中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

Annual Results Announcement for the year ended 31 December 2010

and

Amendments to the Articles of Association

Financial Highlights

- Turnover of the comprehensive business (including continuing operations and discontinued operations) of the Group for 2010 amounted to RMB14,364 million, among which the turnover of continuing operations amounted to RMB8,013 million.
- Net profit of the comprehensive business of the Company for 2010 attributable to the equity holders amounted to RMB741 million, among which, net profit of the continuing operations attributable to the equity holders of the Company amounted to RMB359 million.
- The Board recommended the payment of a final dividend for the year ended 31 December 2010 in an aggregate amount of RMB49,490,245, equivalent to RMB0.01 per share (2009: Nil) based on the existing number of total issued Shares of 4,949,024,500 Shares as at the date of this announcement, subject to adjustment based on the number of total issued shares as at the Record Date as defined in the section headed "Final Dividend" below.

ANNUAL RESULTS

The board of directors (the "**Board**") of AviChina Industry & Technology Company Limited (the "**Company**") announces the audited consolidated annual results of the Company and its subsidiaries (collectively the "**Group**") prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2010, together with the comparative figures for the year 2009, as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
Continuing operations			
Revenue	3	8,013,319	5,654,450
Cost of sales		(6,562,287)	(4,467,281)
Gross profit		1,451,032	1,187,169
Other income	4	30,948	40,841
Other gains, net	5	97,650	76,851
Selling and distribution expenses		(77,000)	(50,788)
General and administrative expenses		(793,387)	(735,405)
Operating profit		709,243	518,668
Finance income	7	73,196	46,675
Finance costs	7	(101,977)	(115,036)
Finance costs, net		(28,781)	(68,361)
Share of results of associates		31,623	33,363
Profit before income tax		712,085	483,670
Income tax expense	8	(89,112)	(60,987)
Profit for the year from continuing operations		622,973	422,683

	Note		
Discontinued operations			
Profit for the year from discontinued operations	9	1,023,604	371,657
Profit for the year		1,646,577	794,340
Dividend	11	49,490	-
Attributable to:			
Equity holders of the Company		740,819	237,201
Non-controlling interests		905,758	557,139
		1,646,577	794,340
Basic and diluted earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company during the year from:			
		RMB	RMB
- continuing operations	12	0.073	0.053
- discontinued operations	12	0.078	(0.002)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

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

BALANCE SHEETS
AS AT 31 DECEMBER 2010

	Note	Group 2010 RMB'000	Group 2009 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		2,518,412	2,165,566
Investment properties		52,147	53,806
Land use rights		267,787	275,526
Intangible assets		232,735	224,636
Interests in associates		838,729	417,127
Available-for-sale financial assets		695,331	457,853
Deferred income tax assets		42,202	49,122
Total non-current assets		4,647,343	3,643,636
Current assets			
Accounts receivable	13	1,993,629	2,444,576
Advances to suppliers		392,878	320,176
Other receivables and prepayments		888,469	596,065
Inventories		4,629,099	3,414,363
Financial assets held for trading		–	101
Pledged deposits		64,659	85,114
Term deposits with initial term of over three months		2,464,852	1,441,516
Cash and cash equivalents		5,548,167	2,195,816
		15,981,753	10,497,727
Assets classified as held for sale	9	7,685,263	7,929,748
Total current assets		23,667,016	18,427,475
Total assets		28,314,359	22,071,111

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

NOTES TO THE FINANCIAL STATEMENTS

1 Organisation and principal activities

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

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

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

Reorganisation and change of structure of the Group

(a) On 4 November 2009, the Company and AVIC entered into an equity swap agreement, pursuant to which the Company agree to transfer to AVIC its entire 54.51% equity interests in Harbin Dongan Auto Engine Co., Ltd. ("**Dongan Motor**") which had been valued at approximately RMB 2.4 billion.

This consideration was to be satisfied by AVIC by:

- transferring its entire 43.34% equity interests in China Aviation Optical-Electrical Technology Co., Ltd. ("**JONHON Optronic**") being valued at approximately RMB 1.8 billion to the Company; and

- settling approximately RMB 0.6 billion in cash

This equity swap transaction has been completed on 18 March 2011.

(b) On 19 May 2010, the Company completed the acquisition from AVIC the entire 100% and 86.74% equity interests in AVIC Lanzhou Flight Control Co., Ltd. ("**AVIC Lanfei**") and Chengdu CAIC Electronics Co., Ltd. ("**AVIC Kaitian**") respectively, for an aggregate cash consideration of approximately RMB 0.9 billion.

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

(c) On 1 June 2010, China AVIC Avionics Equipment Co., Ltd. ("**AVIC Avionics**", a subsidiary of the Company), and the Company entered into a subscription agreement, pursuant to which AVIC Avionics agreed to issue and the Company agreed to subscribe approximately 124 million new shares of AVIC Avionics (equivalent to approximately RMB 0.9 billion). The share issuance would be satisfied by the Company transferring its then entire 100% and 86.74% equity interests in AVIC Lanfei and AVIC Kaitian respectively, being valued at an aggregate of approximately RMB 0.9 billion, to AVIC Avionics.

(d) On 1 June 2010, AVIC Avionics, AVIC and certain of AVIC's other subsidiaries entered into a subscription agreement, pursuant to which AVIC Avionics would issue and AVIC and certain of its other subsidiaries would subscribe an aggregate of approximately 213 million new shares of AVIC Avionics (equivalent to approximately RMB 1.6 billion). The share issuance would be satisfied by AVIC and certain of its other subsidiaries by transferring their entire 100%, 100%, 80% and 100% equity interests in Shaanxi Baocheng Aviation Instrument Co., Ltd. ("**Shaanxi Baocheng**"), AVIC Taiyuan Aviation Instrument Co., Ltd. ("**Taiyuan Instrument**"), AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. ("**Shaanxi Huayan**") and AVIC Shaanxi Qianshan Avionics Co., Ltd. ("**Qianshan Avionics**") respectively, being valued at an aggregate of approximately RMB1.6 billion, to AVIC Avionics.

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

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

(e) (i) On 30 June 2010, Jiangxi Hongdu Aviation Industry Co., Ltd. ("Hongdu Aviation", a subsidiary of the Company) issued approximately 95 million new shares to the Company, Jiangxi Hongdu Aviation Industry Group Co., Ltd. ("Hongdu Group'', another of AVIC's subsidiary), and other independent investors for an aggregate cash consideration of approximately RMB2.5 billion, in which approximately RMB 0.25 billion were subscribed by the Company. The balance of RMB 2.25 billion is accounted for as contributions from non-controlling shareholders of a subsidiary.

(ii) Further, during 2010 the Company disposed of an aggregate of approximately 10 million A shares of Hongdu Aviation at market price with net proceeds of approximately RMB 0.5 billion.

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

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

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

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

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

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

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

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

2 Basis of preparation and accounting policies

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.

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

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

By applying the principles of merger accounting, these consolidated financial statements of the Group also includes the financial positions, results and cash flows of AVIC Lanfei and AVIC Kaitian as if they had been combined with the Group throughout the two years ended 31 December 2010.Comparative figures as at 31 December 2009 and for the year then ended have been restated as a result of such. The cash consideration of approximately RMB 0.9 billion paid by the Company to AVIC was accounted for as a deemed distribution to holding company.

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

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

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

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

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

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

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

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

3 Segment information

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

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

- Aviation - manufacturing, assembly, sales and servicing of helicopters, trainers and other aircrafts ("entire aircrafts")

- Aviation – manufacturing and sales of aviation parts and components ("aviation parts & components")

- Automobiles - manufacturing, assembly, sales and servicing of automobiles and automobile engines

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

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

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

Reconciliation of segment results to profit for the year:

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

4 Other income

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

5 Other gains, net

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

6 Expenses by nature

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

7 Finance costs, net

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

8 Income tax expense

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

Notes:

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

9 Assets held for sale and discontinued operations

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

	2010	2009
	RMB'000	RMB'000
Revenue	6,351,052	10,958,986
Expenses	(5,197,595)	(10,444,671)
Profit before income tax	1,153,457	514,315
Income tax expense	(129,853)	(142,658)
Profit from discontinued operations	1,023,604	371,657

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

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

10 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB589,182,000 (2009: a loss of RMB 13,726,000).

11 Dividend

	2009	2010
	RMB'000	RMB'000
Final dividend, proposed of RMB 0.01* (2009:Nil) per share	49,490	—

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

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

12 Earnings/(loss) per share

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

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

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

13 Accounts receivable

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

Notes:

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

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

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

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

14 Accounts payable

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

Notes:

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY

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

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

In 2010, benefitting from the rapid growth in the aviation business, net profit from the comprehensive business of the Group attributable to the equity holders of the Company amounted to RMB 741 million, representing an increase of 212.66% as compared with that of last year, among which, net profit from the continuing operations attributable to the equity holders of the Company amounted to RMB359 million, representing an increase of 44.76% as compared with that of last year.

CONSOLIDATED OPERATING RESULTS

1. Composition of turnover (Comprehensive business)

The turnover of the comprehensive business of the Group for 2010 was RMB14,364 million, representing a decrease of 13.54% as compared with RMB 16,613 million in 2009.

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

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

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

2. Selling and distribution expenses (Continuing operations)

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

3. General and administrative expenses (Continuing operations)

The Group's general and administrative expenses for its continuing operations for 2010 amounted to RMB793 million, representing an increase of RMB58 million, or 7.89% as compared with RMB 735 million in 2009. The main reason was the increase in research and development expenses incurred during the year. The general and administrative expenses for the year 2010 accounted for 9.90% of the turnover, representing a decrease of 3.10% as compared with 13.00% in 2009.

4. Operating profit (Continuing operations)

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

5. Finance costs, net (Continuing operations)

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

6. Income tax expense (Continuing operations)

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

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

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

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

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

SEGMENT INFORMATION

AVIATION SEGMENT (Continuing operations)

Turnover

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

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

Gross Margin

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

Review and Outlook

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

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

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

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

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

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

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

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

As the civil aviation transportation industry in China will sustain a rapid development trend in 2011, the demand in the PRC civil aviation market will also increase. As the aviation industry is listed as a strategic industry in the China's Economic and Social Development in the 12th Five-year Plan ("**Twelfth Five-year**"), it will receive key support from the State Government. In addition, the acceleration of investments in the construction of civilian airport and the continuous improvement in the fundamental infrastructure for helicopter general aviation services will provide the Group with opportunities for sustainable development.

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

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

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

2. Target the production needs of PRC's self-produced civil aircraft C919, ARJ21 and general-purpose aircraft; the demands for helicopters, avionics and aviation components upon the establishment of aviation emergency rescue system; prepare well for project biddings, formation of R&D projects, and work for the fulfillments of the standards for airworthiness certifications and product delivery.
3. Continue to develop international cooperation and subcontract manufacturing, strengthen the cooperation in subcontract manufacturing with reputable aviation manufacturers such as SAFRAN in France and Goodrich Corporation in America and realize the integration with world advanced technologies, procedures, standards and business model, and push forward the joint venture cooperation with international aviation enterprises.
4. Improve and perfect the marketing network for helicopter sales; train up a professional helicopter marketing team; attract aviation product customers through various means such as financing, leasing, trusteeship and operating leases, with a focus on strengthening the liaisons and communications with local government at all levels to strive for breakthroughs in sales.
5. Seize favorable opportunities to actively seek for, plan and implement merger and acquisition projects domestically and overseas; and train professional talents to prepare for the mergers and acquisitions in and outside China.
6. Continue to adhere to the strategic plan of the Group and closely cooperate with AVIC to further perfect the industry chain of the Company.
7. Implement share incentive scheme in time and complete the first phase of granting of restricted shares upon the approval by the shareholders of the Company at the general meeting.
8. Strengthen various fundamental work and improve management capability. Reinforce internal control system of the Company and regulate the operation of the general meeting, the board and management system at the Company and subsidiaries level.

AUTOMOBILE SEGMENT (Discontinued operations)

Turnover

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

Gross Margin

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

Review and Outlook

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

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

CASH FLOW AND FINANCIAL RESOURCES

1. Liquidity and capital resources

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

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

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

Unit: RMB million (except percentage)

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

2. Operating, investing and financing activities

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

Net cash outflows used in investing activities of the comprehensive operations of the Group for the year 2010 increased by RMB 1,156 million or 54.40% as compared with that of 2009, among which, net cash outflows used in investing activities of continuing operations for the year increased by RMB647 million, which was mainly attributable to the following reasons: acquisition of certain aviation assets during the year; increase in external investments; and increase in term deposits with an initial term of over three months as compared to the closing balance of 2009.

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

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

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

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

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

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

GEARING RATIO

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

CONTINGENT LIABILITIES AND GUARANTEES

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

DESIGNATED DEPOSITS AND OVERDUE BUT UNRECOVERABLE FIXED DEPOSITS

As at 31 December 2010, there was no designated deposit nor overdue fixed deposit placed by the Group that could not be collected upon maturity.

GUARANTEED AND SECURED LOANS

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

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

EXCHANGE RATE RISKS

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

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

USE OF PROCEEDS

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

EMPLOYEES

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

Remuneration for employees of the Group is determined based on the principles of fairness, reasonableness and comparable standards with prevailing market benchmarks. Remuneration of employees comprises basic salary, contribution to a public housing fund and contributions to pension plans. The Group will also, in its discretion, pay year-end bonus to employees according to their respective performance. The Group also provides training on various professional and technical skills and management techniques to the professional departments of the headquarters of the Group and that of the subsidiaries. On-the-job trainings which covers corporate culture, management concepts and standardized management are also provided to new employees.

Employees breakdown (by business)

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

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

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of the Company ("**Shares**") for the year ended 31 December 2010.

MATERIAL ACQUISITIONS AND DISPOSAL DURING THE REPORTING YEAR

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

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

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

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

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

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

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

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

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

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

EVENTS AFTER THE REPORTING YEAR

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

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

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

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

SIGNIFICANT EVENT DURING THE REPORTING YEAR

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

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

As a result of the proposed issue of the Consideration Shares to AMES by the Company pursuant to the Tianjin Aviation Acquisition (please refer to the paragraphs under the heading "**Events after the reporting year**" above), the Board proposed to seek approval from the shareholders of the Company on (1) the proposed amendments to the following articles in the Articles of Association of the Company (the "**Articles of Association**") in respect of the change to the capital structure of the Company following completion of the Tianjin Aviation Acquisition; and (2) the grant of an authorisation to the Board to make all necessary amendments to the Articles of Association to reflect any change to the capital structure of the Company following completion of the Tianjin Aviation Acquisition and in accordance with the requirements of the relevant PRC authorities and the applicable PRC laws and regulations:

Article 16 of the Articles of Association is proposed to be changed to:

" Upon the approval of the securities regulatory authorities of the State Council, a total number of 1,679,800,500 shares of overseas listed foreign shares (including 1,527,090,000 shares issued by the Company, and 152,710,500 existing shares held by state-owned shareholder of the Company sold pursuant to the relevant requirements of the PRC regulations on reduction of state-owned shares, had been issued and sold after the establishment of the Company.

Upon the approval of the securities regulatory authorities of the State Council, the Company issued and sold 305,416,000 shares of overseas listed foreign shares on 10 March 2010 and Aviation Industry Corporation of China sold 29,217,402 existing shares pursuant to the relevant requirements of the PRC regulations on reduction of state-owned shares.

Upon the approval of the securities regulatory authorities of the State Council, the Company issued 182,344,533 Domestic Shares in 2011.

The current shareholding structure of the Company is: the total number of issued ordinary shares of the Company amounts to 5,131,369,033 shares, of which, Aviation Industry Corporation of China holds 2,806,088,233 shares, accounting for 54.69% of the total issued ordinary shares; AVIC Electromechanical Systems Company Limited holds 182,344,533 shares, accounting for 3.55% of the total issued ordinary shares; China Huarong Assets Management Corporation holds 99,488,927 shares, accounting for 1.94% of the total issued ordinary shares of the Company; China Cinda Assets Management Corporation holds 14,706,448 shares, accounting for 0.29% of the total issued ordinary shares of the Company; China Orient Assets Management Corporation holds 14,306,990 shares, accounting for 0.28% of the total issued ordinary shares of the Company; overseas listed foreign shareholders hold 2,014,433,902 shares, accounting for 39.25% of the total issued ordinary shares of the Company."

Article 19 of the Articles of Association is proposed to be changed to: "The registered capital of the Company is RMB5,131,369,033."

The above figures will be determined once the total number of the Consideration Shares issued to AMES by the Company has been confirmed.

FINAL DIVIDEND

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

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

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

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

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.

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

CORPORATE GORVENANCE

The Company has strictly complied with the applicable laws and regulations and the Articles of Association to standardize its operation. The Board reviewed the corporate governance practices adopted by the Company for the year ended 31 December 2010 and is of the view that the Company was in compliance with principles and code provisions set out in the Code on Corporate Governance Practices under the Hong Kong Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Hong Kong Listing Rules as its own guidelines for securities transactions by directors and supervisors of the Company. Upon specific enquiries with directors and supervisors, the Board confirms that all directors and supervisors of the Company complied with the Model Code under the Hong Kong Listing Rules for the year ended 31 December 2010.

THE ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2010 will be despatched to the shareholders of the Company and published on the websites of the Stock Exchange and the Company (http://www. avichina.com) in due course.

By order of the Board
AviChina Industry & Technology Company Limited*
Lin Zuoming
Chairman

Beijing, 29 March 2011

As at the date of this announcement, the Board comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and Mr. Wu Xiandong and non-executive directors Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Gao Jianshe, Mr. Li Fangyong, Mr. Chen Yuanxian, Mr. Wang Yong, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.

** For identification purpose only.*