ANNUAL REPORT
2011

AviChina

AVIC

AviChina Industry & Technology Company Limited

中国航空科技工业股份有限公司

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

(Stock Code: 2357)

Designed & Produced by **HeterMedia Services Limited**

Contents

Company Profile

AviChina Industry & Technology Company Limited (the "Company") is a joint stock limited company established in the People's Republic of China ("PRC") on 30 April 2003. The Company's H Shares have been listed on the Stock Exchange since 30 October 2003. The stock code of the Company is "2357". The principal shareholders of the Company's domestic shares are AVIC, AMES, 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 principally operates through its subsidiaries. The Company and its subsidiaries (the "Group") are mainly engaged in:

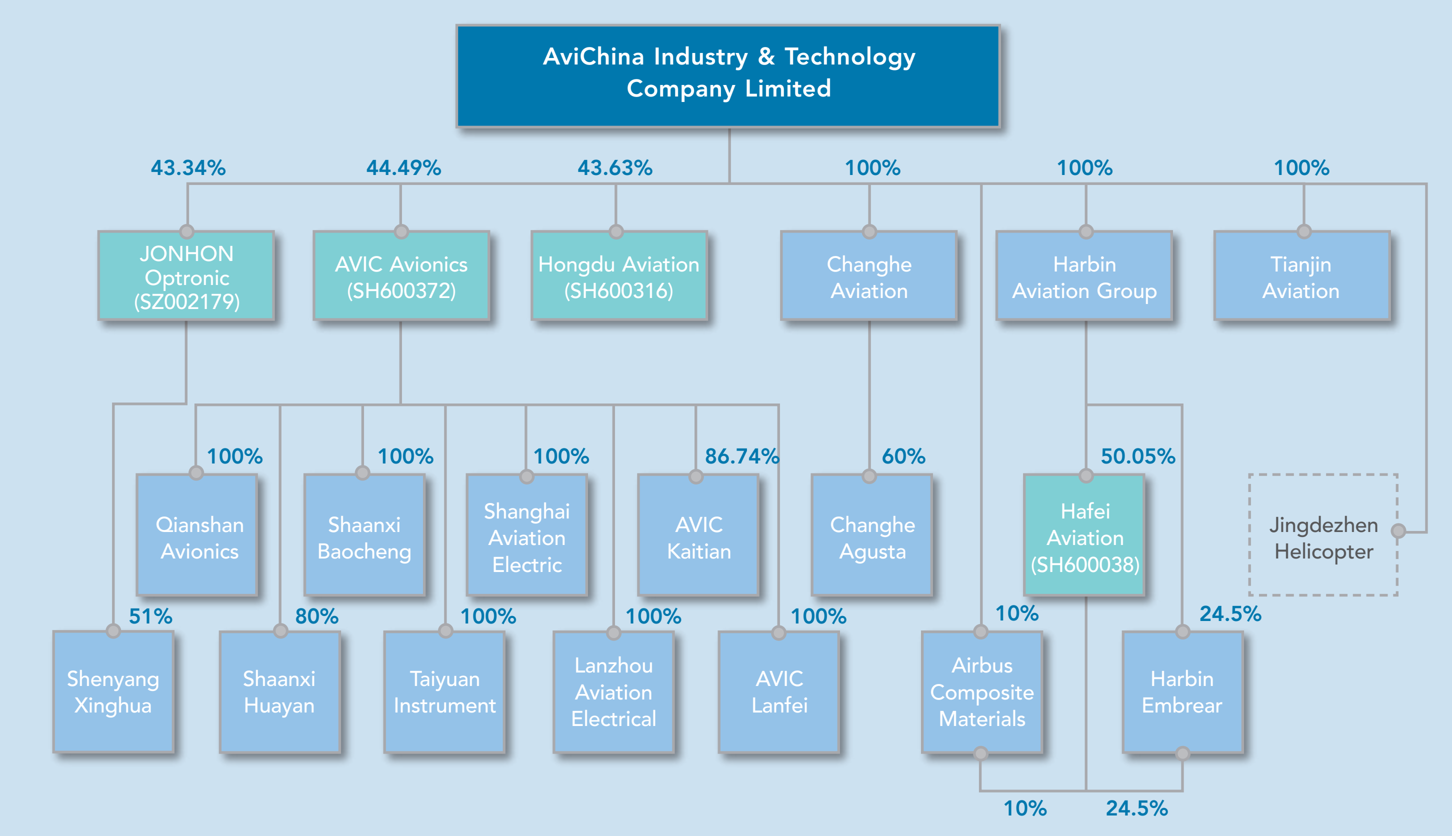
- the development, manufacture, sales and upgrade of aviation products such as helicopters, trainers, general-purpose aircraft and regional jets for domestic and overseas customers; and

- the co-development and manufacture of aviation products with foreign aviation products manufacturers.

PRINCIPAL PRODUCTS OF THE GROUP

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

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



Financial Highlights

CONSOLIDATED PROFIT AND LOSS (COMPREHENSIVE BUSINESS)

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

	For the year ended 31 December		
	2011	2010 (restated)	Changes
Revenue	13,765	17,324	(20.54%)
Profit before income tax	1,096	2,257	(51.44%)
Profit attributable to the equity holders of the Company	403	885	(54.46%)
Gross profit margin	20.25%	23.23%	(2.98%)
Earnings per share for profit attributable to the equity holders of the Company (RMB)			
–Basic	0.082	0.181	(54.70%)
–Diluted	0.082	0.181	(54.70%)

CONSOLIDATED ASSETS AND LIABILITIES

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

	As at 31 December		
	2011	2010 (restated)	Changes
Total assets	29,578	34,035	(13.10%)
Total liabilities	16,401	17,267	(5.02%)
Non-controlling interests	6,405	8,353	(23.32%)
Owner's equity (other than non-controlling interests)	6,772	8,416	(19.53%)

Financial Highlights

Financial information on the Group's comprehensive business in the recent five years starting from 1 January 2007 is summarized as follows:

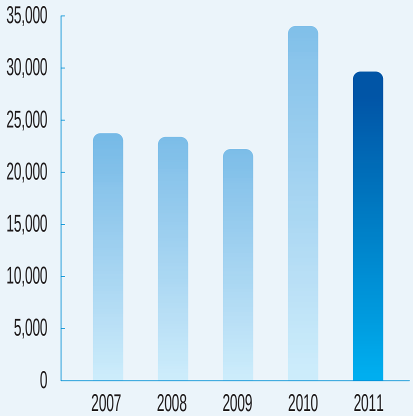
(Prepared under International Financial Reporting Standards)
(RMB million, other than basic and diluted earnings/(loss) per Share)

	As at 31 December/For the year ended 31 December				
	2011	2010 (restated)	2009 (restated)	2008 (restated)	2007 (restated)
Total assets	29,578	34,035	22,071	23,289	23,557
Total liabilities	16,401	17,267	12,464	17,158	16,422
Non-controlling interests	6,405	8,353	4,244	3,471	3,410
Owner's equity (other than non-controlling interests)	6,772	8,416	5,363	2,660	3,725
Revenue	13,765	17,324	16,613	16,768	16,884
Profit/(loss) before income tax	1,096	2,257	998	(618)	(718)
Profit/(loss) attributable to the equity holders of the Company	403	885	237	(1,063)	(993)
Gross profit margin	20.25%	23.23%	18.32%	10.31%	11.36%
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company (RMB)					
–Basic	0.082	0.181	0.051	(0.229)	(0.214)
–Diluted	0.082	0.181	0.051	(0.229)	(0.214)

Financial Highlights

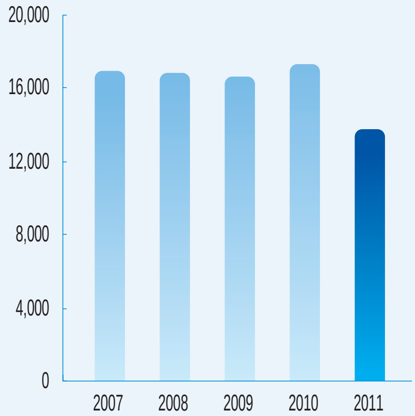
TOTAL ASSETS

(RMB million)



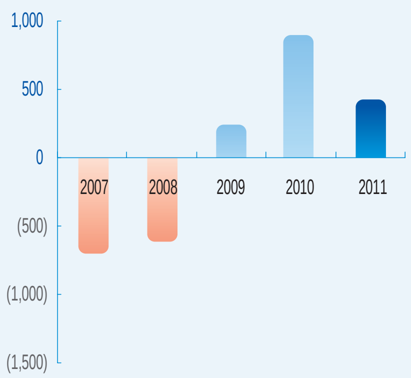
REVENUE FROM COMPREHENSIVE BUSINESS

(RMB million)



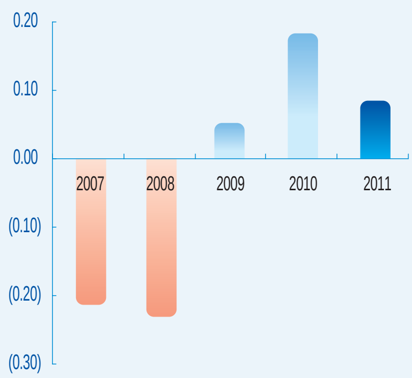
PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY (COMPREHENSIVE BUSINESS)

(RMB million)



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

(RMB)



Chairman's Statement

To all Shareholders,

I, on behalf of the Board, announce that in 2011, through a full year's endeavours by this Session of the Board in following the strategies of the Group, the hard work of the Board and members of its management team and upon the continuous expansion of the Company's aviation business having disposed of its automobile assets, the Company has achieved speedy growth in the revenue of its aviation products.

Chairman
Mr. Lin Zuoming

ANNUAL RESULTS

For the year ended 31 December 2011, the comprehensive business of the Group recorded a revenue of RMB13,765 million and the profit attributable to the equity holders of the Company amounted to RMB403 million.

BUSINESS REVIEW

Year 2011 was the 60th anniversary for the establishment of China aviation industry. Through 60 years of construction and development, China aviation industry has built up a stronger capacity which has been recognised by the PRC government as an strategic emerging industry in the "China's Economic and Social Development in the 12th Five-year Plan (the "Twelfth Five-year Plan"). The ranking of AVIC in Fortune Global 500 has climbed from 330 to 310. The rapid development of the aviation industry has also brought with it great impetus for growth for AviChina. In 2011, the Group's aviation products recorded a sales revenue of RMB12,901 million, representing an increase of 17.57% from that of 2010. The Company has successfully disposed of its automobile business, and completely transformed its business into aviation focused manufacturing. To further extend its aviation manufacture industry chain and to seek new focus for business growth, the Company continues to acquire aviation business assets from AVIC, resulting in a growing number of subsidiaries and rapid growth of revenue of its aviation product business. The Company has reformed its remuneration system by implementing a restricted share incentive scheme and making initial grants of H Shares to certain key management and technical staff of the Company and subsidiaries. Through the joint efforts

Chairman's Statement

of all staff, the Company fully participated in the research and manufacture tasks of aviation products. The Company also fully participated in the research and manufacture of China-made large aircraft with smooth progress in various research projects and production organizing work. The business of most of the subsidiaries of the Company has made good development, but since the aviation industry is characterised by a general slow down in profit growth before enjoying economies of scale, the Group has not yet achieved its targeted profit growth.

OUTLOOK

Through decades of cumulative developments, the domestic aviation manufacturing industry has developed unique advantages in terms of technologies, human resources and brand name. It has won the high confidence and trust of the government and its customers. The Company, by fully utilizing the advantages of the PRC government's policy support for the aviation industry, will speed up the acquisition of aviation business assets, further expand the scale of revenue from aviation products and speed up its growth. By grasping the new market opportunities brought by the opening up of low altitude airspace for development of general aviation, the Company will extend the quantity and scale of orders from non-government customers. By fully utilizing the overall advantages and synergies arising from the acquisition of avionics enterprises by AVIC Avionics, the Company will enlarge its production scale, improve its capabilities for research and development and its brand name influence. In view of the special features of the aviation industry, such as long industry chain, high technological contents, long investment period, wide industry scope, which are not common among other industries, the Group has to meet even greater challenges arising the pressure of meeting the dual targets of increasing revenue scale and profitability. We will endeavour to consolidate our product competitive edge, focus on developing the domestic and international markets, raise our market sales capabilities and assure the levels of our customer services.

In 2012, in accordance with the higher standards of regulatory requirements for listed companies, the Board and I will continue to strengthen our levels of corporate governance, further improve the composition and operation of various committees of the Board and refine the Company's development strategies with a view to increase our core competitiveness as our business target, and for our management to focus on strengthening the management and enhancing the quality and benefits of our development. Our staff and I have full confidence on our future. We will work hard to make the Company an aviation manufacturer of investment value.

ACKNOWLEDGMENT

Finally, as in the past, I on behalf of the Board would like to extend our gratitude to our Shareholders for their constant support on the Company's development. In addition, I would like to take this opportunity to express my appreciations for the hard work and contributions by the Company's operational management teams and staff over the past year.

Lin Zuoming
Chairman
Beijing, 27 March 2012

Management Discussion and Analysis

President
Mr. Tan Ruisong

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

SUMMARY

During the year of 2011, the Group continued to carry out business reorganization according to its strategic objectives. In March 2011, the equity swap of the Company's equity interest in Dongan Motor for equity interest in JONHON Optronic held by AVIC was completed, which marked the complete disposal of the Group's automobile business. In June 2011, the assets reorganization of AVIC Avionics involving the acquisition of avionics business was also completed. As the registration procedures for the share transfer of Dongan Motor and JONHON Optronic were completed in March 2011, the business of the Group during the reporting period still included the aviation segment ("continuing operations") and automobile segment (for two months only, "discontinued operations").

For the year ended 31 December 2011, the continuing operations of the Group recorded a revenue of RMB12, 901 million, representing an increase of 17.57% as compared with that in 2010. Profit from the continuing operations attributable to the equity holders of the Company amounted to RMB348 million, representing a decrease of 30.82% as compared with RMB503 million in the corresponding period of the preceding year.

For the year ended 31 December 2011, revenue from the discontinued operations amounted to RMB864 million and profit from the discontinued operations attributable to the equity holders of the Company amounted to RMB55 million. Due to the completion of the disposal of automobile engine business, the scope of consolidation of financial results changed accordingly, so that the discontinued operations only consolidated the results of the automobile engine business for the two months before the completion of reorganization of such business. Therefore, such results are not comparable with those in the preceding year.

The following diagrams show the comparison between the consolidated operating results of the Company for the year ended 31 December 2011 and that of 2010:

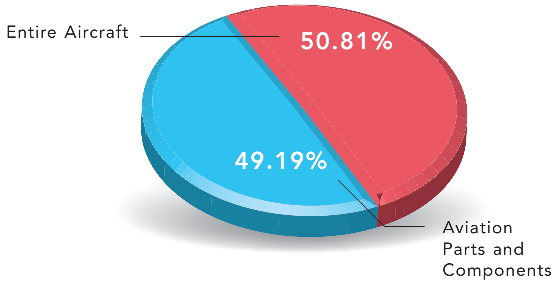
CONSOLIDATED OPERATING RESULTS

1 Composition of revenue

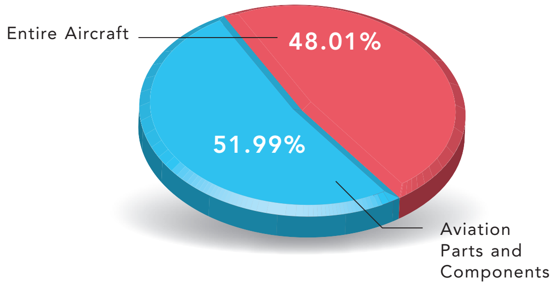
Comprehensive business

The revenue of the comprehensive business of the Group for 2011 was RMB13,765 million, representing a decrease of 20.54% as compared with RMB17,324 million in 2010. This is mainly attributable to the change in the scope of the consolidation of the financial results of the Group which only included the results for two months before the completion of reorganization of automobile engine business following disposal of the Group's automobile engine business.

Continuing operations



Revenue Composition of Aviation Segment in 2011



Revenue Composition of Aviation Segment in 2010

The revenue of the Group's continuing operations in 2011 was RMB12,901 million, representing an increase of 17.57% as compared to RMB10,973 million in 2010. Among that, the revenue of the Group's entire aircraft business amounted to RMB6,555 million, representing an increase of RMB1,287 million, or 24.43% as compared with RMB5,268 million in the preceding year and accounting for 50.81% of the total revenue of the aviation segment which is mainly due to the rapid increase of helicopter business. The revenue of the Group's aviation parts and components business amounted to RMB6,346 million, representing an increase of RMB641 million, or 11.24% as compared with RMB5,705 million in the preceding year and accounting for 49.19% of the total revenue of the aviation segment which is mainly due to the increase in the avionics business.

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

2 Selling and distribution expenses (Continuing operations)

The Group's sales and distribution expenses for its continuing operations for 2011 amounted to RMB267 million, representing an increase of RMB39 million, or 17.11% as compared with RMB228 million recorded in 2010. Such increase is mainly attributable to the increase of transportation expenses and salary of sales personnel with the growth of the sales revenue. The sales and distribution expenses accounted for 2.07% of the revenue of the continuing operations for the year 2011, which is similar to that in 2010.

3 General and administrative expenses (Continuing operations)

The Group's general and administrative expenses for its continuing operations for 2011 amounted to RMB1,445 million, representing an increase of RMB175 million, or 13.78% as compared with RMB1,270 million recorded in 2010. This is mainly attributable to the increase in labor costs and research and development expenses. The general and administrative expenses for the year 2011 accounted for 11.20% of the total revenue of the continuing operations, representing a decrease of 0.37 percentage points as compared with 11.57% in 2010.

4 Operating profit (Continuing operations)

The operating profit derived from the continuing operations of the Group for 2011 amounted to RMB991 million, representing a decrease of RMB134 million, or 11.91% as compared to that of RMB1,125 million in 2010. This was mainly attributable to the growth in the labor costs, costs of raw materials and research and development expenses incurred during the year.

5 Finance costs, net (Continuing operations)

The Group's net finance costs for its continuing operations in 2011 amounted to RMB37 million, representing a decrease of RMB16 million, or 30.19% as compared with that of RMB53 million in 2010. This was mainly attributable to the increase in interest income as a result of the increase in our bank deposits. Please refer to note 9 to the financial statements for details.

6 Income tax expense (Continuing operations)

The Group's income tax for its continuing operations in 2011 was RMB143 million, representing a decrease of RMB2 million, or 1.38% from RMB145 million in 2010 which is similar to that in the preceding year. Please refer to note 10 to the financial statements for details.

7 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 RMB403 million in 2011, representing a decrease of RMB482 million over RMB885 million recorded in 2010. The main reason is (1) the change in the scope of the consolidation of the financial results of the Group which only included the results for two months before the completion of reorganization of automobile engine business following disposal of the Group's automobile engine business resulted the decrease of the profit from discontinued operations attributable to the equity holders of the Company; and (2) profit from continuing operations attributable to the equity holders of the Company also decreased as compared with that in the corresponding period of the preceding year.

Continuing operations

The continuing operations of the Group recorded a profit attributable to the equity holders of the Company of RMB348 million in 2011, representing a decrease of RMB155 million, or 30.82% as compared with RMB503 million recorded in 2010. The main reasons include (1) trainer aircraft business of the Group saw a decrease in profit during the transition period where the demand for our existing products appeared to be decreasing while our new upgraded products have not achieved mass production; (2) the increase of the costs (such as price for raw materials and labor costs) resulted in the decrease in the comprehensive gross profit margin; and (3) Harbin Embraer, an associated company of the Group suffered a loss due to its lack of orders for its existing product ERJ145 while its planned executive jet failed to put into production.

GUARANTEED AND SECURED LOANS

As at 31 December 2011, the Group's total borrowings amounted to RMB3,058 million, of which RMB231 million was secured by receivables with a net book value of RMB320 million.

Borrowings placed under guarantees amounted to RMB779 million, of which RMB750 million represented guarantees amongst the members of the Group and RMB29 million represented guarantees provided by AVIC and its subsidiaries.

EXCHANGE RATE RISKS

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

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

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2011, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

CASH FLOW AND FINANCIAL RESOURCES

1. Liquidity and capital resources

As at 31 December 2011, the Group's net cash and cash equivalents amounted to RMB6,188 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 2011 and 2010 were as follows:

Unit: RMB million (except percentage)

Main items of cash flow	2011	2010 (restated)	Changes (amount)	Changes (percentage)
Net cash generated from operating activities	93	3,470	(3,377)	(97.32%)
of which: Net cash generated from continuing operations	229	2,471	(2,242)	(90.73%)
Net cash used in investing activities	(604)	(3,921)	3,317	(84.60%)
of which: Net cash used in continuing operations	(652)	(2,555)	1,903	(74.48%)
Net cash (used in)/generated from financing activities	(201)	2,449	(2,650)	N/A
of which: Net cash (used in)/generated from continuing operation	(150)	3,004	(3,154)	N/A
Net (decrease)/increase in cash and cash equivalents	(712)	1,998	(2,710)	N/A

2. Operating, investing and financing activities

Net cash inflows generated from operating activities of the comprehensive operations of the Group for the year 2011 decreased by RMB3,377 million or 97.32% as compared with that of 2010, among which, net cash inflows generated from the continuing operations for the year 2011 decreased by RMB2,242 million as compared with that of 2010, which was mainly due to the significant increase in inventories and receivables as at the ending of the reporting period.

Net cash outflows used in investing activities of the comprehensive operations of the Group for the year 2011 decreased by RMB3,317 million or 84.60% as compared with that of 2010, among which, net cash outflows used in investing activities of continuing operations for the year decreased by RMB1,903 million, which was mainly attributable to the return of part of the term deposits with an initial term of over three months in 2010 during the reporting period.

Net cash inflows generated from financing activities of the comprehensive operations of the Group for the year 2011 decreased by RMB2,650 million as compared with that in 2010, among which, net cash inflows generated from financing activities of continuing operations decreased by RMB3,154 million as compared with that of 2010. The main reason was the inflows from the placing of new shares by the Company and the fund raising proceeds through the issuance of shares by subsidiaries of the Company in 2010 as compared to none in the reporting period.

As at 31 December 2011, the total borrowings of the Group amounted to RMB3,058 million, of which the short-term borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB1,636 million, RMB251 million and RMB1,171 million, respectively.

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

Maturity	RMB million
Within one year	251
In the second year	573
In the third to fifth year	215
After the fifth year	383
Total	1,422

As at 31 December 2011, the Group's bank borrowings amounted to RMB1,770 million with a weighted average interest rate of 6% per annum, accounting for 57.88% of the total borrowings. Other borrowings amounted to RMB1,288 million with a weighted average interest rate of 4%, accounting for 42.12% of the total borrowings.

As at 31 December 2011, there were no borrowings denominated in foreign currencies.

GEARING RATIO

As at 31 December 2011, the Group's gearing ratio was 10.34% (31 December 2010: 8.90% as restated), which was arrived at by dividing the total borrowings by total assets as at 31 December 2011.

SEGMENT INFORMATION

The Group's principal operations used to comprise two segments, namely the aviation segment and the automobile segment, of which the automobile segment of the Group was disposed of in March 2011 and will not be covered in the analysis and discussion during this reporting period.

The Group's aviation segment can be divided into the entire aircraft business and aviation parts and components business.

AVIATION SEGMENT (CONTINUING OPERATIONS)
ENTIRE AIRCRAFT BUSINESS

Revenue

The Group's revenue derived from entire aircraft products for 2011 was RMB6,555 million, representing an increase of 24.43% over that of 2010 which was mainly attributable to the increase in helicopter business. The revenue derived from helicopter business amounted to RMB5,557 million, representing an increase of RMB1,160 million, or 26.38% compared to that of the corresponding period in 2010 and accounting for 84.77% of the entire revenue deriving from the entire aircraft business.

The revenue from the entire aircraft products of the Group in 2011 accounted for 50.81% of the total revenue from aviation segment, representing an increase of 2.8 percentage points as compared with that in the corresponding period of the proceeding year.

Gross Margin

Gross margin of the Group's entire aircraft business for 2011 was 8.38%, representing a decrease of 3.89 percentage points as compared to that in 2010. This was mainly attributable to the factors including the shift in products sale structure, rise in raw materials prices and labor costs.

AVIATION PARTS AND COMPONENTS BUSINESS

Revenue

The Group's revenue derived from aviation parts and components for 2011 was RMB6,346 million, representing an increase of 11.24% over that of 2010 which was mainly attributable to the increase in avionics products. Among the revenue derived from aviation parts and components, revenue derived from avionics products amounted to RMB4,810 million, representing an increase of RMB536 million, or 12.54% compared to that of the corresponding period in 2010 and accounting for 75.80% of the total revenue from aviation parts and components.

The revenue derived from aviation parts and components products for 2011 accounted for 49.19% of the total revenue from aviation segment which is 2.8 percentage points lower than that in the corresponding period of the preceding year.

Gross Margin

Gross margin of the Group's aviation parts and components business for 2011 was 32%, which is similar to that in 2010.

Business Review and Outlook

Global economy growth slowed down in 2011. At the beginning year of Twelfth Five-year Plan, the PRC government managed to adjust and improve the economic development measures and launched macro-control policies to control inflation in a timely manner. China's aviation industry, being one of the strategic new industries recognized by the PRC government in the Twelfth Five-year Plan, actively carried out integrations and developments. The development pattern of the industry featured "completed industry chain" and "completed value chain" has been largely formed. AVIC, the controlling shareholder of the Company, ranked among Fortune Global 500 for the third consecutive year.

As a flagship manufacturer in China's aviation industry with its shares listed overseas, the Company was enrolled in the constituent stock of MSCI China Index of MSCI Global Standard Indices by Morgan Stanley Capital International. This has further enhanced the Company's position in the international capital market.

In 2011, the Company continued to adhere to the strategy formulated by the Board, actively pushed forward business reorganization and capital operations. The equity swap of the Company's equity interest in Dongan Motor for equity interest of AVIC in JONHON Optronic was completed, following which the Company has disposed of its automobile business and will focus on the development of its aviation business.

The issue of new shares and the acquisition of avionics assets of AVIC Avionics were also completed in the first half of 2011 and the issue of new domestic shares to acquire Tianjin Aviation Mechanical and Electrical Co., Ltd. ("Tianjin Aviation") has also been completed as of the date of this report, following which the Company's business expanded to include aviation mechanical and electrical business. The industry chain of the aviation parts and components business expects to achieve further perfection and optimization.

Management Discussion and Analysis

In order to deepen the reform of the Company's remuneration system, to maximize the initiative of the senior management and key employees, and to support the realization of the Company's strategies and sustainable development, the Company, as one of the first batch of pilot H-Share enterprises approved to implement the restricted share incentive scheme, implemented the initial grant of the restricted share incentive scheme by granting 37,013,900 restricted shares to 149 scheme participants in March 2011.

In the first half of 2011, the Group continued to expand its market. The 49th International Paris Air Show was successfully held and AVIC participated in the exhibition with the theme of "Integration into the International Aviation Industry Chain". AVIC presented the improvement of China aviation industry in its whole strength in technology innovation and demonstrated the latest achievements in its integration into the international aviation industry chain. During the year, the 12th Dubai Airshow, the 14th Beijing Aviation Expo, the First Tianjin Helicopter Exposition and the tenth Moscow International Aviation and Space Salon were held in succession with various products of the Group exhibited which expanded the market influence of the products of the Group and laid the foundation for further expansion into the global market.

During the year, the Group persisted in boosting the research, development and manufacture of helicopter products. The sales volume of helicopter steadily improved during the reporting period. In May 2011, Hafei Aviation Industry Co., Ltd. ("Hafei Aviation") entered into an agreement with China National Aero-Technology Import & Export Corporation for the purchase of Z9 series helicopters, pursuant to which the sales and export of 30 Z9 series helicopters will be completed in the coming 5 years. Also benefiting from the rapid development of general aviation, helicopter orders have also demonstrated a growing trend.

The Company continued to strengthen the development of trainer aircraft products to consolidate its market position as a manufacturer of trainer products in China. During the year, the structure design of the 6th L15 advanced trainer aircraft was successfully completed. K8 trainer successful made its test flight in plateau demonstrating good flight performance in plateau areas. The flight tests of 10 K8 trainers of Jiangxi Hongdu Aviation Industry Co., Ltd. ("Hongdu Aviation") for export were also completed. New model of primary trainer, of which the Group participated in the research and manufacturing, has received the Certificate of Airworthiness granted by Civil Aviation Administration of China.

Research and manufacturing of general purpose aircraft of the Company also made progress. During the year, new model of Y-12 aircraft entered into the final assembly manufacturing process. Delivery of Y-12E was smoothly made to Seychelles, Namibia and other domestic customers. Research and manufacturing of N-5 series agriculture-forestry aircraft also made smooth progress.

In 2011, the Group actively promoted international cooperation projects. AVIC and Embraer S.A. entered into a framework cooperation agreement, pursuant to which Harbin Embraer, a company in which the Group has investment, will provide plant, equipment and staff for the assembling and manufacturing of the executive jet Legacy 600/650. In addition, Harbin Hafei Airbus Composite Materials Manufacture Centre Company Limited, a company in which the Group has investment, also completed the plant establishment during the first half of 2011 and signed an agreement with Airbus, following which, the production volume of Airbus A320 series aircraft rudders will gradually increase. In July 2011, Harbin Hafei Airbus Composite Materials Manufacture Centre Company Limited was awarded a supplier certification for rudder of single aisle aircraft and delivered first rudder to Airbus. A350XWB work package has been launched and has entered the preparatory stage for production.

During 2011, overseas products deliveries went on smoothly. Hafei Aviation delivered wing-body fairing and its accessories for Boeing 787 to Boeing and cooperative production of EC-120 was also completed as planned. Hongdu Aviation was officially granted a new certification for special handicraft of manufacturing of parts and components.

With the injection and integration of avionics business into the Group, research and development on avionics products had made breakthroughs getting batch orders in fields of aviation and aerospace. International cooperation in respect of avionics was carried out continuously including cooperative manufacture of world top-level sensors and air data system and instrument. Through participating in the joint design of C919 project of Commercial Aircraft Corporation of China, Ltd., system integration products of JONHON Optronic was included in the supplier list approved by Final Assembly Manufacturing Center of Commercial Aircraft Corporation of China, Ltd and becoming one of the ancillary research and manufacturing companies for state-produced large scale aircraft.

In 2012, facing the risk of global economy set-back and volatility and the increasing pressure in domestic economy, China aviation industry is still believed to be in the period of fast growth with strategical opportunities. With opportunities and challenges domestically and overseas, the Group will seize the opportunities and face the challenges by actively adopting the following plans:

1. To consolidate current market share of helicopters, general-purpose aircraft and trainers and to actively penetrate the new products market in light of the new market application;

2. To improve products quality, innovate systematical procedure and raise economic efficiency;

3. To strengthen the technical level through international cooperation to realize the integration with world-class technologies, procedures, standards and business model;

4. To enhance research and development capabilities to develop new series products to push the development of new aviation special technologies application;

5. To quickly perfect products marketing and react-and-respond capability in customer services;

6. To improve the management level to gradually achieve an operation with balanced production, high-efficiency output and low-costs capabilities;

7. To continue the Group's strategic plan in utilizing proceeds from fund raising activities to acquire aviation businesses, accelerate the industrial development of completed industry chain and completed value chain, boost the synergy effect of industrial development and create significant development strength and competitive advantages.

Orders for Aviation Products

As at the date of this report, the Group has received orders for 185 helicopters, 158 trainers, 22 general aeroplanes. The Group is endeavoring to get more orders for its aviation products.

USE OF PROCEEDS

Up to 31 December 2011, a total of RMB2,067 million of the proceeds raised from the fund raising activities (including the proceeds raised from the placing conducted in March 2010) has been used in the manufacturing, 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 2011, the Group had 34,142 employees. The Group has provided appropriate emoluments, benefits and training to its employees.

Employees breakdown (by business segments)

	Number of employees	Percentage to total number of employees (%)
Aviation	34,072	99.79
Entire Aircraft business	17,112	50.12
Parts and components business	16,960	49.67
Other businesses	70	0.21
Total	34,142	100

For the year ended 31 December 2011, total staff costs amounted to RMB2,290 million, representing an increase of RMB457 million as compared to that of RMB1,833 million (as restated) in 2010.

REMUNERATION OF EMPLOYEES

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

TRAINING FOR EMPLOYEES

The Group expects a high level of knowledge and skill in respect of the aviation manufacturing industry from its employees. Therefore, implementation of comprehensive employee training is 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 2011, the Group actively established new training system to extend domestic and overseas training channels and reconstruct training mechanism and system to cooperate the various businesses. Through adoption of relevant management system and resource matching mechanism, the international talent training programme achieved prominent results. During the year, the Company organized certain training domestically and overseas in respect of laws and regulations for listed companies, securities and finance to related staff of the Company and its subsidiaries and selected outstanding employees to receive further educations overseas. 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, Supervisors and Senior Management

DIRECTORS

Executive Directors

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

54, 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., Mr. Lin has been appointed as the chairman of the Board and executive director since October 2008.

Mr. Tan Ruisong（譚瑞松）

50, 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 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)

47, 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. He used to be an assistant engineer in Harbin Dongan Engine Manufacturing Company, deputy division director of Enterprise Management Bureau of former AVIC, 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)*

55, 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 the board and general manager of AVIC Capital Co., Ltd. and chairman of the board of AVIC Capital Co., Ltd, and AVIC-Vanke Co, Ltd. since December 2008. Mr. Gu has been appointed as a non-executive director of the Company since October 2008.

Directors, Supervisors and Senior Management

Mr. Xu Zhanbin（徐占斌）

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

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

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

Directors, Supervisors and Senior Management

Mr. Zhang Xinguo（張新國）

53, 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 theoretic dynamics. During the period from 1990 to 1991, Mr. Zhang received advanced training in University of Salford in the United Kingdom as a visiting student sponsored by government's scholarship. He received his Ph.D. degree from Beijing University of Aeronautics and Astronautics in 1995 majoring in air vehicle control, guidance and emulation and received his another Ph.D. degree from Administration College of Xi'an Jiaotong University in 2008 majoring in enterprise management. Mr. Zhang commenced his career in aviation industry in 1982, and used to be a system engineer, vice director and director of Flight Control Research Department of Xi'an Flight Automatic Control Research Institute; deputy director-general, chief engineer and director-general of Xi'an Flight Automatic Control Research Institute since June 1996; and vice general manager of AVIC I since August 2006. Mr. Zhang also serves as a member of the board of AVIC 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)*

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

Directors, Supervisors and Senior Management

Mr. Li Fangyong（李方勇）

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

Mr. Chen Yuanxian（陳元先）

52, 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.

Directors, Supervisors and Senior Management

Mr. Wang Yong（王勇）

55, a senior economist. Mr. Wang was appointed as the vice general manager of China Hua Rong Asset Management Corporation Changchun Office in January 2000. He has been appointed as the vice general manager of China Hua Rong Asset Management Corporation Harbin Office since January 2002, and as the general manager of China Hua Rong Asset Management Corporation Harbin Office since January 2008. He graduated from Harbin Normal University in 1997 with a bachelor degree majoring in economics management. Mr. Wang commenced his career in the People's Bank of China, Lanxi County branch in 1977. He had been the manager of the credit and loan department and a vice president of Industrial and Commercial Bank of China, Suihua branch, the department head of credit and loan department of Industrial and Commercial Bank of China, Heilongjiang branch, the president of Industrial and Commercial Bank of China, Qiqihar branch. At present, Mr. Wang serves as a vice chairman of China Huarong International Trust 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)*

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

Directors, Supervisors and Senior Management

Independent Non-executive Directors

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

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

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

55, a professor, supervisor for master degree students and one of the first batch of senior non-practicing member of the Chinese Institute of Certified Public Accountants. Mr. Li graduated from Zhengzhou Institute of Aeronautical Industry Management in 1982. He then graduated from Tianjin Finance and Economics Academy in 1996 with a master degree majoring in accounting. Mr. Li was the deputy chairman and subsequently the chairman of the Accounting Department of Zhengzhou Institute of Aeronautical Industry Management. 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, an asset appraiser, member of the Institute of International Internal Auditors, member of special committee on management accounting and application of Accounting Society of China and vice chairman of Accounting Society of Henan Province. 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)*

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

SUPERVISORS

Mr. Li Yuhai（李玉海）

53, 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.

Directors, Supervisors and Senior Management

Mr. Tang Jianguo（湯建國）

60, 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）

57, a master degree holder and class one senior accountant and a certified public accountant. Ms. Bai is also the deputy chief accountant 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 and director-general of financial management department of AVIC. Ms. Bai has been appointed as a supervisor of the Company since April 2003.

Mr. Yu Guanghai（于廣海）

42, 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）

41, 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 vice 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）

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

Mr. Ni Xianping（倪先平）

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

Directors, Supervisors and Senior Management

Mr. Zheng Qiang（鄭強）

48, 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 Aviation 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）

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

Directors, Supervisors and Senior Management

COMPANY SECRETARY

Mr. Yan Lingxi (閆靈喜)

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

Report of the Board

The board of directors of AviChina Industry & Technology Company Limited presents its Annual Report of the Board together with the audited financial statements of the Group for the year ended 31 December 2011.

BUSINESS OF THE GROUP

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

RESULTS AND DIVIDEND

The results of the Group for 2011 are set out in the Consolidated Income Statement on page 61 of this Annual Report.

The Board recommends the payment of a final dividend for the year 2011 in an aggregate amount of RMB54,744,291.67, representing a dividend of RMB0.01 per share (2010: RMB0.01 per share), based on the existing number of total issued shares of 5,474,429,167 shares as at the date of this report, which is subject to adjustment based on the number of the total issued shares of the Company 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 8 June 2012 (the "Record Date"). To determine the identity of the shareholders entitled to receive the final dividend, the Company's register of members will be closed from 3 June 2012 to 8 June 2012 (both days inclusive), during which period no transfer of H Shares will be registered. 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 4:30 p.m. on 1 June 2012.

In accordance with Article 149 of the Articles of Association, the dividend will be declared in RMB to the shareholders. The dividend payable to holders of the domestic shares will be paid in RMB within three months after the dividend declaration date. The dividend payable to H shareholders is calculated and declared in RMB and will be paid in Hong Kong dollars within three months after the dividend declaration date. The amount to be paid in Hong Kong dollars will be converted based on the average closing exchange 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 25 May 2012.

SHARE CAPITAL

The Company's capital structure as at 31 December 2011 was as follows:

Class of shares	Number of shares as at 31 December 2011	Percentage of total number of shares in issue as at 31 December 2011 (%)
Domestic shares	2,934,590,598	59.30
Overseas listed foreign invested shares (H shares)	2,014,433,902	40.70
Total	4,949,024,500	100

Note: On 18 January 2012, the Company completed the issuance of 183,404,667 domestic shares to AMES and the number of domestic shares increased from 2,934,590,598 to 3,117,995,265 domestic shares. On 2 March 2012, the Company completed the placing of 342,000,000 H Shares, and the total number of H Shares increased to 2,356,433,902 H Shares. Upon completion of the issuance of domestic shares and placing of H Shares, the total number of issued shares increased to 5,474,429,167 Shares.

FIVE-YEAR FINANCIAL HIGHLIGHTS

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

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, 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 its associated corporations were as follows:

Name of Shareholders	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to the same class of Shares	Approximate percentage to share capital in issue	Nature of Shares held
AVIC	Domestic Shares	Beneficial owner	2,806,088,233	95.62%	56.70%	Long position
European Aeronautic Defence and Space Company – EADS N.V.	H Shares	Beneficial owner	248,909,827	12.36%	5.03%	Long position
Li Ka-Shing Unity Trustcorp Limited	H Shares	Trustee/Beneficiary of a trust	101,200,000	5.02%	2.04%	Long position
Li Ka-Shing	H Shares	Founder of a discretionary trust/Interest of controlled corporation	101,200,000	5.02%	2.04%	Long position

Save as disclosed above, as at 31 December 2011, the Company had not been notified of any interests and short positions in 5% or more than 5% of the shares and underlying shares of the Company which had been recorded in the register kept under section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares for the year ended 31 December 2011.

PRE-EMPTIVE RIGHTS

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

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31 December 2011, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

FIXED ASSETS

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

RESERVES

Details of movement in reserves of the Group for the year ended 31 December 2011 are set out in the Consolidated Statement of Changes in Equity and note 39 to the financial statements.

DISTRIBUTABLE RETAINED EARNINGS

As at 31 December 2011, the Company had distributable retained earnings of RMB57,339,000.

MAJOR CUSTOMERS AND SUPPLIERS (CONTINUING OPERATIONS)

During the reporting period, the Group's total purchases from the five largest suppliers accounted for 14.96% of the Group's total purchases, of which purchases from the largest supplier accounted for approximately 3.92% of the Group's total purchases. The Group's sales to the five largest customers accounted for 61.70% of the Group's total sales, of which, sales to the largest customer accounted for 29.20% of the Group's total sales.

Purchases from the five largest suppliers in the entire aircraft segment accounted for 19.59% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 4.70% of the total purchases in that segment. Sales to the five largest customers in the entire aircraft segment accounted for 95.58% of the total sales in that segment, of which, sales to the largest customer accounted for 56.66% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation parts and components segment accounted for 10.83% of the total purchases in the Group's aviation parts and components segment, of which, purchases from the largest supplier accounted for 5.07% of that segment. Sales to the five largest customers in the aviation parts and components segment accounted for 11.62% of the total sales in that segment, of which, sales to the largest customer accounted for 2.67% of the total sales in that segment.

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

During the reporting period, save for the connected transactions with AVIC Group, as disclosed in the section of Connected Transactions section of 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 45 to the financial statements.

DIRECTORS

Details of the directors of the Company during the financial year ended 31 December 2011 are set out from pages 22 to 29 of this Annual Report.

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

1. On 25 January 2011, the Company entered into an 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. For details of the above mentioned transactions, please refer to page 43 of this report.

2. During the reporting period, the disposal of the automobile engine business of the Group was completed. On 17 March 2011, 174,052,911 shares in JONHON Optronic previously held by AVIC were transferred to the Company and 251,893,000 shares in Dongan Motor previously held by the Company were transferred to AVIC. After completion of such share transfers, the Company holds 174,052,911 shares in JONHON Optronic, which represents 43.34% of the total issued share capital of JONHON Optronic, and becomes a controlling shareholder of JONHON Optronic. The Company no longer holds any equity interest in Dongan Motor. For details of the transactions, please refer to the announcement of the Company dated 4 November 2009 and the circular of the Company dated 25 November 2009, as well as various voluntary announcements subsequently published by the Company on 14 December 2009, 9 December 2010, 28 January 2011, 1 March 2011 and 18 March 2011 respectively.

3. During the reporting period, the assets reorganization in relation to AVIC Avionics was completed. On 23 June 2011, the Board announced that the relevant share transfer registrations and the relevant changes of business registrations for the assets reorganization of AVIC Avionics had been duly completed. For details of the transactions, please refer to the announcements of the Company dated 2 June 2010, 19 April 2011 and 23 June 2011 respectively and the circular of the Company dated 12 July 2010.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

During the year ended 31 December 2011, the Group engaged in continuing connected transactions with AVIC and its subsidiaries ("AVIC Group") and AVIC Avionics (formerly known as Changhe Auto) and its subsidiaries. AVIC is the controlling shareholder and therefore a connected person of the Company. AVIC has direct and indirect interest of 35.16% in AVIC Avionics, which is a 44.49% owned subsidiary of the Company and is accounted for and consolidated in the audited accounts of the Company. AVIC Avionics is therefore a connected subsidiary of the Company under the Listing Rules. The Group also entered into continuing connected transactions with Aviation Industry Corporation Finance Company Limited ("AVIC Finance"), which is subsidiary of AVIC and therefore a connected person of the Company.

AVIC

During the year 2011, the Group entered into continuing connected transactions with AVIC Group pursuant to five connected transaction agreements entered into between the Company and AVIC:

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

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

3. By a supplementary agreement dated 29 September 2008 entered into between the Company and AVIC to renew the terms of the technology co-operation framework agreement ("Technology Co-operation Agreement"), AVIC Group 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 also provided for future co-operation between AVIC and the Group in respect of development of new technologies. The agreement was for a further term of three years expiring on 31 December 2011.

4. By a supplemental agreement dated 29 September 2008 entered into between the Company and AVIC to revise the land use rights leasing agreement ("Land Use Rights Leasing Agreement"), AVIC Group 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.

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

AVIC Avionics (Formerly known as Changhe Auto)

6. On 19 December 2009, the Company and its subsidiary Changhe Auto entered into the Changhe Auto Products and Services Mutual Supply and Guarantees Provision Agreement to regulate the transactions between the Company (or its subsidiaries) and Changhe Auto (or its subsidiaries). Changhe Auto is a contracting party engaging in transactions according to the Products and Services Mutual Supply and Guarantees Provision Agreement. Changhe Auto changed its name as AVIC Avionics on 21 December 2009. On 23 June 2011, the assets reorganization of AVIC Avionics through the acquisition of certain aviation assets including six avionics companies by way of the issue of consideration shares by AVIC Avionics to the Company and AVIC and its associates was completed. Following the completion of the abovementioned assets reorganization, the transactions under the existing products and services mutual supply and guarantee provision agreement substantially increased. The Company estimates that the actual transaction amounts in respect of the Group's expenditure and the Group's revenue under the above agreement would exceed the original 2011 annual caps. At the general meeting held on 9 December 2011 the 2011 annual cap for the expenditure transactions under the framework agreement was revised and approved by the Sharehoders.

AVIC Finance

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

Details of the above continuing connected transactions can be referred to in the announcements, circulars and supplementary circulars of the Company dated 29 September 2008, 21 November 2008 and 28 November 2008, respectively, the announcement and circular dated 1 April 2010 and 16 April 2010 respectively and announcements dated 6 November 2009 and 20 December 2009 respectively, the announcement and circular dated 30 August 2011 and 23 September 2011 respectively.

On 30 August 2011, the Company entered into following connected transaction framework agreement with AVIC: (i) the Mutual Supply of Products Agreement (which replaced the Mutual Supply Agreement), (ii) the Mutual Provision of Services Agreement (which replaced the Comprehensive Services Agreement and extended the scope of cooperation to cover other service relating to manufacturing operations), (iii) the Trademarks and Technology Co-operation Framework Agreement (which replaced the Technology Co-operation Agreement and extended the scope of cooperation to cover licence of trademarks), and (iv) the Land Use Right and Properties Leasing Agreement (which combined the Land Use Right Leasing Agreement and the Properties Leasing Agreement"). The Company also entered into a Service Mutual Supply and Guarantees Provision Agreement with AVIC Avionics. For details of the agreements and the annual caps for the three financial years ending 31 December 2014, please refer to the announcement dated 30 August 2011 and circular dated 23 September 2011.

Set out below are the annual caps for the continuing connected transaction as compared with the actual transaction amounts incurred or received by the Group in 2011. For the year ended 31 December 2011, the continuing connected transactions of the Company were calculated on a consolidated basis as follows:

		Actual amount for 2011 RMB million	Annual Cap RMB million
1	Mutual Supply Agreement		
	(a) Annual expenditures of the Group	4,265	6,545
	(b) Annual revenues of the Group	9,564	10,534
2	Comprehensive Services Agreement		
	Annual expenditures of the Group	26	170
3	Land Use Rights Leasing Agreement		
	Annual expenditures of the Group	29	30
4	Properties Leasing Agreement		
	(a) Annual expenditures of the Group	2	19
	(b) Annual revenues of the Group	2	2
5	Technology Co-operation Agreement		
	(a) Annual expenditures of the Group	–	98
	(b) Annual revenues of the Group	–	63
6	AVIC Avionics Products and Services Mutual Supply and Guarantee Provision Agreement		
	Expenditures of the Group	475	508
	Revenue of the Group	40	46

		Maximum daily outstanding balance of deposits for 2011	Cap for the maximum daily outstanding balance of deposits for 2011
7	Financial Services Framework Agreement with AVIC Finance		
	Daily deposit amount (including accrued interests) placed by the Group with AVIC Finance	919	2,000

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

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

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

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

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

The Company's auditors have 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 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 approximately RMB768, 278,300, among which (i) as to 25% of the consideration, being approximately RMB192,069,575 to be satisfied by way of cash payable by the Company; and (ii) as to 75% of the consideration, being approximately RMB576,208,725 to be satisfied by the Company by issuing to AMES certain number of domestic shares (the "Consideration Shares") at an issue price of HK$3.734 (equivalent to approximately RMB3.16) per Consideration Share upon completion (the "Tianjin Aviation Acquisition").

Pursuant to Chapters 14 and 14A of the Listing Rules, the Tianjin Aviation Acquisition constituted discloseable and connected transactions of the Company. The transactions contemplated under the Tianjin Aviation Acquisition were approved by the independent Shareholders of the Company at the extraordinary general meeting held on 29 March 2011. On 18 January 2012, all of the conditions precedent to the Tianjin Aviation Acquisition had been satisified, and the Consideration Shares involving 183,404,667 new domestic Shares were issued to AMES by the Company. Details of the transactions can be referred to in the announcement of the Company dated 25 January 2011, the circular of the Company dated 21 February 2011 and the announcement dated 18 January 2012.

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") 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 is owned as to 57.02%, 30.70%, 6.14% and 6.14% by Shanghai Aviation Electric, Mr. Jiang, Avionics System and Shanghai Zhuri, respectively.

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

3. On 15 December 2011, the Company, the Beijing Dongdan branch of Bank of Communications Limited entered into an entrusted loan agreement with each of Lanzhou Aviation Electrical and AVIC Lanfei respectively, pursuant to which the Company granted entrusted loans of RMB35 million and RMB15 million to Lanzhou Aviation Electrical and AVIC Lanfei respectively, with a term of one year, to support the development of aviation products of Lanzhou Aviation Electrical and AVIC Lanfei.

   AVIC Avionics is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the grants of the entrusted loans to Lanzhou Aviation Electrical and AVIC Lanfei constituted connected transactions of the Company. Pursuant to Chapter 14A of the Listing Rules, such connected transactions were subject to the reporting and announcement requirements but are exempt from the Independent Shareholders' approval requirement. Details of the transaction can be referred to in the announcement of the Company dated 25 December 2011.

EVENTS AFTER THE REPORTING YEAR

1. On 18 January 2012, the Company completed the issuance of 183,404,667 domestic shares to AMES. Upon completion of such issuance, the total number of domestic shares of the Company has increased from 2,934,590,598 domestic shares to 3,117,995,265 domestic shares. The total number of issued shares of the Company has increased from 4,949,024,500 shares to 5,132,429,167 shares. For details of the transactions, please refer to the announcement of the Company dated 25 January 2011 and the circular dated 21 February 2011 respectively, and the announcement dated 18 January 2012.

2. On 31 January 2012, AviChina Industry and Technology Company Limited Jingdezhen Helicopter research and development branch ("Jingdezhen Helicopter") and China Helicopter Research and Development Institute ("Helicopter R&D Institute") entered into a project investment agreement pursuant to which, Jingdezhen Helicopter agreed to make an investment of RMB20 million to participate in the U8 Unmanned Helicopter Project. Jingdezhen Helicopter is a branch of the Company and Helicopter R&D Institute is a wholly-owned entity of AVIC.

   The entering into of the project investment agreement by Jingdezhen Helicopter and Helicopter R&D Institute constituted a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules, which was subject to reporting and announcement requirements but exempted from the requirement of Independent Shareholders' approval. For details of the transaction, please refer to the announcement of the Company dated 31 January 2012.

3. On 2 March 2012, the Company completed the placing of 342,000,000 H Shares (the "Placing Shares").Upon completion of the placing, the number of issued H Shares of the Company increased from 2,014,433,902 H Shares to 2,356,433,902 H Shares. The total number of issued Shares of the Company increased from 5,132,429,167 Shares to 5,474,429,167 Shares. For details of the transaction, please refer to the announcements of the Company dated 26 February 2012 and 2 March 2012 respectively.

SIGNIFICANT EVENT DURING THE REPORTING YEAR

1. On 21 January 2011, the Company obtained the approval for the Scheme from the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China. On 30 March 2011, the Board approved an initial grant of restricted shares under the Scheme, pursuant to which approximately 37,013,900 restricted shares, representing approximately 0.748% of the issued share capital of the Company as at 30 March 2011, were granted to 149 selected Scheme participants at the grant price of HKD4.15 per restricted share. For details of the grants, please refer to the announcement of the Company on the Scheme dated 23 February 2011, the circular dated 24 February 2011 and the poll results announcement of the general meeting dated 29 March 2011.

2. On 8 November 2011, the board of directors of AVIC Avionics resolved to place not more than 123,833,819 new AVIC Avionics shares for subscription by not more than 10 independent qualified institutional investors. Upon completion, due to the increase of total issued share capital of AVIC Avionics, the equity interest held by the Company in AVIC Avionics will be diluted by approximately 5.83% from 44.49% to approximately 38.66%. Such dilution constituted a deemed disposal by the Company of its equity interest in AVIC Avionics. For details of the transaction, please refer to the announcements of the Company dated 27 October 2011, 2 November 2011 and 10 November 2011 respectively.

CORPORATE GOVERNANCE

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

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Board, throughout the year ended 31 December 2011 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 2012 will be proposed. In the past three years, the auditors of the Company remained unchanged.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 30 December 2011, Mr. Li Yuhai and Mr. Tang Jianguo resigned from their positions as the employee representative supervisors of the Company due to their respective work reallocations.

Saved as disclosed above, for the year ended 31 December 2011, there were no other changes on directors, supervisors and senior management.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2011, saved as disclosed below, none of the Directors, Supervisors and Chief Executive of the Company had interests or held short positions in the shares, underlying shares and/or debentures of its associated corporations (within the meaning of Part XV of the SFO), which are required to be recorded and kept in the register pursuant to section 352 of the SFO and be notified to the Company and the Stock Exchange pursuant to Part XV, Part 7 and Part 8 of the SFO.

Name of Director	Class of shares	Capacity	Number of Restricted Shares granted	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of shares hold
Lin Zuoming	H Share	Beneficial owner	708,590	0.04%	0.01%	Long position
Tan Ruisong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Wu Xiandong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Gu Huizhong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Xu Zhanbin	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Geng Ruguang	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Zhang Xinguo	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Gao Jianshe	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Li Fangyong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Chen Yuanxian	H Share	Beneficial owner	426,280	0.02%	0.01%	Long position

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2011, 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 2011.

Report of the Supervisory Committee

To all shareholders:

During the year of 2011, the Supervisory Committee strictly complied with the PRC Company Law, the Articles of Association and Procedural Rules for Meetings of Supervisory Committee and duly adhered to the principles of honesty and integrity in performing the supervisory duties and exercising the rights conferred on it by the Articles of Association, and also in good faith safeguarded the shareholders' interests in a diligent, pragmatic and serious manner.

The Supervisory Committee convened two meetings in 2011, at which 9 resolutions were considered and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2010 Annual Report, 2011 Interim Report, plans on distribution of profits for 2010 and the first six months of 2011 respectively, budgets for 2011 of the Company. The Supervisory Committee had also attended the Board meetings and the general meetings held in 2011 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 2011, the Board and the senior management of the Company had duly exercised various powers conferred by the shareholders pursuant to the laws, performed various obligations, and used their best endeavors to make important contributions to the development of the Company.

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

The Supervisory Committee is fully confident in the prospect of the Company. In 2012, 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.

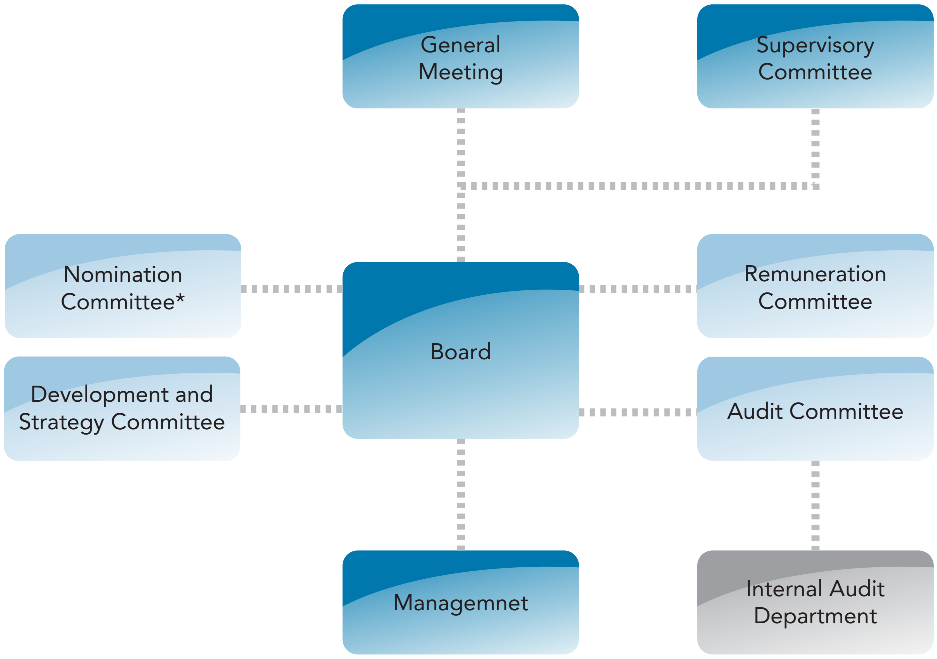
Chairman of the Supervisory Committee
Li Yuhai

Beijing, 27 March 2012

Corporate Governance Report

The Company strictly complies with various applicable laws, rules and regulations as well as the Articles of Association to standardize its operation. In 2011, pursuant to the regulatory documentation such as 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, Terms of Reference of the Audit Committee, Terms of Reference of the Remuneration Committee and Rules on Information Disclosure, the Company continuously enhanced its corporate governance standard through the co-ordination of general meetings, the Board and the relevant special committees of the Board, the Supervisory Committee and the management.

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



* The Nomination Committee of the Company was established on 27 March 2012.

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 established Nomination Committee on 27 March 2012. Before such committee is establisehd, the Board nominated 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 22 to 31 of the Annual Report. Relevant information is also be published on the website of the Company. There are no relationship (including financial, business, family or other material or relevant relationships) among members of the Board.

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

RESPONSIBILITIES OF THE BOARD

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

BOARD MEETINGS

The Board has four scheduled meetings every year. 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 secretary assists the chairman in preparing the agenda for each board meeting and considers 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 date of the relevant board meeting. 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 secretary. The company secretary is responsible for ensuring that board procedures are followed and advising the Board accordingly. Directors, the audit committee and the remuneration committee may seek independent professional advice at the Company's expenses in discharging their duties.

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

To ensure good corporate governance, the Board has established a development & strategy committee, an audit committee and a remuneration committee. The Board also established nomination committee on 27 March 2012 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 Company Secretary. In 2011, the Company convened 2 meetings of the audit committee and 1 meeting of the remuneration committee.

Eight meetings were held by the Board during 2011. The chief executive officer and vice presidents, including the chief financial officer, attended these meetings to brief the Board and reply to issues relating to resolutions discussed at those meetings. The attendance of every director (including the circumstance of appointing another director on his behalf) in the board meetings, the audit committee meetings and the remuneration committee meetings in 2011 is set out below:

	Times of presence/Times of meetings should present		
Directors	The Board	Audit Committee	Remuneration 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	8/8		1/1
Mr. Li Fangyong	8/8		
Mr. Chen Yuanxian	8/8		
Mr. Wang Yong	6/8		
Mr. Maurice Savart	8/8		
Independent non-executive directors			
Mr. Guo Chongqing	8/8	2/2	1/1
Mr. Li Xianzong	8/8	2/2	1/1
Mr. Lau Chung Man, Louis	8/8	2/2	1/1

INTERESTS HELD BY DIRECTORS AND SECURITIES TRANSACTIONS

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

Interests of the Company held by the Directors as at 31 December 2011 have been disclosed on page 47 of the Report of the Board of this Annual Report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own guidelines for securities transactions by directors, supervisors and employees of the Company. All directors and supervisors have been provided with a copy of the Model Code upon appointments. Two months prior to the meeting of the Board to approve annual or interim results of the Company, written reminders of the restrictions on dealing in any securities or derivatives of the Company will be provided to the directors and the supervisors. All directors and supervisors of the Company have confirmed their compliance with the Model Code in 2011 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 2011.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Board has established a remuneration committee which comprises one non-executive director Mr. Gao Jianshe, as the chairman and three independent non-executive directors, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis. The remuneration committee is responsible for approving policies on remuneration of all directors, supervisors and senior management, as well as making recommendations to the Board on revising policies and structure for remuneration. In determining the remuneration of directors and supervisors, the Remuneration Committee will take into account factors such as the responsibilities and work experience of the directors and supervisors. The remuneration committee reports to the Board after every meeting. During the year ended 31 December 2011, the Remuneration Committee convened one meeting to consider the initial grant under the restricted share incentive scheme. Terms of reference of the remuneration committee are published on the website of the Company.

Details of the remunerations of the directors, supervisors and senior management of the Company for the year ended 31 December 2011 are set out in note 16 to the financial statement.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTS

The Directors are responsible for monitoring the preparation of the financial statements for every financial period and ensuring those financial statements provide a true and fair view on the results of operations, financial position and cash flow of the Group in the relevant financial period. In preparing the financial statements for the year ended 31 December 2011, the directors have:

— selected appropriate accounting policies and applied them consistently;

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

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

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

INTERNAL CONTROL

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

The Company has established an Internal Audit Department which acts as a daily operation office of the audit committee of the Board to monitor how the Company and its subsidiaries establish and improve their respective internal control systems and give guidance in this respect, to supervise and review the implementation of regulations on internal control systems at proper times. In 2011, the Internal Audit Department prepared an annual assessment list on the internal control system of the Company and requested the senior management of each subsidiary to provide statements on the healthiness, reasonableness and effective implementation of their respective internal control procedures. The Internal Audit Department then conducted an evaluation based on the activities mentioned above and reported the results of such evaluation to the audit committee and the Board.

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

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

AUDIT COMMITTEE

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

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

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

The audit committee held two meetings during 2011. In 2011, the audit committee reviewed and evaluated the audit report of the Company's external auditors, the accounting principles and standards applied by the Group and the internal control system and the financial statements of the Company. The audit committee reported to the Board its scope of work, discussion results and advice after every meeting. During 2011, the audit committee:

— reviewed the financial statements, the annual results announcement and profit distribution plan of the Group for the year ended 31 December 2010;

— reviewed the interim financial information, relevant interim results announcement and profit distribution plan of the Group for the six months ended 30 June 2011;

— reviewed resolution relating to appointments of international and PRC auditors of the Company for the financial year 2011 and determination of their respective remunerations;

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

— reviewed the reports on operation results of the Company for the year 2010 and the first half of 2011, the self-assessment report on the internal control of the Company, reports from the external auditor on audit in the year 2010 and review on 2011 interim report and provided recommendations to the management of the Company.

The audit committee had reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2011.

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 2011, the Supervisory Committee held two meetings and considered and approved nine 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 2011, the payment to the Company's external auditors in relation to auditing services amounted to RMB4.3 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 2012. The resolution is subject to the approval of shareholders at the annual general meeting of the Company for the year 2011.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on pages 59 to 60 of this annual report.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

The Board secretary is 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 made in a timely manner. During the reporting year, the Company published its annual report, interim report and relevant announcements (including the overseas regulatory announcements which covered the announcements published by the subsidiaries of the Company whose shares are listed on other stock exchanges) in accordance with the Listing Rules and made detailed disclosures on material information and reported the progress of any significant issues relating to the Company.

General meetings of the Company have absolute power to perform its functions according to laws and regulations and make decisions on major issues. The annual general meetings and extraordinary general meetings of the Company provide an open platform for shareholders to exchange opinions with the Board. In 2011, the Company convened one annual general meeting and three extraordinary general meetings, at which twelve resolutions were considered and approved. Directors, supervisors and management of the Company endeavored to attend the general meetings.

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

The Company has assigned specific employees to assume the role of contacting and communicating with investors. During the reporting year, due to the change of information disclosure methods required by the Stock Exchange, the Company had put more efforts in the maintenance of its websites to ensure that information is disclosed accurately and in a timely manner. The Company not only renews and modifies its Chinese and English websites continuously, but also regularly publishes and updates business news and information contained in its website to help investors understand the up-to-date situation of the Company clearly. 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 2011, the Company maintained continuous dialogues and communications with shareholders pursuant to the Code. Company secretary and investor relationship team are in charge of the communication with shareholders, investors and other participants of the capital market. Through discussion with hundreds of analysts, fund managers and institutional shareholders via routine roadshows, investor annual meetings held by renowned investment banks, receptions of investor visits and answering phone calls, shareholders and investors are able to timely and fully understand the operations and development plans of the Company. Every year, senior management of the Company attend the presentation on annual results and interim results in Hong Kong and various activities of global roadshow to provide key information to the capital market and media and respond to the key concerns from investors. The annual general meetings and extraordinary general meetings also provide further platform and opportunities for shareholders to exchange opinions directly with members of the Board.

Independent Auditor's Report

羅兵咸永道

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AVICHINA INDUSTRY & TECHNOLOGY COMPANY LIMITED
(incorporated in 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 61 to 142, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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Independent Auditor's Report

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Continuing operations			
Revenue	5	12,900,623	10,973,380
Cost of sales		(10,327,348)	(8,486,550)
Gross profit		2,573,275	2,486,830
Other income	6	64,941	40,180
Other gains, net	7	65,102	96,042
Selling and distribution expenses		(267,092)	(227,727)
General and administrative expenses		(1,444,904)	(1,270,021)
Operating profit		991,322	1,125,304
Finance income	9	103,552	80,630
Finance costs	9	(140,870)	(133,484)
Finance costs, net		(37,318)	(52,854)
Share of results of associates		(29,140)	31,508
Profit before income tax		924,864	1,103,958
Income tax expense	10	(142,674)	(145,055)
Profit for the year from continuing operations		782,190	958,903
Discontinued operations			
Profit for the year from discontinued operations	11	145,317	1,023,604
Profit for the year		927,507	1,982,507
Attributable to:			
Equity holders of the Company		403,063	884,802
Non-controlling interests		524,444	1,097,705
		927,507	1,982,507
Profit attributable to equity holders of the Company from:			
– continuing operations		348,286	503,371
– discontinued operations		54,777	381,431
		403,063	884,802
		RMB	RMB (Restated)
Earnings per share for profit attributable to equity holders of the Company during the year			
Basic			
– continuing operations	13	0.071	0.103
– discontinued operations	13	0.011	0.078
Diluted			
– continuing operations	13	0.071	0.103
– discontinued operations	13	0.011	0.078
		RMB'000	RMB'000
Dividend	14	54,744	49,490

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000 (Restated)
Profit for the year	927,507	1,982,507
Other comprehensive (expenses)/income, net of tax		
Change in fair value of available-for-sale financial assets	(118,286)	247,803
Transfer from available-for-sale financial assets reserve to income statement upon disposal of available-for-sale financial assets	(28,896)	(76,916)
	(147,182)	170,887
Total comprehensive income for the year	780,325	2,153,394
Attributable to:		
Equity holders of the Company	340,787	995,294
Non-controlling interests	439,538	1,158,100
	780,325	2,153,394
Total comprehensive income attributable to equity holders of the Company from:		
– continuing operations	286,010	613,863
– discontinued operations	54,777	381,431
	340,787	995,294

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

Balance Sheets

As at 31 December 2011

	Note	Group 2011 RMB'000	Group 2010 RMB'000 (Restated)	Company 2011 RMB'000	Company 2010 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	17	4,165,930	4,004,352	21,118	21,263
Investment properties	18	28,046	52,147	–	–
Land use rights	19	572,762	487,210	–	–
Intangible assets	20	50,873	246,595	2,703	–
Interests in subsidiaries	21	–	–	3,981,190	3,244,507
Interests in associates	22	937,484	848,236	102,045	102,045
Available-for-sale financial assets	23	625,096	715,398	31,022	31,022
Deferred income tax assets	24	66,254	49,541	–	–
Total non-current assets		6,446,445	6,403,479	4,138,078	3,398,837
Current assets					
Accounts receivable	25	4,229,958	3,568,898	–	–
Advances to suppliers	26	820,044	522,261	–	–
Other receivables and prepayments	27	959,527	912,726	165,005	263,498
Inventories	28	7,995,740	5,679,356	–	–
Pledged deposits	30	624,554	153,209	–	–
Term deposits with initial term of over three months	31	2,313,969	2,692,307	1,939,815	2,332,723
Cash and cash equivalents		6,187,823	6,417,910	105,206	77,222
		23,131,615	19,946,667	2,210,026	2,673,443
Assets classified as held for sale	11	–	7,685,263	–	795,213
Total current assets		23,131,615	27,631,930	2,210,026	3,468,656
Total assets		29,578,060	34,035,409	6,348,104	6,867,493

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

Balance Sheets

As at 31 December 2011

	Note	Group 2011 RMB'000	Group 2010 RMB'000 (Restated)	Company 2011 RMB'000	Company 2010 RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	37	4,949,025	4,949,025	4,949,025	4,949,025
Reserves	39	1,823,352	3,466,773	905,859	681,341
		6,772,377	8,415,798	5,854,884	5,630,366
Non-controlling interests		6,404,946	8,352,680	–	–
Total equity		13,177,323	16,768,478	5,854,884	5,630,366
LIABILITIES					
Non-current liabilities					
Long-term borrowings	36	1,171,080	957,080	–	–
Deferred income from government grants		252,632	278,290	–	–
Deferred income tax liabilities	24	10,221	60,300	–	–
Total non-current liabilities		1,433,933	1,295,670	–	–
Current liabilities					
Accounts payable	32	6,780,522	5,490,094	–	–
Advances from customers	33	3,935,809	2,396,932	–	–
Other payables and accruals	34	1,729,013	1,595,514	83,068	14,168
Amounts payable to ultimate holding company	35	466,379	1,279,185	410,152	1,222,959
Current portion of long-term borrowings	36	251,000	551,000	–	–
Short-term borrowings	36	1,636,304	1,522,300	–	–
Current income tax liabilities		167,777	161,163	–	–
		14,966,804	12,996,188	493,220	1,237,127
Liabilities directly associated with assets classified as held for sale	11	–	2,975,073	–	–
Total current liabilities		14,966,804	15,971,261	493,220	1,237,127
Total liabilities		16,400,737	17,266,931	493,220	1,237,127
Total equity and liabilities		29,578,060	34,035,409	6,348,104	6,867,493
Net current assets		8,164,811	11,660,669	1,716,806	2,231,529
Total assets less current liabilities		14,611,256	18,064,148	5,854,884	5,630,366

Director — Tan Ruisong

Director — Gu Huizhong

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company								Non-controlling interests	
	Share capital	Shares held for restricted share scheme	Capital reserve	Share-based compensation reserve	Available-for-sale financial assets reserve	Statutory surplus reserve	Accumulated losses	Subtotal		Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 37)		(Note39(b))			(Note39(c))	(Note39(d))			
For the year ended 31 December 2011										
Balance at 1 January 2011, as restated	4,949,025	–	4,416,480	–	240,007	37,581	(1,227,295)	8,415,798	8,352,680	16,768,478
Total comprehensive income for the year	–	–	–	–	(62,276)	–	403,063	340,787	439,538	780,325
Transactions with owners:										
Distribution of net assets of Dongan Motor (Note 1(a))	–	–	(1,887,005)	–	–	–	–	(1,887,005)	(2,900,867)	(4,787,872)
Deemed contribution from holding company (Note 1(a)(ii))	–	–	599,417	–	–	–	–	599,417	–	599,417
Dilution of interests in subsidiaries (Note 1(b) & 1(c))	–	–	(527,526)	–	–	–	–	(527,526)	527,526	–
Purchase of restricted shares under share scheme (Note 38)	–	(139,994)	–	–	–	–	–	(139,994)	–	(139,994)
Value of employee services under share scheme (Note 38)	–	–	–	20,390	–	–	–	20,390	–	20,390
2010 final dividend	–	–	–	–	–	–	(49,490)	(49,490)	–	(49,490)
Contributions from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	108,361	108,361
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(122,292)	(122,292)
Transfer to statutory surplus reserve	–	–	–	–	–	5,467	(5,467)	–	–	–
	–	(139,994)	(1,815,114)	20,390	–	5,467	(54,957)	(1,984,208)	(2,387,272)	(4,371,480)
Balance at 31 December 2011	4,949,025	(139,994)	2,601,366	20,390	177,731	43,048	(879,189)	6,772,377	6,404,946	13,177,323

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity holders of the Company						Non-controlling interests	
	Share capital	Capital reserve	Available-for-sale financial assets reserve	Statutory surplus reserve	Accumulated losses	Subtotal		Total
	RMB'000 (Note 37)	RMB'000 (Note39(b))	RMB'000	RMB'000 (Note39(c))	RMB'000 (Note39(d))	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2010								
Balance at 1 January 2010, as restated	4,643,609	3,590,706	129,515	31,178	(2,099,273)	6,295,735	5,598,369	11,894,104
Total comprehensive income for the year	–	–	110,492	–	884,802	995,294	1,158,100	2,153,394
Transactions with owners:								
Issuance of new shares	305,416	588,208	–	–	–	893,624	–	893,624
Deemed distribution to holding company	–	(908,661)	–	–	–	(908,661)	–	(908,661)
Partial disposal of interests in a subsidiary	–	1,114,361	–	–	–	1,114,361	1,642,631	2,756,992
Contributions from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	49,116	49,116
Contributions from shareholders	–	31,866	–	–	–	31,866	–	31,866
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	(95,536)	(95,536)
Distributions to previous shareholders (Note 2(a))	–	–	–	–	(6,421)	(6,421)	–	(6,421)
Transfer to statutory surplus reserve	–	–	–	6,403	(6,403)	–	–	–
	305,416	825,774	–	6,403	(12,824)	1,124,769	1,596,211	2,720,980
Balance at 31 December 2010, as restated	4,949,025	4,416,480	240,007	37,581	(1,227,295)	8,415,798	8,352,680	16,768,478

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Cash flows from operating activities			
Net cash generated from operations	40(a)	429,468	2,646,198
Interest received		103,552	80,630
Interest paid		(126,764)	(129,359)
Enterprise income tax paid		(176,879)	(126,192)
Net cash generated from operating activities of continuing operations		229,377	2,471,277
Net cash (used in)/generated from operating activities of discontinued operations	11	(136,176)	998,928
Net cash generated from operating activities		93,201	3,470,205
Cash flows from investing activities			
Purchase of property, plant and equipment		(662,319)	(941,451)
Purchase of land use rights		(95,274)	(118,912)
Payments for intangible assets		(9,377)	(9,622)
Addition of available-for-sale financial assets		(19,891)	(38,000)
Disposal of available-for-sale financial assets		35,156	122,922
Redemption of term deposits with initial term of over three months		2,692,307	1,441,516
Addition of term deposits with initial term of over three months		(2,313,969)	(2,690,382)
Proceeds from sale of property, plant and equipment	40(b)	154,145	93,725
Net cash outflow from distribution of Dongan Motor	40(c)	(342,817)	–
Additional investments in associates		(110,924)	(422,036)
Dividends received from associates		340	1,035
Dividends received from available-for-sale financial assets		20,445	6,118
Net cash used in investing activities of continuing operations		(652,178)	(2,555,087)
Net cash generated from/(used in) investing activities of discontinued operations	11	47,990	(1,366,113)
Net cash used in investing activities		(604,188)	(3,921,200)

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Cash flows from financing activities			
Issuance of new shares		–	893,624
Purchase of restricted shares under share scheme		(75,287)	–
Proceeds from borrowings		2,314,905	1,712,300
Repayments of borrowings		(2,326,300)	(2,338,318)
Contributions from non-controlling shareholders of subsidiaries		108,361	2,303,126
Contributions from shareholders		–	31,866
Partial disposal of interests in a subsidiary		–	502,982
Dividends paid to equity holders of the Company		(49,490)	–
Dividends paid to non-controlling shareholders of subsidiaries		(122,292)	(95,536)
Distributions to previous shareholder		–	(6,421)
Net cash (used in)/generated from financing activities of continuing operations		(150,103)	3,003,623
Net cash used in financing activities of discontinued operations	11	(50,480)	(555,058)
Net cash (used in)/generated from financing activities		(200,583)	2,448,565
Net (decrease)/increase in cash and cash equivalents		(711,570)	1,997,570
Cash and cash equivalents at 1 January		6,899,393	4,901,823
Cash and cash equivalents at 31 December		6,187,823	6,899,393
Analysis:			
Cash and cash equivalents	40(d)	6,187,823	6,417,910
Cash and cash equivalents classified as held for sale	11	–	481,483
		6,187,823	6,899,393

The notes on pages 69 to 142 are an integral part of these consolidated financial statements.

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 ("Hong Kong Stock Exchange") on 30 October 2003. The address of its registered office is 8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing, the PRC.

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 have been presented in thousands of Renminbi ("RMB'000"), unless otherwise stated, and is approved for issue by the Board of Directors on 27 March 2012.

Reorganisation and change of structure of the Group

(a) On 17 March 2011, the Company distributed 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 satisfied by AVIC by:

(i) 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

(ii) settling approximately RMB 0.6 billion in cash.

(b) On 26 May 2011, China AVIC Avionics Equipment Co., Ltd. ("AVIC Avionics", a subsidiary of the Company) issued and the Company subscribed approximately 124 million new shares of AVIC Avionics (equivalent to approximately RMB 0.9 billion). The share issuance was satisfied by the Company by transferring its entire 100% and 86.74% equity interests in Lanzhou Flight Control Co., Ltd. ("AVIC Lanfei") and Chengdu CAIC Electronics Co., Ltd. ("AVIC Kaitian") respectively, being valued at an aggregate of approximately RMB 0.9 billion, to AVIC Avionics.

Upon this share issuance, the equity interests held by the Company in AVIC Avionics increased from 49.93% to 60.13% with the Company's effective interests in AVIC Lanfei and AVIC Kaitian being diluted to 60.13% to 52.16% respectively.

Notes To The Financial Statements

1 ORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

Reorganisation and change of structure of the Group (Continued)

(c) On 26 May 2011, AVIC Avionics issued and AVIC and certain of its other subsidiaries subscribed an aggregate of approximately 213 million new shares of AVIC Avionics (equivalent to approximately RMB 1.6 billion). The share issuance was 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 was diluted to 44.49%. The Company, AVIC and certain of its other subsidiaries had entered into an agreement that upon the abovementioned share issuance, AVIC and certain of its other subsidiaries would undertake to exercise their then entire 35% voting rights in AVIC Avionics in accordance with the instructions of the Company. Accordingly, although the Company holds less than 50% equity interests in AVIC Avionics, AVIC Avionics remains as a subsidiary of the Company due to such agreement.

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

Prior to the equity swap transaction in Note 1(a), AVIC held 43.34% equity interests and had de facto control over JONHON Optronic. The Company continued to have de facto control over JONHON Optronic after the acquisition of JONHON Optronic from AVIC. Accordingly, the acquisition was accounted for using merger accounting given that the Company and JONHON Optronic are under common control of AVIC before and after the acquisition.

Corresponding to Note 1(c), given that AVIC Avionics, Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics are all under common control of AVIC immediately before and after the business combination, the Company applied the principles of merger accounting in preparing these consolidated financial statements of the Group.

Notes To The Financial Statements

2 BASIS OF PREPARATION (Continued)

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

By applying the principles of merger accounting, these consolidated financial statements of the Group also includes the financial positions, results and cash flows of JONHON Optronic, Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics as if they had been combined with the Group throughout the year ended 31 December 2011. Comparative figures as at 31 December 2010 and for the year then ended have been restated as a result of such.

During the year ended 31 December 2010, JONHON Optronic and Taiyuan Instrument made cash distributions to AVIC and certain of its other subsidiaries amounting to an aggregate of approximately RMB6,421,000, which were accounted for as distributions to previous shareholders.

The following are reconciliations of the effects arising from the above mentioned common control combinations on the consolidated balance sheet as at 31 December 2010, consolidated income statement and consolidated cash flow statement for the year ended 31 December 2010.

(i) The consolidated balance sheet as at 31 December 2010:

	Balances as previously reported RMB'000	Merger of JONHON Optronic RMB'000	Merger of Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000
Total non-current assets	4,647,343	798,346	957,790	–	6,403,479
Total current assets	23,667,016	1,945,795	2,119,739	(100,620)	27,631,930
Total non-current liabilities	614,541	440,918	240,211	–	1,295,670
Total current liabilities	13,618,446	928,298	1,525,137	(100,620)	15,971,261
Total equity	14,081,372	1,374,925	1,312,181	–	16,768,478

Notes To The Financial Statements

2 BASIS OF PREPARATION (Continued)

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

(ii) The consolidated income statement for the year ended 31 December 2010:

	Balances as previously reported RMB'000	Merger of JONHON Optronic RMB'000	Merger of Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000
Continuing operations					
Revenues	8,013,319	1,461,541	1,701,436	(202,916)	10,973,380
Profit for the year from continuing operations	622,973	160,504	175,426	–	958,903
Discontinued operations					
Profit for the year from discontinued operations	1,023,604	–	–	–	1,023,604
Profit for the year	1,646,577	160,504	175,426	–	1,982,507

(iii) The consolidated cash flow statement for the year ended 31 December 2010:

	Balances as previously reported RMB'000	Merger of JONHON Optronic RMB'000	Merger of Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics RMB'000	Balances as restated RMB'000
Net cash generated from operating activities	3,264,200	101,020	104,985	3,470,205
Net cash used in investing activities	(3,281,428)	(167,081)	(472,691)	(3,921,200)
Net cash generated from/(used in) financing activities	2,429,196	(45,080)	64,449	2,448,565

Notes To The Financial Statements

2 BASIS OF PREPARATION (Continued)

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

The following new/revised standards, amendments to standards and interpretation are mandatory for the first time for the financial year beginning 1 January 2011:

IAS 24 (Revised)	Related Party Disclosures
IAS 32 (Amendment)	Classification of Rights Issue
IFRS 1 (Amendment)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the above does not have any significant impact to the results and financial position of the Group for the year ended 31 December 2011, except for IAS 24 (Revised) which the Group has early adopted since 2009. It 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.

In addition, the IASB also issued a number of amendments to existing standards and interpretations of IAS 1, IAS 27, IAS 34, IFRS 1, IFRS 3, IFRS 7 and IFRIC 13 effective for the first time for the year commencing on 1 January 2011 under its annual improvement project. These improvements also do not have any significant impact to the results and financial position of the Group.

The following new standards and amendments to standards have been issued but are not yet effective for the financial year beginning 1 January 2011 and have not been early adopted:

		Effective for accounting periods beginning on or after
IAS 1 (Amendment)	Presentation of financial statements	1 July 2012
IAS 12 (Amendment)	Deferred tax: Recovery of underlying assets	1 January 2012
IAS 19 (Amendment)	Employee benefits	1 January 2013
IAS 27 (revised 2011)	Separate financial statements	1 January 2013
IAS 28 (Amendment)	Associates and joint ventures	1 January 2013
IFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
IFRS 7 (Amendment)	Disclosures – Transfers of financial assets	1 July 2011
IFRS 9	Financial instruments	1 January 2015
IFRS 7 and IFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurements	1 January 2013

Management is in the process of assessing their related impacts to the Group.

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

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

(i) Merger accounting and subsidiaries

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

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

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

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

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

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

Notes To The Financial Statements

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) Associates

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

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to 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 legal or constructive obligations or made payments on behalf of the associate.

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

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

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Property, plant and equipment

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

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

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

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

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

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

(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.

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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 represent prepayment for operating leases and they 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.

(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.

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(h) Financial assets

(i) Classification

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

- Financial assets at fair value through profit or loss

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

- Loans and receivables

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

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Financial assets (Continued)

(i) Classification (Continued)

- Held-to-maturity investments

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

- Available-for-sale financial assets

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

(ii) Recognition and measurement

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

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

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

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Financial assets (Continued)

(ii) Recognition and measurement (Continued)

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

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

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

(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.

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Contracts in progress

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

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

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

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

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

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

(k) Receivables

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

(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.

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

(n) Financial liabilities and equity

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

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

(o) Borrowings

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

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

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(q) Current and deferred income tax

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

(i) Current 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 tax authorities.

(ii) Deferred income tax

- Inside basis differences

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

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

- Outside basis differences

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

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Current and deferred income tax (Continued)

(iii) Offsetting

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

(r) Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the Company receives services from employees as consideration for equity instruments (restricted shares) of the Company. The fair value of the employee services received in exchange for the grant of the restricted shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the restricted shares granted.

Non-market performance and service conditions are included in assumptions about the number of restricted shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of restricted shares that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

(s) 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.

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

Notes To The Financial Statements

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:

(i) Revenues recognised on sales of aviation and automobile products are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

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

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

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

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

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

(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.

Notes To The Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(x) Dividend distribution

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

(y) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) Depreciation and amortisation

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

(ii) 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.

(iii) 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.

Notes To The Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(iv) 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.

(v) Income taxes

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

5 SEGMENT INFORMATION

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

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

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

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

- Automobiles – manufacturing, assembly, sales and servicing of 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. Performance of operating segments is assessed based on a measure of earnings before tax, finance income and corporate overheads.

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.

Notes To The Financial Statements

5 SEGMENT INFORMATION (Continued)

	(Continuing operations)			(Discontinued operations)
	Aviation-entire aircrafts RMB'000	Aviation-parts & components RMB'000	Total RMB'000	Automobiles RMB'000
For the year ended 31 December 2011				
Total segment revenue	6,555,030	7,152,757	13,707,787	864,457
Inter-segment revenue	–	(807,164)	(807,164)	–
Revenue (from external customers)	6,555,030	6,345,593	12,900,623	864,457
Segment results	189,453	697,467	886,920	169,554
Depreciation and amortisation	185,098	252,789	437,887	–
Provision for impairments	1,539	9,304	10,843	8,372
Finance costs	81,352	59,518	140,870	3,277
Share of results of associates	(28,720)	(420)	(29,140)	4,061
Income tax expense	38,620	104,054	142,674	25,529
For the year ended 31 December 2010 (restated)				
Total segment revenue	5,268,174	6,166,215	11,434,389	6,351,052
Inter-segment revenue	–	(461,009)	(461,009)	–
Revenue (from external customers)	5,268,174	5,705,206	10,973,380	6,351,052
Segment results	300,683	758,661	1,059,344	1,093,667
Depreciation and amortisation	141,957	247,773	389,730	–
Provision for impairments	5,122	15,220	20,342	13,745
Finance costs	88,841	44,643	133,484	54,163
Share of results of associates	36,155	(4,647)	31,508	5,383
Income tax expense	42,365	102,690	145,055	129,853

Notes To The Financial Statements

5 SEGMENT INFORMATION (Continued)

Reconciliation of segment results to profit for the year:

	2011 RMB'000	2010 RMB'000 (Restated)
Segment result for entire aircrafts and aviation parts & components	886,920	1,059,344
Finance income	103,552	80,630
Corporate overheads	(65,608)	(36,016)
Profit before income tax for continuing operations	924,864	1,103,958
Income tax expense	(142,674)	(145,055)
Profit for the year from continuing operations	782,190	958,903
Segment result for automobiles	169,554	1,093,667
Finance income	1,292	59,790
Profit before income tax for discontinued operations	170,846	1,153,457
Income tax expense	(25,529)	(129,853)
Profit for the year from discontinued operations	145,317	1,023,604

Notes To The Financial Statements

6 OTHER INCOME

	2011 RMB'000	2010 RMB'000 (Restated)
Rental income	21,652	19,262
Profit from sale of scrap materials	10,282	10,002
Income from rendering of maintenance and other services	12,562	4,798
Dividend income from available-for-sale financial assets	20,445	6,118
	64,941	40,180

7 OTHER GAINS, NET

	2011 RMB'000	2010 RMB'000 (Restated)
Gain/(loss) on disposal of:		
– Property, plant and equipment	26,280	(872)
– Available-for-sale financial assets	30,482	90,491
– Financial assets held for trading	8,340	6,423
	65,102	96,042

Notes To The Financial Statements

8 EXPENSES BY NATURE

	2011 RMB'000	2010 RMB'000 (Restated)
Advertising costs	4,421	4,132
Amortisation on:		
– Intangible assets	3,613	3,285
– Land use rights	12,855	10,698
Auditors' remuneration	11,074	10,880
Raw materials and consumables used	4,274,329	2,881,407
Changes in inventories of finished goods and work-in-progress	(1,361,791)	(876,078)
Contract costs incurred	4,326,669	3,995,842
Depreciation on:		
– Investment properties	1,430	1,659
– Property, plant and equipment	419,989	374,088
Less: amortisation of deferred income from government grants	(20,437)	(19,177)
	400,982	356,570
Fuel	253,147	232,615
Insurance	13,187	13,153
Operating lease rentals	66,561	33,134
Provision/(reversal of provision) for impairment:		
– Available-for-sale financial assets	–	142
– Inventories	(627)	22,719
– Receivables	11,470	(2,519)
Repairs and maintenance expense	167,639	120,496
Research expenditures and development costs	528,927	505,422
Staff costs, including directors' emoluments (Note 15)	2,290,368	1,832,730
Sub-contracting charges	307,745	266,521
Sundries	579,421	444,197
Transportation expenses	56,912	48,586
Travelling	92,442	80,366
Total cost of sales, selling and distribution expenses, and general and administrative expenses	12,039,344	9,984,298

Notes To The Financial Statements

9 FINANCE COSTS, NET

	2011 RMB'000	2010 RMB'000 (Restated)
Finance income:		
Interest income on bank balances and deposits	103,552	80,630
Finance costs:		
Interest expense on bank borrowings		
– Wholly repayable within 5 years	95,725	106,410
– Not wholly repayable within 5 years	6,295	6,400
Interest expense on other borrowings		
– Wholly repayable within 5 years	28,161	3,624
– Not wholly repayable within 5 years	16,035	17,715
	146,216	134,149
Less: Amount capitalised in property, plant and equipment (note)	(19,452)	(4,790)
	126,764	129,359
Other finance costs	14,106	4,125
	140,870	133,484
	37,318	52,854

Note:

Interest rates per annum at which finance costs were capitalised	4.23%-7.32%	4.82%-5.31%

Notes To The Financial Statements

10 INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000 (Restated)
Current income tax	183,493	148,696
Deferred income tax	(40,819)	(3,641)
	142,674	145,055

Notes:

(a) Except for certain subsidiaries which are taxed at a preferential rate of 15% (2010:15%), 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% (2010: 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:

	2011 RMB'000	2010 RMB'000 (Restated)
Profit before income tax from continuing operations	924,864	1,103,958
Tax calculated at the statutory tax rate of 25%	231,216	275,989
Preferential tax rates on the income of certain subsidiaries	(86,609)	(107,741)
Non-taxable income	(14,161)	(27,692)
Expenses not deductible for tax purposes	21,145	15,054
Others	(8,917)	(10,555)
Tax charge	142,674	145,055

Notes To The Financial Statements

11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The aggregate results and cash flows of the discontinued operations related to Dongan Motor before being distributed to AVIC during the year (Note 1(a)) were as follows:

	2011 RMB'000	2010 RMB'000
Revenue	864,457	6,351,052
Expenses	(693,611)	(5,197,595)
Profit before income tax	170,846	1,153,457
Income tax expense	(25,529)	(129,853)
Profit from discontinued operations	145,317	1,023,604
Net cash (used in)/generated from operating activities	(136,176)	998,928
Net cash generated from/(used in) investing activities	47,990	(1,366,113)
Net cash used in financing activities	(50,480)	(555,058)
Net cash outflows	(138,666)	(922,243)

Notes To The Financial Statements

11 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

The assets/liabilities held for sale as at 31 December related to the distribution of Dongan Motor set out in note 1(a) were as follows:

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Assets classified as held for sale				
Property, plant and equipment	–	1,911,952	–	–
Land use rights	–	62,276	–	–
Interests in subsidiaries	–	–	–	795,213
Interests in associates	–	26,838	–	–
Deferred income tax assets	–	72,670	–	–
Accounts receivable	–	1,863,260	–	–
Advances to suppliers	–	18,118	–	–
Other receivables and prepayments	–	42,140	–	–
Inventories	–	776,057	–	–
Pledged deposits	–	55,469	–	–
Term deposits with initial term of over three months	–	2,375,000	–	–
Cash and cash equivalents	–	481,483	–	–
	–	7,685,263	–	795,213
Liabilities directly associated with assets classified as held for sale				
Long-term borrowings	–	200,000	–	–
Accounts payable	–	1,470,661	–	–
Advances from customers	–	135,792	–	–
Other payables and accruals	–	940,607	–	–
Short-term borrowings	–	198,526	–	–
Current income tax liabilities	–	29,487	–	–
	–	2,975,073	–	–

Notes To The Financial Statements

12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB54,671,000 (2010: RMB 589,182,000).

13 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding shares held for the restricted share incentive scheme (Note 38).

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares issued under the restricted share incentive scheme. A calculation is done to determine the number of shares that could have been converted at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding unvested awarded shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the conversion of the restricted shares, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per shares, of which details are as follows:

	2011 RMB'000	2010 RMB'000 (Restated)
Profit attributable to equity holders of the Company from		
– continuing operations	348,286	503,371
– discontinued operations	54,777	381,431
	403,063	884,802
Weighted average number of ordinary shares in issue less shares held for restricted share scheme for calculating basic earnings per share (thousands)	4,921,265	4,891,289
Potential dilutive effect arising from restricted shares (thousands)	9,620	–
Weighted average number of ordinary shares in issue for calculating diluted earnings per share (thousands)	4,930,885	4,891,289

Notes To The Financial Statements

14 DIVIDEND

	2011 RMB'000	2010 RMB'000
Final dividend, proposed of RMB0.01 (2010: RMB0.01) per share	54,744	49,490

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 2012.

15 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2011 RMB'000	2010 RMB'000 (Restated)
Wages, salaries and bonuses	1,475,278	1,180,503
Housing benefits	177,033	141,660
Restricted shares (Note 38)	20,390	–
Contributions to pension plans	295,056	236,101
Welfare and other expenses	322,611	274,466
	2,290,368	1,832,730

Notes To The Financial Statements

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

(a) Directors' emoluments

The emoluments of each of the directors of the Company for the years ended 31 December 2011 and 2010 are set out below.

	Year ended 31 December 2011				
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	–	450	–	–	450
Tan Ruisong	–	500	–	–	500
Wu Xiandong	–	450	–	–	450
Non-executive directors					
Gu Huizhong	380	–	–	–	380
Xu Zhanbin	380	–	–	–	380
Geng Ruguang	380	–	–	–	380
Zhang Xinguo	380	–	–	–	380
Gao Jianshe	380	–	–	–	380
Li Fangyong	380	–	–	–	380
Chen Yuanxian	320	–	–	–	320
Wang Yong	60	–	–	–	60
Maurice Savart	60	–	–	–	60
Independent non-executive directors					
Lau Chungman	150	–	–	–	150
Guo Chongqing	100	–	–	–	100
Li Xianzong	100	–	–	–	100
	3,070	1,400	–	–	4,470

Notes To The Financial Statements

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

(a) Directors' emoluments (Continued)

	Year ended 31 December 2010				
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	–	450	–	–	450
Tan Ruisong	–	500	–	–	500
Wu Xiandong	–	450	–	–	450
Non-executive directors					
Gu Huizhong	380	–	–	–	380
Xu Zhanbin	380	–	–	–	380
Geng Ruguang	380	–	–	–	380
Zhang Xinguo	380	–	–	–	380
Gao Jianshe	380	–	–	–	380
Li Fangyong	380	–	–	–	380
Chen Yuanxian	320	–	–	–	320
Wang Yong	60	–	–	–	60
Maurice Savart	60	–	–	–	60
Independent non-executive directors					
Lau Chungman	150	–	–	–	150
Guo Chongqing	100	–	–	–	100
Li Xianzong	100	–	–	–	100
	3,070	1,400	–	–	4,470

Notes To The Financial Statements

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

(b) Supervisors' emoluments

The emoluments of each of the supervisors of the Company for the years ended 31 December 2011 and 2010 are set out below.

	Year ended 31 December 2011				
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 (note(i))	380	–	–	–	380
Tang Jianguo (note(i))	380	–	–	–	380
Bai Ping	320	–	–	–	320
Wang Yuming	40	–	–	–	40
Yu Guanghai	40	–	–	–	40
	1,160	–	–	–	1,160

Notes:

(i) Resigned on 30 December 2011

	Year ended 31 December 2010				
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	380	–	–	–	380
Tang Jianguo	380	–	–	–	380
Bai Ping	320	–	–	–	320
Wang Yuming	40	–	–	–	40
Yu Guanghai	40	–	–	–	40
	1,160	–	–	–	1,160

Notes To The Financial Statements

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

(c) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year included five (2010: five) directors/supervisors whose emoluments are reflected in the analyses presented above.

(d) No directors or supervisors of the Company waived any emoluments during the years ended 31 December 2010 and 2011. 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 (2010: Nil).

17 PROPERTY, PLANT AND EQUIPMENT

	Group				
	Construction in progress RMB'000	Buildings RMB'000	Plant and equipment RMB'000	Furniture and fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost					
As at 1 January 2011	571,790	1,962,568	3,022,696	922,308	6,479,362
Additions	347,403	78,367	202,332	81,330	709,432
Transfer upon completion	(340,755)	83,072	104,044	153,639	–
Disposals/write-off	(23,836)	(65,491)	(141,333)	(37,881)	(268,541)
As at 31 December 2011	554,602	2,058,516	3,187,739	1,119,396	6,920,253
Accumulated depreciation and impairment					
As at 1 January 2011	–	600,106	1,378,095	496,809	2,475,010
Depreciation	–	72,725	259,075	88,189	419,989
Disposals/write-off	–	(18,183)	(97,657)	(24,836)	(140,676)
As at 31 December 2011	–	654,648	1,539,513	560,162	2,754,323
Net book value					
As at 31 December 2011	554,602	1,403,868	1,648,226	559,234	4,165,930

Notes To The Financial Statements

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Group				
	Construction in progress RMB'000 (Restated)	Buildings RMB'000 (Restated)	Plant and equipment RMB'000 (Restated)	Furniture and fixtures, other equipment and motor vehicles RMB'000 (Restated)	Total RMB'000 (Restated)
Cost					
As at 1 January 2010	498,181	1,843,886	2,627,772	845,572	5,815,411
Additions	341,828	103,069	309,625	85,820	840,342
Transfer upon completion	(268,219)	58,624	124,645	84,950	–
Disposals/write-off	–	(43,011)	(39,346)	(94,034)	(176,391)
As at 31 December 2010	571,790	1,962,568	3,022,696	922,308	6,479,362
Accumulated depreciation and impairment					
As at 1 January 2010	–	568,085	1,154,088	452,251	2,174,424
Depreciation	–	54,687	246,631	72,770	374,088
Disposals/write-off	–	(22,666)	(22,624)	(28,212)	(73,502)
As at 31 December 2010	–	600,106	1,378,095	496,809	2,475,010
Net book value					
As at 31 December 2010	571,790	1,362,462	1,644,601	425,499	4,004,352

Notes To The Financial Statements

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Company			
	Buildings RMB'000	Plant and equipment RMB'000	Furniture and fixtures, other equipment and motor vehicles RMB'000	Total RMB'000
Cost				
As at 1 January 2011	14,647	6,637	10,975	32,259
Additions	–	–	1,350	1,350
Disposals/write-off		(3,235)	(961)	(4,196)
As at 31 December 2011	14,647	3,402	11,364	29,413
Accumulated depreciation and impairment				
As at 1 January 2011	485	4,156	6,355	10,996
Depreciation	464	35	993	1,492
Disposals/write-off	–	(3,235)	(958)	(4,193)
As at 31 December 2011	949	956	6,390	8,295
Net book value				
As at 31 December 2011	13,698	2,446	4,974	21,118
Cost				
As at 1 January 2010	14,220	6,637	9,816	30,673
Additions	427	–	1,159	1,586
As at 31 December 2010	14,647	6,637	10,975	32,259
Accumulated depreciation and impairment				
As at 1 January 2010	38	4,096	5,676	9,810
Depreciation	447	60	679	1,186
As at 31 December 2010	485	4,156	6,355	10,996
Net book value				
As at 31 December 2010	14,162	2,481	4,620	21,263

Notes To The Financial Statements

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

As at 31 December 2011, certain of the Group's property, plant and equipment with carrying value of approximately RMB300,324,000 (2010: RMB306,960,000) 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 31 December 2011 ranged from 11 to 38 years (2010: 12 to 39 years).

18 INVESTMENT PROPERTIES

	Group	
	2011 RMB'000	2010 RMB'000 (Restated)
Cost		
As at 1 January	61,371	61,371
Disposal	(25,239)	–
As at 31 December	36,132	61,371
Accumulated depreciation		
As at 1 January	9,224	7,565
Depreciation	1,430	1,659
Disposal	(2,568)	–
As at 31 December	8,086	9,224
Net book value		
As at 31 December	28,046	52,147
At valuation (note)	29,445	55,431

Note:

All investment properties are located in the PRC and their valuations as at 31 December 2011 and 2010 stated above were determined by management on an open market value basis.

Notes To The Financial Statements

19 LAND USE RIGHTS

	Group 2011 RMB'000	2010 RMB'000 (Restated)
Cost		
As at 1 January	550,085	418,593
Additions	106,212	131,492
Disposal	(10,328)	–
As at 31 December	645,969	550,085
Accumulated amortisation		
As at 1 January	62,875	52,177
Amortisation	12,855	10,698
Disposal	(2,523)	–
As at 31 December	73,207	62,875
Net book amount		
As at 31 December	572,762	487,210

All the Group's land use rights are located in the PRC and are held under leases for periods varying from 30 to 50 years. The Group is in the process of applying for the legal title for land use rights with net book value of RMB68,835,000 as at 31 December 2011.

Notes To The Financial Statements

20 INTANGIBLE ASSETS

	Group			Company
	Development costs RMB'000	Technology know-how RMB'000	Total RMB'000	Technology know-how RMB'000
Cost				
As at 1 January 2011	228,934	26,985	255,919	–
Additions	6,377	3,535	9,912	3,535
Disposal (note)	(201,486)	(535)	(202,021)	–
As at 31 December 2011	33,825	29,985	63,810	3,535
Accumulated amortisation and impairment				
As at 1 January 2011	–	9,324	9,324	–
Amortisation	–	3,613	3,613	832
As at 31 December 2011	–	12,937	12,937	832
Net book amount				
As at 31 December 2011	33,825	17,048	50,873	2,703

Note:

During the year ended 31 December 2011, the Group transferred the development cost related to certain models of aircraft to fellow subsidiaries at cost.

Notes To The Financial Statements

20 INTANGIBLE ASSETS (Continued)

	Group			Company
	Development costs RMB'000 (Restated)	Technology know-how RMB'000 (Restated)	Total RMB'000 (Restated)	Technology know-how RMB'000
Cost				
As at 1 January 2010	224,017	23,485	247,502	–
Additions	4,917	3,500	8,417	–
As at 31 December 2010	228,934	26,985	255,919	–
Accumulated amortisation and impairment				
As at 1 January 2010	–	6,039	6,039	–
Amortisation	–	3,285	3,285	–
As at 31 December 2010	–	9,324	9,324	–
Net book amount				
As at 31 December 2010	228,934	17,661	246,595	–

Notes To The Financial Statements

21 INTERESTS IN SUBSIDIARIES

	Company	
	2011	2010
	RMB'000	RMB'000
Investments, at cost		
– Shares listed in the PRC	3,001,321	1,523,977
– Unlisted investments	711,869	1,620,530
	3,713,190	3,144,507
Loans to subsidiaries (note)	268,000	100,000
	3,981,190	3,244,507
Market value of listed shares	16,889,850	19,041,540

Particulars of principal subsidiaries of the Group as at 31 December 2011 are set out in Note 45.

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.

Notes To The Financial Statements

22 SHARE OF RESULTS OF/INTERESTS IN ASSOCIATES

	Group	
	2011	2010
	RMB'000	RMB'000 (Restated)
Share of net assets, as at 1 January	848,236	395,727
Share of results of associates		
– (loss)/profit before income tax	(33,584)	42,010
– income tax credit/(expense)	4,444	(10,502)
	(29,140)	31,508
Dividends received from associates	(340)	(1,035)
New investments	118,728	422,036
Share of net assets, as at 31 December	937,484	848,236

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted investment, at cost	102,045	102,045

Particulars of principal associates of the Group as at 31 December 2011 are set out in Note 45.

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Listed equity securities, at fair value	295,518	473,347	–	–
Unlisted investments (note)	331,821	244,294	31,022	31,022
Less: provision for impairment	(2,243)	(2,243)	–	–
	329,578	242,051	31,022	31,022
	625,096	715,398	31,022	31,022

Notes To The Financial Statements

23 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Note:

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

24 DEFERRED INCOME TAXES

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

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

Deferred income tax assets:

	Group	
	2011	2010
	RMB'000	RMB'000 (Restated)
As at 1 January	49,541	55,414
Credited/(charged) to consolidated income statement	16,713	(5,873)
As at 31 December	66,254	49,541

Deferred income tax liabilities:

	Group	
	2011	2010
	RMB'000	RMB'000 (Restated)
As at 1 January	(60,300)	(39,672)
Credited to consolidated income statement	24,106	9,514
Credited/(charged) to available-for-sale financial assets reserve	25,973	(30,142)
As at 31 December	(10,221)	(60,300)

Notes To The Financial Statements

24 DEFERRED INCOME TAXES (Continued)

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

	Group	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Deferred income tax assets:		
Provision for impairment of receivables	29,035	28,518
Provision for impairment of inventories	16,886	17,316
Other temporary differences	60,001	40,514
	105,922	86,348
Deferred income tax liabilities:		
Development costs	5,074	26,473
Fair value changes on available-for-sale financial assets	41,873	67,846
Other temporary differences	2,942	2,788
	49,889	97,107
Total deferred income tax assets less total deferred income tax liabilities	56,033	(10,759)

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	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Representing:		
Deferred income tax assets	66,254	49,541
Deferred income tax liabilities	(10,221)	(60,300)
Total deferred income tax assets less total deferred income tax liabilities	56,033	(10,759)

Notes To The Financial Statements

24 DEFERRED INCOME TAXES (Continued)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB89 million (2010: RMB76 million) in respect of tax losses amounting to approximately RMB378 million (2010: RMB316 million) that can be carried forward against future taxable income. These unrecognised tax losses are expiring within 5 years.

25 ACCOUNTS RECEIVABLE

	Group	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Trade receivables, gross (note (a))		
– Fellow subsidiaries (Note 42(b))	2,523,760	1,711,836
– Others	1,243,945	1,144,004
	3,767,705	2,855,840
Less: provision for impairment of receivables	(176,592)	(165,122)
	3,591,113	2,690,718
Notes receivable (note (c))		
– Fellow subsidiaries (Note 42(b))	370,095	584,328
– Others	268,750	293,852
	638,845	878,180
	4,229,958	3,568,898

Notes To The Financial Statements

25 ACCOUNTS RECEIVABLE (Continued)

Notes:

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

	Group	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Current to 1 year	3,400,400	2,476,825
1 year to 2 years	252,465	190,323
Over 2 years	114,840	188,692
	3,767,705	2,855,840

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.

As of 31 December 2011, trade receivables of RMB971,529,000 (2010: RMB827,604,000 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	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Up to 1 year	742,434	604,479
1 year to 2 years	229,095	186,112
Over 2 years	–	37,013
	971,529	827,604

Notes To The Financial Statements

25 ACCOUNTS RECEIVABLE (Continued)

Notes: (continued)

(a) As of 31 December 2011, trade receivables of RMB176,592,000(2010: RMB165,122,000 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	
	2011 RMB'000	2010 RMB'000 (Restated)
Current to 1 year	38,382	9,232
1 year to 2 years	23,370	4,211
Over 2 years	114,840	151,679
	176,592	165,122

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

	Group	
	2011 RMB'000	2010 RMB'000 (Restated)
At 1 January	165,122	167,641
Provision for impairment of accounts receivable	61,849	30,247
Unused amounts reversed	(50,379)	(32,766)
At 31 December	176,592	165,122

(b) Trade receivables from these related companies are unsecured, non-interest bearing and are repayable in accordance with the relevant trading terms. Details of these balances are disclosed in Note 42(b).

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

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

(e) Certain trade receivables were pledged as security for bank loans (Note 36 (g)) as at 31 December 2011.

Notes To The Financial Statements

26 ADVANCES TO SUPPLIERS

	Group	
	2011	2010
	RMB'000	RMB'000
		(Restated)
– Fellow subsidiaries (Note 42(b))	203,615	139,250
– Others	616,429	383,011
	820,044	522,261

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

27 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Amounts due from customers for contract work (Note 29)	248,332	381,083	–	–
Dividends receivable from subsidiaries	–	–	50,748	143,140
Other advances to (note)				
– ultimate holding company	7,240	10,136	–	–
– fellow subsidiaries	150,017	112,535	109,351	109,351
Other receivables	362,443	271,151	–	–
Prepayments and deposits	65,576	52,889	4,906	11,007
Other current assets	125,919	84,932	–	–
	959,527	912,726	165,005	263,498

Note:

Other advances mainly represent current account balances with the respective related companies which are unsecured, non-interest bearing and are repayable on demand. Details of these balances are disclosed in Note 42(b).

Notes To The Financial Statements

28 INVENTORIES

	Group 2011 RMB'000	2010 RMB'000 (Restated)
Raw materials	3,822,543	2,867,694
Work in progress	3,200,911	2,037,410
Finished goods	1,023,195	824,905
Consumables	65,885	66,768
	8,112,534	5,796,777
Less: provision for impairment losses	(116,794)	(117,421)
	7,995,740	5,679,356

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB10,120,438,000 (2010: RMB8,316,521,000 as restated).

29 CONTRACTS IN PROGRESS

	Group 2011 RMB'000	2010 RMB'000 (Restated)
Contracts in progress at balance sheet date:		
Amounts due from customers for contract work (Note 27)	248,332	381,083
Total of contract costs incurred and profits recognised to date	6,837,786	6,438,762

At 31 December 2011, no retentions were held by customers for contract work (2010: Nil).

30 PLEDGED DEPOSITS

	Group 2011 RMB'000	2010 RMB'000 (Restated)
Renminbi denominated deposits	624,554	153,209

As at 31 December 2011, trade finance facilities utilised by the Group for issuing notes payable to its suppliers amounting to RMB1,359,060,000 (2010: RMB696,436,000 as restated) were secured by these pledged deposits (Note 32(c)).

Pledged deposits earn interest at rates ranging from 0.50% to 3.30% (2010: 0.36% to 2.50%). 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.

Notes To The Financial Statements

31 TERM DEPOSITS WITH INITIAL TERM OF OVER THREE MONTHS

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

	Group		Company	
	2011	2010	2011	2010
Currency	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Renminbi[1]	2,274,154	2,650,584	1,900,000	2,291,000
Hong Kong Dollar	39,815	41,723	39,815	41,723
	2,313,969	2,692,307	1,939,815	2,332,723

The weighted average effective interest rates of the Group and the Company on term deposits with initial term of over three months were 3.07% (2010: 2.53%) and 3.18% (2010: 2.51%) per annum respectively.

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

32 ACCOUNTS PAYABLE

	Group	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Trade payables (note (a))		
– Fellow subsidiaries (Note 42 (b))	1,299,519	907,714
– Others	3,711,119	3,426,704
	5,010,638	4,334,418
Notes payable (note (c))		
– Fellow subsidiaries (Note 42 (b))	873,076	555,126
– Others	896,808	600,550
	1,769,884	1,155,676
	6,780,522	5,490,094

Notes To The Financial Statements

32 ACCOUNTS PAYABLE (Continued)

Notes:

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

	Group	
	2011 RMB'000	2010 RMB'000 (Restated)
Current to 1 year	4,239,376	3,444,045
1 year to 2 years	421,840	564,554
2 years to 3 years	90,902	132,944
Over 3 years	258,520	192,875
	5,010,638	4,334,418

(b) Trade payables to fellow subsidiaries are unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms. Details of these balances are disclosed in Note 42(b).

(c) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months. As at 31 December 2011, notes payable of RMB1,359,060,000 (2010: RMB696,436,000 as restated) were secured by pledged deposits to the extent of RMB624,554,000 (2010: RMB153,209,000 as restated).

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

33 ADVANCES FROM CUSTOMERS

	Group	
	2011 RMB'000	2010 RMB'000 (Restated)
– Fellow subsidiaries (Note 42(b))	3,622,498	2,102,320
– Others	313,311	294,612
	3,935,809	2,396,932

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.

Notes To The Financial Statements

34 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Payable for property, plant and equipment				
– Fellow subsidiaries (note (i))	–	40	–	–
– Others	55,964	20,546	23	8
Wages, salaries, bonuses and other employee benefits	925,934	853,320	8,139	7,611
Accrued expenses	498,402	470,979	3,300	4,700
Deferred income from government grants	25,398	19,820		–
Consumption tax, business tax and other taxes payable	32,303	22,718	520	807
Other advances from (note (ii))				
– Ultimate holding company	4,013	5,764	1,632	154
– Fellow subsidiaries	48,682	115,924	4,733	674
Dividend payable to non-controlling shareholders of a subsidiary	2,976	–	–	–
Advances from participants of restricted share scheme (Note 38)	64,707	–	64,707	–
Other current liabilities	70,634	86,403	14	214
	1,729,013	1,595,514	83,068	14,168

Notes:

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

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

Details of these balances with related parties are disclosed in Note 42(b).

35 AMOUNTS PAYABLE TO ULTIMATE HOLDING COMPANY

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Balance arising from Group restructure	150,091	908,661	150,090	908,661
Others	316,288	370,524	260,062	314,298
	466,379	1,279,185	410,152	1,222,959

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

Notes To The Financial Statements

36 BORROWINGS

	Group 2011 RMB'000	Group 2010 RMB'000 (Restated)
Short-term borrowings		
Bank borrowings		
– Secured (note (g))	170,000	137,000
– Unsecured	840,705	995,300
	1,010,705	1,132,300
Other borrowings (note (c))		
– Secured (note (g))	80,599	28,000
– Unsecured	545,000	362,000
	1,636,304	1,522,300
Current portion of long-term borrowings	251,000	551,000
	1,887,304	2,073,300
Long-term borrowings		
Bank borrowings		
– Secured (note (g))	759,080	860,080
Other borrowings (note (c))		
– Unsecured	663,000	648,000
	1,422,080	1,508,080
Less: Current portion of long-term borrowings	(251,000)	(551,000)
	1,171,080	957,080
Total borrowings	3,058,384	3,030,380

Notes To The Financial Statements

36 BORROWINGS (Continued)

Notes:

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

	Group 2011 RMB'000	Group 2010 RMB'000 (Restated)
Wholly repayable within five years		
– Bank borrowings	759,080	760,080
– Other borrowings	279,750	65,000
	1,038,830	825,080
Not wholly repayable within five years		
– Bank borrowings	–	100,000
– Other borrowings	383,250	583,000
	383,250	683,000
	1,422,080	1,508,080

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

	Group 2011 RMB'000	Group 2010 RMB'000 (Restated)
Bank borrowings		
– Within one year	191,000	551,000
– In the second year	553,000	196,000
– In the third to fifth year	15,080	13,080
– After the fifth year	–	100,000
	759,080	860,080
Other borrowings		
– Within one year	60,000	–
– In the second year	20,000	45,000
– In the third to fifth year	199,750	20,000
– After the fifth year	383,250	583,000
	663,000	648,000
	1,422,080	1,508,080

(c) As at 31 December 2011 and 2010, other borrowings represent loans granted by a fellow subsidiary of the Group which bear interests at 4% to 5% per annum.

Notes To The Financial Statements

36 BORROWINGS (Continued)

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

	Group	
	2011 RMB'000	2010 RMB'000 (Restated)
Bank borrowings		
– Fixed rates	639,985	1,117,300
– Floating rates	1,129,800	875,080
	1,769,785	1,992,380
Other borrowings		
– Fixed rates	1,099,349	792,250
– Floating rates	189,250	245,750
	1,288,599	1,038,000
	3,058,384	3,030,380

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

	Group	
	2011	2010 (Restated)
Weighted average effective interest rates		
– Bank borrowings	6%	5%
– Other borrowings	4%	5%

(e) The carrying amounts of long-term and short-term borrowings are denominated in Renminbi.

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

	Group			
	Carrying amount		Fair value	
	2011 RMB'000	2010 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000 (Restated)
Bank borrowings	568,080	309,080	549,163	300,203
Other borrowings	603,000	648,000	545,321	615,977
	1,171,080	957,080	1,094,484	916,180

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristic as at the balance sheet dates. Such discount rates ranged from 6.65% to 7.05% as at 31 December 2011 (2010: 5.85% to 6.40%), depending on the type of the debt.

Notes To The Financial Statements

36 BORROWINGS (Continued)

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

	Group 2011 RMB'000	Group 2010 RMB'000 (Restated)
Securities over the Group's assets, at carrying value		
– Accounts receivable (Note 25(e))	319,830	46,970
Guarantees provided by		
– Related companies (Note 42(c))	29,080	243,110
– Subsidiaries within the Group	750,000	735,000
	779,080	978,110

(h) As at 31 December 2011, the Group had the following undrawn committed borrowing facilities.

	Group 2011 RMB'000	Group 2010 RMB'000 (Restated)
At floating rates		
– Expiring within one year	1,344,005	1,303,090

37 SHARE CAPITAL

	Company 2011 RMB'000	Company 2010 RMB'000
Registered:	4,949,025	4,949,025
Issued and fully paid:		
2,934,590,598 Domestic Shares of RMB 1 each	2,934,591	2,934,591
2,014,433,902 H Shares of RMB 1 each	2,014,434	2,014,434
	4,949,025	4,949,025

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.

Notes To The Financial Statements

38 SHARE-BASED COMPENSATION

On 29 March 2011, the Company adopted a restricted share incentive scheme (the "Scheme") with a duration of 10 years.

Upon the grant of restricted shares to Scheme participants, 50% of the grant price was funded by the Scheme participants amounting to approximately RMB64,707,000. These restricted shares would vest gradually after the Scheme participants complete a period of service of 2 to 4 years from the date of grant.

During the year, 37,013,900 of the company's shares were acquired from the market. The total amount paid to acquire the shares was approximately RMB139,994,000 and deducted from reserves within equity. The shares have been held as restricted shares by a trustee before they are vested.

On 30 March 2011, the Board of Directors approved an initial grant of restricted shares under the Scheme, pursuant to which approximately 37,013,900 restricted shares, representing approximately 0.748% of the issued share capital of the Company, were granted to 149 selected Scheme participants at the grant price of HK$4.15 per share.

Movements in the number of restricted shares granted and related fair value are as follows:

	Average fair value (per share) HK$	Number of restricted shares granted (Thousands)
As at 1 January 2011		–
Granted	4.15	37,014
As at 31 December 2011		37,014

The fair value of restricted shares granted under the above scheme during the year was determined by reference to the market value of the Company's shares. The fair value of restricted shares charged to the consolidated income statement was RMB20,390,000 during the year ended 31 December 2011.

Notes To The Financial Statements

39 RESERVES

	Company					
	Shares held for restricted share scheme RMB'000	Capital reserve RMB'000 (Note (b))	Share-based compensation reserve RMB'000	Statutory surplus reserve RMB'000 (Note (c))	Retained earnings/ (accumulated losses) RMB'000 (Note (d))	Total RMB'000
Balance at 1 January 2011	–	586,135	–	37,581	57,625	681,341
Profit for the year	–	–	–	–	54,671	54,671
Deemed contribution from holding company	–	338,941	–	–	–	338,941
Purchase of restricted shares under share scheme (Note 38)	(139,994)	–	–	–	–	(139,994)
Value of employee services under share scheme (Note 38)	–	–	20,390	–	–	20,390
2010 final dividend	–	–	–	–	(49,490)	(49,490)
Transfer to statutory surplus reserve	–	–	–	5,467	(5,467)	–
At 31 December 2011	(139,994)	925,076	20,390	43,048	57,339	905,859
Balance at 1 January 2010	–	(2,073)	–	31,178	(525,154)	(496,049)
Issuance of new shares	–	588,208	–	–	–	588,208
Profit for the year	–	–	–	–	589,182	589,182
Transfer to statutory surplus reserve	–	–	–	6,403	(6,403)	–
At 31 December 2010	–	586,135	–	37,581	57,625	681,341

Notes:

(a) Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 65 to 66.

(b) Capital reserve

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

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

(c) Statutory surplus reserve

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

(d) Retained earnings available for distribution

In accordance with the relevant PRC regulations and Articles of Association of the Company, retained earnings available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with the PRC GAAP and the amount determined in accordance with IFRS. As at 31 December 2011, the retained earnings available for distribution was approximately RMB57,339,000 (2010: RMB57,625,000).

Notes To The Financial Statements

40 CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations of continuing operations:

	Group	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Profit before income tax	924,864	1,103,958
Adjustments for:		
Share of results of associates	29,140	(31,508)
(Gain)/loss on disposal of		
– Property, plant and equipment	(26,280)	872
– Available-for-sale financial assets	(30,482)	(90,491)
Amortisation on		
– Intangible assets	3,613	3,285
– Land use rights	12,855	10,698
Depreciation on		
– Investment properties	1,430	1,659
– Property, plant and equipment	419,989	374,088
Value of employee services under share scheme	20,390	–
(Reversal of provision)/provision for impairment		
– Available-for-sale financial assets	–	142
– Inventories	(627)	22,719
– Receivables	11,470	(2,519)
Dividend income from available-for-sale financial assets	(20,445)	(6,118)
Interest income	(103,552)	(80,630)
Interest expense	126,764	129,359
	1,369,129	1,435,514
Changes in working capital:		
– (Increase)/decrease in accounts receivable	(672,530)	252,490
– Increase in advances to suppliers, other receivables and prepayments	(103,699)	(390,284)
– Increase in inventories	(2,315,757)	(1,531,724)
– Decrease in financial assets held for trading	–	101
– (Increase)/decrease in pledged deposits	(471,345)	20,455
– Increase in accounts payable	1,290,428	1,434,425
– Decrease in amounts payable to ultimate holding company	(213,389)	–
– Increase in advance from customers, other payables and accruals	1,546,631	1,425,221
Net cash generated from operations of continuing operations	429,468	2,646,198

Notes To The Financial Statements

40 CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	Group	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Net book amount	127,865	102,889
Gain/(loss) on sale of property, plant and equipment (Note 7)	26,280	(872)
Receivables from sale of property, plant and equipment	–	(8,292)
Proceeds from sale of property, plant and equipment	154,145	93,725

(c) Distribution of Dongan Motor:

	Group	
	2011	2010
	RMB'000	RMB'000
Non-current assets	2,791,465	–
Current assets	4,357,242	–
Total assets	7,148,707	–
Total liabilities	(2,360,835)	–
Non-controlling interests	(2,900,867)	–
Net assets distributed	1,887,005	–
Total consideration	(599,417)	–
	1,287,588	–

Net cash outflow from distribution is determined as follows:

Proceeds received	–	–
Less: cash and cash equivalents distributed	(342,817)	–
	(342,817)	–

Notes To The Financial Statements

40 CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Analysis of cash and cash equivalents

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Bank balances and cash	6,068,227	6,261,210	55,206	60,522
Term deposits with initial term of less than three months	119,596	156,700	50,000	16,700
	6,187,823	6,417,910	105,206	77,222

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

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Renminbi*	6,091,473	6,301,325	88,930	68,540
Other currencies	96,350	116,585	16,276	8,682
	6,187,823	6,417,910	105,206	77,222

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% (2010: 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.

Notes To The Financial Statements

41 COMMITMENTS

(a) Capital commitments

The Group and the Company have the following capital commitments not provided for as at 31 December 2011:

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Acquisition of property, plant and equipment				
– Authorised but not contracted for	105,426	138,917	–	–
– Contracted but not provided for	65,864	24,861	–	–
	171,290	163,778	–	–
Construction commitments				
– Authorised but not contracted for	27,176	25,150	–	–
– Contracted but not provided for	75,044	70,795	–	–
	102,220	95,945	–	–
Investments in an associate				
– Contracted but not provided for	–	6,000	–	–
	273,510	265,723	–	–

Notes To The Financial Statements

41 COMMITMENTS (Continued)

(b) Operating lease commitments

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases as at 31 December 2011:

	Group	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Land and buildings		
– Not later than one year	8,275	27,437
– Later than one year and not later than five years	41,377	41,377
	49,652	68,814

Generally, the Group's operating leases are for terms of 1 to 20 years. The Company did not have any significant operating lease commitment as at 31 December 2011 (2010: Nil).

42 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by AVIC, which owns 56.70% of the Company's shares as at 31 December 2011. The remaining 43.30% 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 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.

Notes To The Financial Statements

42 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant transactions with related parties

	Group	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Income		
Revenue from sale of goods and materials		
– Fellow subsidiaries	9,242,979	7,357,820
Income from rendering of services		
– Fellow subsidiaries	12,562	4,798
Expenses		
Purchases of goods and raw materials		
– Fellow subsidiaries	4,166,630	2,795,835
Service fees payable		
– Ultimate holding company	–	6,700
– Fellow subsidiaries	98,783	93,328
Rental expenses		
– Fellow subsidiaries	31,020	11,235
Key management compensations		
– Salaries, bonuses and other welfares	12,763	7,260

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.

Notes To The Financial Statements

42 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(b) Significant balances with related parties

	Group	
	2011	2010
	RMB'000	RMB'000
		(Restated)
Assets		
Trade receivables		
– Fellow subsidiaries	2,523,760	1,711,836
Notes receivable		
– Fellow subsidiaries	370,095	584,328
Advances to suppliers		
– Fellow subsidiaries	203,615	139,250
Other receivables and prepayments		
– Ultimate holding company	7,240	10,136
– Fellow subsidiaries	150,017	112,535
Liabilities		
Trade payables		
– Fellow subsidiaries	1,299,519	907,714
Notes payable		
– Fellow subsidiaries	873,076	555,126
Advances from customers		
– Fellow subsidiaries	3,622,498	2,102,320
Other payables and accruals		
– Ultimate holding company	4,013	5,764
– Fellow subsidiaries	48,682	115,964

Notes To The Financial Statements

42 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Other items

	Group 2011 RMB'000	2010 RMB'000 (Restated)
(i) Guarantees on bank loans granted to the Group from		
– Ultimate holding company	29,080	20,000
– Fellow subsidiaries	–	223,110

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

43 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Interest-rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the bank deposits and cash and cash equivalents, details of which have been disclosed in Notes 30, 31 and 40(d). The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 36. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. As of 31 December 2011, 57% (2010: 63%) of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31 December 2011, 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 RMB29,277,000 lower/higher.

(ii) Price risk

The Group is principally exposed to equity securities price risk in respect of investments held by the Group which are classified as available-for-sale financial assets. Some of these financial assets are publicly traded in recognised stock exchanges. At 31 December 2011, 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 RMB25,119,000 higher/lower as a result of the changes in fair value of available-for-sale financial assets.

Notes To The Financial Statements

43 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (continued)

(iii) Credit risk

93% (2010: 91%) 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 Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally, the Group does not require collaterals from trade debtors. Management makes periodic collective assessment as well as individual assessment on the recoverability of account and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

(iv) Liquidity risk

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

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

As at 31 December 2011, the net current assets of the Group amounted to RMB8,164,811,000 (2010: RMB11,660,669,000 as restated). Management monitors regularly the Group's current and expected liquidity requirements to ensure it maintains sufficient cash and cash equivalents and has available funding through adequate amount of committed banking facilities to meet its working capital requirements. The amount of undrawn credit facilities at the balance sheet date are disclosed in Note 36(h) to the financial statements. The directors believe that the Group's current operating cash flows and credit facilities from PRC banks are sufficient for financing its capital commitments in the near future and for working capital purposes.

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.

Notes To The Financial Statements

43 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (continued)

(iv) *Liquidity risk* (continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2011				
Bank and other borrowings	2,041,088	631,983	333,070	362,851
Accounts and other payables	7,988,612	–	–	–
Amounts payable to ultimate holding company	466,379	–	–	–
At 31 December 2010 (restated)				
Bank and other borrowings	2,203,726	284,736	280,555	572,040
Accounts and other payables	6,594,809	–	–	–
Amounts payable to ultimate holding company	1,279,185	–	–	–
Company				
At 31 December 2011				
Other payables	82,548	–	–	–
Amounts payable to ultimate holding company	410,152	–	–	–
At 31 December 2010				
Other payables	13,361	–	–	–
Amounts payable to ultimate holding company	1,222,959	–	–	–

Notes To The Financial Statements

43 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 total borrowings divided by total equity as shown in the consolidated balance sheet.

The gearing ratios at 31 December 2011 and at 31 December 2010 were as follows:

	Group	
	2011 RMB'000	2010 RMB'000 (Restated)
Total borrowings (Note 36)	3,058,384	3,030,380
Total equity	13,177,323	16,768,478
Gearing ratio	19%	15%

The increase in the gearing ratio during 2011 resulted primarily from the decrease in total equity as a result of the distribution of Dongan Motor to holding company (Note 1(a)).

(c) Fair value estimation

Certain of the Group's available-for-sale financial assets are traded in active markets and carried at fair value at the balance sheet date by unadjusted quoted price in active markets (level 1). The fair values of these listed equity instruments are disclosed in Note 23 to the financial statements. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

Notes To The Financial Statements

43 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation (continued)

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

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

44 SUBSEQUENT EVENTS

(a) On 18 January 2012, the Company acquired from AVIC Mechanical & Electrical Systems Co., Ltd. ("AMES", a subsidiary of AVIC) its entire 100% equity interests in Tianjin Aviation Mechanical and Electrical Co., Ltd. ("Tianjin Aviation") for a consideration of approximately RMB0.8 billion. The acquisition will be accounted for using merger accounting given the Company and Tianjin Aviation 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 Tianjin Aviation as if it had been combined with the Group throughout the year ending 31 December 2012. Comparative figures as at 31 December 2011 and for the year then ended will be re-presented on the same basis. According to latest financial information of Tianjin Aviation, it had total assets and net assets of approximately RMB1,260 million and RMB896 million respectively as at 31 December 2011, and recorded a revenue and net profit of approximately RMB409 million and RMB139 million respectively for the year then ended.

(b) On 2 March 2012 the Company placed 342 million H shares to public shareholders at HK$3.55 per share with net proceeds of approximately RMB0.9 billion.

Notes To The Financial Statements

45 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Subsidiaries				
Directly held				
Harbin Aviation Industry Group Ltd (哈爾濱航空工業(集團)有限公司)	RMB450,000,000	100%	Limited liability company	Manufacture and sale of general-purpose aeroplane and helicopter
Jiangxi Changhe Aviation Industry Company Limited (江西昌河航空工業有限公司)	RMB270,142,916	100%	Limited liability company	Manufacture and sale of general-purpose aeroplane and helicopter
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	RMB717,114,512	43.63%	Joint stock company (listed on the Shanghai Stock Exchange)	Design, development, manufacture and sale of basic trainers, general– purpose aeroplane and other aero products, including parts and components
China Aviation Optical-Electrical Technology Co., Ltd. (中航光電科技股份有限公司)	RMB401,625,000	43.34%	Joint stock company (listed on the Shenzhen Stock Exchange)	Research and development, manufacturing and sales of electrical connectors, optical components and cable assemblies.
China AVIC Avionics Equipment Co., Ltd. (中航航空電子設備股份有限公司)	RMB821,698,975	44.49%	Joint stock company (listed on the Shanghai Stock Exchange)	Holding investments engaged in aviation equipment business

Notes To The Financial Statements

45 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)	RMB337,350,000	50.05%	Joint stock company (listed on the Shanghai Stock Exchange)	Research, development, design, manufacture and sale of aero products, including parts and components
Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司)	RMB60,000,000	44.49%	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	44.49%	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories
Lanzhou Flight Control Co., Ltd. (蘭州飛行控制有限責任公司)	RMB146,773,263	44.49%	Limited liability company	Research, manufacture and sale of aviation auto control equipments and instruments
Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司)	RMB321,680,000	38.59%	Joint stock company	Research, manufacture and sale of air data systems and various types of aviation instruments

Notes To The Financial Statements

45 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Indirectly held				
Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀表有限責任公司)	RMB 200,000,000	44.49%	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Taiyuan Aviation Instrument Co., Ltd. (太原航空儀表有限公司)	RMB48,334,292	44.49%	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Shaanxi Qianshan Avionics Co., Ltd. (千山航空電子有限責任公司)	RMB245,340,701	44.49%	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories
AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀表有限公司)	RMB 160,000,000	35.59%	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories

Notes To The Financial Statements

45 PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (Continued)

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

Notes:

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

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

Definitions

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

"Agusta"	Agusta S. p. A.
"Airbus Composite Materials"	Harbin Hafei Airbus Composite Materials Manufacture Centre Company Limited, a company in which the Group has 20% interests
"AMES"	AVIC Electromechanical Systems Company Limited (中航機電系統有限公司), a wholly-owned subsidiary of AVIC
"Articles of Association"	Articles and Association of the Company (as amended from time to time)
"AVIC"	Aviation Industry Corporation of China (中國航空工業集團公司), a controlling shareholder of the Company holding 56.70% equity interests of the Company as at 31 December 2011
"AVIC Avionics"	China AVIC Avionics Equipment Co., Ltd., (中航航空電子設備股份有限公司) formerly named as Jiangxi Changhe Automobile Co., Ltd., a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange with 44.49% of its equity interest being held directly by the Company
"AVIC Avionics Systems"	AVIC Avionics Systems Co., Ltd., (中航航空電子系統有限責任公司), a wholly-owned subsidiary of AVIC
"AVIC Group"	AVIC and its subsidiaries (excluding the Group)
"AVIC I"	China Aviation Industry Corporation I (中國航空工業第一集團公司), the predecessor of AVIC
"AVIC II"	China Aviation Industry Corporation II (中國航空工業第二集團公司), a former controlling shareholder of the Company and the predecessor of AVIC
"AVIC Kaitian"	Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), a limited liability company established in the PRC
"AVIC Lanfei"	Lanzhou Flight Control Co., Ltd., (蘭州飛行控制有限責任公司), a limited liability company established in the PRC
"AviChina", "the Company"	AviChina Industry & Technology Company Limited (中國航空科技工業股份有限公司), a joint stock limited company established in the PRC with limited liability on 30 April 2003
"Board" or "Board of Directors"	the board of directors of the Company

Definitions

"Changhe Agusta"	Jiangxi Changhe-Agusta Helicopter Co., Ltd. (江西昌河阿古斯特直升機有限責任公司), a sino-foreign joint venture held as to 60% by Changhe Aviation and 40% by Agusta
"Changhe Auto"	Jiangxi Changhe Automobile Co., Ltd. (江西昌河汽車股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 49.93% of its interests being directly held by the Company, the name of Changhe Auto was changed into AVIC Avionics on 21 December 2009
"Changhe Aviation"	Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司), a wholly-owned subsidiary of the Company
"Directors"	the director(s) of the Company
"Domestic Shares"	ordinary shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in Renminbi by PRC nationals and/or PRC corporate entities
"Dongan Motor"	Harbin Dongan Auto Engine Co., Ltd. (哈爾濱東安汽車動力股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange, which the Company had 54.51% equity interest during the reporting period, but such equity interest had been disposed of by the Company with effect from March 2011
"Eurocopter"	a subsidiary of European Aeronautic Defence and Space Company ("EADS")
"Former AVIC"	Aviation Industry of China Corporation (中國航空工業總公司), the predecessor of AVIC I and AVIC II
"Group"	the Company and its subsidiaries
"H Shares"	overseas listed foreign invested shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are traded in Hong Kong dollars and listed on the Stock Exchange
"Hafei Aviation"	Hafei Aviation Industry Co., Ltd. (哈飛航空工業股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 50.05% of its interests being held by Harbin Aviation Group
"Harbin Embraer"	Harbin Embraer Aircraft Industry Co., Ltd.. (哈爾濱安博威飛機工業有限公司), in which the Company had 24.50% equity interest

Definitions

"Harbin Aviation Group"	Harbin Aviation Industry (Group) Co., Ltd. (哈爾濱航空工業（集團）有限公司), a wholly-owned subsidiary of the Company
"Hongdu Aviation"	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 43.63% of its interests being held by the Company
"Hongdu Group"	Jiangxi Hongdu Aviation Industry Group Corporation (江西洪都航空工業(集團)有限責任公司), a wholly-owned subsidiary of AVIC
"Jingdezhen Helicopter"	AVIChina Industry and Technology Company Limited Jingdezhen Helicopter research and development branch (中國航空科技工業股份有限公司景德鎮直升機研發分公司)
"JONHON Optronic"	China Aviation Optical-Electrical Technology Co., Ltd., (中航光電科技股份有限公司), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, which the Company became the registered holder of 43.34% of its equity interest with effect from 17 March 2011
"Lanzhou Aviation Electrical"	Lanzhou Wanli Aviation Electrical Co., Ltd. (蘭州萬里航空機電有限責任公司), a wholly-owned subsidiary of AVIC Avionics
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Qianshan Avionics"	AVIC Shaanxi Qianshan Avionics Co., Ltd., a limited liability company established in the PRC
"Restricted Shares"	the H Shares granted/to be granted under the Scheme and has the meanings ascribed to such term in the Scheme
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council
"Scheme"	the restricted share incentive scheme adopted by the Company at the extraordinary general meeting of the Company held on 29 March 2011
"Shaanxi Baocheng"	Shaanxi Baocheng Aviation Instrument Co., Ltd., a limited liability company established in the PRC
"Shaanxi Huayan"	AVIC Shaanxi Huayan Aero-Instrument Co., Ltd., a limited liability company established in the PRC

Definitions

"Shanghai Aviation Electric"	Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司), a wholly-owned subsidiary of AVIC Avionics
"Shares"	Domestic Shares and H Shares
"Shenyang Xinghua"	AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd. (沈陽興華航空電器有限責任公司)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisors"	the supervisor(s) of the Company
"Taiyuan Instrument"	AVIC Taiyuan Aviation Instrument Co., Ltd., a limited liability company established in the PRC
"the Group"	AviChina and all or any of its subsidiaries
"the PRC"	People's Republic of China
"Tianjin Aviation"	Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司), a limited liability company established in the PRC
"trainer"	aeroplanes designed and used for pilot training purposes

Corporate Information

BOARD OF DIRECTORS

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

SENIOR MANAGEMENT

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

THE LEGAL NAME OF THE COMPANY

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

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUTHORISED REPRESENTATIVES

Wu Xiandong   Yan Lingxi

PRINCIPAL BANKERS

Shanghai Pudong Development Bank
No.12, Zhongshan Dong
Yi Road, Shanghai, the PRC

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

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

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

PLACE OF LISTING, STOCK NAME AND STOCK CODE

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

REGISTERED ADDRESS

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

WEBSITE

www.avichina.com

Corporate Information

CORRESPONDENCE ADDRESS

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

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

SHARE REGISTRAR

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year 2011 will be held at 9:00 a.m. on Friday, 25 May 2012 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC.

AUDITORS

International Auditors

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

Auditors in the PRC

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

LEGAL ADVISERS

As to Hong Kong law

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

As to PRC law

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