AviChina

AviChina Industry & Technology Company Limited

中國航空科技工業股份有限公司

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

(Stock Code: 2357)

Annual Report 2009

Contents

Company Profile	2
Financial Highlights	4
Chairman's Statement	7
Management Discussion and Analysis	9
Directors, Supervisors and Senior Management	21
Report of the Board	31
Report of the Supervisory Committee	42
Corporate Governance Report	43
Independent Auditor's Report	53
Consolidated Income Statement	55
Consolidated Statement of Comprehensive Income	57
Balance Sheets	58
Consolidated Statement of Changes in Equity	61
Consolidated Cash Flow Statement	63
Notes to the Financial Statements	65
Definitions	150
Corporate Information	153

Company Profile

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

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

- the development, manufacture, sales and upgrade of aviation products such as helicopters, trainers, general-purpose aircraft and regional jets for domestic and overseas customers;
- the co-development and manufacture of helicopters with foreign helicopter manufacturers; and
- the development, manufacture and sales of mini-sized vehicles, economy sedans and automobile engines.

PRINCIPAL PRODUCTS OF THE GROUP:

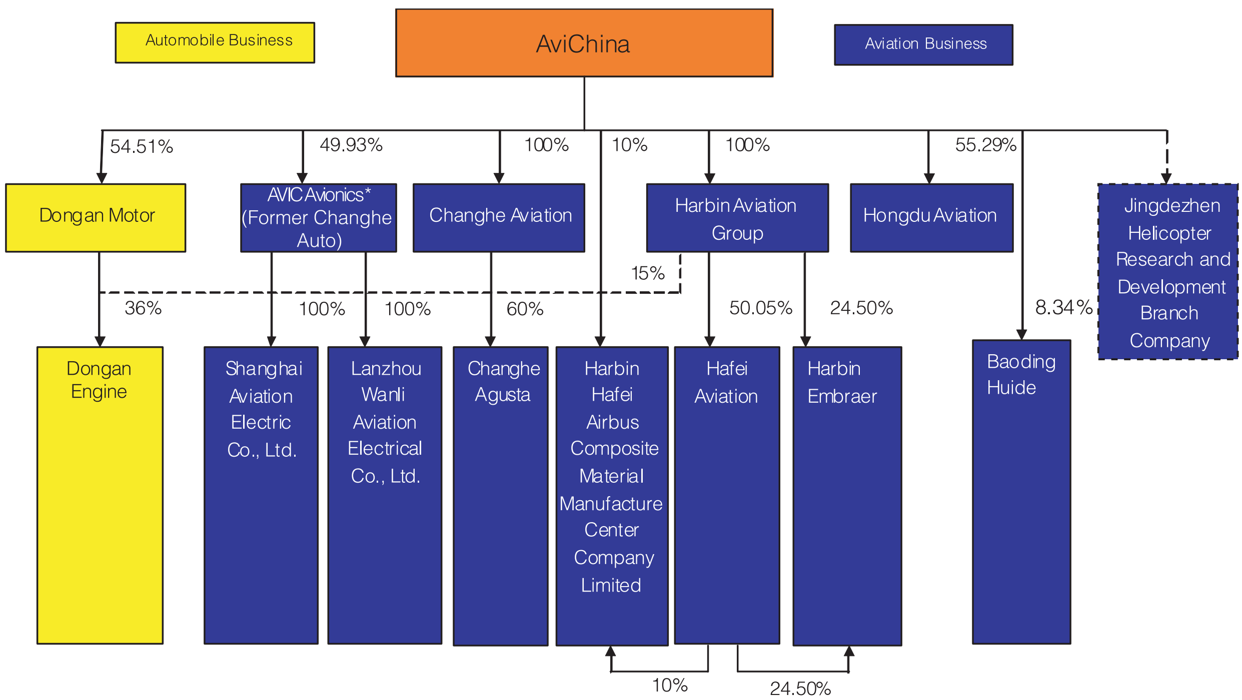
Aviation Products:

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

Automobile Products:

Hafei series and Changhe series mini-sized vehicles and economy sedans; and Dongan series auto engines (under 1.3 L); 4G1 and 4G9 series auto engines (from 1.3 L to 2.0 L) manufactured by the joint venture of the Group and Mitsubishi.

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



* Note: On 21st December 2009 the name of Changhe Auto was changed into AVIC Avionics.

CONSOLIDATED PROFIT AND LOSS

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

	For the year ended 31st December		
	2009	2008 (restated)	Changes
Turnover	**16,057**	16,768	(4.24%)
Profit/(loss) before taxation	**901**	(618)	N/A
Net profit/(loss) attributable to the equity holders of the Company	**161**	(1,063)	N/A
Gross profit margin	**17.15%**	10.31%	N/A
Basic and diluted earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company (RMB)	**0.035**	(0.229)	N/A

CONSOLIDATED ASSETS AND LIABILITIES

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

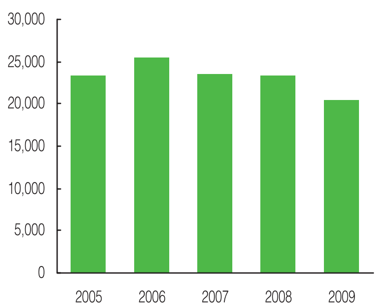
	As at 31st December		
	2009	2008 (restated)	Changes
Total assets	**20,344**	23,289	(12.65%)
Total liabilities	**11,517**	17,158	(32.88%)
Non-controlling interests	**4,159**	3,471	19.82%
Owner's equity(other than non-controlling interests)	**4,668**	2,660	75.49%

The Group's financial information in the recent five years starting from 1st January 2005 is summarized as follows:
(Prepared under International Financial Reporting Standards)
(RMB million, other than basic and diluted earnings/(loss) per Share)

	As at 31st December/For the year ended 31st December				
	2009	2008 (restated)	2007 (restated)	2006 (restated)	2005 (restated)
Total assets	**20,344**	23,289	23,557	25,522	23,336
Total liabilities	**11,517**	17,158	16,422	16,989	14,262
Non-controlling interests	**4,159**	3,471	3,410	3,999	3,679
Owner's equity(other than non-controlling interests)	**4,668**	2,660	3,725	4,534	5,395
Turnover	**16,057**	16,768	16,884	17,404	14,472
Profit/(loss)before taxation	**901**	(618)	(718)	(429)	264
Net profit/(loss) attributable to the equity holders of the Company	**161**	(1,063)	(993)	(312)	128
Gross profit margin	**17.15%**	10.31%	11.36%	11.55%	13.36%
Basic and diluted earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company(RMB)	**0.035**	(0.229)	(0.214)	(0.067)	0.027

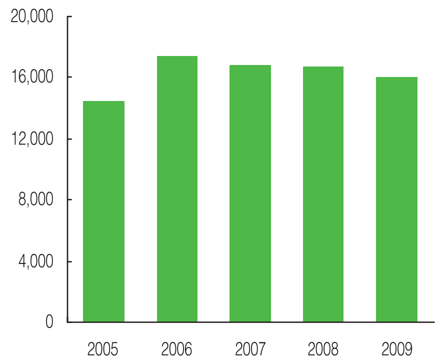
TOTAL ASSETS

(RMB million)



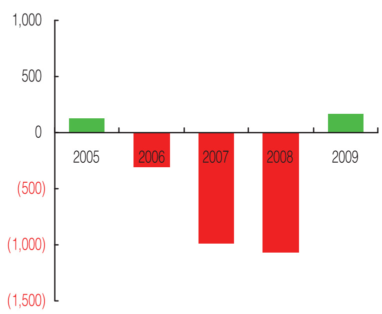
TURNOVER (COMPREHENSIVE BUSINESS)

(RMB million)



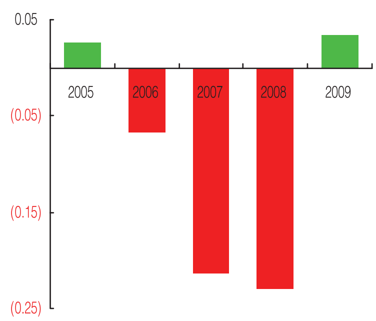
NET PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY (COMPREHENSIVE BUSINESS)

(RMB million)



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

(RMB)



To all shareholders,

I hereby, on behalf of the Board of AviChina Industry & Technology Company Limited, am pleased to announce that pursuant to the new strategy and with the effort of the directors and members of the management, the Company had completed the disposal of its loss-making automobile businesses through reorganization during the year, further strengthened the aviation business and successfully turned loss into profit during the year.

Mr. Lin Zuoming, Chairman

ANNUAL RESULTS

For the year ended 31st December 2009, the Group recorded a turnover of the comprehensive business of RMB16,057 million, representing a decrease of 4.24% as compared with that in 2008, and the net profit attributable to the equity holders of the Company amounted to RMB161 million.

BUSINESS REVIEW

In 2009, the Group's aviation products recorded a sales revenue of RMB5,098 million, representing an increase of 2.39% from that of 2008 and accounting for 31.75% in the total turnover of the Group, increasing from 29.69% of 2008.

To resolve the impact of the loss caused by its automobile businesses, the Group initiated the disposal of automobile business assets of Changhe Auto in June 2008, which was completed in July 2009. After that, the disposal of automobile business assets of Harbin Automobile Group and Dongan Motor were launched. Harbin Automobile Group disposal was smoothly completed in October 2009 and Dongan Motor disposal is expected to be completed soon. The above measures mark the success of assets reorganization and business transformation. Influenced by a series of positive factors of the government on encouraging automobile consumption, the Group's automobile business which had suffered a loss recorded a sales revenue with a significant increase and a significantly lower loss.

Experiencing the strong striking of financial crisis, the global economy and China economy were all greatly impacted. Among the two key businesses of the Group, aviation business was also affected to a certain extent. However, the entire aircraft still recorded an increased sales revenue and gross profit. Under a difficult external operating environment, it is not easy for the aviation business to make such an achievement. At the same time, research on new model aircraft also made great achievement. Advanced trainer L15 participated in the Paris, Moscow and Dubai Air Show attracting attention of the world. The products of the Group played an important role in many activities. In the 60th anniversary of founding of the PRC, products of the Group presented an excellent show to the world marking the strength of the PRC aviation industry.

OUTLOOK

The the PRC government had listed the aviation and aerospace industry as the strategic new emerging industry of the country, which means a more important position and role of aviation industry. In addition, China is strengthening its aviation emergency rescue system and fastening the reform of low-altitude air space management, which provides more opportunities for the future development of the Company.

Following the strategy of becoming a flagship manufacturer in China aviation industry for civil aviation products with a complete value chain and a platform for overseas financing, merger and acquisition, the Company successfully placed approximately 300 million new shares to the global investors on 10th March 2010 raising net proceeds of approximately HK$1,016 million. EADS, the strategic partner of the Company, actively participated in the placing. On 23rd March 2010, the Company also announced to purchase aviation business with a consideration of approximately RMB908 million, gradually perfecting its industry chain to include helicopters, trainers, general purpose aircraft and avionics. The Company will fully utilize the market resources to develop aviation industry and grasp the integration opportunities of aviation equipment manufacturing industry and integrate into the world's aviation industry chain and gradually become a first tier supplier through international investment and co-operation and joint research and development. In respect of management, the Company will gradually establish more effective and encouraging mechanisms to push forward the development of its brand.

The reorganized AVIC successfully ranked in the top 500 of Fortune. At present, although the revenue of China aviation industry business accounts for a small percentage of that of the world's aviation industry, the forthcoming ten years will be a critical period for China aviation industry to achieve strategic transformation. The globalization of world aviation industry will become more apparent, the aviation industry will be highly centralized and the distribution of industry chain will be more precise. The reorganization of the Company with AVIC, the powerful controlling shareholder will also give a forceful support leading to a brighter future development of the Company.

ACKNOWLEDGEMENT

Finally, I hereby, on behalf of the Board, would like to extend my earnest gratitude to shareholders for their constant confidence in and supports to AviChina. I, myself, also would like to take this opportunity to express my appreciation to the management and all the employees of the Company for their hard work and contributions last year. With the full confidence for the future, I will work hard with my employees together to constantly improve the value of the Company, to create new value to the shareholders and make the Company the most valuable operator in China aviation industry.

Lin Zuoming
Chairman

Beijing, 9th April 2010

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

Mr. Tan Ruisong, President

SUMMARY

During the year of 2009, following the development strategy of creating the Group as a flagship manufacturer in China aviation industry for civil aviation products with a complete value chain and a platform for overseas financing, merger and acquisition, the Group conducted a series of business reorganization including the reorganization of Changhe Auto, disposal of automobile business of Harbin Automobile Group, and launching of the equity swap of Dongan Motor and JONHON Optronic, resulting in changes to the business of the Group. Aviation segment business has become the continuing operations of the Group and automobile segment business has been classified as the discontinued operations of the Group.

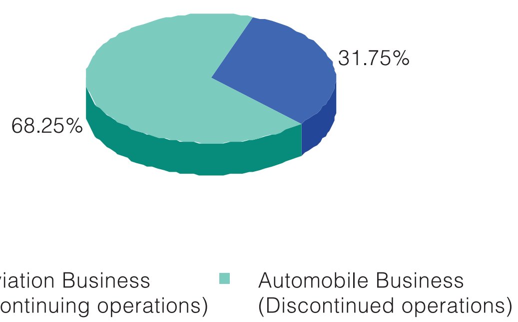
For the year ended 31st December 2009, the comprehensive business (including continuing operations and discontinued operations) of the Group recorded a turnover of RMB16,057 million, representing a decrease of 4.24% as compared with RMB16,768 million in 2008. This is mainly because the consolidated financial statements of the Group only include the results of Changhe Auto and Harbin Automobile Group up to 30th April 2009 and 31st August 2009 respectively when their automobile businesses were distributed to AVIC. There were still certain impacts arising from the financial crisis on China economy and China aviation industry in 2009, but the Group had enhanced its marketing efforts and overcome the above difficulties to achieve an increase of 2.39% in the turnover of its continuing operations (aviation business) as compared with that of last year. This is mainly attributable to the improvement of the profitability of the Group and the positive contribution from the turnover of the entire aircraft segment. The comprehensive business of the Group also turned loss into profit, resulting in a net profit of RMB161 million attributable to equity holders of the Company for the year 2009.

The following shows the comparison between the years ended 31st December 2009 and 2008:

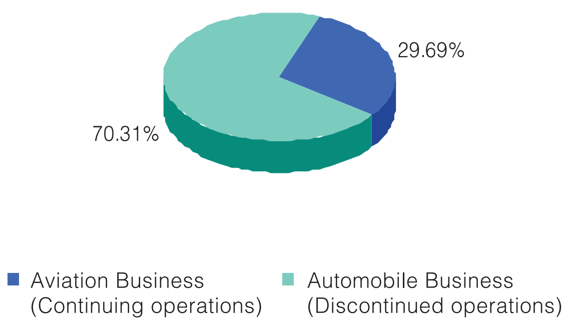
CONSOLIDATED OPERATING RESULTS

1 Composition of turnover (Comprehensive business)

Turnover composition in 2009



Turnover composition in 2008



The Group's turnover of the comprehensive business for 2009 was RMB16,057 million, representing a decrease of 4.24% as compared with RMB 16,768 million in 2008.

The turnover of the Group's aviation products in 2009 was RMB5,098 million, representing an increase of 2.39% as compared to that in 2008. The turnover of the Group's aviation segment accounted for 31.75% of the total turnover of the Group, representing an increase of 2.06 percentage points from 2008 when it had been 29.69%.

The turnover of the Group's automobile products in 2009 was RMB10,959 million, representing a decrease of 7.04% as compared to that in 2008. The turnover of the Group's automobile segment accounted for 68.25% of the total turnover of the Group, representing a decrease of 2.06 percentage points from 2008 when it had been 70.31%.

The Group operates in the mainland China where its turnover is generated.

2 Selling and distribution expenses (Continuing operations)

The Group's selling and distribution expenses for its continuing operations for 2009 amounted to RMB43 million, which is close to RMB 41 million in 2008. The selling and distribution expenses in 2009 accounted for 0.8% of the turnover of the continuing operations which is consistent with that in 2008.

3 General and administrative expenses (Continuing operations)

The Group's general and administrative expenses for its continuing operations for 2009 amounted to RMB584 million, representing an increase of RMB44 million, or 8.15% as compared with RMB 540 million in 2008. The main reason is the increase of research and development expenses incurred on new helicopter model during the year. The general and administrative expenses for the year 2009 accounted for 11.46% of the turnover of the continuing operations, representing an increase of 0.61 percentage point over 10.85% in 2008.

4 Operating profit (Continuing operations)

The continuing operations of the Group earned an operating profit of RMB418 million for 2009, representing an increase of RMB54 million, or 14.84% as compared to the operating profit of RMB364 million in 2008. The main reason is the increase in gross profit caused by the growth of revenue and gross profit margin of the aviation business of the Group.

5 Finance costs, net (Continuing operations)

The Group's net finance costs for its continuing operations in 2009 amounted to RMB64 million, representing a decrease of RMB19 million, or 22.89% as compared with that of 2008 which was RMB83 million. This was mainly impacted by the interest rate cut policy of the PRC government. The average interest rate for borrowings of the Group in the year of 2009 was lower than that in 2008, resulting in the reduction of interest costs. Please refer to note 9 to the financial statements for details.

6 Income tax expense (Continuing operations)

The Group's income tax for its continuing operations in 2009 was RMB49 million, representing an increase of RMB9 million, or 22.5% over that of 2008 which was RMB40 million. The main reason is the increase in profit. Please refer to note 10 to the financial statements for details.

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

The profit attributable to the non-controlling interests of the Group's comprehensive business for 2009 was RMB548 million, representing an increase of RMB309 million as compared to RMB239 million in 2008. The main reason is the profit increment of certain non-wholly owned subsidiaries of the Group.

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

The comprehensive business of the Group recorded a profit of RMB161 million attributable to the equity holders of the Company, which turned from a loss of RMB 1,063 million to profit. The main reasons are: (i) the continuing increase in the profit contribution of aviation business; (ii) the disposal of loss-making entire vehicles business through the assets reorganization of the Group; and (iii) the decrease in loss arising from entire vehicles products during the relevant period due to the preferential policy of the PRC government and the cost cutting measures of the Group.

GUARANTEED AND SECURED LOANS

As at 31st December 2009, the Group's total borrowings amounted to RMB2,474 million, of which RMB20 million was secured by receivables with a net book value of RMB23 million.

Guaranteed borrowings amounted to RMB1,832 million, of which RMB1,080 million was cross guaranteed amongst the subsidiaries of the Group and RMB 752 million was guaranteed by AVIC and its subsidiaries.

EXCHANGE RISKS

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. The Group's assets and liabilities, and transactions arising from its operations subject to foreign exchange risk are primarily associated with United States Dollar, Euro, Hong Kong Dollar and Japanese Yen.

Due to its operational needs, the Group had taken out loans denominated in United States Dollar. In addition, the Company has some deposits in Hong Kong Dollar, being part of the proceeds raised from the initial public offering in October 2003. The directors are of the opinion that the exchange risks to the Group are low and will not have any material adverse impact on the Group's financial results.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31st December 2009, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

CASH FLOW AND FINANCIAL RESOURCES

1 Liquidity and capital resources

As at 31st December 2009, the Group's net cash and cash equivalents amounted to RMB3,419 million which was mainly derived from the followings:

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

The Group's cash flow for each of the year 2009 and 2008 were as follows:

Unit: RMB million (except percentage)

Main items of cash flow	2009	2008 (restated)	Change (amount)	Change (percentage)
Net cash generated from operating activities	**2,420**	574	1,846	321.60%
of which: Net cash generated from/ (used in) continuing operations	**969**	(277)	1,246	N/A
Net cash used in investing activities	**(1,786)**	(1,171)	(615)	52.52%
of which: Net cash used in continuing operations	**(929)**	(493)	(436)	88.44%
Net cash generated from financing activities	**366**	402	(36)	-8.96%
of which: Net cash (used in)/generated from continuing operations	**(167)**	371	(538)	N/A
Net increase/(decrease) in cash and cash equivalents	**1,000**	(195)	1,195	N/A

2 Operating activities

Net cash flows generated from operating activities for the year 2009 amounted to RMB2,420 million, representing an increase of RMB1,846 million from RMB574 million in 2008 with an increase rate of 321.60% .

Net cash flows generated from continuing operations for the year 2009 amounted to RMB969 million while the net cash outflow of 2008 amounted to RMB277 million. This is mainly caused by the improvement in the overall sale and proceeds recoverability compared with last year, as well as the increase in advance from customers in 2009. This showed such operating activities had resumed its ability to generate positive cashflows and improved the liquidity of the Group. Details are set out in the note 39(a) to the financial report.

3 Investing activities

Net cash flows used in investing activities for the year 2009 amounted to RMB1,786 million, representing an increase of RMB615 million from RMB1,171 million of 2008 with an increasing rate of 52.52%.

Net cash flows used in investing activities of continuing operations for the year amounted to RMB929 million, representing an increase of RMB436 million over RMB493 million in 2008 with an increasing rate of 88.44%, which was mainly attributable to an increase in term deposits with an initial term of over three months as compared to that of 2008.

4 Financing activities

Net cash flows generated from financing activities for the year 2009 was an inflow of RMB366 million, representing a decrease of RMB36 million, or 8.96% as compared with RMB402 million in 2008.

Net cash flows used in financing activities of continuing operations for the year 2009 was an outflow of RMB167 million, while the financing activities in 2008 generated a net inflow of RMB371 million. It was mainly attributable to the repayment of borrowings during the year.

As at 31st December 2009, the Group's total borrowings amounted to RMB2,474 million, of which the current borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB953 million, RMB430 million and RMB1,091 million, respectively.

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

Maturity	RMB million
Within one year	430
In the second year	590
In the third to fifth year	291
After the fifth year	210
Total	1,521

As at 31st December 2009, the Group's bank borrowings amounted to RMB2,366 million with an average interest rate of 4% per annum, representing 95.63% of the total borrowings. Other borrowings amounted to RMB108 million with an average interest rate of 4%, accounting for 4.37% of the total borrowings.

As at 31st December 2009, the Group's borrowings denominated in foreign currencies amounted to USD1.3 million (approximately RMB9 million), representing 0.36% of the total borrowings.

GEARING RATIO

As at 31st December 2009, the Group's gearing ratio was 12.16% (31st December 2008: 28.47% as restated), which was arrived at by dividing the total borrowings by total assets as at 31st December 2009.

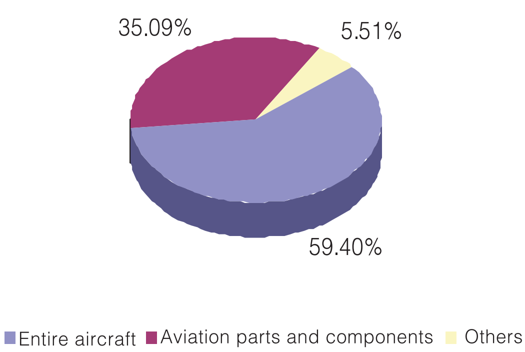
SEGMENT INFORMATION

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

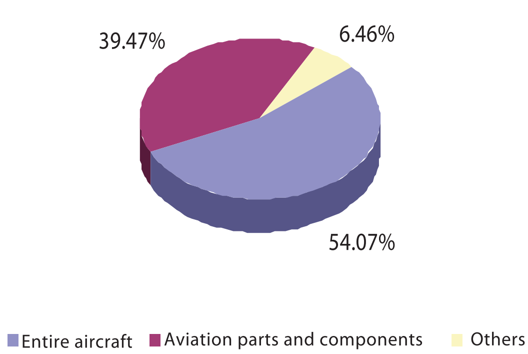
AVIATION SEGMENT (CONTINUING OPERATIONS)

Turnover

Turnover of Aviation Segment in 2009



Turnover of Aviation Segment in 2008



The Group's turnover derived from aviation products for 2009 was RMB5,098 million, representing an increase of RMB119 million, or a 2.39% increase from RMB 4,979 million of 2008. This is mainly due to the enhanced marketing efforts by the Group and the increased turnover from entire aircraft during the relevant period.

The Group's turnover derived from the entire aircraft for 2009 was RMB3,028 million, representing an increase of 12.48% from that of 2008. The turnover derived from aviation parts and components for 2009 was RMB1,789 million, representing a decrease of 8.96% from that of 2008. The turnover derived from other aviation products for 2009 was RMB281 million, representing a decrease of 12.74% from that of 2008.

Gross Margin

Gross margin of the Group's aviation products for 2009 was 18.01%, representing an increase of 0.31 percentage points as compared to that in 2008, which represents a steady improvement. The Group enhanced the products structure adjustment and took cost control measures, and therefore, the gross profit margin of the entire aircraft increased from 12.66% in 2008 to 14.78% in 2009 which contributed to the further improvement in the overall profitability of aviation products.

Review and Outlook

In 2009, although the global financial crisis still had continuous impacts on the domestic economy, due to the relevant encouraging policies vigorously promoted by the PRC government, the economic situation of China took the lead to step out from the depressing stage. In addition, the rapid growth of national economy and social demands brought great opportunities to the development of aviation industry in China and the aviation business of the Group. The aviation business of the Group made a steady increase.

According to the development strategy formulated by the Board, in 2009, the Company greatly pushed the reform and reorganization by launching a series of assets reorganization and swap including, the disposal of its loss-making automobile business and acquisition of aviation electronic business with tremendous growth potential and higher gross profit margins. These represented an important step for the Group to "create a flagship manufacturer in the PRC aviation industry for civil aviation products with a complete value chain". The Company has formed its aviation industry chain covering products such as helicopter, trainers, general purpose aircraft and avionics.

In 2009, the Group recorded a turnover of RMB5,098 million in its aviation products, representing an increase of 2.39% as compared to that of the corresponding year in 2008. Out of that, the entire aircraft recorded a turnover of RMB 3,028 million, representing an increase of 12.48% as compared to that of the corresponding year in 2008.

The aviation products of the Company were presented at the 60th anniversary of the founding of the PRC, which demonstrated the overall strength of the PRC aviation industry and reflected a significant progress in aviation technology of our country.

In 2009, the Group further explored and extended the market. On 15th June, products of the Company such as H425 civil helicopter, Z11 multi-purpose light helicopter and L15 advanced trainer, of which the Group had participated in its investment and development, were displayed in the 48th Paris Aviation Exhibition which attracted the attention of international aviation industry. On 18th August, the products including civil helicopter and advanced trainer of the Company showed up in the 9th Moscow International Air Show. On 15th November, L15 advanced trainer made a show again and made its first debut flight overseas in the 11th Dubai Air Show.

Upon the reorganization of its automobile business and the introduction of aviation electronic business, the Group had delivered various models of aircraft products and satisfied the purchase orders placed by its customers. At the same time, the Group also made great achievement to strive for research and development of aircraft model projects.

In May 2009, Hafei Aviation and AVIC International Leasing Co., Ltd. entered into a purchase agreement for one Y-12 aircraft.

On 8th June 2009, the 05 prototype of L15 advanced trainer, of which the Group had participated in its investment and development, successfully completed its debut flight.

On 23rd June 2009, a joint venture company in which the Company made investment, Airbus (Tianjin) Assembly Company Ltd, held the A320 display and delivery ceremony. On the next day, the first A320 flew from Chengdu to Beijing successfully and completed its first commercial journey.

On 30th June 2009, Harbin Hafei Airbus Composite Material Manufacture Center Company Limited, a limited liability company which was invested directly by the Group, started the groundbreaking. On 24th July, Harbin Hafei Airbus Composite Material Manufacture Center Company Limited and Airbus signed a purchase contract on work packages of rudder and service door equipped on A350XWB wide-body aircraft, which marked a successful milestone for the center.

The macro-policy of the PRC government had created a favorable environment for the industry. The driving effect of civil aviation industry on the other industries shows that the industry takes the priority of this round of industry structural change and industry upgrading. The relaxation of market entry of regional aviation transportation to promote the development of regional aviation, new changes occurring in the helicopter market and the launching of big aircraft project all marked the unprecedented development opportunities to the aviation industry, which will stimulate the demand of the domestic aviation market and bring great force to the development of the PRC aviation industry.

In 2010, the Group will grasp the opportunities and pursue the development strategies by adopting the following plans:

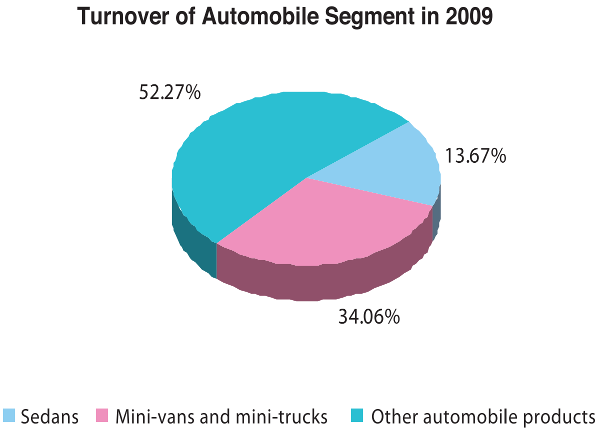
1. Continue to speed up the assets reorganization and purchase of aviation business to improve the profitability of the Group.
2. Make improvements in control systems, and strengthen management oversight in order to increase efficiencies.
3. Ensure the sustainability of the order of aviation products, extend the subcontracting project and enhance the profit management.
4. Expand the capital strength and market value scale through the international capital market operations, further consolidate the market leading position of the Company in helicopter, trainer, regional jet and general-purpose aircraft in order to become a flagship manufacturer in China aviation industry for civil aviation products with a complete value chain and a platform for overseas financing, merger and acquisition.

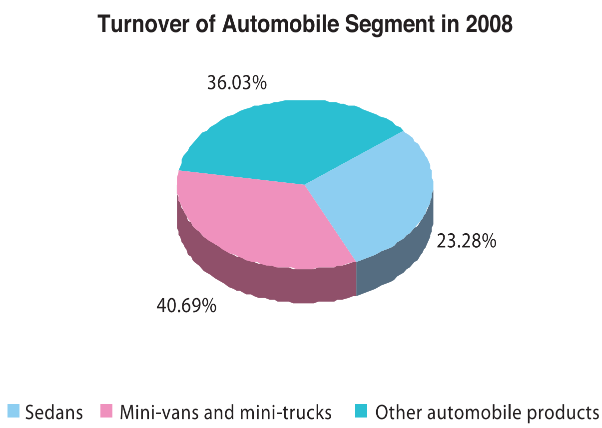
Orders for Aviation Products

As at the date of this report, the Group has received orders for 132 helicopters, 148 trainers, 28 general aeroplanes and 29 regional aeroplanes. The Group is endeavoring to get more orders for its aviation products.

AUTOMOBILE SEGMENT (DISCONTINUED OPERATIONS)

Turnover





The Group's turnover of automobile products for 2009 amounted to RMB10,959 million, representing a decrease of RMB830 million from that of 2008. This is mainly because the consolidated financial statements of the Group only include the results of Changhe Auto and Harbin Automobile Group up to 30th April 2009 and 31st August 2009 respectively when their automobile businesses were distributed to AVIC.

Sales of automobile engine products and auto parts and components to parties outside the Group amounted to RMB5,728 million, representing an increase of RMB 1,479 million, or 34.81% compared to that of 2008. This represents an increasing trend.

Gross Margin

Gross margin of the Group's automobile products for 2009 was 16.75%, representing an increase of approximately 9.56 percentage points as compared to that in 2008. The increase in the gross margin of the automobile products was caused by the increase in the sales volume resulted from the preferential policy of reduction of the Vehicle Purchase Tax and the PRC Car Subsidy Program for Rural Areas and effective cost control measures taken by the Group.

Review and Outlook

For the periods up to the completion of the reorganization on Changhe Auto and Harbin Automobile Group, the total sales volume of the entire vehicle automobile products of the Group amounted to 207,381 units, out of which, the sales volume of sedans was 55,464 units; and the sales volume of mini-vans and trucks reached 151,917 units. The sales revenue of the Group's automobile products amounted to RMB10,959 million in the year of 2009, out of which, the sales revenue of the Group's entire vehicle automobile products amounted to RMB5,231 million. The sales revenue of engines and automobile parts and components sold to external parties of the Group was RMB5,728 million.

In the year 2009, the Company commenced the distribution of its automobile businesses. The automobile business of Changhe Auto was distributed while profitable airborne equipment assets were injected. Harbin Automobile Group was also distributed in 2009. In October 2009, the distribution of the final remaining automobile asset of the Company, being its interests in Dongan Motor, officially started, whereby the Company's equity interests in Dongan Motor would be swapped for AVIC's stake in JONHON Optronic, which is expected to be completed in the first half of year 2010.

USE OF PROCEEDS

As the Company was determined to dispose of its automobile business, certain investments in automobile projects were cut. The proceeds used up to 31st December 2009 amounted to RMB 706 million in total, mainly for the research and development of new advanced trainers, helicopters and aviation composite material and for the research and development of new vehicle models and new automobile engines. The remaining balance was deposited in banks in the PRC as short term deposits which would also be used by the Company as planned.

EMPLOYEES

As of 31st December 2009, the Group had 18,376 employees. The Group has provided appropriate emoluments, benefits and training to its employees.

Employees breakdown by functions

	Number of employees	Percentage to total employees (%)
Aviation	13,160	71.61%
Vehicles and engines	5,193	28.26%
Other activities	23	0.13%
Total	18,376	100%

For the year ended 31st December 2009, total staff costs of RMB727million were incurred by the Group in connection with its employees, representing an increase of RMB13 million as compared to RMB714 million in 2008.

REMUNERATION OF EMPLOYEES

The Group's remuneration scheme is determined based on fair and reasonable principles which are similar to those available in the market. Remuneration of employees comprises basic salary, contribution to a housing fund, and contributions to pension plans. The Group will also, at its discretion, pay year-end bonus to employees according to their respective performance.

TRAINING FOR EMPLOYEES

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

In 2009, the Group actively established new training system to extend domestic and overseas training channels and reconstruct training mechanism and system. Through constituting relevant management regulation and resource matching mode, the international talent training made effective achievement. The employees, through training, are able to continuously acquire new knowledge to improve their capabilities. This will in turn enhance the Group's competitiveness in the ever-changing market.

DIRECTORS

Executive Directors

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

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

Mr. Tan Ruisong（譚瑞松）

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

Mr. Wu Xiandong（吳獻東）

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

Non-executive Directors

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

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

Mr. Xu Zhanbin（徐占斌）

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

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

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

Mr. Zhang Xinguo（張新國）

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

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

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

Mr. Li Fangyong（李方勇）

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

Mr. Chen Yuanxian（陳元先）

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

Mr. Wang Yong（王勇）

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

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

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

Independent Non-executive Directors

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

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

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

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

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

51, executive director and CFO of Sing Tao News Corporation ("Sing Tao", a company listed on the main board of the Stock Exchange). Mr. Lau joined Sing Tao on 23rd May 2005. Mr. Lau is a Chartered Accountant and has been granted the Bachelor of Business and Administration in Victoria University of Wellington, New Zealand. Mr. Lau is also a member of New Zealand Institute of Chartered Accountants (NZICA) and an associate member of Hong Kong Institute of Certified Public Accountants (HKICPA). He has experience in corporate management, accounting and finance. Before he joined the Sing Tao, he had been an executive director of China Everbright Ltd. (a company listed on the main board of the Stock Exchange) since 1st September 2002. Mr. Lau has been appointed as an independent non-executive director of the Company since August 2006.

Supervisors

Mr. Li Yuhai（李玉海）

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

Mr. Tang Jianguo（湯建國）

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

Ms. Bai Ping（白萍）

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

Mr. Yu Guanghai（于廣海）

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

Mr. Wang Yuming（王玉明）

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

Senior Management

Mr.Wang Jun（王軍）

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

Mr. Li Yao（李耀）

45, a vice president and the chief financial officer of the Company from April 2003 to 9th April 2010 and a senior accountant. He is also a director of Hafei Aviation. He graduated from Zhengzhou Aviation Industry Management Institute majoring in finance and accounting, Beijing University of Aeronautics and Astronautics majoring in corporate management and industrial economics and Tsinghua University majoring in EMBA. He commenced his career in the aviation industry in July 1986 and served as a staff official in the finance department of the Ministry of Aviation Industry and the Ministry of Aero-Space Industry, a deputy director of the enterprise division of the finance department of former AVIC and a deputy director of the finance and audit department of AVIC II.

Mr. Ni Xianping（倪先平）

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

Mr. Zheng Qiang（鄭強）

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

Mr. Zhang Kunhui（張昆輝）

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

Mr. Liu Chunhui（劉春暉）

50, a bachelor degree holder and researcher, vice president of the Company from June 2009 to 9th April 2010. He graduated from Beijing University of Aeronautics and Astronautics with a bachelor degree majoring in avionics engineering in 1982. Mr. Liu commenced his career in aviation industry in 1982, and used to be an engineer of Special Design Division of Shenyang Aircraft Company; senior stuff of Military Aircraft Bureau of the Ministry of Aero-Space since 1991; deputy division director of China Aviation Industry Corporation since 1994; division director, deputy director-general and director-general of Aviation Product Department of China AVIC I since 1999. Mr. Liu also serves as member of board of AVIC Aircraft Company, member of board of AVIC System Company and member of board of AVIC International Company. Mr. Liu has been appointed as vice president of the Company from June 2009 to April 2010.

Mr. Tian Xueying（田學應）

54, a master degree holder and researcher, vice president of the Company from June 2009 to 9th April 2010. He graduated from Nanjing University of Aeronautics and Astronautics with a bachelor degree majoring in mechanical engineering in 1982 and had a master degree of enterprise strategic management in 1993. Mr. Tian commenced his career in aviation industry in 1982, and used to be technician, head of division, assistant to chief engineer, deputy division director, division director, deputy director-general and director-general of former 305 Factory; director-general of Fanhua Aviation Instrument Factory since December 1995; deputy director-general of Sichuan Aviation Bureau of AVIC II since June 2001; deputy chief engineer and director-general of Assets and Enterprises Management Department of AVIC II since June 2003; and deputy chief engineer of AVIC II since January 2006. Mr. Tian also serves as member of board of AVIC System Company; member of board of AVIC Defense Company; member of board of AVIC Helicopter Company and member of board of Harbin Aviation Group.

Company Secretary

Mr. Yan Lingxi（閆靈喜）

40, a senior engineer. He is also a director of Dongan Motor and AVIC Aviation Electrical Equipment Co.,Ltd. and a supervisor of Hafei Aviation. He graduated from the Beijing University of Aeronautics and Astronautics with a bachelor degree in engineering (majoring in management information system) in 1991 and with a master degree in management in 1999. He commenced his career in the aviation industry in July 1991 and worked in the reform bureau of the Ministry of Aero-Space Industry, the corporate management office of Nanjing Jincheng Machinery Factory, the corporate management department and the asset and business management department of former AVIC. He was appointed as a deputy division director and a division director of the corporate assets management department of AVIC II, and is also the director in the security and legal department of the Company. Mr. Yan has been appointed as the Company Secretary of the Company since April 2003.

The Board presents its annual report of the directors together with the audited financial statements of the Group for the year ended 31st December 2009.

BUSINESS OF THE GROUP

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

RESULTS AND DIVIDEND

The results of the Group for 2009 are set out in the Consolidated Income Statement on pages 55 to 56 of the Annual Report.

The Board recommended no distribution of final dividend for the year ended 31st December 2009.

SHARE CAPITAL

In 2009, there were no changes in the share capital of the Company.

The Company's capital structure as at 31st December 2009 was as follows:

Class of shares	Number of shares as at 31st December 2009	Percentage of total number of shares in issue as at 31st December 2009 (%)
Domestic shares	2,963,808,000	63.83
Overseas listed foreign invested shares (H shares)	1,679,800,500	36.17
Total	4,643,608,500	100

FIVE-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on pages 4 to 6 of this annual report.

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December 2009, pursuant to the register kept under Section 336 of the Securities and Futures Ordinance (the "SFO"), shareholders holding 5% or more than 5% equity interests in the Company and associated corporations were as follows:

Name of Shareholders	Class of shares	Number of shares	Percentage of shareholdings in the same class of shares	Percentage of shareholdings out of share capital in issue	Nature of shares held
AVIC	Domestic shares	2,835,305,636	95.66%	61.06%	Long position
EADS	H shares	232,180,425	13.82%	5.00%	Long position
The Hamon Investment Group Pte Limited	H shares	164,278,000 (Note 1)	9.78%	3.54%	Long position
The Dreyfus Corporation (Note 2)	H shares	105,226,000	6.26%	2.27%	Long position

Notes:

1. These H shares were held directly by various controlled corporations of The Hamon Investment Group Pte Limited, of which 35,572,000 H shares were held by Hamon Asset Management Limited, 101,690,000 H shares were held by Hamon U.S. Investment Advisors Limited and 27,016,000 H shares were held by Hamon Investment Management Limited.

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

Save as disclosed above, as at 31st December 2009, the Company had not been notified of any interests and short positions in 5% or more than 5% of shares and underlying shares of the Company which had been recorded in the register kept under section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares for the year ended 31st December 2009.

PRE-EMPTIVE RIGHTS

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

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31st December 2009, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

FIXED ASSETS

Details of fixed assets of the Company are set out in note 16 to the financial statements.

RESERVES

Details of movement in reserves of the Group for the year ended 31st December 2009 are set out in the Consolidated Statement of Changes in Equity and note 38 to the financial statements.

DISTRIBUTABLE RETAINED EARNINGS

As at 31st December 2009, the Company had no distributable retained earnings.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's total purchases from the five largest suppliers accounted for 10.25% of the Group's total purchases, of which purchases from the largest supplier accounted for approximately 3.27% of the Group's total purchases. The Group's sales to the five largest customers accounted for 40.37% of the Group's total sales, of which, sales to the largest customer accounted for 12.19% of the Group's total sales.

Purchases of aviation segment from the five largest suppliers accounted for 29.19% of the total purchases in the Group's aviation segment, of which, purchases from the largest supplier accounted for 12.27% of the total purchases in the Group's aviation segment. Sales in the aviation segment to the five largest customers accounted for 89.63% of the total sales in the Group's aviation segment, of which, sales to the largest customer accounted for 28.66% of the total sales in the Group's aviation segment.

Purchases of automobile segment from the five largest suppliers accounted for 8.80% of the total purchases in the Group's automobile segment, of which, purchases from the largest supplier accounted for 3.03% of the total purchases in the Group's automobile segment. Sales in the automobile segment to the five largest customers accounted for 37.51% of the total sales in the Group's automobile segment, of which, sales to the largest customer accounted for 17.85% of the total sales in the Group's automobile segment.

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

SUBSIDIARIES AND ASSOCIATES

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

DIRECTORS

Details of the directors of the Company during the financial year ended 31st December 2009 are set out from page 21 to page 25 of this annual report.

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

On 16th April 2009, the Company and AVIC Automobile Industry Company entered into the share transfer agreement.

On 4th November 2009, the Company and AVIC entered into the Equity Swap agreement.

Details of the transactions can be referred to in pages 38 to 39 of this annual report.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

During the year ended 31st December 2009, the Group engaged in several continuing connected transactions with AVIC Group (AVIC is a connected person of the Company as AVIC is the controlling shareholder of the Company), joint venture partners (who are connected persons of the Company as they hold at least 10% interests in the subsidiaries of the Company) and non-wholly owned subsidiaries of the Company (who are connected persons of the Company as AVIC or its associates hold 10% or more interests in them).

Set out below are the details of the approved continuing connected transactions of the Company for the year ended 31st December 2009:

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

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

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

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

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

6. On 30th June 1999, Dongan Engine entered into a technology transfer agreement ("Mitsubishi Technology Transfer Agreement") with Mitsubishi, a connected person by virtue of it being a substantial shareholder of Dongan Engine, whereby Mitsubishi has agreed to grant to Dongan Engine a licence to use the industrial properties rights, know-how and technology documents relating to engines, gearboxes and their respective assemblies, parts and components.

7. As part of the joint venture establishment agreement of Dongan Engine dated 16th June 1998, the CKD spare parts supply agreement between Dongan Engine and Mitsubishi ("Mitsubishi CKD Agreement") states that Dongan Engine agrees to purchase CKD spare parts and components from Mitsubishi.

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

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

10. On 8th August 2005, Hafei Auto entered into the Mitsubishi Joint Development Agreement with Mitsubishi, whereby Mitsubishi agrees to provide assistance to Hafei Auto in developing automobile products with Mitsubishi's technologies and grant Hafei Auto licence to use certain Mitsubishi's automobile technologies, information and patents.

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

Details of the above continuing connected transactions can be referred to in the announcements, circulars and supplementary circulars of the Company dated 29th September 2008, 21st November 2008, 28th November 2008, 6th November 2009 and 20th December 2009, respectively.

Set out below are the annual caps for the continuing connected transaction as compared with the actual transaction amounts incurred by the Group in 2009. For the year ended 31st December 2009, the continuing connected transactions of the Company were calculated on a consolidated basis as follows:

		Actual amount for 2009	Annual Cap
		RMB Million	RMB Million
1	**Mutual Supply Agreement**		
	(a) Annual expenditures of the Group	2,010	5,061
	(b) Annual revenues of the Group	3,998	7,851
2	**Comprehensive Services Agreement**		
	Annual expenditures of the Group	85	155
3	**Land Use Rights Leasing Agreement**		
	Annual expenditures of the Group	13	30
	Properties Leasing Agreement		
	(a) Annual expenditures of the Group	18	19
	(b) Annual revenues of the Group	0.33	2
4	**Technology Co-operation Agreement**		
	(a) Annual expenditures of the Group	32	70
	(b) Annual revenues of the Group	—	40
5	**Mitsubishi Technology Transfer Agreement**		
	Annual expenditures of the Group	12	105
	Mitsubishi CKD Agreement		
	Annual expenditures of the Group	224	336
6	**Products and Services Mutual Supply and Guarantees Provision Agreement**		
	(a) Annual expenditures of Dongan Engine and Hafei Auto	310	2,220
	(b) Annual revenues of Dongan Engine and Hafei Auto	141	180
	(c) Annual guarantees provided by subsidiaries of the Group	—	2,290
7	**Agusta Agreement**		
	Annual expenditures of the Group	29	140
8	**Mitsubishi Joint Development Agreement**		
	Annual expenditures of the Group	5	10

		Actual amount for the period from 7th July to 31st December 2009	Cap for the period from 7th July to 31st December 2009
		RMB Million	RMB Million
9	**Changhe Auto Products and Services Mutual Supply and Guarantee Provision Agreement**		
	(a) Expenditures of the Group	17	18
	(b) Revenue of the Group	—	2

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

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

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

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

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

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

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

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

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

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

ONE-OFF CONNECTED TRANSACTIONS

1. On 9th October 2008, Changhe Auto, a non wholly-owned subsidiary of the Company and AVIC entered into the Acquisition Agreement in relation to the acquisition of aviation assets by Changhe Auto from AVIC, and the disposal of automobile assets and issuance of consideration shares by Changhe Auto to AVIC. According to the notice received from the China Securities Regulatory Commission on 6th May 2009, upon review of the Listed Company Merger and Reorganisation Examination Committee, the proposed reorganization of Changhe Auto was conditionally approved by the China Securities Regulatory Commission. Details of the transaction can be referred to in the announcement of the Company dated 10th October 2008, the circular of the Company dated 3rd November 2008 and the announcement of the Company dated 7th May 2009.

2. On 30th January 2009, the Company entered into the Joint Venture Agreement, pursuant to which Harbin Aircraft Industry Group Co., Ltd., Airbus China Limited, the Company, Hafei Aviation and Harbin Development Zone Heli Infrastructure Development Co., Ltd. agreed to establish a joint venture company in China to engage in the business of manufacturing of composite material parts and components for the Airbus A350 XWB and Airbus A320 aircraft series. The total capital contribution of the Group (including the capital commitment of the Company and Hafei Aviation) in respect of the joint venture company amounts to USD 30,000,000, representing 20% equity interest in the joint venture company. The transactions contemplated under the Joint Venture Agreement constituted a connected transaction pursuant to Chapter 14A of the Listing Rules. The transactions were approved by independent shareholders of the Company at the annual general meeting of the Company held on 9th April 2009. Details of the transaction can be referred to in the announcement and circular of the Company dated 3rd February 2009 and 20th February 2009, respectively.

3. On 16th April 2009, the Company and AVIC Automobile Industry Company entered into the Share Transfer Agreements, pursuant to which the Company conditionally agreed to sell and AVIC Automobile Industry Company conditionally agreed to purchase from the Company 100% equity interest in Harbin Automobile Group and 10% equity interest in Jiangxi Change Suzuki Automobile Co., Ltd. for an aggregate consideration of RMB110.4 million, which shall be satisfied by AVIC Automobile Industry Company in cash. The transcations had been completed and Harbin Automobile Group was no longer a subsidiary of the Company and the Company no longer had any equity interest in Jiangxi Change Suzuki Automobile Co., Ltd.. The transactions constituted a major transaction and a connected transaction of the Company pursuant to Chapter 14 and Chapter 14A of the Listing Rules. These transactions were approved by the independent shareholders of the Company at the extraordinary general meeting held on 9th June 2009. Details of this transaction can be referred to in the announcement and circular of the Company dated 16th April 2009 and 6th May 2009, respectively.

4. On 29th July 2009, Hongdu Aviation entered into three agreements in respect of the proposed issue of new Hongdu Aviation Shares, namely, (1) Subscription Agreement I pursuant to which Hongdu Aviation agreed to issue and the Company undertook to subscribe, subject to conditions and adjustment, for approximately 10,513,036 new Hongdu Aviation Shares at the subscription price, which will be paid by the Company using its internal resources; and (2) Subscription Agreement II pursuant to which Hongdu Aviation agreed to issue and Hongdu Group, a wholly-owned subsidiary of AVIC, agreed to subscribe, subject to conditions and adjustment, for approximately 23,128,680 new Hongdu Aviation Shares at the Subscription Price, which will be paid by Hongdu Group using its internal resources; and (3) Assets Acquisition Agreement pursuant to which Hongdu Aviation agreed to acquire the aircraft business assets from Hongdu Group for an aggregate consideration of approximately RMB550 million, subject to confirmation by State-owned Assets Supervision and Administration Commission of the State Council. The consideration will be paid by Hongdu Aviation in cash. Upon completion, the Company and Hongdu Group will be interested in approximately 44.81% and 5.83%, respectively of the issued share capital of Hongdu Aviation, after the proposed placing of Hongdu Aviation Shares. As AVIC is the controlling shareholder of the Company, holding 61.06% equity interests in the Company at the time of the transaction and Hongdu Group is a wholly-owned subsidiary of AVIC, pursuant to Chapter 14A of the Listing Rules, AVIC is a connected person of the Company and Hongdu Group is an associate of AVIC. Therefore, the subscription of new Hongdu Aviation Shares by Hongdu Group and the acquisition of the aircraft business assets by Hongdu Aviation from Hongdu Group constituted connected transactions of the Company under the Listing Rules. The transactions were approved by independent shareholders of the Company at the extraordinary general meeting of the Company convened on 28th September 2009. Details of the transactions are set out in the announcements and circular issued by the Company on 7th August 2009, 18th August 2009 and 28th August 2009 respectively .

5. On 18th August 2009, the Company's non wholly-owned subsidiary Hongdu Aviation, Hongdu Group and Jiangxi Changjiang General Aviation Co., Ltd ("Changjiang General Aviation") entered into the capital contribution agreement. Pursuant to which Hongdu Aviation will use part of its placing proceeds amounting to approximately RMB50 million as capital contribution to Changjiang General Aviation . As AVIC is the controlling shareholder of the Company, holding 61.06% equity interests in the Company at the time of the transaction and Hongdu Group is a wholly-owned subsidiary of AVIC, pursuant to Chapter 14A of the Listing Rules, AVIC is a connected person of the Company and Hongdu Group is an associate of AVIC. As at the Latest Practical Date, Hongdu Aviation held 76.19% interests in Changjiang General Aviation and Hongdu Group held 23.81% interest in Changjiang General Aviation. Pursuant to the Listing Rule, the proposed capital contribution constited a connected transaction of the Company. Details of the transaction are set out in the announcements and circular issued by the Company on 7th August 2009, 18th August 2009 and 28th August 2009 respectively .

6. On 4th November 2009, the Company and AVIC entered into the Equity Swap Agreement, pursuant to which the Company conditionally agreed to sell and AVIC conditionally agreed to purchase from the Company 54.51% equity interest in Dongan Motor for an aggregate consideration of RMB2,367,794,200; and AVIC in return conditionally agreed to sell and the Company conditionally agreed to purchase from AVIC 43.34% equity interest in JONHON Optronic for an aggregate consideration of RMB1,774,179,339. The difference between the consideration for the disposal and the consideration for the acquisition, which amounts to RMB593,614,861 will be settled by AVIC in cash, and will be applied as general working capital of the Company after completion of the transaction. The disposal and acquisition are inter-conditional. This transaction constituted a major transaction and a connected transaction of the Company pursuant to Chapter 14 and Chapter 14A of the Listing Rules. This transaction was approved by the independent shareholders of the Company at the extraordinary general meeting on 29th December 2009. Details of the transaction are set out in the announcement and the circular of the Company dated 4th November 2009 and 25th November 2009, respectively.

CORPORATE GOVERNANCE

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Board, throughout the year ended 31st December 2009 and up to the date of this report, the Company maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

The financial statements for the year have been audited by PricewaterhouseCoopers. In the forthcoming annual general meeting, a resolution for the re-appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and domestic auditors of the Company for the financial year of 2010 will be proposed. In the past three years, the auditors of the Company remained unchanged.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

At a general meeting of the Company held on 9th June 2009, Mr. Gao Jianshe and Mr. Chen Yuanxian were elected as non-executive directors of the Company.

Mr. Hu Wenming, Mr. Yu Yan. Ms. Zheng Li, Mr. Xie Zhihua and Mr. Gao Jianshe resigned as supervisors of the Company. Mr. Yu Guanghai was appointed as supervisor representing shareholders of the Company, and Mr. Li Yuhai was appointed as chairman of the Supervisory Committee.

At the Board meeting following the general meeting, Mr. Li Yao, Mr. Ni Xianping, Mr. Liu Chunhui, Mr. Zheng Qiang and Mr. Tian Xueying were appointed as vice presidents of the Company. Mr. Li Yao was appointed as the chief financial officer of the Company. Mr. Ip Kun Wan, Kiril resigned as co-company secretary of the Company due to personal work arrangement.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

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

As at 31st December 2009, none of the Directors, Supervisors and Chief Executive of the Company had interests or held short positions in the shares of the Company and/or shares, relevant shares and/or securities of its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded and kept in the register pursuant to section 352 of the SFO and be notified to the Company and the Stock Exchange pursuant to Part XV, Part 7 and Part 8 of the SFO.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of remuneration of the existing Directors, Supervisors and senior management are set out in note 15 to the financial statements.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As at 31st December 2009, none of the Directors or Supervisors was entitled to acquire shares or debentures of the Company or its associated corporation (within the meaning of the SFO).

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year of 2009.

To all shareholders:

During the year of 2009, the Supervisory Committee strictly complied with the PRC Company Law, the Articles of Association and Procedural Rules for Meetings of Supervisory Committee and duly adhered to the principles of honesty and integrity in performing the supervisory duties and exercising the rights conferred on it by the Articles of Association, and also in good faith safeguarded the shareholders' interests in a diligent, pragmatic and serious manner.

The Supervisory Committee convened three meetings in 2009, at which 11 resolutions were considered and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2008 Annual Report, 2009 Interim Report, plans on distribution of profits for 2008 and the first six months of 2009 respectively, budgets for 2009 of the Company and the resolutions on changes of the supervisors and appointment of the chairman of the Supervisory Committee. The Supervisory Committee had also attended the Board meetings and the general meetings held in 2009 to monitor the validity of procedures undertaken leading to the convening of and decisions made during the board meetings and general meetings. Through convening supervisory committee meetings and attending board meetings and general meetings, the Supervisory Committee performed its duties of supervising the major operating activities of the Group, as well as the performance of directors and senior management officers in discharging their duties and provided advice to the Board.

The Supervisory Committee had reviewed the Report of the Board which the Board submitted to the general meeting, and considered that the report has fairly reflected the current position of the Company. In 2009, the Board and the senior management of the Company had duly exercised various powers conferred by the shareholders pursuant to the laws, performed various obligations, and used their best endeavors to make important contributions to the development of the Company.

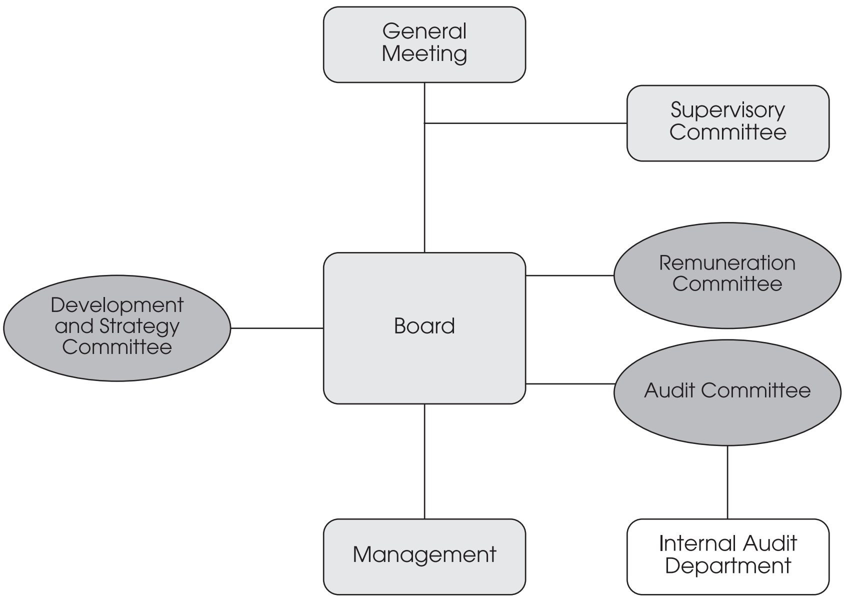
To make a better oversight on the financial conditions of the Company, the Supervisory Committee reviewed the report of the auditors of the Company and discussed with the management of the Company, and considered that the statements had fairly reflected the financial position and operating results of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

The Supervisory Committee is fully confident in the prospect of the Company. In 2010, the Supervisory Committee will continue to strictly perform its duties in accordance with the Articles of Association and the relevant requirements to safeguard shareholders' interests.

Li Yuhai
Chairman of the Supervisory Committee
Beijing, the PRC, 9th April 2010

The Company strictly complies with various applicable laws, rules and regulations as well as the Articles of Association to standardize its operation. In 2009, under the framework guidance of the Articles of Association, Procedural Rules for General Meetings, Procedural Rules for Board Meetings, Procedural Rules for Meetings of Supervisory Committee, Working Guidelines for the Management, Working Guidelines for the Audit Committee, Terms of Reference of the Remuneration Committee and Rules on Information Disclosure, the Company continuously enhanced its corporate governance standard through the co-ordination of general meetings, the Board and the relevant special committees of the Board, the Supervisory Committee and the management.

Governance structure of the Company is set out as follow:



CODE ON CORPORATE GOVERNANCE PRACTICES

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

THE BOARD

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

DIRECTORS

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

The Company adopts the formal procedures in the appointment of new directors. The Company has not established any nomination committee. During 2009, the Board met once with all directors present to consider referrals from the shareholders and nominate new directors for approval by the shareholders of the Company pursuant to certain standards. These standards include relevant professional knowledge and industry experience, personal ethics, integrity and skills of directors, as well as their time commitment to the affairs of the Company.

Each director (including non-executive director) holds office for a period of three years, and is eligible for re-election upon the expiration of the term of office. A list of directors, their respective profiles and roles in the Board and special committees of the Board are set out in pages 21 to 25 of the Annual Report. Relevant information will also be published on the website of the Company. There are no relationship (including financial, business, family or other material or relevant relationships) among members of the Board.

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

RESPONSIBILITIES OF THE BOARD

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

BOARD MEETINGS

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

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

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

All directors have access to the services of the company secretaries. The board secretaries are responsible for ensuring that board procedures are followed and advising the Board accordingly. The company secretaries regularly update the Reference Guide for Directors and Supervisors to ensure that the Board and Supervisors are well-informed of the latest information on corporate governance and supervision as well as the development of the Group. Directors, the audit committee and the remuneration committee may seek independent professional advice at the Company's expenses in discharging their duties.

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

The Board has established a development & strategy committee, an audit committee and a remuneration committee to ensure good corporate governance. Duties of these committees are set out in accordance with the principles of the Code. Each committee reports directly to the Board. Minutes of committee meetings are kept by the Board Secretary. In 2009, the Company convened one meeting of the Remuneration Committee and no meeting of the Development & Strategy Committee.

Eight meetings were held by the Board during 2009. The chief executive officer and vice presidents, including the chief financial officer, attended these meetings to brief the Board and reply to issues relating to resolutions discussed at those meetings. The attendance of every director (including the circumstance of appointing another director on his behalf) in the board meetings and the audit committee meetings in 2009 is set out below:

Directors	Times of presence/Times of meetings should present The Board	 Audit Committee
Executive directors		
Mr. Lin Zuoming	8/8	
Mr. Tan Ruisong	8/8	
Mr. Wu Xiandong	8/8	
Non-executive directors		
Mr. Gu Huizhong	8/8	2/2
Mr. Xu Zhanbin	8/8	
Mr. Geng Ruguang	8/8	
Mr. Zhang Xinguo	8/8	
Mr. Gao Jianshe (Note)	6/6	
Mr. Li Fangyong	7/8	
Mr. Chen Yuanxian (Note)	5/6	
Mr. Wang Yong	8/8	
Mr. Maurice Savart	8/8	
Independent non-executive directors		
Mr. Guo Chongqing	8/8	2/2
Mr. Li Xianzong	8/8	2/2
Mr. Lau Chung Man, Louis	8/8	2/2

Note: Directors appointed on 9th June 2009

INTERESTS HELD AND SECURITIES TRANSACTIONS BY DIRECTORS

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

Interests of the Company held by the Directors as at 31st December 2009 have been disclosed on page 41 of the Report of the Board of the Annual Report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own guidelines for securities transactions by Directors, Supervisors and employees of the Company. All directors and supervisors have been provided with a copy of the Model Code upon appointments. The Directors and supervisors of the Company will receive written reminders of the restrictions on dealing in any securities or derivatives of the Company. The written reminders will be provided one month prior to the board meeting of the Company for approving annual or interim results. All Directors and Supervisors of the Company have confirmed their compliance with the Model Code in 2009 upon specific enquiries with them.

Employees who may likely possess unpublished price sensitive information of the Group are also required to comply with the Model Code. The Company is not aware of any breach in this regard in 2009.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board has established a remuneration committee which comprises one non-executive director Mr. Gao Jianshe, as the chairman and three independent non-executive directors, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis. The remuneration committee is responsible for approving policies on remuneration of all directors, supervisors and senior management, as well as making recommendations to the Board on revising policies and structure for remuneration. In determining the remuneration of directors and supervisors, the Remuneration Committee will take into account factors such as the responsibilities and work experience of the directors and supervisors. The remuneration committee reports to the Board after every meeting. During the year ended 31st December 2009, the Remuneration Committee convened one meeting. The remuneration of the newly appointed directors and supervisors in 2009 was determined by the Board at a Board meeting on 9th April 2010 pursuant to the resolutions passed at the general meeting of the Company on 9th June 2009. Terms of reference of the remuneration committee are published on the website of the Company.

Details of the remunerations of the directors, supervisors and senior management of the Company for the year ended 31st December 2009 are set out in note 15 to the financial statement.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTS

The Directors are responsible for monitoring the preparation of the financial statements for every financial period and ensuring those financial statements provide a true and fair view on the results of operations, financial position and cash flow of the Group in the relevant financial period. In preparing the financial statements for the year ended 31st December 2009, the directors have:

— selected appropriate accounting policies and applied them consistently;

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

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

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

INTERNAL CONTROL

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

The Company has established an Internal Audit Department which acts as a daily operation office of the audit committee of the Board to monitor how the Company and its subsidiaries establish and improve their respective internal control systems and give guidance in this respect, to supervise and review the implementation of regulations on internal control systems at proper times. In 2009, the Internal Audit Department prepared an annual assessment list on the internal control system and carried out a questionnaire, based on which the department evaluates the internal control system of the Group as a whole. The department also requested the senior management of each subsidiary to provide statements on the healthiness, reasonableness and effective implementation of their respective internal control procedures. The Internal Audit Department then conducted an evaluation based on the activities mentioned above and reported the results of such evaluation to the audit committee and the Board.

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

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

AUDIT COMMITTEE

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

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

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

The audit committee held two meetings during 2009 with the presence of all members of the audit committee, the Supervisors, the management, chief financial officer and external auditors of the Company. In 2009, the audit committee reviewed and evaluated the audit results of the Company's external auditors, the accounting principles and standards applied by the Group and the internal control system and the financial statements of the Company. The audit committee reported to the Board its scope of work, discussion results and advice after every meeting. During 2009, the audit committee:

— reviewed the audited financial statements and the relevant annual results announcement of the Group for the year ended 31st December 2008;

— reviewed the interim financial information and the relevant interim results announcement of the Group for the six months ended 30th June 2009;

— reviewed resolution relating to appointments of international and PRC auditors of the Company for the financial year 2009 and determination of their respective remunerations;

— approving and revising the Rules of Audit Committee of the Board of the Company and establishing the Management Practice on Connected Transactions of the Company; and

— reviewed the reports on operation results of the Company for the year 2008 and the first half of 2009, the self-assessment report on the internal control of the Company, reports from the external auditor on audit in the year 2008 and review on 2009 interim report and provided recommendations to the management of the Company.

The audit committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31st December 2009.

SUPERVISORY COMMITTEE

The Supervisory Committee is accountable to the general meetings of the Company. The committee comprises three supervisors selected from representatives of the Company's shareholders and two supervisors selected from employees of the Company. In 2009, the Supervisory Committee held three meetings and considered and approved 11 resolutions. It supervised, on behalf of shareholders of the Company, the financial position of the Group, the legality of directors and senior management of the Company during the performance of their duties, attended the board meetings and general meetings and fulfilled its duties diligently.

EXTERNAL AUDITORS

In 2009, the payment to the Company's external auditors in relation to auditing services amounted to RMB5.5 million. The payments mentioned above had been approved by the audit committee, the Board and the general meeting.

The Board has resolved to propose at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and PRC auditors of the Company to assume statutory audit work of the Company for the financial year 2010. The resolution is subject to the approval of shareholders at the annual general meeting of the Company for the year 2009.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on pages 53 to 54 of this annual report.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

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

General meetings of the Company have absolute power to perform its functions according to laws and regulations and make decisions on significant issues. The annual general meeting and extraordinary general meetings of the Company provide an open platform for shareholders to exchange opinions with the Board. In 2009, the Company convened one annual general meeting and three extraordinary general meetings, at which thirty eight resolutions were considered and approved. Directors, Supervisors and management of the Company endeavored to attend the general meetings.

At the general meetings, each resolution such as the appointment of directors would be dealt with and resolved separately. Details about the procedures for voting by poll at the general meeting and the right of the shareholders to require a voting by poll are set out in the circular despatched to the shareholders. The circular will also contain details of the proposed resolutions. Results of voting by poll are published on the websites of the Company and the Stock Exchange respectively.

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

The Company also emphasized the mutual communication with its investors. During 2009, the Company communicated effectively with its investors through receiving investors during their visits or holding telephone conferences and effectively exchanged opinions with them.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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

We have audited the consolidated financial statements of AviChina Industry & Technology Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 55 to 149, which comprise the consolidated and company balance sheets as of 31st December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31st December 2009, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 9th April 2010

Consolidated Income Statement

For the year ended 31st December 2009

	Note	2009 RMB'000	2008 RMB'000 (Restated)
Continuing operations			
Revenue	5	**5,098,210**	4,979,152
Cost of sales		**(4,179,979)**	(4,097,659)
Gross profit		**918,231**	881,493
Other income	6	**50,149**	50,033
Other gains, net	7	**76,473**	12,393
Selling and distribution expenses		**(43,072)**	(40,599)
General and administrative expenses		**(584,052)**	(539,586)
Operating profit		**417,729**	363,734
Finance income	9	**45,694**	44,791
Finance costs	9	**(110,030)**	(127,435)
Finance costs, net		**(64,336)**	(82,644)
Share of results of associates		**33,363**	38,606
Profit before income tax		**386,756**	319,696
Income tax expense	10	**(49,277)**	(39,977)
Profit for the year from continuing operations		**337,479**	279,719
Discontinued operations			
Profit/(loss) for the year from discontinued operations	11	**371,657**	(1,103,350)
Profit/(loss) for the year		**709,136**	(823,631)
Attributable to:			
Equity holders of the Company	12	**160,946**	(1,062,684)
Non-controlling interests		**548,190**	239,053
		709,136	(823,631)

The notes on pages 65 to 149 are an integral part of these consolidated financial statements.

Consolidated Income Statement

For the year ended 31st December 2009

	Note	**2009**	2008
		RMB	RMB
			(Restated)
Basic and diluted earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company during the year from:			
– continuing operations	13	**0.037**	0.029
– discontinued operations	13	**(0.002)**	(0.258)

The notes on pages 65 to 149 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2009

	2009 RMB'000	2008 RMB'000 (Restated)
Profit/(loss) for the year	**709,136**	(823,631)
Other comprehensive income/(expenses), net of tax		
Change in fair value of available-for-sale financial assets	**110,207**	(231,799)
Realisation of gain on available-for-sale financial assets in income statement upon disposal	**(19,074)**	(28,001)
	91,133	(259,800)
Total comprehensive income/(loss) for the year	**800,269**	(1,083,431)
Attributable to:		
Equity holders of the Company	**211,373**	(1,205,710)
Non-controlling interests	**588,896**	122,279
	800,269	(1,083,431)

The notes on pages 65 to 149 are an integral part of these consolidated financial statements.

Balance Sheets

As at 31st December 2009

	Note	Group 2009 RMB'000	Group 2008 RMB'000 (Restated)	Company 2009 RMB'000	Company 2008 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	16	**1,741,106**	7,065,810	**20,863**	6,788
Investment properties	17	**48,037**	49,535	**—**	—
Land use rights	18	**188,003**	283,928	**—**	—
Intangible assets	19	**224,636**	240,814	**—**	—
Interests in subsidiaries	20	**—**	—	**2,108,620**	3,506,886
Interests in associates	21	**417,127**	330,968	**72,090**	30,000
Available-for-sale financial assets	22	**318,051**	232,136	**—**	—
Deferred income tax assets	23	**25,234**	98,464	**—**	—
		2,962,194	8,301,655	**2,201,573**	3,543,674
Current assets					
Accounts receivable	24	**1,907,589**	3,910,196	**—**	—
Advances to suppliers	25	**258,249**	332,568	**—**	—
Other receivables and prepayments	26	**539,989**	1,196,042	**358,910**	193,017
Inventories	27	**3,249,354**	5,264,624	**—**	—
Financial assets held for trading		**101**	11,488	**—**	—
Pledged deposits	29	**58,904**	536,605	**—**	—
Term deposits with initial term of over three months	30	**1,441,516**	1,317,062	**868,000**	687,638
Cash and cash equivalents		**1,996,694**	2,418,654	**268,460**	232,026
		9,452,396	14,987,239	**1,495,370**	1,112,681
Assets classified as held for sale	11	**7,929,748**	—	**795,213**	—
Total assets		**20,344,338**	23,288,894	**4,492,156**	4,656,355

The notes on pages 65 to 149 are an integral part of these consolidated financial statements.

	Note	Group		Company	
		2009	2008	**2009**	2008
		RMB'000	RMB'000	**RMB'000**	RMB'000
			(Restated)		
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	37	**4,643,609**	4,643,609	**4,643,609**	4,643,609
Reserves	38	**24,430**	(1,983,936)	**(496,049)**	(482,323)
		4,668,039	2,659,673	**4,147,560**	4,161,286
Non-controlling interests		**4,158,934**	3,471,203	**—**	—
Total equity		**8,826,973**	6,130,876	**4,147,560**	4,161,286
LIABILITIES					
Non-current liabilities					
Long-term borrowings	36	**1,091,518**	948,691	**—**	—
Deferred income from government grants		**49,026**	188,038	**—**	—
Deferred income tax liabilities	23	**39,672**	36,949	**—**	—
		1,180,216	1,173,678	**—**	—
Current liabilities					
Accounts payable	31	**2,940,217**	7,262,075	**—**	—
Advances from customers	32	**876,854**	695,445	**—**	—
Other payables and accruals	33	**516,211**	1,471,526	**30,298**	30,771
Amounts payable to ultimate holding company	34	**370,524**	520,524	**314,298**	464,298
Provisions	35	**28,838**	205,645	**—**	—
Current portion of long-term borrowings	36	**430,000**	728,000	**—**	—
Short-term borrowings	36	**952,800**	4,953,404	**—**	—
Current income tax liabilities		**55,949**	147,721	**—**	—
		6,171,393	15,984,340	**344,596**	495,069
Liabilities directly associated with assets classified as held for sale	11	**4,165,756**	—	**—**	—
Total liabilities		**11,517,365**	17,158,018	**344,596**	495,069

The notes on pages 65 to 149 are an integral part of these consolidated financial statements.

Balance Sheets

As at 31st December 2009

		Group		Company	
	Note	**2009**	2008	**2009**	2008
		RMB'000	RMB'000	**RMB'000**	RMB'000
			(Restated)		
Total equity and liabilities		**20,344,338**	23,288,894	**4,492,156**	4,656,355
Net current assets/(liabilities)		**3,281,003**	(997,101)	**1,150,774**	617,612
Total assets less current liabilities		**14,172,945**	7,304,554	**4,147,560**	4,161,286

Director
Tan Ruisong

Director
Gu Huizhong

The notes on pages 65 to 149 are an integral part of these consolidated financial statements.

	Attributable to equity holders of the Company							
	Share capital RMB'000	Capital reserve RMB'000	Available-for-sale financial assets reserve RMB'000	Statutory surplus reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
	(Note 37)	(Note 38(b))		(Note 38(c))	(Note 38(d))			
For the year ended 31st December 2009								
Balance at 1st January 2009, as restated	4,643,609	383,371	47,172	31,178	(2,445,657)	2,659,673	3,471,203	6,130,876
Profit for the year	–	–	–	–	160,946	160,946	548,190	709,136
Other comprehensive income/ (expenses), net of tax								
– Change in fair value of available-for-sale financial assets	–	–	60,933	–	–	60,933	49,274	110,207
– Realisation of gain on available-for-sale financial assets in income statement upon disposal	–	–	(10,506)	–	–	(10,506)	(8,568)	(19,074)
Total comprehensive income for the year	–	–	50,427	–	160,946	211,373	588,896	800,269
Transactions with owners								
Distributions of net liabilities of automobile businesses to holding company (Note 39(c))	–	1,675,277	–	–	–	1,675,277	101,765	1,777,042
Contribution from non-controlling shareholder of a subsidiary	–	–	–	–	–	–	1,440	1,440
Dividend to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	(97,030)	(97,030)
Partial disposal of interests in a subsidiary (Note 38(e))	–	121,716	–	–	–	121,716	92,660	214,376
Balance at 31st December 2009	4,643,609	2,180,364	97,599	31,178	(2,284,711)	4,668,039	4,158,934	8,826,973

The notes on pages 65 to 149 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2009

	Attributable to equity holders of the Company							
	Share capital RMB'000	Capital reserve RMB'000	Available-for-sale financial assets reserve RMB'000	Statutory surplus reserve RMB'000	Accumulated losses RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
	(Note 37)	(Note38(b))		(Note38(c))	(Note38(d))			
For the year ended 31st December 2008								
Balance at 1st January 2008, as restated	4,643,609	243,039	190,198	31,178	(1,382,973)	3,725,051	3,410,549	7,135,600
(Loss)/profit for the year	–	–	–	–	(1,062,684)	(1,062,684)	239,053	(823,631)
Other comprehensive expenses, net of tax								
– Change in fair value of available-for-sale financial assets	–	–	(128,140)	–	–	(128,140)	(103,659)	(231,799)
– Realisation of gain on available-for-sale financial assets in income statement upon disposal	–	–	(14,886)	–	–	(14,886)	(13,115)	(28,001)
Total comprehensive (loss)/income for the year	–	–	(143,026)	–	(1,062,684)	(1,205,710)	122,279	(1,083,431)
Transactions with owners								
Contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	1,050	1,050
Purchase of additional interests in a subsidiary	–	–	–	–	–	–	(11)	(11)
Dividend to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	(89,210)	(89,210)
Partial disposal of interests in a subsidiary	–	140,332	–	–	–	140,332	26,546	166,878
Balance at 31st December 2008, as restated	4,643,609	383,371	47,172	31,178	(2,445,657)	2,659,673	3,471,203	6,130,876

The notes on pages 65 to 149 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December 2009

	Note	2009 RMB'000	2008 RMB'000 (Restated)
Cash flows from operating activities			
Net cash generated from/(used in) operations	39(a)	**1,092,026**	(122,672)
Interest received		**45,694**	46,518
Interest paid		**(122,202)**	(149,143)
Enterprise income tax paid		**(46,886)**	(51,297)
Net cash generated from/(used in) operating activities of continuing operations		**968,632**	(276,594)
Net cash generated from operating activities of discontinued operations	11	**1,451,804**	850,764
Net cash generated from operating activities		**2,420,436**	574,170
Cash flows from investing activities			
Purchase of property, plant and equipment		**(177,845)**	(426,148)
Purchase of land use rights		**(1,049)**	(23,274)
Payments for intangible assets		**(10,284)**	(1,201)
Addition of available-for-sale financial assets		**(34,000)**	(13,930)
Disposal of available-for-sale financial assets		**86,003**	17,101
(Increase)/decrease in pledged deposits		**(17,089)**	60,762
Increase in term deposits with initial term of over three months		**(505,006)**	(244,690)
Proceeds from sale of property, plant and equipment	39(b)	**847**	1,432
Net cash outflow from distribution of automobile businesses	39(c)	**(409,171)**	—
Proceeds from disposal of certain interests in subsidiaries		**214,376**	130,250
Additional investments in associates		**(82,057)**	(42,620)
Disposal of interests in associates		**—**	7,750
Dividends received from associates		**3,698**	39,539
Dividends received from available-for-sale financial assets		**2,253**	2,428
Purchase of additional interests in a subsidiary		**—**	(11)
Net cash used in investing activities of continuing operations		**(929,324)**	(492,612)
Net cash used in investing activities of discontinued operations	11	**(856,896)**	(678,642)
Net cash used in investing activities		**(1,786,220)**	(1,171,254)

The notes on pages 65 to 149 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December 2009

	Note	2009 RMB'000	2008 RMB'000 (Restated)
Cash flows from financing activities			
Proceeds from borrowings		**1,960,800**	1,878,862
Repayments of borrowings		**(2,031,972)**	(1,475,976)
Contributions from non-controlling shareholders of subsidiaries		**1,440**	—
Dividend paid to non-controlling shareholders of subsidiaries		**(97,030)**	(31,559)
Net cash (used in)/generated from financing activities of continuing operations		**(166,762)**	371,327
Net cash generated from financing activities of discontinued operations	11	**532,452**	30,382
Net cash generated from financing activities		**365,690**	401,709
Net increase/(decrease) in cash and cash equivalents		**999,906**	(195,375)
Cash and cash equivalents at 1st January		**2,418,654**	2,614,029
Cash and cash equivalents at 31st December		**3,418,560**	2,418,654
Analysis:			
Cash and cash equivalents	39(d)	**1,996,694**	2,418,654
Cash and cash equivalents classified as held for sale	11	**1,421,866**	—
		3,418,560	2,418,654

The notes on pages 65 to 149 are an integral part of these consolidated financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

AviChina Industry & Technology Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 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"). AVIC II merged with China Aviation Industry Corporation I ("AVIC I") to form Aviation Industry Corporation of China ("AVIC") on 6th November 2008. 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 aviation and automobile products.

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

These consolidated financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated, and have been approved for issue by the Board of Directors on 9th April 2010.

Reorganisation of the Group in 2009

(a) On 30th April 2009, Jiangxi Changhe Automobile Co., Ltd. ("Changhe Auto"), a subsidiary of the Company, acquired from AVIC the entire equity interests in Shanghai Aviation Electric Co., Ltd. ("Shanghai Aviation") and Lanzhou Wanli Aviation Electrical Co., Ltd. ("Lanzhou Aviation") which had been valued at an aggregated sum of approximately RMB 793,177,000.

This consideration was satisfied by Changhe Auto:

- distributing its entire automobile assets and liabilities being valued at approximately RMB 406,619,000 to AVIC; and
- issuing 74,625,174 shares (equivalent to approximately RMB 386,558,000) to AVIC, whereby diluting the equity interests held by the Company in Changhe Auto from 59.02% to 49.93%.

On the same day, the Company and AVIC entered into an agreement that upon the abovementioned share issuance, AVIC undertakes to exercise its then entire 15.40% voting rights in Changhe Auto in accordance with the instructions of the Company. Although the Company held less than 50% equity interests in Changhe Auto, Changhe Auto remains as a subsidiary of the Company due to such arrangement.

Shanghai Aviation and Lanzhou Aviation are engaged in the manufacturing and sale of aviation electrical engineering products and accessories. As a result of these transactions, the principal activities of Changhe Auto changed from research, development, manufacture and sale of automobiles to holding investments in Shanghai Aviation and Lanzhou Aviation.

1 ORGANISATION AND PRINCIPAL ACTIVITIES (continued)

Reorganisation of the Group in 2009 (continued)

(b) On 31st August 2009, the Group distributed its entire 100% equity interests in a subsidiary, Harbin Hafei Automobile Industry Group Co., Ltd ("Harbin Automobile Group") and remaining 10% equity interests in Jiangxi Changhe Suzuki Automobile Co., Ltd., to an AVIC's wholly-owned subsidiary, AVIC Automobile Industry Company for a cash consideration of approximately RMB 110 million.

(c) On 4th November 2009, the Company and AVIC entered into an equity swap agreement, pursuant to which the Company will sell and AVIC will acquire from the Company its entire 54.51% equity interests in Harbin Dongan Auto Engine Co., Ltd. ("Dongan Motor") which had been valued at approximately RMB2,368 million.

This consideration will be satisfied by AVIC:

- transferring its entire 43.34% equity interests in China Aviation Optical-Electrical Technology Co., Ltd. ("JONHON Optronic") being valued at approximately RMB1,774 million to the Company; and
- settling approximately RMB594 million in cash

This proposed equity swap transaction was approved by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC and the independent shareholders at the Extraordinary General Meeting of the Company on 14th December 2009 and 29th December 2009, respectively, and has not yet been completed on the date of this report (Note 43).

2 BASIS OF PREPARATION

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

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

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

Further to Note 1(a), given that Changhe Auto, Shanghai Aviation and Lanzhou Aviation are all under common control of AVIC immediately before and after the business combinations, the Company applied the principles of merger accounting in preparing these consolidated financial statements of the Group.

By applying the principles of merger accounting, these consolidated financial statements of the Group also includes the financial positions, results and cash flows of Shanghai Aviation and Lanzhou Aviation as if they had been combined with the Group throughout the two years ended 31st December 2009. Comparative figures as at 31st December 2008 and for the year then ended have been restated as a result of such.

These consolidated financial statements of the Group includes the results of the previous automobile business of Changhe Auto up to 30th April 2009 when Changhe Auto distributed its entire then existing assets and liabilities to AVIC.

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the results and cash flows of the previous automobile business of Changhe Auto have been included in the discontinued operations of the Group upon classification as held for sale. Comparative figures for the year ended 31st December 2008 have been reclassified thereon.

Further to Notes 1(b) and (c), the results and cashflows of Harbin Automobile Group and Dongan Motor have also been included in the discontinued operations of the Group upon classification as held for sale. Comparative figures for the year ended 31st December 2008 have been reclassified thereon in a similar manner.

The following are reconciliations of the effects arising from the common control combinations of Shanghai Aviation and Lanzhou Aviation (Note 1(a)), and the distribution of the automobile businesses of Changhe Auto (Note 1(a)), Harbin Automobile Group (Note 1(b)) and Dongan Motor (Note 1(c)) (collectively "entire automobile businesses") on the consolidated balance sheet as at 31st December 2008, consolidated income statement and consolidated cash flow statement for the year ended 31st December 2008.

2 BASIS OF PREPARATION (continued)

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

(i) The consolidated balance sheet as at 31st December 2008:

	Balances as previously reported RMB'000	Merger of Shanghai Aviation and Lanzhou Aviation RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000
Total non-current assts	7,946,626	355,029	—	8,301,655
Total current assets	14,498,005	510,474	(21,240)	14,987,239
Total non-current liabilities	1,106,498	67,180	—	1,173,678
Total current liabilities	15,764,595	240,985	(21,240)	15,984,340
Total equity	5,573,538	557,338	—	6,130,876

(ii) The consolidated income statement for the year ended 31st December 2008:

	Balances as previously reported RMB'000	Merger of Shanghai Aviation and Lanzhou Aviation RMB'000	Elimination of inter-company balances RMB'000	Reclassification as a result of distribution of entire automobile businesses (Note 11) RMB'000	Balances as restated RMB'000
Continuing operations					
Revenue	16,384,884	448,932	(65,920)	(11,788,744)	4,979,152
(Loss)/profit for the year from continuing operations	(910,495)	86,864	—	1,103,350	279,719
Discontinued operations					
Loss for the year from discontinued operations (Note 11)	—	—	—	(1,103,350)	(1,103,350)
(Loss)/profit for the year	(910,495)	86,864	—	—	(823,631)

2 BASIS OF PREPARATION (continued)

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

(iii) The consolidated cash flow statement for the year ended 31st December 2008:

	Balances as previously reported RMB'000	Merger of Shanghai Aviation and Lanzhou Aviation RMB'000	Balances as restated RMB'000
Net cash generated from operating activities	563 ,916	10,254	574,170
Net cash used in investing activities	(1,099,635)	(71,619)	(1,171,254)
Net cash generated from/ (used in) financing activities	407,143	(5,434)	401,709

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

The following new/revised standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1st January 2009:

IAS 1 (Revised)	Presentation of financial statements
IAS 23 (Revised)	Borrowing Costs
IAS 32 (Amendment)	Financial Instruments: Presentation
IAS 39 (Amendment)	Financial Instruments: Recognition and measurement
IFRS 2 (Amendment)	Share-based Payment
IFRS 7 (Amendment)	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC 9 (Amendment)	Reassessment of Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

Except for certain presentational changes as described below, the adoption of the above new/revised standards, amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

2 BASIS OF PREPARATION (continued)

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

- IAS 1 (revised), 'Presentation of Financial Statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

  The Group has elected to present two statements: an income statement and a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements.

- IFRS 8, 'Operating Segments'. IFRS 8 replaces IAS 14, 'Segment Reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

  Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors that makes strategic decisions.

In addition, the International Accounting Standards Board also published a number of amendments for existing standards effective 1st January 2009 under its annual improvement project. These amendments do not have any significant impact to the results and financial position of the Group.

2 BASIS OF PREPARATION (continued)

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

In 2009, the Group early adopts the following revised standards:

		Effective for accounting periods beginning on or after
IFRS 3 (Revised)	Business Combinations	1st July 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements	1st July 2009
IAS 24 (Revised)	Related Party Disclosures	1st January 2011

- Under IAS 27 (revised), 'Consolidated and Separate Financial Statements', total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. There are no other impacts to the results and financial position of the Group on the adoption of IAS 27 (revised) and IFRS 3 (revised) as there are no non-common control business combinations during the year ended 31st December 2009 and it is the Group's existing policy to record the effects of all transactions with non-controlling interests in equity if there is no change in control.

- IAS 24 (revised), 'Related Party Disclosures' introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose the name of the government and the nature of their relationship, the nature and amount of any individually-significant transactions, and the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party.

2 BASIS OF PREPARATION (continued)

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

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

		Effective for accounting periods beginning on or after
New or revised standards, interpretations and amendments		
IAS 32 Amendment	Classification of Right Issues	1st February 2010
IAS 39 Amendment	Financial Instruments: Recognition and Measurement - Eligible hedged items	1st July 2009
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards	1st July 2009
IFRS 1 Amendment	Additional Exemptions for First-time Adopters	1st January 2010
IFRS 2 Amendment	Group Cash-settled Share-based Payment Transactions	1st January 2010
IFRS 9	Financial Instruments	1st January 2013
IFRIC 14 Amendment	Prepayments of a Minimum Funding Requirement	1st January 2011
IFRIC 17	Distributions of Non-cash Assets to Owners	1st July 2009
IFRIC 18	Transfer of Assets from Customers	1st July 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1st July 2010
Improvements to existing standards		
IAS 1 Amendment	Presentation of Financial Statements	1st January 2010
IAS 7 Amendment	Statement of Cash Flows	1st January 2010
IAS 17 Amendment	Leases	1st January 2010
IAS 18 Amendment	Revenue	1st January 2010
IAS 36 Amendment	Impairment of Assets	1st January 2010
IAS 38 Amendment	Intangible Assets	1st July 2009
IAS 39 Amendment	Financial Instruments: Recognition and Measurement	1st January 2010
IFRS 2 Amendment	Share-based Payments	1st July 2009
IFRS 5 Amendment	Non-current Assets Held for Sale and Discontinued Operations	1st January 2010
IFRS 8 Amendment	Operating Segments	1st January 2010
IFRIC 9 Amendment	Reassessment of Embedded Derivatives	1st July 2009
IFRIC 16 Amendment	Hedges of a Net Investment in a Foreign Operation	1st July 2009

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

3 PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

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

(i) Merger accounting and subsidiaries

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

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

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

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

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. 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.

Except for combination of businesses under common control by using merger accounting as described in Note 2(a), 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 non-controlling interests. 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, including any contingent liabilities assumed, the difference is recognised directly in the consolidated income statement.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

(i) Merger accounting and subsidiaries (continued)

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

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

(ii) Transactions and non-controlling interests

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

(iii) Associates

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

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Consolidation (continued)

(iii) Associates (continued)

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at 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 (g)).

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

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Construction-in-progress

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

(d) Investment properties

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

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

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

(e) Land use rights

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

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Intangible assets

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

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

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

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

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

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

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Financial assets

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.

(i) 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 include accounts and other receivables.

(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.

(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 included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Financial assets (continued)

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

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

Changes in the fair value of securities classified as available for sale are recognised in 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 estimate is significant and the probabilities of the various estimate cannot be reasonably assessed, such financial assets are carried at cost less accumulated impairment losses.

The Group assesses at 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. Impairment testing of receivables is described in Note 3(k).

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Inventories

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

(j) Contracts in progress

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

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

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

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

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

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

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Receivables

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

(l) Cash and cash equivalents

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

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

Assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

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

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Financial liabilities and equity

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

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

(o) Borrowings

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

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

(p) Borrowing costs

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

(q) Current and deferred income tax

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

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Current and deferred income tax (continued)

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 substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except 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.

(r) Employee benefits

(i) Pension obligations

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

(ii) Housing benefits

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

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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.

(t) 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.

(u) Foreign currency translation

(i) Functional and presentation currency

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

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(u) Foreign currency translation (continued)

(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)

(v) Revenue recognition

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

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

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(j) 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.

(w) 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.

3 PRINCIPAL ACCOUNTING POLICIES (continued)

(x) 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 or directors, where appropriate.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) Depreciation and amortisation

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

(ii) Development costs

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

(iii) Impairment of account and other receivables

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(iv) Inventories

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

(v) Revenue recognition

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

(vi) Income taxes

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

(vii) 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. Any increase or decrease in the provision would affect profit or loss in future years.

5 SEGMENT INFORMATION

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

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

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

Turnover consists of sales from aviation and automobile segments, which are RMB5,098,210,000 and RMB10,958,986,000 for the year ended 31st December 2009 and RMB4,979,152,000 and RMB11,788,744,000 for the year ended 31st December 2008 (as restated) respectively.

There are no material sales between segments. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the consolidated income statement.

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

5 SEGMENT INFORMATION (continued)

	(Continuing operations) Aviation RMB'000	(Discontinued operations) Automobiles RMB'000
For the year ended 31st December 2009		
Segment revenue	5,098,210	10,958,986
Segment results	388,879	482,620
Depreciation and amortisation	141,793	589,720
Provision for impairments	31,705	33,881
Finance costs	110,030	130,246
Share of results of associates	33,363	2,533
Income tax expense	49,277	142,658
For the year ended 31st December 2008 (restated)		
Segment revenue	4,979,152	11,788,744
Segment results	301,358	(974,077)
Depreciation and amortisation	134,040	1,239,724
Provision/(reversal of provision)for impairments	23,631	(6,370)
Finance costs	127,435	324,224
Share of results of associates	38,606	1,648
Income tax expense	39,977	165,489

5 SEGMENT INFORMATION (continued)

	(Continuing operations) Aviation RMB'000	(Discontinued operations) Automobiles RMB'000
As at 31st December 2009		
Segment assets	11,109,365	7,929,748
including:		
-interests in associates	417,127	23,704
-Additions to non-current assets (other than financial instruments and deferred tax assets)	187,065	606,862
As at 31st December 2008 (restated)		
Segment assets	10,019,918	12,294,086
including:		
-interests in associates	303,749	27,219
-Additions to non-current assets (other than financial instruments and deferred tax assets)	244,473	868,458

5 SEGMENT INFORMATION (continued)

Reconciliation of segment result to profit/(loss) for the year:

	2009 RMB'000	2008 RMB'000 (Restated)
Segment result for aviation segment	**388,879**	301,358
Finance income	**45,694**	44,791
Corporate overheads	**(47,817)**	(26,453)
Profit before income tax for continuing operations	**386,756**	319,696
Income tax expense	**(49,277)**	(39,977)
Profit for the year from continuing operations	**337,479**	279,719
Segment result for automobiles segment	**482,620**	(974,077)
Finance income	**31,695**	36,216
Profit/(loss) before income tax for discontinued operations	**514,315**	(937,861)
Income tax expense	**(142,658)**	(165,489)
Profit/(loss) for the year from discontinued operations	**371,657**	(1,103,350)

Reconciliation of segment assets to total assets:

	2009 RMB'000	2008 RMB'000 (Restated)
Segment assets for reportable segments	**19,039,113**	22,314,004
Corporate assets	**1,305,225**	974,890
Total assets	**20,344,338**	23,288,894

6 OTHER INCOME

	2009 RMB'000	2008 RMB'000 (Restated)
Rental income	**19,594**	19,814
Income from government grants	**15,088**	18,568
Refund of value-added tax and real estate tax	**—**	1,829
Profit from sale of scrap materials	**1,428**	1,252
Income from rendering of maintenance and other services	**11,786**	6,142
Dividend income from available-for-sale financial assets	**2,253**	2,428
	50,149	50,033

7 OTHER GAINS, NET

	2009 RMB'000	2008 RMB'000 (Restated)
Fair value loss on financial assets held for trading	**—**	(1,991)
(Loss)/gain on disposal of		
- Property, plant and equipment	**(619)**	(6,453)
- Associates	**—**	(3)
- Available-for-sale financial assets	**62,225**	41,171
- Financial assets held for trading	**14,867**	(20,331)
	76,473	12,393

8 EXPENSES BY NATURE

	2009 RMB'000	2008 RMB'000 (Restated)
Advertising costs	**344**	2,027
Amortisation on:		
- Intangible assets	**3,954**	3,759
- Land use rights	**5,457**	4,890
Auditors' remuneration	**6,885**	6,612
Changes in inventories of finished goods and work-in-progress	**110,547**	(91,687)
Contract costs incurred	**2,112,445**	2,282,697
Depreciation on:		
- Investment properties	**1,498**	1,795
- Property, plant and equipment	**131,931**	124,551
Fuel	**101,779**	92,527
Insurance	**12,407**	5,471
Operating lease rentals	**24,656**	19,991
Provision for impairment:		
- Inventories	**11,432**	7,673
- Receivables	**20,273**	15,958
Raw materials and consumables used	**887,163**	870,786
Repairs and maintenance expense	**53,134**	63,618
Research expenditures and development costs	**124,501**	100,943
Staff costs, including directors' emoluments (Note 14)	**727,100**	713,822
Sub-contracting charges	**238,885**	210,344
Sundries	**178,095**	197,983
Transportation expenses	**11,388**	9,862
Travelling	**32,229**	29,299
Warranty expenses	**11,000**	4,923
Total cost of sales, selling and distribution expenses, and general and administrative expenses	**4,807,103**	4,677,844

9 FINANCE COSTS, NET

	2009 RMB'000	2008 RMB'000 (Restated)
Finance income:		
Interest income on bank balances and deposits	**45,694**	44,791
Finance costs:		
Interest expense on bank borrowings		
- Wholly repayable within 5 years	**108,982**	126,408
- Not wholly repayable within 5 years	**11,844**	22,549
Interest expense on other borrowings		
- Wholly repayable within 5 years	**1,376**	—
- Not wholly repayable within 5 years	**—**	186
	122,202	149,143
Less: Amount capitalised in property, plant and equipment (note)	**(14,547)**	(24,646)
	107,655	124,497
Exchange losses	**586**	645
Other finance costs	**1,789**	2,293
	110,030	127,435
	64,336	82,644

Note:

	2009	2008
Interest rates per annum at which finance costs were capitalised	**5%-6%**	6%-7%

10 INCOME TAX EXPENSE

	2009 RMB'000	2008 RMB'000 (Restated)
Current income tax	**53,230**	48,632
Deferred income tax	**(3,953)**	(8,655)
	49,277	39,977

Notes:

(a) Except for certain subsidiaries which are taxed at a preferential rate of 15% (2008:15%), in accordance with the relevant PRC enterprise income tax rules and regulations, provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25% (2008:25%) on the assessable income of the Group.

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

	2009 RMB'000	2008 RMB'000 (Restated)
Profit before income tax from continuing operations	**386,756**	319,696
Tax calculated at the statutory tax rate of 25%	**96,689**	79,924
Preferential tax rates on the income of certain subsidiaries	**(36,791)**	(32,489)
Non-taxable income	**(18,498)**	(12,972)
Expenses not deductible for tax purposes	**9,397**	11,280
Tax losses for which no deferred income tax asset was recognised	**879**	1,617
Utilisation of previously unrecognised tax losses	**(3,166)**	—
Effect of changes in future tax rates	**341**	(2,119)
Others	**426**	(5,264)
Tax charge	**49,277**	39,977

(c) Share of taxation attributable to associates for the year ended 31st December 2009 is RMB11,121,000 (2008: RMB12,869,000 as restated).

11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The aggregate results and cash flows of the discontinued operations set out in Note 2(a) were as follows:

	2009	2008
	RMB'000	RMB'000
		(Restated)
Revenue	**10,958,986**	11,788,744
Expenses	**(10,444,671)**	(12,726,605)
Profit/(loss) before income tax	**514,315**	(937,861)
Income tax expense	**(142,658)**	(165,489)
Profit/(loss) from discontinued operations	**371,657**	(1,103,350)
Net cash generated from operating activities	**1,451,804**	850,764
Net cash used in investing activities	**(856,896)**	(678,642)
Net cash generated from financing activities	**532,452**	30,382
Net cash inflows	**1,127,360**	202,504

The assets/liabilities held for sale as at 31st December 2009 related to the proposed distribution set out in note 1(c) were as follows:

Assets classified as held for sale

	Group	**Company**
Property, plant and equipment	1,591,322	—
Land use rights	62,276	—
Interests in subsidiaries	—	795,213
Interests in associates	23,704	—
Deferred income tax assets	119,961	—
Accounts receivable	1,764,880	—
Advances to suppliers	79,359	—
Other receivables and prepayments	64,687	—
Inventories	1,314,691	—
Pledged deposits	205,754	—
Term deposits with initial term of over three months	1,281,248	—
Cash and cash equivalents	1,421,866	—
	7,929,748	795,213

11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

Liabilities directly associated with assets classified as held for sale

	Group	Company
Long-term borrowings	200,000	—
Accounts payable	2,014,966	—
Advances from customers	61,333	—
Other payables and accruals	947,897	—
Provisions	105,310	—
Short-term borrowings	694,318	—
Current income tax liabilities	141,932	—
	4,165,756	—

12 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit/(loss) attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a loss of RMB13,726,000 (2008: a profit of RMB 119,047,000).

13 EARNINGS/(LOSS) PER SHARE

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

	2009	2008
	RMB'000	RMB'000
		(Restated)
Profit/(loss) attributable to equity holders of the Company from		
- continuing operations	**172,046**	134,705
- discontinued operations	**(11,100)**	(1,197,389)
	160,946	(1,062,684)
Weighted average number of ordinary shares in issue (thousands)	**4,643,609**	4,643,609

There was no dilution effect on the basic earnings/(loss) per share for the years ended 31st December 2008 and 2009 as there were no potential dilutive shares outstanding during the years ended 31st December 2008 and 2009.

14 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2009	2008
	RMB'000	RMB'000
		(Restated)
Wages, salaries and bonuses	**468,342**	459,788
Housing benefits	**56,201**	55,175
Contributions to pension plans	**93,668**	91,958
Welfare and other expenses	**108,889**	106,901
	727,100	713,822

15 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 2009 and 2008 are set out below.

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

Notes:

(i) Appointed on 9th June 2009

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

(a) Directors' emoluments (continued)

	Year ended 31st December 2008				
Name of director	Fees	Basic salaries, housing allowance, other allowances and benefits in kind	Bonuses	Employer's contributions to retirement schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Lin Zuoming (note(ii))	—	30	—	—	30
Zhang Hongbiao(note(i))	—	150	—	—	150
Tan Ruisong	—	160	—	—	160
Wu Xiandong	—	160	—	—	160
Non-executive directors					
Gu Huizhong (note(ii))	20	—	—	—	20
Xu Zhanbin (note(ii))	20	—	—	—	20
Geng Ruguang (note(ii))	20	—	—	—	20
Zhang Xinguo (note(ii))	20	—	—	—	20
Li Fangyong (note(ii))	20	—	—	—	20
Wang Yong	35	—	—	—	35
Maurice Savart	—	—	—	—	—
Liang Zhenhe (note(i))	100	—	—	—	100
Song Jingang (note(i))	100	—	—	—	100
Tian Min (note(i))	100	—	—	—	100
Chen Huaiqiu (note(i))	100	—	—	—	100
Wang Bin (note(i))	100	—	—	—	100
Independent non-executive directors					
Lau Chungman	119	—	—	—	119
Guo Chongqing	60	—	—	—	60
Li Xianzong	60	—	—	—	60
	874	500	—	—	1,374

Notes:

(i) Resigned on 16th October 2008

(ii) Appointed on 16th October 2008

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

(b) Supervisors' emoluments

The emoluments of each of the supervisors of the Company for the years ended 31st December 2009 and 2008 are set out below.

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

Notes:

(i) Appointed on 9th June 2009

(ii) Resigned on 9th June 2009

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

(b) Supervisors' emoluments (continued)

	Year ended 31st December 2008				
Name of supervisor	Fees	Basic salaries, housing allowance, other allowances and benefits in kind	Bonuses	Employer's contributions to retirement schemes	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Supervisors					
Hu Wenming (note(ii))	27	—	—	—	27
Tang Jianguo	133	—	—	—	133
Li Yuhai (note(iv))	20	—	—	—	20
Gao Jianshe (note(iv))	20	—	—	—	20
Bai Ping	120	—	—	—	120
Yu Yan	—	—	—	—	—
Wang Yuming (note(ii))	4	—	—	—	4
Wang Shouxin (note(i))	100	—	—	—	100
Li Shentian (note(iii))	100	—	—	—	100
Han Xiaoyang (note(iii))	100	—	—	—	100
Li Deqing (note(i))	21	—	—	—	21
Independent supervisors					
Zheng Li	35	—	—	—	35
Xie Zhihua	35	—	—	—	35
	715	—	—	—	715

Notes:

(i) Resigned on 16th October 2008

(ii) Appointed on 16th October 2008

(iii) Resigned on 25th August 2008

(iv) Appointed on 25th August 2008

15 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	
	2009	2008
In the capacity as:		
Director	**5**	3
Supervisor	**—**	—
Senior management	**—**	2
	5	5

The five individuals whose emoluments were highest in the Group for the year included five (2008: three) directors/supervisors whose emoluments are reflected in the analyses presented above. The emoluments payable to the remaining two individuals during the year ended 31st December 2008 are as follows:

	2009	2008
	RMB'000	RMB'000
Basic salaries, housing allowance, other allowances and benefits in kind	**—**	280
Contributions to retirement schemes	**—**	—
	—	280

The emoluments fell within the following band:

	Number of individuals	
	2009	2008
Nil - RMB 881,900 (equivalent to HKD 1,000,000)	**—**	2

(d) No directors or supervisors of the Company waived any emoluments during the years ended 31st December 2008 and 2009. 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 (2008: Nil).

16 PROPERTY, PLANT AND EQUIPMENT

	Group				
	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture and fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost					
As at 1st January 2009	671,854	2,495,300	9,384,706	902,315	13,454,175
Additions	686,440	19,057	75,032	17,187	797,716
Transfer upon completion	(676,619)	197,597	449,562	29,460	—
Disposals/write-off	(1,593)	(16,065)	(7,013)	(42,290)	(66,961)
Distribution of automobile businesses (Notes 1(a) and (b))	(250,777)	(1,225,428)	(5,661,957)	(378,262)	(7,516,424)
Transfer to assets classified as held for sale (Note 1(c))	(185,533)	(517,903)	(3,041,021)	(82,576)	(3,827,033)
As at 31st December 2009	243,772	952,558	1,199,309	445,834	2,841,473
Accumulated depreciation and impairment					
As at 1st January 2009	—	771,478	5,156,164	460,723	6,388,365
Depreciation	—	57,618	599,703	55,507	712,828
Disposals/write-off	—	(13,389)	(3,198)	(29,650)	(46,237)
Distribution of automobile businesses (Notes 1(a) and (b))	—	(296,746)	(3,209,640)	(212,492)	(3,718,878)
Transfer to assets classified as held for sale (Note 1(c))	—	(169,132)	(2,008,365)	(58,214)	(2,235,711)
As at 31st December 2009	—	349,829	534,664	215,874	1,100,367
Net book value					
As at 31st December 2009	243,772	602,729	664,645	229,960	1,741,106

16 PROPERTY, PLANT AND EQUIPMENT (continued)

	Group				
	Construction in progress RMB'000 (Restated)	Buildings RMB'000 (Restated)	Plant and equipment RMB'000 (Restated)	Furniture and fixtures, other equipment and motor vehicles RMB'000 (Restated)	Total RMB'000 (Restated)
Cost					
As at 1st January 2008	540,495	2,176,232	9,314,436	852,598	12,883,761
Additions	725,018	218,147	32,455	19,831	995,451
Transfer upon completion	(588,632)	161,990	372,187	54,455	—
Disposals/write-off	(5,027)	(61,069)	(334,372)	(24,569)	(425,037)
As at 31st December 2008	671,854	2,495,300	9,384,706	902,315	13,454,175
Accumulated depreciation and impairment					
As at 1st January 2008	—	683,191	4,305,922	395,669	5,384,782
Depreciation	—	96,571	1,122,767	82,372	1,301,710
Disposals/write-off	—	(8,284)	(272,525)	(17,318)	(298,127)
As at 31st December 2008	—	771,478	5,156,164	460,723	6,388,365
Net book value					
As at 31st December 2008	671,854	1,723,822	4,228,542	441,592	7,065,810

16 PROPERTY, PLANT AND EQUIPMENT (continued)

	Company			
	Buildings RMB'000	Plant and equipment RMB'000	Furniture and fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost				
As at 1st January 2009	—	6,637	8,914	15,551
Additions	14,220	—	902	15,122
As at 31st December 2009	14,220	6,637	9,816	30,673
Accumulated depreciation and impairment				
As at 1st January 2009	—	3,958	4,805	8,763
Depreciation	38	138	871	1,047
As at 31st December 2009	38	4,096	5,676	9,810
Net book value				
As at 31st December 2009	14,182	2,541	4,140	20,863
Cost				
As at 1st January 2008	—	6,637	8,584	15,221
Additions	—	—	330	330
As at 31st December 2008	—	6,637	8,914	15,551
Accumulated depreciation and impairment				
As at 1st January 2008	—	3,630	4,178	7,808
Depreciation	—	328	627	955
As at 31st December 2008	—	3,958	4,805	8,763
Net book value				
As at 31st December 2008	—	2,679	4,109	6,788

16 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	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Property, plant and equipment pledged (Note 36(h))	**—**	507,134

(b) As at 31st December 2009, certain of the Group's property, plant and equipment with carrying value of approximately RMB292,979,000 (2008: RMB617,960,000) were situated on leasehold land in the PRC which are granted by AVIC for the Group's use at no cost or have been leased from certain fellow subsidiaries under long-term leases. The remaining period of the Group's rights on the leasehold land at 31st December 2009 ranged from 13 to 40 years (2008: 14 to 41 years).

17 INVESTMENT PROPERTIES

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Cost		
As at 1st January	**55,495**	60,960
Disposals	**—**	(5,465)
As at 31st December	**55,495**	55,495
Accumulated depreciation		
As at 1st January	**5,960**	5,581
Depreciation	**1,498**	1,795
Disposals	**—**	(1,416)
As at 31st December	**7,458**	5,960
Net book value		
As at 31st December	**48,037**	49,535
At valuation (note)	**48,652**	50,173

Note:

All investment properties are located in the PRC and their valuations as at 31st December 2009 and 2008 were determined on an open market value basis.

18 LAND USE RIGHTS

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Cost		
As at 1st January	**337,185**	220,576
Additions	**1,049**	116,609
Distribution of automobile businesses (Notes 1(a) and (b))	**(32,750)**	—
Transfer to assets classified as held for sale (Note 1(c))	**(84,879)**	—
As at 31st December	**220,605**	337,185
Accumulated amortisation		
As at 1st January	**53,257**	40,925
Amortisation	**13,285**	12,332
Distribution of automobile businesses (Notes 1(a) and (b))	**(11,337)**	—
Transfer to assets classified as held for sale (Note 1(c))	**(22,603)**	—
As at 31st December	**32,602**	53,257
Net book amount		
As at 31st December	**188,003**	283,928

19 INTANGIBLE ASSETS

	Group		
	Development costs RMB'000 (note (i))	Technology know-how RMB'000 (note (ii))	Total RMB'000
Cost			
As at 1st January 2009	**611,582**	**33,733**	**645,315**
Additions	**10,284**	**—**	**10,284**
Distribution of automobile businesses (Notes 1(a) and (b))	**(175,605)**	**(32,983)**	**(208,588)**
Transfer to assets classified as held for sale (Note 1(c))	**(222,244)**	**—**	**(222,244)**
As at 31st December 2009	**224,017**	**750**	**224,767**
Accumulated amortisation and impairment			
As at 1st January 2009	**394,625**	**9,876**	**404,501**
Amortisation	**3,224**	**1,725**	**4,949**
Distribution of automobile businesses (Notes 1(a) and (b))	**(175,605)**	**(11,470)**	**(187,075)**
Transfer to assets classified as held for sale (Note 1(c))	**(222,244)**	**—**	**(222,244)**
As at 31st December 2009	**—**	**131**	**131**
Net book amount			
As at 31st December 2009	**224,017**	**619**	**224,636**
	(Restated)	(Restated)	(Restated)
Cost			
As at 1st January 2008	781,629	33,733	815,362
Additions	1,201	—	1,201
Write-off (note (iii))	(171,248)	—	(171,248)
As at 31st December 2008	611,582	33,733	645,315
Accumulated amortisation and impairment			
As at 1st January 2008	477,643	5,355	482,998
Amortisation	54,361	4,521	58,882
Write-off (note (iii))	(137,379)	—	(137,379)
As at 31st December 2008	394,625	9,876	404,501
Net book amount			
As at 31st December 2008	216,957	23,857	240,814

19 INTANGIBLE ASSETS (continued)

Notes:

(i) The Group is in the process of developing a new model of aircraft. As at 31st December 2009, the aggregate amounts of development costs incurred by the Group amounted to RMB 201,486,000 (2008: RMB 201,486,000).

(ii) Technology know-how represents upfront license fees paid for acquiring technical details in connection with certain new automobile and engine models.

(iii) During 2008, management determined to write-off certain development costs for automobile segment as a result of a change in production plan based on the latest market conditions.

20 INTERESTS IN SUBSIDIARIES

	Company	
	2009	2008
	RMB'000	RMB'000
Investments, at cost		
- Shares listed in the PRC	**1,311,137**	2,168,509
- Unlisted investments	**552,483**	1,295,171
	1,863,620	3,463,680
Less: Provision for impairment losses	**—**	(491,794)
	1,863,620	2,971,886
Loans to subsidiaries (note)	**245,000**	535,000
	2,108,620	3,506,886
Market value of listed shares	**12,749,603**	4,819,142

Particulars of principal subsidiaries of the Group as at 31st December 2009 are set out in Note 44.

Note:

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

21 SHARE OF RESULTS OF / INTERESTS IN ASSOCIATES

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Share of net assets, as at 1st January	**330,968**	298,339
Share of results of associates		
- Profit before income tax	**44,484**	51,475
- Income tax expense	**(11,121)**	(12,869)
	33,363	38,606
	364,331	336,945
Dividends received from associates	**(3,699)**	(39,539)
New investments	**82,057**	44,675
Disposals	**—**	(11,113)
Distribution of automobile businesses (Note 1(a) and (b))	**(4,531)**	—
Transfer to assets classified as held for sale (Note 1(c))	**(21,031)**	—
Share of net assets, as at 31st December	**417,127**	330,968

	Company	
	2009	2008
	RMB'000	RMB'000
Unlisted investment, at cost	**72,090**	30,000

Particulars of principal associates of the Group as at 31st December 2009 are set out in Note 44.

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Listed equity securities, at fair value	**249,716**	167,378
Other investments, unlisted (note)	**68,635**	76,012
Less: Provision for impairment	**(300)**	(11,254)
	68,335	64,758
	318,051	232,136

Note:

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

23 DEFERRED INCOME TAXES

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

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

Deferred income tax assets:

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
As at 1st January	**98,464**	126,241
Credited/(charged)to consolidated income statement	**46,731**	(27,777)
Transfer to assets classified as held for sale (Note 1(c))	**(119,961)**	—
As at 31st December	**25,234**	98,464

Deferred income tax liabilities:

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
As at 1st January	**(36,949)**	(156,332)
Credited to consolidated income statement	**13,492**	14,704
(Charged)/credited to available-for-sale financial assets reserve	**(16,215)**	104,679
As at 31st December	**(39,672)**	(36,949)

23 DEFERRED INCOME TAXES (continued)

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

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Deferred income tax assets:		
Provision for impairment of receivables	**10,797**	10,328
Provision for impairment of inventories	**10,751**	10,085
Provision for warranty expense	**4,326**	31,582
Other temporary differences	**16,574**	61,080
	42,448	113,075
Deferred income tax liabilities:		
Development costs	**25,735**	32,011
Fair value changes on available-for-sale financial assets	**31,151**	15,069
Other temporary differences	**—**	4,480
	56,886	51,560
Total deferred income tax assets less total deferred income tax liabilities	**(14,438)**	61,515

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	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Representing:		
Deferred income tax assets	**25,234**	98,464
Deferred income tax liabilities	**(39,672)**	(36,949)
Total deferred income tax assets less total deferred income tax liabilities	**(14,438)**	61,515

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB 36 million (2008: RMB 654 million) in respect of tax losses amounting to approximately RMB 143 million (2008: RMB 2,616 million) that can be carried forward against future taxable income. These unrecognised tax losses are expiring within 5 years.

24 ACCOUNTS RECEIVABLE

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Trade receivables, gross (note (a))		
- Fellow subsidiaries and a jointly controlled entity (note (b))	**1,413,602**	1,752,639
- Other parties	**130,531**	1,153,770
	1,544,133	2,906,409
Less: Provision for impairment of receivables	**(72,485)**	(217,284)
	1,471,648	2,689,125
Notes receivable (note (c))		
- Fellow subsidiaries (Note 41(b))	**349,051**	548,415
- Other parties	**86,890**	672,656
	435,941	1,221,071
	1,907,589	3,910,196

Notes:

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

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Current to 1 year	**1,452,775**	2,649,567
1 year to 2 years	**25,333**	48,750
2 years to 3 years	**10,306**	11,643
Over 3 years	**55,719**	196,449
	1,544,133	2,906,409

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

24 ACCOUNTS RECEIVABLE (continued)

Notes: (continued)

As of 31st December 2009, trade receivables of RMB184,340,000 (2008: RMB 179,936,000 as restated) were past due but not impaired. These relate mainly to a number of customers in the aviation segment for whom there is no recent history of default. The ageing analysis of these past due but not impaired receivables is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000 (Restated)
Up to 1 year	**160,011**	132,977
1 year to 2 years	**24,329**	46,959
	184,340	179,936

As of 31st December 2009, trade receivables of RMB72,485,000 (2008: RMB 217,284,000 as restated) were impaired. The individually impaired receivables mainly relate to smaller customers which are in financial difficulties. The ageing of these impaired receivables is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000 (Restated)
Current to 1 year	**5,456**	7,401
1 year to 2 years	**1,004**	1,791
2 years to 3 years	**10,306**	11,643
Over 3 years	**55,719**	196,449
	72,485	217,284

24 ACCOUNTS RECEIVABLE (continued)

Notes: (continued)

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

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
At 1st January	**217,284**	237,844
Provision for impairment of accounts receivable	**33,438**	15,854
Unused amounts reversed	**(1,773)**	(17,283)
Write-off	**(965)**	(19,131)
Distribution of automobile businesses (Notes 1(a) and (b))	**(74,969)**	—
Transfer to assets classified as held for sale	**(100,530)**	—
At 31st December	**72,485**	217,284

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

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

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

(e) Certain trade receivables were pledged as security for bank loans (Note 36 (h)) as at 31 December 2009.

25 ADVANCES TO SUPPLIERS

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Advances to suppliers		
- Fellow subsidiaries and a jointly controlled entity (Note 41(b))	**122,265**	72,977
- Other parties	**135,984**	259,591
	258,249	332,568

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.

26 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Amounts due from customers for contract work (Note 28)	**123,683**	367,843	**—**	—
Dividends receivable from subsidiaries	**—**	—	**178,994**	178,994
Other advances to related companies (note)	**184,236**	253,162	**109,351**	—
Other receivables	**169,586**	384,618	**70,000**	—
Prepayments and deposits	**23,065**	73,098	**565**	14,023
Other current assets	**39,419**	117,321	**—**	—
	539,989	1,196,042	**358,910**	193,017

Note:

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

27 INVENTORIES

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Raw materials	**2,027,082**	2,529,697
Work in progress	**1,123,608**	1,180,636
Finished goods	**114,216**	1,619,179
Consumables	**57,415**	88,741
	3,322,321	5,418,253
Less: Provision for impairment losses	**(72,967)**	(153,629)
	3,249,354	5,264,624

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB 4,096,233,000 (2008: RMB4,015,562,000 as restated).

28 CONTRACTS IN PROGRESS

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Contracts in progress at balance sheet date:		
Amounts due from customers for contract work (Note 26)	**123,683**	367,843
Total of contract costs incurred and profits recognised to date	**3,066,660**	2,541,277

At 31st December 2009, no retentions were held by customers for contract work (2008: Nil).

29 PLEDGED DEPOSITS

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Renminbi denominated deposits	**58,904**	536,605

As at 31st December 2009, trade finance facilities utilised by the Group for issuing notes payable to its suppliers amounting to RMB417,683,000 (2008: RMB1,460,105,000 as restated) were secured by these pledged deposits (Note 31(c)).

Pledged deposits earn interest at rates ranging from 0.36% to 1.98 % (2008: 0.36% to 3.78% as restated). 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.

30 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

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

	Group		Company	
	2009	2008	**2009**	2008
Currency	**RMB'000**	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Renminbi *	**1,441,516**	1,299,424	**868,000**	670,000
Hong Kong Dollar	**—**	17,638	**—**	17,638
	1,441,516	1,317,062	**868,000**	687,638

The weighted average effective interest rates of the Group and the Company on term deposits with initial term of over three months were 2.20% (2008: 2.55%) and 2.13% (2008: 3.27%) per annum respectively.

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

31 ACCOUNTS PAYABLE

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Trade payables (note (a))		
– Fellow subsidiaries and a jointly controlled entity (note (b))	**640,572**	955,518
– Other parties	**1,517,315**	4,493,257
	2,157,887	5,448,775
Notes payable (note (c))		
– Fellow subsidiaries (Note 41 (b))	**511,014**	470,726
– Other parties	**271,316**	1,342,574
	782,330	1,813,300
	2,940,217	7,262,075

31 ACCOUNTS PAYABLE (continued)

Notes:

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

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Current to 1 year	**1,534,352**	4,937,086
1 year to 2 years	**466,141**	452,813
2 years to 3 years	**111,203**	6,281
Over 3 years	**46,191**	52,595
	2,157,887	5,448,775

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

(c) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months. As at 31st December 2009, notes payable of RMB 417,683,000 (2008: RMB 1,460,105,000) were secured by pledged deposits to the extent of RMB 58,904,000 (2008: RMB 536,605,000).

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

32 ADVANCES FROM CUSTOMERS

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Advances from customers		
– Fellow subsidiaries (Note 41(b))	**727,069**	359,672
– Other parties	**149,785**	335,773
	876,854	695,445

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

33 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Payable for property, plant and equipment				
– Fellow subsidiaries (note (i))	**19,239**	6,992	**—**	—
– Others	**2,775**	117,801	**—**	—
Wages, salaries and bonuses payables	**138,881**	303,481	**720**	623
Accrued expenses	**232,025**	330,951	**4,500**	4,824
Deferred income from government grants	**8,219**	85,457	**—**	—
Consumption tax, business tax and other taxes payable	**13,708**	30,625	**114**	13
Other advances (note (ii))				
– Ultimate holding company	**10,870**	2,940	**7,287**	9,420
– Fellow subsidiaries	**45,307**	303,144	**17,660**	15,891
Other current liabilities	**45,187**	290,135	**17**	—
	516,211	1,471,526	**30,298**	30,771

Notes:

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

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

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

34 AMOUNTS PAYABLE TO ULTIMATE HOLDING COMPANY

The amounts represent supplementary pension and housing subsidies payable to certain of the Group's former employees assumed by the ultimate holding company pursuant to the Reorganisation and upon the establishment of the Company. The Group is not obliged to any further liabilities to these former employees thereafter. These amounts due to ultimate holding company are unsecured, non-interest bearing and with no fixed repayment terms.

35 PROVISIONS

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
As at 1st January	**205,645**	174,948
Additional provisions	**65,758**	141,839
Utilised during the year	**(51,172)**	(111,142)
Distribution of automobile businesses (Notes 1(a) and (b))	**(86,083)**	—
Transfer to liabilities directly associated with assets classified as held for sale	**(105,310)**	—
As at 31st December	**28,838**	205,645

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.

36 BORROWINGS

	Group 2009 RMB'000	2008 RMB'000 (Restated)
Short-term borrowings		
Bank borrowings		
– Secured (note (h))	**330,000**	3,423,774
– Unsecured	**622,800**	1,091,630
	952,800	4,515,404
Other short-term borrowings		
– Secured (notes (c)(i) and (h))	**—**	100,000
– Unsecured (note (c)(ii))	**—**	338,000
	952,800	4,953,404
Current portion of long-term borrowings	**430,000**	728,000
	1,382,800	5,681,404
Long-term borrowings		
Bank borrowings		
– Secured (note (h))	**1,412,890**	1,457,390
– Unsecured	**—**	60,000
	1,412,890	1,517,390
Other borrowings		
– Secured (note (d)(i) and (h))	**108,628**	9,301
– Unsecured (note (d)(ii))	**—**	150,000
	108,628	159,301
	1,521,518	1,676,691
Less: Current portion of long-term borrowings	**(430,000)**	(728,000)
	1,091,518	948,691
Total borrowings	**2,474,318**	6,630,095

36 BORROWINGS *(continued)*

Notes:

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

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Wholly repayable within five years		
– Bank borrowings	**1,203,000**	1,231,500
– Other borrowings	**108,628**	150,000
	1,311,628	1,381,500
Not wholly repayable within five years		
– Bank borrowings	**209,890**	285,890
– Other borrowings	**—**	9,301
	209,890	295,191
	1,521,518	1,676,691

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

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Bank borrowings:		
– Within one year	**430,000**	578,000
– In the second year	**590,000**	374,500
– In the third to fifth year	**183,000**	279,000
– After the fifth year	**209,890**	285,890
	1,412,890	1,517,390
Other borrowings:		
– Within one year	**—**	150,000
– In the third to fifth year	**108,628**	—
– After the fifth year	**—**	9,301
	108,628	159,301
	1,521,518	1,676,691

36 BORROWINGS (continued)

Notes: (continued)

(c) (i) As at 31st December 2008, other short-term secured borrowings represented a loan granted by a fellow subsidiary of the Group which bore interest at 5% per annum and was repayable in full in 2009.

(ii) As at 31st December 2008, other short-term unsecured borrowings represented:

— loans of RMB 310,000,000 granted by certain unrelated parties of the Group which bore interest at 4% per annum and were repayable in full in 2009; and

— a loan of RMB10,000,000 granted by Shenzhen Finance Bureau to a subsidiary of the Group which was non-interest bearing and repayable on demand; and

— a loan of RMB18,000,000 granted by a fellow subsidiary of the Group which bore interest at 5% per annum and was repayable in full in 2009.

(d) Other long-term borrowings

(i) As at 31st December 2009 and 2008, other long-term secured borrowing represents loans granted by a fellow subsidiary of the Group which bear interest at 4% to 5% per annum and are repayable in 2012;

(ii) As at 31st December 2008, other long-term unsecured borrowings represented a loan granted by Shenzhen Finance Bureau to a subsidiary of the Group which was non-interest bearing and repayable on demand.

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

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Bank borrowings		
– Fixed rates	**1,225,800**	3,136,795
– Floating rates	**1,139,890**	2,895,999
	2,365,690	6,032,794
Other borrowings		
– Fixed rates	**108,628**	597,301
	2,474,318	6,630,095

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

	Group	
	2009	2008
Weighted average effective interest rates		
– Bank borrowings	**4%**	6%
– Other borrowings	**4%**	3%

36 BORROWINGS *(continued)*

Notes: (continued)

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

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Currency		
Renminbi	**2,465,690**	6,343,099
United States Dollar	**8,628**	139,751
Euro	**—**	48,295
Others	**—**	98,950
	2,474,318	6,630,095

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

	Group			
	Carrying amount		Fair value	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Bank borrowings	**982,890**	939,390	**941,204**	932,790
Other borrowings	**108,628**	9,301	**102,328**	5,582
	1,091,518	948,691	**1,043,532**	938,372

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristic as at the balance sheet dates. Such discount rates ranged from 5.40% to 5.94% as at 31st December 2009 (2008: 5.40% to 5.94%), depending on the type of the debt.

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

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Securities over the Group's assets, at carrying value		
– Property, plant and equipment, at net book value (Note 16(a))	**—**	507,134
– Accounts receivable (Note 24(e))	**23,165**	—
Guarantees provided by		
– Related companies (Note 41(c))	**751,518**	2,001,345
– Subsidiaries within the Group (cross guarantees)	**1,080,000**	2,788,120

36 BORROWINGS (continued)

Notes: (continued)

(i) As at 31st December 2009, the Group had the following undrawn committed borrowing facilities.

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
At floating rates		
– Expiring within one year	**1,000,200**	1,579,509
– Expiring beyond one year	**—**	200,000
	1,000,200	1,779,509

37 SHARE CAPITAL

	Company	
	2009	2008
	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

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

38 RESERVES

	Company			
	Capital reserve	Statutory surplus reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	(Note (b))	(Note (c))	(Note (d))	
Balance at 1st January 2009	(2,073)	31,178	(511,428)	(482,323)
Loss for the year	—	—	(13,726)	(13,726)
As at 31st December 2009	(2,073)	31,178	(525,154)	(496,049)
Balance at 1st January 2008	(2,073)	31,178	(630,475)	(601,370)
Profit for the year	—	—	119,047	119,047
As at 31st December 2008	(2,073)	31,178	(511,428)	(482,323)

38 RESERVES (continued)

Notes:

(a) Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 61 to 62.

(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 reserves arising from the issuance of additional shares by a subsidiary, capital contributions in associates and disposals to non-controlling interests without change in control (Note 38(e)).

(c) Statutory surplus reserve

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

(d) Retained earnings available for distribution

In accordance with the relevant PRC regulations and Articles of Association of the Company, retained earnings available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with the PRC GAAP and the amount determined in accordance with IFRS. As at 31st December 2008 and 2009, there were no retained earnings available for distribution under both PRC GAAP and IFRS.

(e) Disposal of certain interests in a subsidiary

During the year the Group disposed of an aggregate of 19,670,000 A shares of Dongan Motor representing 4.26% of its total share capital, at market price.

In accordance with the Group's accounting policy, transactions with non-controlling shareholders are dealt with in reserves. Accordingly, the aggregate effect on the gain on disposal of equity interests in Dongan Motor of approximately RMB121,716,000 was accounted for as an addition to the Group's equity in the consolidated financial statements for the year ended 31st December 2009.

In the Company's financial statements, the effect of disposal of the Company's directly owned equity interests in Dongan Motor totalling approximately RMB152,204,000 was credited directly to the Company's income statement for the year ended 31st December 2009.

39 CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from/(used in) operations of continuing operations:

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Profit before income tax	**386,756**	319,696
Adjustments for:		
Share of results of associates	**(33,363)**	(38,606)
Loss/(gain) on disposal of		
- Property, plant and equipment	**619**	6,453
- Associates	**—**	3
- Available-for-sale financial assets	**(62,225)**	(41,171)
Amortisation on		
- Intangible assets	**3,954**	3,759
- Land use rights	**5,457**	4,890
Depreciation on		
- Investment properties	**1,498**	1,795
- Property, plant and equipment	**131,931**	124,551
Provision for impairment		
- Inventories	**11,432**	7,673
- Receivables	**20,273**	15,958
Dividend income from available-for-sale financial assets	**(2,253)**	(2,428)
Interest income	**(45,694)**	(44,791)
Interest expense	**107,655**	124,497
	526,040	482,279
Changes in working capital:		
- Decrease/(increase) in accounts receivable	**253,872**	(975,188)
- Decrease/(increase) in advances to suppliers, other receivables and prepayments	**303,528**	(96,464)
- (Increase)/decrease in inventories	**(292,809)**	472,213
- Decrease in financial assets held for trading	**11,387**	—
- Increase/(decrease) in accounts payable	**30,698**	(17,583)
- Decrease in amounts payable to ultimate holding company	**(150,000)**	—
- Increase in advance from customers, other payables and accruals	**404,057**	9,369
- Increase in provisions	**5,253**	2,702
Net cash generated from/(used in) operations of continuing operations	**1,092,026**	(122,672)

39 CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Net book amount	**15,047**	31,012
Loss on sale of property, plant and equipment (Note 7)	**(619)**	(6,453)
Receivables from sale of property, plant and equipment	**(13,581)**	(23,127)
Proceeds from sale of property, plant and equipment	**847**	1,432

(c) Distribution of automobile businesses of Changhe Auto (Note 1(a)) and Harbin Automobile Group (Note 1(b)):

	Group	
	2009	2008
	RMB'000	RMB'000
Non-current assets	**3,875,106**	—
Current assets	**4,561,942**	—
Total assets	**8,437,048**	—
Total liabilities	**(10,103,739)**	—
Non-controlling interests	**101,765**	—
Net liabilities distributed	**(1,564,926)**	—
Total consideration	**110,351**	—
	1,675,277	—
Net cash outflow from distribution is determined as follows:		
Proceeds received	**1,000**	—
Less: cash and cash equivalents distributed	**(410,171)**	—
	(409,171)	—

39 CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Analysis of cash and cash equivalents

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Bank balances and cash	**1,858,628**	2,218,654	**203,460**	232,026
Term deposits with initial term of less than three months	**138,066**	200,000	**65,000**	—
	1,996,694	2,418,654	**268,460**	232,026

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Renminbi*	**1,937,089**	2,380,323	**255,519**	230,370
Other currencies	**59,605**	38,331	**12,941**	1,656
	1,996,694	2,418,654	**268,460**	232,026

The weighted average effective interest rate of the Group and the Company on term deposits with initial term of less than three months were 2% (2008: 2%) per annum. Bank balances earn interest at floating rates based on daily bank deposit rates.

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

40 COMMITMENTS

(a) Capital commitments

The Group and the Company have the following capital commitments not provided for as at 31st December 2009:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Acquisition of property, plant and equipment				
- Authorised but not contracted for	**21,350**	998,476	**—**	—
- Contracted but not provided for	**6,549**	313,690	**—**	—
	27,899	1,312,166	**—**	—
Construction commitments				
- Authorised but not contracted for	**31,000**	30,000	**—**	—
- Contracted but not provided for	**220**	13,012	**—**	—
	31,220	43,012	**—**	—
Investments in an associate				
- Contracted but not provided for	**122,908**	34,000	**61,454**	—
	182,027	1,389,178	**61,454**	—

40 COMMITMENTS (continued)

(b) Operating lease commitments

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases as at 31st December 2009:

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Land and buildings		
- Not later than one year	**12,829**	27,110
- Later than one year and not later than five years	**33,102**	39,690
- Later than five years	**57,928**	10,798
	103,859	77,598

Generally, the Group's operating leases are for terms of 1 to 20 years. The Company did not have any significant operating lease commitment as at 31st December 2009 (2008: Nil).

41 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

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

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

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

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(a) Significant transactions with related parties:

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Income		
Revenue from sale of goods and materials		
- Fellow subsidiaries	**4,873,080**	4,489,279
Income from rendering of services		
- Fellow subsidiaries	**11,786**	6,142
Expenses		
Purchases of goods and raw materials		
- Fellow subsidiaries	**2,210,166**	1,496,368
Service fees payable		
- Ultimate holding company	**8,298**	—
- Fellow subsidiaries	**89,086**	61,122
Rental expenses		
- Ultimate holding company	**5,132**	—
- Fellow subsidiaries	**22,051**	16,392
Key management compensations		
- Salaries, bonuses and other welfares	**4,863**	2,715

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

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Significant balances with related parties:

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Assets		
Trade receivables		
- Fellow subsidiaries	**1,413,602**	1,486,269
- A jointly controlled entity	**—**	266,370
Notes receivable		
- Fellow subsidiaries	**349,051**	548,415
Advances to suppliers		
- Fellow subsidiaries	**122,265**	72,073
- A jointly controlled entity	**—**	904
Other receivables and prepayments		
- Ultimate holding company	**4,816**	13,322
- Fellow subsidiaries	**179,420**	189,812
- A jointly controlled entity	**—**	50,028
Liabilities		
Trade payables		
- Fellow subsidiaries	**640,572**	937,953
- A jointly controlled entity	**—**	17,565
Notes payable		
- Fellow subsidiaries	**511,014**	470,726
Advances from customers		
- Fellow subsidiaries	**727,069**	359,672
Other payables and accruals		
- Ultimate holding company	**10,870**	2,940
- Fellow subsidiaries	**64,546**	310,136

41 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(c) Other items:

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Guarantees on bank loans granted to the Group from		
- Ultimate holding company	**402,890**	1,167,590
- Fellow subsidiaries	**348,628**	833,755

In addition, AVIC granted certain leasehold land for the Group's use at no cost, details of which are disclosed in Note 16(b).

42 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Interest-rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the bank deposits and cash and cash equivalents, details of which have been disclosed in Notes 29, 30 and 39(d). The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 36. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. As of 31st December 2009, 54% (2008: 56%) of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31st December 2009, if the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower than the prevailing rate announced by People's Bank of China, with all other variables held constant, profit for the year would have been RMB8,840,000 lower/higher.

42 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(ii) Price risk

The Group is principally exposed to equity securities price risk in respect of investments held by the Group which are classified as available-for-sale financial assets. Some of these financial assets are publicly traded in recognised stock exchanges. At 31st December 2009, if the quoted market price of these equity investments held by the Group had increased/decreased by 10%, with all other variables held constant, equity would have been RMB21,226,000 higher/lower as a result of the changes in fair value of available-for-sale financial assets.

(iii) Credit risk

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

92% (2008: 95%) of the Group's pledged deposits, term deposits and cash and cash equivalents are held in state-owned financial institutions, which management believes are of high credit quality. Most of the Group's available-for-sale financial assets and financial assets at fair value through profit or loss are also publicly traded in recognised stock exchanges. Management does not expect any losses from non-performance by these counterparties.

The Group has no significant concentrations of credit risk. The carrying amount of receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to these financial assets. Ageing analysis of the Group's accounts receivable is disclosed in Note 24. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally, the Group does not require collaterals from trade debtors. Management makes periodic collective assessment as well as individual assessment on the recoverability of account and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

42 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk

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

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

As at 31st December 2009, the net current assets of the Group amounted to RMB3,281,003,000 (2008: net current liabilities of RMB997,101,000 as restated). Management monitors regularly the Group's current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed banking facilities to meet its working capital requirements. The amount of undrawn credit facilities at the balance sheet date are disclosed in Note 36(i) to the financial statements. The directors believe that the Group's current operating cash flows and credit facilities from PRC banks are sufficient for financing its capital commitments in the near future and for working capital purposes.

42 FINANCIAL RISK MANAGEMENT (continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk (continued)

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31st December 2009				
Bank and other borrowings	**1,492,482**	**628,431**	**337,724**	**221,734**
Accounts and other payables	**3,456,428**	**—**	**—**	**—**
Amounts payable to ultimate holding company	**370,524**	**—**	**—**	**—**
At 31st December 2008 (restated)				
Bank and other borrowings	6,047,934	427,816	361,107	314,603
Accounts and other payables	8,733,601	—	—	—
Amounts payable to ultimate holding company	520,524	—	—	—
Company				
At 31st December 2009				
Other payables	**30,298**	**—**	**—**	**—**
Amounts payable to ultimate holding company	**314,298**	**—**	**—**	**—**
At 31st December 2008				
Other payables	30,771	—	—	—
Amounts payable to ultimate holding company	464,298	—	—	—

42 FINANCIAL RISK MANAGEMENT (continued)

(b) Capital risk management

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

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

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

The gearing ratios at 31st December 2009 and at 31st December 2008 were as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Total borrowings (Note 36)	**2,474,318**	6,630,095
Less: cash and cash equivalents (Note 39(d))	**(1,996,694)**	(2,418,654)
Net debt	**477,624**	4,211,441
Total equity	**8,826,973**	6,130,876
Total capital	**9,304,597**	10,342,317
Gearing ratio	**5%**	41%

The decrease in the gearing ratio during 2009 resulted primarily from the decrease in total borrowings as a result of the distribution of automobile businesses to holding company (Notes 1 (a) and (b)).

42 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation

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

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

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

43 SUBSEQUENT EVENTS

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

By applying the principles of merging accounting, the consolidated financial statements of the Group will include the financial positions, results and cash flows of JONHON Optronic as if it had been combined with the Group throughout the year ending 31st December 2010. Comparative figures as at 31st December 2009 and for the year then ended will be re-presented on the same basis. According to latest financial information of JONHON Optronic, it had total assets and total liabilities of approximately RMB 1,642 million and RMB 585 million respectively as at 30th September 2009, and recorded a revenue and net profit of approximately RMB 861 million and RMB 93 million respectively for the nine-month period then ended.

In addition, the difference between the consideration received by the Group and the carrying value of Dongan Motor being distributed to AVIC will be recognised in the equity of the Group as similar to the distributions of other automobile businesses to holding company.

43 SUBSEQUENT EVENTS (continued)

(b) On 10th March 2010, the Company issued 334,633,402 H Shares with par value of RMB 1 each at HK$3.40 per share, of which 29,217,402 H Shares issued in exchange of the Domestic Shares held by AVIC and 305,416,000 new H shares for placement to independent investors. The net proceeds of the placement was approximately RMB 0.9 billion.

(c) On 23rd March 2010, the Company and AVIC entered into equity acquisition agreements, pursuant to which AVIC will sell and the Company will acquire its entire 86.74% and 100% equity interests in Lanzhou Flight Control Co., Ltd. and Chengdu CAIC Electronics Co., Ltd. respectively, for an aggregate cash consideration of approximately RMB 908 million.

The acquisitions will be accounted for using merger accounting given that the Company, Lanzhou Flight Control Co., Ltd. and Chengdu CAIC Electronics Co., Ltd. are under common control of AVIC before and after the acquisitions. As at 31st December 2009, in aggregate, Lanzhou Flight Control Co., Ltd. and Chengdu CAIC Electronics Co., Ltd. had total assets and total liabilities of approximately RMB 1,765 million and RMB 966 million respectively, and recorded a revenue and net profit of RMB 654 million and RMB 80 million respectively for the year then ended.

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Subsidiaries				
Directly held				
Harbin Aviation Industry Group Ltd (哈爾濱航空工業（集團）有限責任公司)	RMB125,930,863	100%	Limited liability company	Manufacture and sale of general-purpose aeroplane and helicopter
Jiangxi Changhe Aviation Industry Company Limited (江西昌河航空工業有限公司)	RMB170,142,916	100%	Limited liability company	Manufacture and sale of general-purpose aeroplane and helicopter
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	RMB329,568,039	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	54.51%	Joint stock company (listed on the Shanghai Stock Exchange)	Manufacture and sale of automobile engine
China AVIC Avionics Equipment Co., Ltd. (中航航空電子設備股份有限公司) (previously known as Jiangxi Changhe Automobile Co.,Ltd (江西昌河汽車股份有限公司)	RMB484,625,174	49.93%	Joint stock company (listed on the Shanghai Stock Exchange)	Investment holding

44 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Indirectly held				
Hafei Aviation Industry Co., Ltd. (哈飛航空工業股份有限公司)	RMB300,393,899	50.05%	Joint stock company (listed on the Shanghai Stock Exchange)	Research, development, design, manufacture and sale of aero products, including parts and components
Harbin Dongan Automotive Engine Manufacturing Co., Ltd. (哈爾濱東安汽車發動機製造有限公司)	RMB450,888,750	34.62%	Equity joint venture	Manufacture and sale of automobile engines
Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司)	RMB60,000,000	49.93%	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Wanli Aviation Electric Co., Ltd. (蘭州萬里航空機電有限責任公司)	RMB173,542,800	49.93%	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories
Associates				
Indirectly held				
Harbin Embraer Aircraft Industry Co., Ltd. (哈爾濱安博威飛機工業有限公司)	USD25,000,000	36.76%	Limited liability company	Production of regional jets and provision of relevant sales and after-sale services
Harbin Hafei Airbus Composite Manufacturing Centre Manufacturing Company Limited. (哈爾濱哈飛空客複合材料製造中心有限公司)	RMB409,955,800	20%	Limited liability company	Production of commercial aircraft components and parts
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

Notes:

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

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

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

"Agusta"	Agusta S. p. A.
"Articles of Association"	Articles and Association of the Company (as amended from time to time)
"AVIC"	中國航空工業集團公司 (Aviation Industry Corporation of China), a controlling shareholder of the Company holding 61.06% equity interests of the Company as at 31st December 2009, it was established in the PRC after completion of the merger and reorganization of AVIC I and AVIC II
"AVIC Group"	AVIC and its subsidiaries (excluding the Group)
"AVIC II"	中國航空工業第二集團公司(China Aviation Industry Corporation II), a former controlling shareholder of the Company and the predecessor of AVIC
"AVIC I"	中國航空工業第一集團公司(China Aviation Industry Corporation I), the predecessor of AVIC
"AviChina", "the Company"	中國航空科技工業股份有限公司 (AviChina Industry & Technology Company Limited), a joint stock limited company established in the PRC with limited liability on 30th April 2003
"AVIC Avionics"	中航航空電子設備股份有限公司 (China AVIC Avionics Equipment Co.,Ltd.,) formerly named as Jiangxi Changhe Automobile Co.,Ltd., a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange with 49.93% of its equity interest being held directly by the Company
"Baoding Huide"	保定惠德風電工程有限公司(Baoding Huide Wind Power Engineering Co., Ltd.), a subsidiary with 8.34% of its interests being held by the Company
"Board" or "Board of Directors"	the board of directors of the Company
"Changhe Agusta"	江西昌河阿古斯直升機有限責任公司 (Jiangxi Changhe-Agusta Helicopter Co., Ltd.), a sino-foreign joint venture held as to 60% by Changhe Aviation and 40% by Agusta
"Changhe Auto"	江西昌河汽車股份有限公司(Jiangxi Changhe Automobile Co., Ltd.), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 49.93% of its interests being directly held by the Company, the name of Changhe Auto was changed into AVIC Avionics on 21st December 2009.
"Changhe Aviation"	江西昌河航空工業有限公司 (Jiangxi Changhe Aviation Industry Co., Ltd.), a wholly-owned subsidiary of the Company
"Directors"	the director(s) of the Company
"Domestic Shares"	ordinary shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi by PRC nationals and/or PRC corporate entities

"Dongan Engine"	哈爾濱東安汽車發動機製造有限公司(Harbin Dongan Automotive Engine Manufacturing Co., Ltd.), a sino-foreign joint venture with 36% and 15% of its interests being held by Dongan Motor and Harbin Aviation Group
"Dongan Motor"	哈爾濱東安汽車動力股份有限公司(Harbin Dongan Auto Engine Co., Ltd.), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 58.77% of its interests being held by the Company
"economy sedan"	sedans with a total engine capacity below 1.6 litres (excluding 1.6 litres) and basic sales price below RMB100,000
"Eurocopter"	a subsidiary of European Aeronautic Defence and Space Company ("EADS")
"Former AVIC"	中國航空工業總公司(Aviation Industry of China Corporation), the predecessor of AVIC I and AVIC II
"Group"	the Company and its subsidiaries
"H Shares"	overseas listed foreign invested shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are traded in Hong Kong dollars and listed on the Stock Exchange
"Hafei Auto"	哈汽車股份有限公司(Hafei Motor Co., Ltd.), a joint stock limited liability company with foreign investment which is held as to 74.81% by Harbin Automobile Group, a former wholly-owned subsidiary of the Company
"Hafei Aviation"	哈飛航空工業股份有限公司 (Hafei Aviation Industry Co., Ltd.), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 50.05% of its interests being held by Harbin Aviation Group
"Harbin Automobile Group"	哈爾濱哈飛汽車工業集團有限公司 (Harbin Hafei Automobile Industry Group Co., Ltd.), a former wholly-owned subsidiary of the Company
"Harbin Aviation Group"	哈爾濱航空工業（集團）有限公司(Harbin Aviation Industry (Group) Co., Ltd.), a wholly-owned subsidiary of the Company
"Harbin Embraer"	哈爾濱安博威飛機工業有限公司 (Harbin Embraer Aircraft Industry Co., Ltd.), a joint venture established in the PRC held as to 24.5% by Harbin Aviation Group, 24.5% by Hafei Aviation and 51% by Embraer-Empresa Brasileira de Aeronautica S.A. (Embraer)
"Hefei Changhe"	合肥昌河汽車有限責任公司 (Hefei Changhe Automobile Co., Ltd.), a wholly-owned subsidiary of Changhe Auto transferred from a former branch of Changhe Auto in May 2007
"Hongdu Aviation"	江西洪都航空工業股份有限公司(Jiangxi Hongdu Aviation Industry Co., Ltd.), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 55.29% of its interests being held by the Company

"Hongdu Group"	江西洪都航空工業（集團）有限責任公司 (Jiangxi Hongdu Aviation Industry Group Corporation), a wholly-owned subsidiary of AVIC
"JONHON Optronic"	中航光電科技股份有限公司(China Aviation Optical-Electrical Technology Co.,Ltd.,), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange with 43.34% of its equity interest being held directly by the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"mini-sized vehicles"	generally refers to mini-vans and mini-trucks with lengths not exceeding 3.5 metres, with engine capacity below 1.0 litre and total loading capability below 600 kilogrammes, according to "Motor Vehicles and Semi-trailer Types Terms and Definitions" (reference No.GB/T 3730-1-1998) issued by the China Association of Automobile Manufacturers. In recent years, the length of mini-sized vehicles was extended to 3.7 metres as a result of the implementation of the new anti-crash regulations
"Mitsubishi"	Mitsubishi Motor Corporation（三菱自動車工業株式會社）, a substantial shareholder of Dongan Engine
"Shares"	Domestic Shares and H Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisors"	the supervisor(s) of the Company
"Suzuki"	Suzuki Motor Corporation（日本國鈴木株式會社）, with 25.1% equity interests in Jiangxi Changhe Suzuki Automobile Co., Ltd.
"the Group"	AviChina and all or any of its subsidiaries
"the PRC"	People's Republic of China
"Trainer"	aeroplanes designed and used for pilot training purposes

BOARD OF DIRECTORS

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

SUPERVISORY COMMITTEE

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

SENIOR MANAGEMENT

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

THE LEGAL NAME OF THE COMPANY

中國航空科技工業股份有限公司
AviChina Industry & Technology Company Limited

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUTHORISED REPRESENTATIVES

Wu Xiandong   Yan Lingxi

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
No.55 Fuxingmen nei Street, Xicheng District,
Beijing, the PRC

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

China Construction Bank
No.25, Finance Street, Xicheng District,
Beijing, the PRC

Shanghai Pudong Development Bank Ltd.
No.500, Pudong South Road, Pudong New District,
Shanghai

PLACE OF LISTING, STOCK NAME AND STOCK CODE

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

REGISTERED ADDRESS

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

WEBSITE

www.avichina.com

CORRESPONDENCE ADDRESS

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E-mail Box: avichina@avichina.com

SHARE REGISTRAR

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2009 will be held on Wednesday, 19th May 2010 at 10:00 a.m. at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC.

AUDITORS

International Auditors

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

Auditors in the PRC

PricewaterhouseCoopers Zhong Tian CPAs Limited Company
11/F, PricewaterhouseCoopers Center,
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Shanghai 200021, the PRC

LEGAL ADVISERS

As to Hong Kong law

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88 Queensway,
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As to PRC law

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158 Fuxingmennei Street,
Xicheng District,
Beijing, the PRC