xiandong	_	160	_	_	160	
Non-executive directors						
Liang Zhenhe	_	120	_	_	120	
Song Jingang	_	120	_	_	120	
Tan Ruisong (note (i))	_	60	_	_	60	
Tian Min	_	120	_	_	120	
Wang Bin (note (iv))	_	60	_	_	60	
Chen Huaiqiu	_	120	_	_	120	
Wang Yong (note (iv))	_	15	_	_	15	
Maurice Savart	_	_	_	_	_	
Xu Tongxing (note (v))	_	60	_	_	60	
Cui Xuewen (note (v))	_	60	_	_	60	
Yang Jinhuai (note (v))	_	60	_	_	60	
Hu Jiarui (note (v))	_	15	_	_	15	
Independent non-						
executive directors						
Dr. The Hon. Li Kwok-Po, David	106	_	_	_	106	
Guo Chongqing	57	_	_	_	57	
Li Xianzong	57				57	
	220	1,150	_	_	1,370	



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

(a) Directors' emoluments (continued)

Notes:

- (i) Mr Tan Ruisong was appointed as a non-executive director on 16th June 2005 and appointed as an executive director on 16th June 2006.
- (ii) Dr. The Hon. Li Kwok-Po, David was resigned on 16th June 2006.
- (iii) Mr Lau Chungman was appointed on 28th August 2006.
- (iv) These directors were appointed on 16th June 2005.
- (v) These directors were resigned on 16th June 2005.

(b) Supervisors' emoluments

The emoluments of each of the supervisors of the Company for the years ended 31st December 2006 and 2005 are set out below.

Year ended 31st December 2006

			4040.0.2000		
	-	Basic salaries,			
		housing			
		allowances,			
		other		Employer's	
		allowances		contributions	
		and benefits		to retirement	
Name of supervisor	Fees	in kind	Bonuses	schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Supervisors					
Tang Jianguo	140	_	_	_	140
Wang Shouxin	140	_	_	_	140
Li Shentian	120	_	_	_	120
Bai Ping	120	_	_	_	120
Han Xiaoyang (note (i))	60	_	_	_	60
Lu Liubao (note (ii))	60	_	_	_	60
Liu Xianping (note (ii))	11	_	_	_	11
Yu Yan	24	_	_	_	24
Li Deqing (note (i))	13	_	_	_	13
Independent supervisors					
Zheng Li	35	_	_	_	35
Xie Zhihua	35	_	_	_	35
	758	_	_	_	758



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

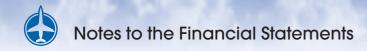
(b) Supervisors' emoluments (continued)

,				
Year ended 31st December 2005				
	Basic salaries,			
	housing			
	allowances,			
	other		Employer's	
	allowances		contributions	
	and benefits		to retirement	
Fees	in kind	Bonuses	schemes	Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
_	160	_	_	160
_	120	_	_	120
_	120	_	_	120
_	120	_	_	120
_	120	_	_	120
_	20	_	_	20
_	20	_	_	20
	0.0			0.0
_	30	_	_	30
	30			30
_	740	_	_	740
	Fees	Basic salaries, housing allowances, other allowances and benefits Fees in kind RMB'000 RMB'000 - 160 - 120 - 120 - 120 - 120 - 20 - 20 - 20 - 30 - 30	Basic salaries, housing allowances, other allowances and benefits Fees in kind Bonuses RMB'000 RMB'000 RMB'000 - 160 120 120 120 120 20 20 30 30 30 30 30	Basic salaries, housing allowances, other allowances contributions and benefits to retirement

Notes:

⁽i) These supervisors were appointed on 16th June 2006.

⁽ii) These supervisors were resigned on 16th June 2006.



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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year are as follows:

	number of individuals		
	2006	2005	
In the capacity as:			
Director	3	2	
Supervisor	1	1	
Senior management	1	2	
	5	5	

Number of individuals

2004

2005

The five individuals whose emoluments were highest in the Group for the year included three (2005: two) directors and one (2005: one) supervisor whose emoluments are reflected in the analyses presented above. The emoluments payable to the remaining one (2005: two) individual(s) during the year are as follows:

	2006	2005
	RMB'000	RMB'000
Basic salaries, housing allowances,		
other allowances and benefits in kind	241	395
Contributions to retirement schemes	_	_
	241	395

The emoluments fell within the following band:

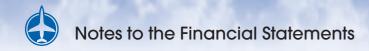
	Number of individual(s)		
	2006		
Nil - RMB1,005,000 (equivalent to HKD 1,000,000)	1	2	

(d) No directors or supervisors of the Company waived any emoluments during the years ended 31st December 2005 and 2006. 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 (2005: Nil).

15 PROPERTY, PLANT AND EQUIPMENT

Group

				Furniture	
				and fixtures,	
				other	
				equipment	
	Construction		Plant and	and motor	
	in progress	Buildings	equipment	vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
As at 1st January 2006	1,629,663	2,103,442	8,255,149	639,642	12,627,896
Additions	931,725	15,439	113,992	50,056	1,111,212
Transfer upon completion	(1,822,114)	104,886	1,638,230	78,998	_
Disposals/write off	(1,305)	(29,489)	(184,707)	(33,432)	(248,933)
As at 31st December 2006	737,969	2,194,278	9,822,664	735,264	13,490,175
Accumulated depreciation					
and impairment					
As at 1st January 2006	1,305	573,489	2,793,784	286,240	3,654,818
Depreciation	_	79,437	771,605	77,071	928,113
Impairment charge	_	_	642	_	642
Disposals/write off	(1,305)	(13,962)	(101,935)	(25,734)	(142,936)
As at 31st December 2006	<u></u>	638,964	3,464,096	337,577	4,440,637
Net book value					
As at 31st December 2006	737,969	1,555,314	6,358,568	397,687	9,049,538



15 PROPERTY, PLANT AND EQUIPMENT (continued)

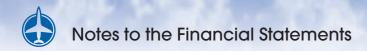
			Group		
				Furniture	
				and fixtures,	
				other	
				equipment	
	Construction		Plant and	and motor	
	in progress	Buildings	equipment	vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost					
As at 1st January 2005	1,623,668	1,674,862	6,734,330	476,240	10,509,100
Additions	2,139,333	84,269	95,553	54,112	2,373,267
Transfer upon completion	(2,133,338)	414,604	1,573,369	145,365	_
Disposals		(70,293)	(148,103)	(36,075)	(254,471)
As at 31st December 2005	1,629,663	2,103,442	8,255,149	639,642	12,627,896
Accumulated depreciation					
and impairment					
As at 1st January 2005	_	484,632	2,394,866	242,965	3,122,463
Depreciation	_	124,888	479,775	59,426	664,089
Impairment charge	1,305	_	_	_	1,305
Disposals		(36,031)	(80,857)	(16,151)	(133,039)
As at 31st December 2005	1,305	573,489	2,793,784	286,240	3,654,818
Net book value					
As at 31st December 2005	1,628,358	1,529,953	5,461,365	353,402	8,973,078



15 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

		• •	
		Furniture and	
		fixtures, other	
	Plant and	equipment and	
	equipment	motor vehicles	Total
	RMB'000	RMB'000	RMB'000
Cost			
As at 1st January 2006	6,637	8,364	15,001
Additions	_	290	290
As at 31st December 2006	6,637	8,654	15,291
Accumulated depreciation and impairment			
As at 1st January 2006	3,094	2,991	6,085
Depreciation	246	755	1,001
As at 31st December 2006	3,340	3,746	7,086
Net book value			
As at 31st December 2006	3,297	4,908	8,205
Cost			
As at 1st January 2005	6,637	7,861	14,498
Additions		503	503
As at 31st December 2005	6,637	8,364	15,001
Accumulated depreciation and impairment	0.000	0.040	5.050
As at 1st January 2005	2,890	2,362	5,252
Depreciation	204	629	833
As at 21st December 2005	2.004	0.001	4.005
As at 31st December 2005	3,094	2,991	6,085
Net heads welling			
Net book value	0.540	F 070	0.017
As at 31st December 2005	3,543	5,373	8,916



15 PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) Carrying value of the Group's property, plant and equipment pledged as securities for bank borrowings were set out as follows:

	Group		
	2006	2005	
	RMB'000	RMB'000	
Property, plant and equipment pledged (Note 35(h))	209,539	406,563	

(b) As at 31st December 2006, certain of the Group's property, plant and equipment with carrying value of approximately RMB 900,034,000 (2005: RMB 1,036,780,000) were situated on leasehold land in the PRC which are granted by AVIC II 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 leasehold land as at 31st December 2006 are ranging from 16 to 43 years (2005: 17 to 44 years).

16 LAND USE RIGHTS

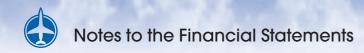
	Group		
	2006	2005	
	RMB'000	RMB'000	
Cost			
As at 1st January	125,286	111,466	
Additions	_	13,820	
As at 31st December	125,286	125,286	
Accumulated amortisation			
As at 1st January	25,972	21,068	
Amortisation	2,983	4,904	
As at 31st December	28,955	25,972	
Net book amount			
As at 31st December	96,331	99,314	



17 INTANGIBLE ASSETS

_	
(-roi	ır
9100	4

	Development costs RMB'000 (note (i))	Technology know-how RMB'000 (note (iii))	Electricity use rights RMB'000	Total RMB'000
Cost	0/5 047		27.7/0	002 (07
As at 1st January 2006 Additions	865,847 50,642	— 41,710	37,760	903,607 92,352
Write off	(67,538)		(37,760)	(105,298)
As at 31st December 2006	848,951	41,710		890,661
Accumulated amortisation and impairment				
As at 1st January 2006	312,969	_	37,760	350,729
Impairment charge (note (ii))	70,710	_	_	70,710
Amortisation	121,697	2,169	_	123,866
Write off	(67,538)		(37,760)	(105,298)
As at 31st December 2006	437,838	2,169		440,007
Net book amount				
As at 31st December 2006	411,113	39,541		450,654
Cost				
As at 1st January 2005	688,824	_	37,760	726,584
Additions	177,023			177,023
As at 31st December 2005	865,847		37,760	903,607
Accumulated amortisation and impairment				
As at 1st January 2005	152,023	_	7,515	159,538
Impairment charge (note (ii))	67,538	_	29,065	96,603
Amortisation	93,408		1,180	94,588
As at 31st December 2005	312,969		37,760	350,729
Net book amount				
As at 31st December 2005	552,878			552,878



17 INTANGIBLE ASSETS (continued)

Notes:

- In 2005, the Group entered into a jointly controlled asset arrangement with a fellow subsidiary to develop a new model of aircraft in which the Group has a 60.56% participating interest. As at 31st December 2006, the aggregate amounts of development costs incurred by the Group amounted to RMB175,957,000 (2005: RMB134,988,000).
- Impairment losses on intangible assets are mainly in relation to certain development costs for which management estimated that the carrying amounts of these assets have exceeded their recoverable amounts as determined based on value-in-use calculations.
- (iii) Technology know-how represents one-off upfront license fees paid to a minority shareholder of a subsidiary for acquiring technical details in connection with certain new automobile and engine models.

18 INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	RMB'000
Investments, at cost		
- Listed in the PRC	2,219,793	1,044,117
- Unlisted	1,295,171	2,411,254
	3,514,964	3,455,371
Amounts due from subsidiaries (note (a))	505,000	955,188
	4,019,964	4,410,559
Market value of listed shares (also see Note 37(f))	4,865,390	1,281,060

Particulars of the principal subsidiaries of the Group as at 31 st December 2006 are set out in Note 43.

Notes:

- (a) Amounts due from subsidiaries are unsecured, non-interest bearing and are repayable on demand.
- (b) Pursuant to an agreement entered into between AVIC II and the Company on 28th April 2006, the Company disposed of its entire 51% interest in Beijing Wisewell Avionics Technology Co., Ltd. (北京維思韋爾航空電子科技開發有限公司) for a consideration of RMB 1,479,000 resulting in a loss of RMB 3,000.
- (c) During the year, the Group acquired a further 54.95% equity interest in a 45% owned associate, Harbin Lingfei Auto Welding Parts Co., Ltd. (哈爾濱凌飛汽車焊裝件有限公司) for a consideration of RMB 11,994,000. Accordingly, this associate becomes a 99.95% owned subsidiary of the Group.



19 SHARE OF RESULTS OF/INTERESTS IN ASSOCIATES

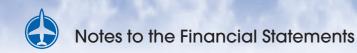
	Group	
	2006	2005
	RMB'000	RMB'000
Objects of a strength and the law of the law	050.072	004100
Share of net assets, as at 1st January	252,863	224,192
Share of results of associates		
- Profit before income tax	45,823	47,569
- Income tax expense	(772)	(2,202)
	45,051	45,367
	297,914	269,559
Dividends received from associates	(31,777)	(39)
Acquisition	15,000	6,902
Disposals	(23,375)	(23,559)
Acquired as a subsidiary (Note 18(c))	(9,795)	_
Share of net assets, as at 31st December	247,967	252,863

Particulars of the principal associates of the Group as at 31 st December 2006 are set out in Note 43.

20 OTHER NON-CURRENT FINANCIAL ASSETS

	Group	
	2006	2005
	RMB'000	RMB'000
Investments in promoter shares, unlisted	62,177	62,177
Other equity investments, unlisted	81,425	103,709
Less: Provision for impairment	(12,355)	(50,000)
	69,070	53,709
	131,247	115,886

The Group's other non-current financial assets principally represent investments in promoter shares of certain companies listed in the PRC which are only transferable subject to approval from relevant regulatory authorities, and interests in certain unlisted companies; all of 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.



21 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:

	Oloup	
	2006	2005
	RMB'000	RMB'000
As at 1st January	49,489	38,713
Credited to consolidated income statement	25,816	10,776
As at 31st December	75,305	49,489

Group

Deferred income tax liabilities:

	Group	
	2006	2005
	RMB'000	RMB'000
As at 1st January	(49,343)	(51,110)
Credited to consolidated income statement	13,471	1,767
As at 31st December	(35,872)	(49,343)

21 DEFERRED INCOME TAXES (continued)

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

	Group	
	2006	2005
	RMB'000	RMB'000
Deferred income tax assets:		
Provision for impairment of receivables	54,672	58,355
Provision for impairment of inventories	14,417	13,562
Provision for impairment of investments	1,853	375
Provision for impairment of property, plant and equipment	2,812	2,676
Provision for warranty expense	30,926	14,778
Other temporary differences	12,433	8,391
	117,113	98,137
Deferred income tax liabilities:		
Interest income	_	396
Development costs	72,590	97,595
Other temporary differences	5,090	_
	77,680	97,991
Total deferred income tax assets less total deferred income tax liabilities	39,433	146

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	
	2006	2005
	RMB'000	RMB'000
Representing:		
Deferred income tax assets	75,305	49,489
Deferred income tax liabilities	(35,872)	(49,343)
Total deferred income tax assets less total deferred income tax liabilities	39,433	146



21 DEFERRED INCOME TAXES (continued)

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 RMB403,387,000 (2005: RMB89,268,000) in respect of tax losses amounting to RMB1,222,386,000 (2005: RMB270,510,000) that can be carried forward against future taxable income. These unrecognised tax losses are expiring within 5 years.

Group

22 ACCOUNTS RECEIVABLE

	•	
	2006	2005
	RMB'000	RMB'000
Trade receivables, gross (note (a))		
- Fellow subsidiaries (note (b))	1,701,901	1,116,620
- Other related parties (note (b))	152,778	165,317
- Others	1,206,085	994,502
	3,060,764	2,276,439
Less: Provision for impairment of receivables	(222,108)	(252,719)
	2,838,656	2,023,720
Notes receivable (note (c))		
- Fellow subsidiaries	37,263	70,400
- Others	841,005	834,979
	878,268	905,379
	A = 1	0.000.555
	3,716,924	2,929,099

Group



22 ACCOUNTS RECEIVABLE (continued)

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:

		•
	2006	2005
	RMB'000	RMB'000
Current to 1 year	2,820,466	1,987,199
1 year to 2 years	63,532	88,181
2 years to 3 years	5,449	28,868
Over 3 years	171,317	172,191
	3,060,764	2,276,439

- (b) Trade receivables from fellow subsidiaries and other related parties are unsecured and non-interest bearing.
- (c) Notes receivable are bills of exchange with average maturity period of within six months.
- (d) The carrying amounts of accounts receivable approximate their fair values.
- (e) Certain notes receivable were pledged as security for a bank loan (Note 35 (h))

23 ADVANCES TO SUPPLIERS

	9	Group	
	2006	2005	
	RMB'000	RMB'000	
Advances to suppliers			
- Fellow subsidiaries	38,824	60,202	
- Other related parties	2,254	235,299	
- Others	587,305	330,260	
	628,383	625,761	

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.



24 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Cor	npany	
	2006	2005	2006	2005	
	RMB'000	RMB'000	RMB'000	RMB'000	
Advances for purchase of property,					
plant and equipment	30,386	33,312	_	_	
Amount due from customers for					
contract work (Note 26)	_	136,167	_	_	
Dividends receivable from subsidiaries	_	_	137,195	32,350	
Other advances (note)					
- Ultimate holding company	57,293	58,090	_	_	
- Fellow subsidiaries	38,696	343,987	_	_	
- Other related parties	16,058	1,148	_	_	
Other receivables	390,526	58,967	_	_	
Prepayments and deposits	101,652	98,226	72	1,320	
Value-added tax recoverable	_	24,822	_	_	
Other current assets	73,607	37,617	_	_	
	708,218	792,336	137,267	33,670	

Note:

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

25 INVENTORIES

	Group	
	2006	2005
	RMB'000	RMB'000
Day a postoviale	2 001 214	1 070 040
Raw materials	2,081,314	1,978,068
Work in progress	673,204	640,449
Finished goods	1,990,662	1,487,906
Consumables	138,385	93,189
	4,883,565	4,199,612
Less: Provision for impairment losses	(78,652)	(72,994)
	4,804,913	4,126,618

26 CONTRACTS IN PROGRESS

	Group	
	2006	2005
	RMB'000	RMB'000
Contracts in progress at balance sheet date:		
Amount due from customers for contract work (Note 24)	_	136,167
Amount due to customers for contract work (Note 32)	(40,409)	_
	(40,409)	136,167
Contract costs in a great and recognized profits to date	4 400 450	1 004 003
Contract costs incurred and recognised profits to date	4,408,458	1,984,293

At 31st December 2006, no retentions were held by customers for contract work (2005: Nil) and advances of RMB 83,088,000 (2005: Nil) which were included in advances from customers (Note 31), were received on construction contracts.

27 OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Other financial assets at fair value through profit or loss of the Group represented investments in shares and government bonds listed in the PRC and are stated at fair value at the close of business at year end date. Fair value was estimated by reference to the quoted bid prices. During the year, the Group disposed of all other financial assets at fair value through profit or loss at a profit of approximately RMB 6,591,000.



28 PLEDGED DEPOSITS

(a) Pledged deposits are denominated in the following currencies:

	Group	
	2006	2005
Currency	RMB'000	RMB'000
Renminbi *	694,391	405,574

- * 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.
- (b) Pledged deposits earn interest at rates ranging from 0.72% to 1.98% (2005: 0.72% to 2.07%).
- (c) As at 31st December 2006, the trade finance facilities utilised by the Group for issuing notes payable to the Group's suppliers were amounting to RMB 1,365,285,000 (2005: RMB 943,472,000), which were secured by these pledged deposits.

29 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

(a) Term deposits with initial term of over three months are denominated in the following currencies.

	Group		Company	
	2006	2005	2006	2005
Currency	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi *	950,658	701,187	665,000	534,000
Hong Kong Dollar	100,470	104,030	100,470	104,030
	1,051,128	805,217	765,470	638,030

^{*} 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.

⁽b) The weighted average effective interest rates of the Group and the Company on term deposits with initial term of over three months were 2.31% (2005: 2.33%) and 2.47% (2005: 2.39%) per annum respectively.

30 ACCOUNTS PAYABLE

	Group	
	2006	2005
	RMB'000	RMB'000
Trade payables (note (a))		
- Ultimate holding company (note (b))	6,487	_
- Fellow subsidiaries (note (b))	336,891	277,370
- Other related parties (note (b))	300,957	529,391
- Others	4,587,023	3,476,023
	5,231,358	4,282,784
Notes payable (note (c))		
- Fellow subsidiaries	176,131	210,904
- Other related parties	756	_
- Others	1,628,999	1,320,873
	1,805,886	1,531,777
	7,037,244	5,814,561

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	
	2006	2005
	RMB'000	RMB'000
Current to 1 year	4,953,475	4,072,192
1 year to 2 years	215,827	191,612
2 years to 3 years	46,806	13,581
Over 3 years	15,250	5,399
	5,231,358	4,282,784

- (b) Trade payables to ultimate holding company, fellow subsidiaries and other related parties are unsecured and non-interest bearing.
- (c) Notes payable are bills of exchange with average maturity period of within six months.
- (d) The carrying amounts of accounts payable approximate their fair values.



31 ADVANCES FROM CUSTOMERS

Advances from customers

- Fellow subsidiaries
- Other related parties
- Other

Group			
2006	2005		
RMB'000	RMB'000		
21,381	37,777		
43,664	14,467		
395,425	349,506		
460,470	401,750		

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 fellow subsidiaries and other related parties are unsecured, non-interest bearing and will be settled or utilised in accordance with the terms of relevant agreements.

32 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Payable for property,				
plant and equipment				
- Fellow subsidiaries (note (i))	55	3,621	_	_
- Others	212,886	417,601	_	_
Wages, salaries and bonuses payables	190,350	158,355	_	_
Welfare payables	192,510	167,419	156	135
Accrued expenses	385,901	279,429	3,546	3,807
Deferred income from				
government grants	43,441	25,442	_	_
Consumption tax, business tax and				
other taxes payable	60,212	56,334	3	_
Amount due to customers for				
contract work (Note 26)	40,409	_	_	_
Other advances (note (ii))				
- Ultimate holding company (note (i))	45,997	24,082	37,431	10,845
- Fellow subsidiaries (note (i))	205,674	130,800	12,237	12,071
- Other related parties (note (i))	22,362	26,214	_	_
Payable relating to share reform	96,029	_	_	_
Other current liabilities	172,058	133,862	_	_
	1,667,884	1,423,159	53,373	26,858



32 OTHER PAYABLES AND ACCRUALS (continued)

Notes:

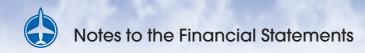
- Balances with related parties are unsecured and non-interest bearing.
- (ii) Other advances mainly represent current account balances with respective related parties which are unsecured, non-interest bearing and are repayable on demand.

33 AMOUNTS PAYABLE TO ULTIMATE HOLDING COMPANY

	Group		Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Supplementary pension subsidies				
(note (a))	464,298	532,298	464,298	532,298
One-off housing benefit (note (b))	56,226	_	_	_
				
	520,524	532,298	464,298	532,298

Notes:

- (a) Prior to the Reorganisation, the Group paid supplementary pension subsidies to its retired employees who retired prior to the Reorganisation. In addition, the Group was committed to make periodic benefits payments to certain former employees who retired early in accordance with various rationalisation programmes adopted by the Group prior to the Reorganisation. Pursuant to the Reorganisation, the Group and AVIC II agreed that, upon establishment of the Company, the Group's obligations to make these supplementary pension benefits and early retirement payments as at 30th June 2002 were assumed by AVIC II and the actual payments of these obligations will be made by AVIC II. The Group is not obliged to any further liabilities in respect of these supplementary pension benefits and early retirement payments to these former employees after 30th June 2002. The above obligations were actuarially determined by a PRC insurance company using the projected unit credit method and are repayable to AVIC II with no fixed repayment terms under the Reorganisation. The balance is unsecured and non-interest bearing.
- (b) This represents provision made by a subsidiary in connection with one-off housing subsidies for its eligible employees as at 31st December 2000 as detailed in Note 3(o)(iii). AVIC II has undertaken to bear any final actual cash settlement to those eligible employees in excess of RMB 56,226,000. During 2006, it was agreed that such one-off housing subsidies and future settlements shall be handled by AVIC II and accordingly the balance payable was transferred to AVIC II.



34 PROVISIONS

		Group	
	One-off housing		
	subsidies	Warranty	Total
	RMB'000	RMB'000	RMB'000
		(note)	
As at 1st January 2006	56,226	81,636	137,862
Additional provisions	_	154,841	154,841
Utilised during the year	_	(133,193)	(133,193)
Transfer (Note 33(b))	(56,226)		(56,226)
As at 31st December 2006		103,284	103,284
Analysis of total provisions:			
Current		103,284	103,284
As at 1st January 2005	56,226	68,902	125,128
Additional provisions	_	59,235	59,235
Utilised during the year		(46,501)	(46,501)
As at 31st December 2005	56,226	81,636	137,862
Analysis of total provisions:			
Non-current	56,226	_	56,226
Current		81,636	81,636
	56,226	81,636	137,862

Note:

The Group provides warranties to its customers on certain automobile and aviation products and undertakes to repair or replace items that fail to perform up to certain specified standard. Provision for expected warranty claims has been determined based on historical warranty information after taking into account of the Group's recent claim experience.

35 BORROWINGS

	Group	
	2006	2005
	RMB'000	RMB'000
Short-term borrowings		
Bank borrowings		
- Secured (note (h))	3,608,111	3,060,370
- Unsecured	1,398,689	1,036,917
	5,006,800	4,097,287
Other short-term borrowings, unsecured (note (c))	394,798	_
	5,401,598	4,097,287
Current portion of long-term borrowings	433,695	399,994
		4 407 001
	5,835,293	4,497,281
Long-term borrowings		
Bank borrowings		
- Secured (note (h))	1,032,760	1,073,940
- Unsecured	59,800	170,699
	1,092,560	1,244,639
Other long-term borrowings		
- Secured (note (h))	12,067	12,067
- Unsecured (note (d))	165,772	175,301
	177,839	187,368
	1,270,399	1,432,007
Less: Current portion of long-term borrowings	(433,695)	(399,994)
	836,704	1,032,013
Total borrowings	6,671,997	5,529,294



35 BORROWINGS (continued)

Notes:

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

		roup
	2006	2005
	RMB'000	RMB'000
Wholly repayable within five years		
- Bank borrowings	820,670	1,182,639
- Other borrowings	165,772	175,301
	986,442	1,357,940
Not wholly repayable within five years		
- Bank borrowings	271,890	62,000
- Other borrowings	12,067	12,067
	283,957	74,067
	1,270,399	1,432,007

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

Bank borrowings	2006 RMB'000	2005 RMB'000
- Within one year	400,670	366,969
- In the second year	100,000	535,670
- In the third to fifth year	366,000	280,000
- After the fifth year	225,890	62,000
	1,092,560	1,244,639
Other borrowings		
- Within one year	33,025	33,025
- In the third to fifth year	132,747	142,276
- After the fifth year	12,067	12,067
	177,839	187,368
	1,270,399	1,432,007

Group

⁽c) Other short-term borrowings represent a zero coupon debenture issued by a subsidiary of the Group during the year with an aggregate face value of RMB 400,000,000 for a term of one year. The debenture was issued at RMB 96.68 for par value of RMB 100 each. The debenture is initially recognised at fair value and subsequently carried at amortised cost.



35 BORROWINGS (continued)

Notes: (continued)

(d) Other long-term borrowings

Included in unsecured other long-term borrowings was a loan grant by Shenzhen Finance Bureau of RMB 150,000,000 to a subsidiary of the Group. The loan is unsecured, non-interest bearing and is repayable in full in 2009.

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

	C	- roup
	2006	2005
	RMB'000	RMB'000
Bank borrowings		
- Fixed rates	5,889,470	4,989,611
- Floating rates	209,890	352,315
	6,099,360	5,341,926
Other borrowings		
- Fixed rates	572,637	187,368
- Floating rates	_	_
	572,637	187,368
	6,671,997	5,529,294

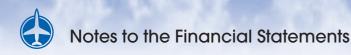
The annual effective interest rates of long-term and short-term borrowings at balance sheet date were as follows:

	Group	
	2006	2005
	RMB'000	RMB'000
Weighted average effective interest rates		
- Bank borrowings	5.29%	4.80%
- Other borrowings	1.42%	0.42%

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

	Group	
	2006	2005
Currency	RMB'000	RMB'000
Renminbi *	5,867,581	4,887,068
United States Dollar	470,755	330,886
Euro	333,661	311,340
	6,671,997	5,529,294

^{*} 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.



35 BORROWINGS (continued)

Notes: (continued)

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

	Group			
	Carrying amount		Fai	r value
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	691,890	877,670	661,237	880,486
Other borrowings	144,814	154,343	137,656	147,482
	836,704	1,032,013	798,893	1,027,968

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 6.30% to 6.84% as at 31st December 2006 (2005: 5.76% to 6.12%), depending on the type of the debt. The carrying amounts of current borrowings approximate their fair values.

(h) The Group's long-term and short-term borrowings are secured by the following:

	G	Froup
	2006	2005
	RMB'000	RMB'000
Securities over the Group's assets, at carrying value		
- Property, plant and equipment, at net book value (Note 15(a))	209,539	406,563
- Notes receivable (Note 22(e))	33,561	41,000
- Pledged deposits (Note 28)	694,391	405,574
Guarantees provided by		
- Ultimate holding company (Note 40(d))	289,890	80,000
- Fellow subsidiaries (Note 40(d))	540,729	563,408
- Subsidiaries within the Group (cross guarantees)	3,567,320	3,118,969
- Third parties	145,000	153,000

(i) As at 31st December 2006, the Group had the following undrawn committed borrowing facilities.

	Group	
	2006	2005
	RMB'000	RMB'000
Expiring beyond one year at fixed rates	824,000	919,172

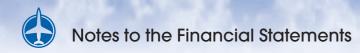


36 SHARE CAPITAL

	Company	
	2006 20	
	RMB'000	RMB'000
Registered:	4,643,609	4,643,609
Issued and fully paid:		
2,963,808,000 Domestic Shares of RMB 1 each	2,963,808	2,963,808
1,679,800,500 H Shares of RMB 1 each	1,679,801	1,679,801
	4,643,609	4,643,609

During 2003, the Company completed its initial public offering (the "Offering") and placing of 1,679,800,500 H Shares with a par value of RMB1.00 each at a price of HKD1.21 (equivalent to RMB1.28) per H Share in cash for an aggregate consideration of HKD2,033 million (equivalent to approximately RMB2,167 million), which comprised 1,527,090,000 new H Shares issued by the Company and 152,710,500 shares offered by the Promoters pursuant to an approval from the State-owned Assets Supervision and Administration Commission of the State Council to convert such relevant Domestic Shares owned by the Promoters into H Shares as part of the Offering. As a result, the issued share capital of the Company increased to 4,643,608,500 shares, comprising 2,963,808,000 Domestic Shares and 1,679,800,500 H Shares, representing 63.83% and 36.17% of the issued capital respectively.

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.



37 RESERVES

Company

			Statutory	Retained	
		Statutory	public	earnings/	
	Capital	surplus	welfare	(accumulated	
	reserve	reserve	fund	losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note (b))	(Note (c))	(Note (d))	(Note (e))	
As at 1st January 2006	(2,073)	17,809	8,903	52,322	76,961
Loss for the year	_	_	_	(166,985)	(166,985)
2005 dividend	_	_	_	(48,758)	(48,758)
Transfer to reserves		8,903	(8,903)		
As at 31st December 2006	(2,073)	26,712		(163,421)	(138,782)
Representing:					
Reserves	(2,073)	26,712		(163,421)	(138,782)
As at 1st January 2005	(2,073)	16,704	8,351	(15,666)	7,316
Profit for the year	_	_	_	69,645	69,645
Transfer to reserves		1,105	552	(1,657)	
As at 31st December 2005	(2,073)	17,809	8,903	52,322	76,961
Representing:					
Reserves	(2,073)	17,809	8,903	3,564	28,203
2005 proposed dividend				48,758	48,758
	(2,073)	17,809	8,903	52,322	76,961

Notes:

(b) Capital reserve

Capital reserve of the Company represents 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. Capital reserves of the Group also included a reserve arising from the issuance of additional shares by a subsidiary.

⁽a) Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 62 to 63.



37 RESERVES (continued)

Note: (continued)

(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 prepared 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) Statutory public welfare fund

In prior years, the Company is required to transfer between 5% and 10% of the profit after taxation determined in accordance with the PRC accounting standards to a statutory public welfare fund every year pursuant to the relevant PRC regulations and the Articles of Association of the Company. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital.

During the year, as a result of the issurance of certain revised PRC regulations which is effective from 1st January 2006, the Company is no longer required to provide for statutory public welfare fund. Consequently, the balance of statutory public welfare fund as at 31st December 2005 is converted into statutory surplus reserve.

(e) 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 31st December 2006, there was no retained earning available for distribution.

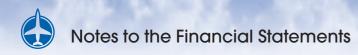
(f) Share reform

During the year, the Group's four subsidiaries whose A shares are listed on the Shanghai Stock Exchange have completed their respective share reform schemes (collectively "Share Reform"). Consequently, the Group's interests in the domestic shares ("Domestic Shares") in each of Harbin Dongan Auto Engine Co., Ltd ("Dongan") and Jiangxi Changhe Automobile Co., Ltd ("Changhe"), Jiangxi Hongdu Aviation Industry Co., Ltd. ("Hongdu") and Hafei Aviation Industry Co., Ltd. ("Hafei") have been converted into A shares and become tradable on the Shanghai Stock Exchange subject to certain specified conditions.

As result of the Share Reform, the Group's equity interests in Dongan, Changhe, Hongdu and Hafei have been reduced from 70.01%, 72.53% (among which 0.96% was held by Dongan), 54.75% and 55.73% to 59.51%, 63.22% (among which 0.83% was held by Dongan), 55.29% and 50.05% respectively.

In accordance with the Group's accounting policy, transactions with minority shareholders are dealt with in reserves. Accordingly, the aggregate effect on the reduction of equity interests in these subsidiaries of approximately RMB507,746,000 was accounted for as a reduction of the Group's reserves in the consolidated financial statements for the year ended 31st December 2006.

In the Company's financial statements, the effect of reduction in the equity interests in the Company's directly owned subsidiaries, namely, Dongan, Changhe and Hongdu totalling approximately RMB 328,993,000 is charged to the income statement directly.



38 CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	Group		
	2006	2005	
	RMB'000	RMB'000	
(Loss)/profit before taxation	(473,263)	239,674	
Adjustments for:			
Share of results of associates	(45,051)	(45,367)	
(Gain)/loss on disposal of			
- Property, plant and equipment	(12,780)	9,513	
- A subsidiary	3	1,918	
- Associates	9,811	_	
Gain on disposal of other financial assets			
at fair value through profit or loss	(6,591)	(2,031)	
Amortisation			
- Land use rights	2,983	4,904	
- Intangible assets	123,866	94,588	
Amortisation of deferred income relating to government grants	(18,396)	(21,746)	
Depreciation on property, plant and equipment	928,113	664,089	
Provision/(reversal of provision) for impairment			
- Property, plant and equipment	642	1,305	
- Intangible assets	70,710	96,603	
- Other non-current financial assets	12,355	25,000	
- Receivables	22,126	33,877	
- Inventories	121	(13,941)	
Interest income	(78,256)	(73,968)	
Interest expense	253,061	209,383	
	789,454	1,223,801	
Changes in working capital (excluding the effects of			
acquisitions and disposals of subsidiaries):			
- Increase in accounts receivable	(817,032)	(1,093,229)	
- Decrease/(increase) in advances to suppliers, other receivables			
and prepayments	178,710	(214,423)	
- Increase in inventories	(680,764)	(437,425)	
- Decrease in other financial assets at fair value through profit or loss	47,618	207,805	
- Increase in accounts payable	1,223,373	2,087,994	
- Increase/(decrease) in advances from customers,			
other payables and accruals	383,081	(88,748)	
- (Decrease)/increase in provisions	(34,578)	12,734	
- Decrease in amounts payable to ultimate holding company	(11,774)	(40,946)	
- Increase in deferred income from government grants	115,079	122,068	
Net cash generated from operations	1,193,167	1,779,631	

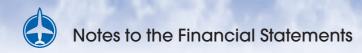
38 CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	Group	
	2006	2005
	RMB'000	RMB'000
Net book amount (Note 15)	105,997	121,432
Gain/(loss) on sale of property, plant and equipment	12,780	(9,513)
Receivables from sale of property, plant and equipment	(97,690)	(11,964)
Proceeds from sale of property, plant and equipment	21,087	99,955

(c) Analysis of changes in financing during the year:

	Gloup		
	2006	2005	
Total borrowings	RMB'000	RMB'000	
As at 1st January	5,529,294	5,355,859	
Proceeds from borrowings	6,525,514	5,039,483	
Repayments of borrowings	(5,382,811)	(4,866,048)	
As at 31st December	6,671,997	5,529,294	



38 CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Disposal of a subsidiary

	Group	
	2006	2005
	RMB'000	RMB'000
Property, plant and equipment	233	59,803
Current assets	12,102	273,163
Total assets	12,335	332,966
Total liabilities	(9,429)	(296,006)
Minority interests	(1,424)	(7,150)
Net assets at the date of disposal	1,482	29,810
Less: Amount retained as investments in associates		(3,431)
Net assets sold	1,482	26,379
Proceeds from sales		
- Received	1,479	4,930
- Receivable		19,531
Total consideration	1,479	24,461
Loss on disposal of a subsidiary	3	1,918
Net cash outflow from sale is determined as follows:		
Proceeds received from sale of a subsidiary	1,479	4,930
Less: Cash and cash equivalents in a subsidiary sold	(2,365)	(134,605)
Net cash outflow from sale of a subsidiary	(886)	(129,675)

38 CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Acquisition of a subsidiary

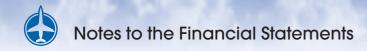
Details of net assets acquired are as follows:

	As at
	1st January
	2006
	RMB'000
Purchase consideration:	
- cash paid	11,994
Fair value of net assets acquired (shown as below)	(11,994)

The assets and liabilities arising from the acquisition are as follows:

		Acquiree's
		carrying
	Fair value	amount
	RMB'000	RMB'000
Property, plant and equipment	9,734	9,734
Receivables		
	19,198	19,198
Cash and cash equivalents	3,598	3,598
Payables	(10,730)	(10,730)
Net assets	21,800	21,800
Minority interests (0.05%)	(11)	
Interests held as an associate (Note 19)	(9,795)	
Net assets acquired	11,994	
Purchase consideration settled in cash		11,994
Cash and cash equivalents in a subsidiary acquired		(3,598)
Cash outflow on acquisition		8,396

The acquired subsidiary's contributions to the Group's revenue and operating results for the period from the date of acquisition to 31st December 2006 were not material.



38 CONSOLIDATED CASH FLOW STATEMENT (continued)

(f) Analysis of cash and cash equivalents

	Group		Coi	mpany
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Bank balances and cash Term deposits with initial term of	3,155,527	2,614,562	91,592	10,751
less than three months		327,800		177,800
	3,155,527	2,942,362	91,592	188,551

(i) The cash and cash equivalents are denominated in the following currencies.

	Group		Company	
	2006	2005	2006	2005
Currency	RMB'000	RMB'000	RMB'000	RMB'000
Renminbi *	3,030,648	2,686,755	87,181	183,937
Other currencies	124,879	255,607	4,411	4,614
	3,155,527	2,942,362	91,592	188,551

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.

⁽ii) In 2005, the weighted average effective interest rates of the Group and the Company on short-term bank deposits with maturity ranging from one to three months was 1.66% per annum.

⁽iii) Bank balances earn interest at floating rates based on daily bank deposit rates.



39 COMMITMENTS

(a) Capital commitments

The Group has the following capital commitments not provided for as at 31st December 2006:

	Group	
	2006	2005
	RMB'000	RMB'000
Acquisition of property, plant and equipment		
- Authorised but not contracted for	161,012	296,700
- Contracted but not provided for	148,446	521,904
	309,458	818,604
Construction commitments		
- Authorised but not contracted for	_	60,000
- Contracted but not provided for	6,050	33,234
	6,050	93,234
Investment in a jointly controlled asset		
- Contracted but not provided for	66,292	107,261
Investment in an associate		
- Contracted but not provided for	48,000	14,600
	429,800	1,033,699

(b) Operating lease commitments

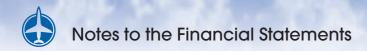
The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases as at 31st December 2006:

	Gloup	
	2006	2005
	RMB'000	RMB'000
Land and buildings		
- Not later than one year	26,132	29,765
- Later than one year and not later than five years	66,904	103,569
- Later than five years	101,004	69,559
	194,040	202,893

Generally, the Group's operating leases are for terms of 1 to 20 years.

(c) The Company did not have any significant commitment as at 31st December 2006 (2005: Nil).





40 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by AVIC II, which owns 61.06% of the Company's shares as at 31st December 2006. The remaining 38.94% of the shares are widely held.

Related parties refer to entities in which AVIC II 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 and associated companies. 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 II, its subsidiaries, associated companies 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 II (also a state-owned enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither AVIC II 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.

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.

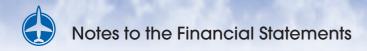
40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(a) The directors of the Company has identified the following principal related parties, which had significant related party transactions or balances with the Group during the year:

Principal related parties	Relationship with the Group
Ultimate holding company	
- AVIC II	Ultimate holding company of the Group
Fellow subsidiaries	
- Jiangxi Hongdu Aviation Industrial Group Corporation	A wholly-owned subsidiary of AVIC II
- Changhe Aircraft Industries (Group) Ltd.	A wholly-owned subsidiary of AVIC II
- Harbin Dongan Engine (Group) Co., Ltd.	A wholly-owned subsidiary of AVIC II
- Harbin Aircraft Industry (Group) Co., Ltd.	A wholly-owned subsidiary of AVIC II
- Hefei Changhe Automobile Co., Ltd.	A wholly-owned subsidiary of AVIC II
Other related parties - China National Aero-Technology	
Import & Export Corporation	An associate of AVIC II
- CATIC International Industry and Trade Company	An associate of AVIC II
- Shenzhen Shenhang Avionics Co., Ltd.	An associate of Group
- Mitsubishi Motor Corporation	A shareholder of Harbin Dongan Automotive
	Engine Manufacturing Co., Ltd.,
	a subsidiary of the Group
- Suzuki Motor Corporation	A shareholder of Jiangxi Changhe Suzuki
	Automobile Co., Ltd.,
	a subsidiary of Group

Other state-owned enterprises

Other state-owned enterprises represent the entities and their subsidiaries, directly or indirectly, controlled by the PRC government, other that those, directly or indirectly, controlled or significantly influenced by AVIC II.



40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Below is a summary of significant transactions with related parties:

	G	Group	
	2006	2005	
	RMB'000	RMB'000	
Revenues			
Revenue from sale of goods and materials			
- Fellow subsidiaries	3,599,256	2,706,927	
- Other related parties	235,875	384,720	
- Other state-owned enterprises	1,237,965	1,580,885	
Revenue from rendering of service			
- Fellow subsidiaries	159,689	145,449	
Rental income			
- Fellow subsidiaries	539	10,218	
Expenses			
Purchases of goods and raw materials			
- Fellow subsidiaries	1,666,825	1,796,846	
- Other related parties	1,012,790	595,178	
- Other state-owned enterprises	2,440,136	1,685,165	
Service fees payable			
- Fellow subsidiaries (note (ii))	423,203	383,444	
- Other related parties	30,743	20,075	
- Other state-owned enterprises	76,221	97,139	
Rental expenses for property, plant and equipment			
- Fellow subsidiaries	37,841	32,838	
Interest expense			
- Other state-owned enterprises	162,141	166,947	
Key management compensations			
- Salaries, bonuses and other welfares	2,814	2,854	

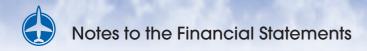
Notes:

- (i) 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.
- (ii) Included in service fees to fellow subsidiaries for the year ended 31st December 2006 was an amount of RMB 80,095,000 representing compensation paid to a fellow subsidiary of the Group in connection with its logistic services provided to the Group for the years ended 31st December 2004 and 2005. The amount was determined based on mutually agreed terms.

40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(c) Below is a summary of significant balances with related parties:

	Group	
	2006	2005
	RMB'000	RMB'000
Assets		
Accounts receivable		
- Fellow subsidiaries	1,701,901	1,116,620
- Other related parties	152,778	165,317
- Other state-owned enterprises	86,849	127,636
Nahaa ya a sii yalala		
Notes receivable	27.0/2	70.400
- Fellow subsidiaries	37,263	70,400
Advance to suppliers		
- Fellow subsidiaries	38,824	60,202
- Other related parties	2,254	235,299
- Other state-owned enterprises	134,045	144,174
	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
Other receivables and prepayments		
- Ultimate holding company	57,293	58,090
- Fellow subsidiaries	38,696	343,987
- Other related parties	16,058	1,148
- Other state-owned enterprises	69,902	2
Pledged deposits		
- Other state-owned enterprises	656,643	405,574
Term deposits with initial term of over three months		
- Other state-owned enterprises	1,051,128	805,217
Offici state owned efficiplises	1,001,120	000,217
Cash and cash equivalents deposited with		
- Other state-owned enterprises	3,005,885	2,728,331



40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(c) Below is a summary of significant balances with related parties: (continued)

	Group	
	2006	2005
	RMB'000	RMB'000
Liabilities		
Accounts payable		
- Ultimate holding company	6,487	_
- Fellow subsidiaries	336,891	277,370
- Other related parties	300,957	529,391
- Other state-owned enterprises	1,035,050	1,040,048
Notes payable		
- Fellow subsidiaries	176,131	210,904
- Other related parties	756	210,704
Cinoriolatea paines	700	
Advance from customers		
- Fellow subsidiaries	21,381	37,777
- Other related parties	43,664	14,467
- Other state-owned enterprises	77,468	106,614
Other payables and accruals		
- Ultimate holding company	45,997	24,082
- Fellow subsidiaries	205,729	134,421
- Other related parties	22,362	26,214
- Other state-owned enterprises	19,104	62,964
Bank borrowings		
- Other state-owned enterprises	6,099,360	3,844,319

Details of the balances with ultimate holding company, fellow subsidiaries and other related parties are disclosed in Notes 22, 23, 24, 30, 31, 32 and 33 to the financial statements.

40 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(d) Below is a summary of other matters with related parties:

	Group	
	2006	2005
	RMB'000	RMB'000
Cugrantoos on bank loans grantod to the Croup from		
Guarantees on bank loans granted to the Group from		
- Ultimate holding company	289,890	80,000
- Fellow subsidiaries	540,729	563,408

In addition, AVIC II granted certain leasehold land for the Group's use at no cost, details of which are disclosed in Note 15(b).

(e) Whilst other state-owned enterprises are related parties of the Group as defined under IAS 24, the directors are of the opinion that each party is operating independently; and the above balances are arising in the ordinary course of the Group's businesses. Details of these balances are included under Notes 28, 29, 35 and 38(e) to the financial statements.

41 FINANCIAL RISK MANAGEMENT

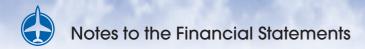
(a) Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, credit risk, liquidity risk and interest rate risk. The use of financial derivatives to hedge certain risk exposures is governed by the Group's policies approved by the board of directors. The Group does not use derivative financial instruments for speculative purposes.

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. The Group's assets and liabilities, and transactions arising from its operations that subject to foreign exchange risk are primarily with respect to the United States Dollar ("USD"), Euro and Hong Kong Dollar ("HKD"). The Group has not used any forward contracts to hedge its exposure as foreign currency risk is considered minimal.

As at 31st December 2006, the Group had certain borrowings (Note 35) and deposits in banks (Notes 28 and 38(f)) denominated in foreign currencies. RMB against USD and HKD has been relatively stable over the past few years. Since July 2005, RMB experienced certain appreciation. The directors are of the opinion that such appreciation did not have any material adverse impact on the Group's financial statements.



41 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of operating receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to its financial assets. 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. 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.

(iii) Liquidity risk

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 funds generated from operations, long-term and short-term bank borrowings.

As at 31st December 2006, the net current liabilities of the Group amounted to RMB 899,352,000. The directors believe that cash from operations and bank borrowings will be sufficient to meet the Group's operating cashflows. Due to the dynamic nature of the underlying businesses, it is the Group's policy to maintain sufficient cash and cash equivalents or have available funding through credit facilities to meet its working capital requirements. The amount of undrawn committed credit facilities at the balance sheet date are disclosed in Note 35 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.

(iv) 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 28, 29 and 38(f). The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 35 to the financial statements. Borrowings carry at floating rates expose the Group to cash flow interest-rate risk whereas those carry at fixed rates expose the Group to fair value interest-rate risk. As of 31st December 2006, 100% (2005:93%) 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.



41 FINANCIAL RISK MANAGEMENT (continued)

(b) 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 fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. As detailed in Note 20 to the financial statements, there are no quoted market price in an active market for the Group's other non-current financial assets in the PRC 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 without incurring excessive costs. Accordingly, these investments are carried at cost less accumulated impairment losses.

The carrying amounts of the Group's current financial assets including cash and cash equivalents, deposits, trade receivables, notes receivable and other receivables; and current financial liabilities includina trade and other payables and current borrowings, approximate their fair values. The fair value of non-current borrowings are disclosed in Note 35 to the financial statements.

The face values less any estimated credit adjustments for 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.

42 SUBSEQUENT EVENT

On 16th March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1st January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31st December 2006. The Group will continue to evaluate the impact as more detailed regulations are announced.



43 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)有限公司)	RMB775,832,000	100%	Limited liability company	Manufacture and sale of general-purpose aeroplane and automobile
Jiangxi Changhe Aviation Industry Company Limited (江西昌河航空工業有限公司)	RMB381,317,754	100%	Limited liability company	Manufacture and sale of general-purpose aeroplane, automobile and automobile parts and components
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	RMB252,000,000	55.29%	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	59.51%	Joint stock company (listed on the Shanghai Stock Exchange)	Manufacture and sale of automobile engine
Jiangxi Changhe Automobile Co., Ltd. (江西昌河汽車股份有限公司)	RMB410,000,000	62.88%	Joint stock company (listed on the Shanghai Stock Exchange)	Design, development, manufacture and sale of mini-sized vehicles
Indirectly held				
Hafel Aviation Industry Co., Ltd. (哈飛航空工業股份有限公司)	RMB337,350,000	50.05%	Joint stock company (listed on the Shanghai Stock Exchange)	Research, development, design, manufacture and sale of aero products, including parts and components
Jiangxi Changhe Suzuki Automobile Co., Ltd. (江西昌河鈴本汽車有限責任公司)	USD311,800,000 (paid up capital USD251,800,000)	35.78%	Equity joint venture	Manufacture and sale of mini-sized vehicles

43 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Jiujiang Changhe Automobile Co., Ltd. (九江昌河汽車有限責任公司)	RMB161,250,000	72.89%	Limited liability company	Development, manufacture and sale of parts and components for mini-sized vehicles
Harbin Dongan Automotive Engine Manufacturing Co., Ltd. (哈爾濱東安汽車發動機製造有限公司)	RMB500,000,000	36.42%	Equity joint venture	Manufacture and assembly of 4G1 series petrol engines
Hafei Motor Co., Ltd. (哈飛汽車股份有限公司)	RMB1,013,280,000	74.81%	Joint stock company	Manufacture and sale of automobile products
Associates Indirectly held				
Harbin Wanxiang Hafei Motor Chassis System Co., Ltd. (哈爾濱萬向汽車底盤系統有限責任公司)	RMB60,000,000	35.00%	Limited liability company	Manufacture and sales of motor chassis system
Harbin Embraer Aircraft Industry Co., Ltd. (哈爾濱安博飛機工業有限公司)	USD25,000,000	36.76%	Limited liability company	Production of regional jets and provision of relevant sales and after-sale services

Notes:

- All the above subsidiaries and associates are established and operating in the PRC.
- (ii) The English name of certain subsidiaries and associated companies referred to herein represent management is best effort at translating the Chinese names of there companies as no English names been registered.