AviChina

AviChina Industry & Technology Company Limited

中国航空科技工业股份有限公司

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

(Stock Code : 2357)

ANNUAL REPORT 2012

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". As of the date of this report, the 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 one of the substantial shareholders of the Company's H Shares is European Aeronautics Defence and Space Company (the "EADS").

The Company principally operates through its subsidiaries. The Group is 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

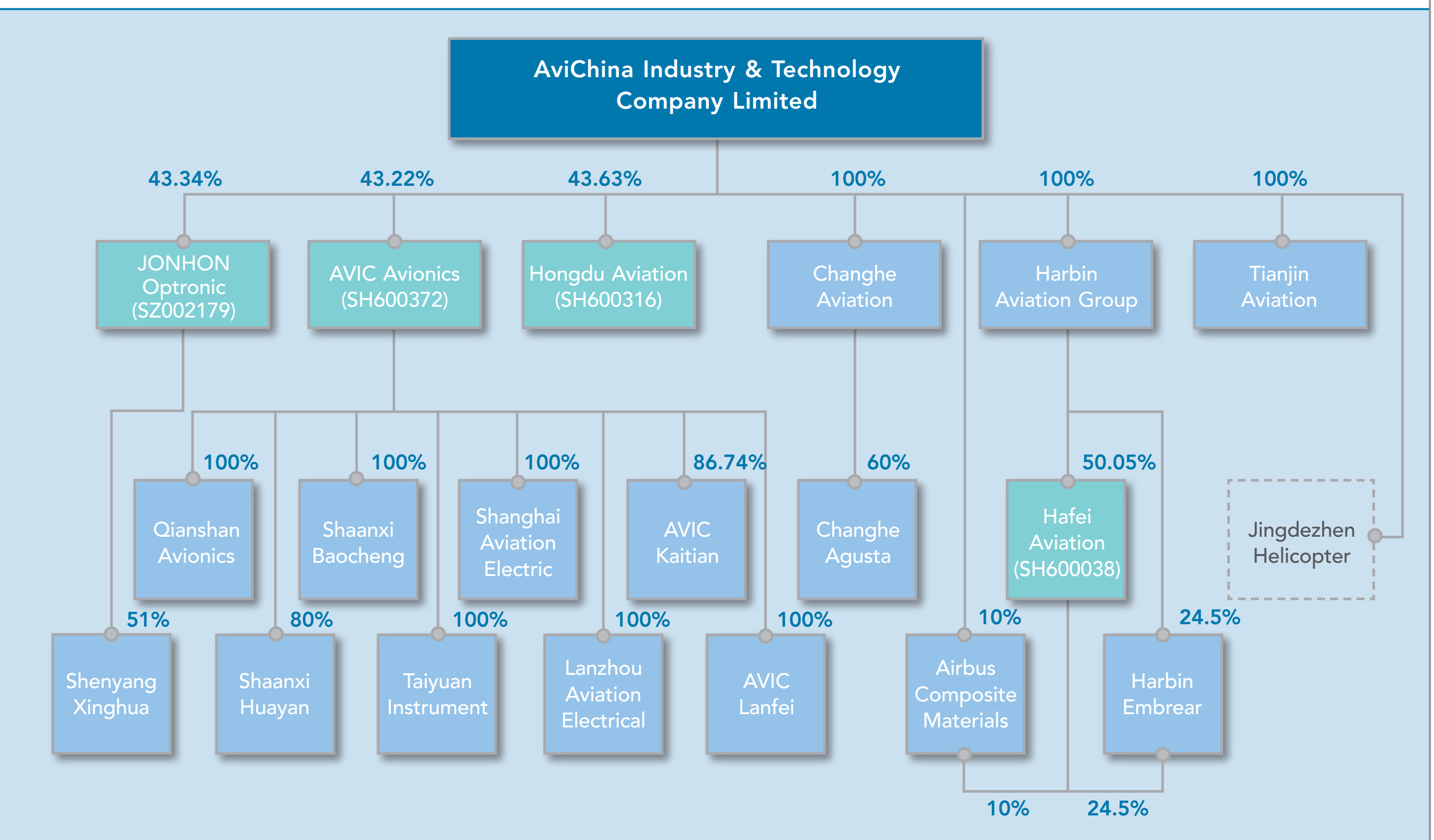
- the co-development and manufacture of aviation products with foreign aviation products manufacturers.

Company Profile

PRINCIPAL PRODUCTS OF THE GROUP

The Z-8, Z-9, Z-11 and HC-I20 helicopters series; L15, K-8 and CJ-6 trainers series; Y-12 multi-purpose aeroplanes series and the N-5 agricultural aeroplanes series; EC-120 helicopters jointly produced by the Group and Eurocopter; CA109 helicopters jointly produced by the Group and Agusta; and Legacy executive series 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

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

	For the year ended 31 December		
	2012	2011 (restated)	Changes
Revenue	16,800	14,136	18.85%
– continuing operations	16,800	13,271	26.59%
Profit before income tax	1,339	1,223	9.48%
– continuing operations	1,339	1,052	27.28%
Profit attributable to the equity holders of the Company	600	499	20.24%
– continuing operations	600	444	35.14%
Gross profit margin	19.46%	20.28%	(0.82%)
Earnings per share for profit attributable to the equity holders of the Company (RMB)			
–Basic	0.112	0.101	10.89%
–Diluted	0.112	0.101	10.89%

CONSOLIDATED ASSETS AND LIABILITIES

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

	As at 31 December		
	2012	2011 (restated)	Changes
Total assets	35,896	30,973	15.89%
Total liabilities	19,403	16,855	15.12%
Non-controlling interests	7,367	6,573	12.08%
Owner's equity (other than non-controlling interests)	9,126	7,545	20.95%

Financial Highlights

Financial information on the Group's comprehensive business in the recent five years starting from 1 January 2008 is summarized as follows:

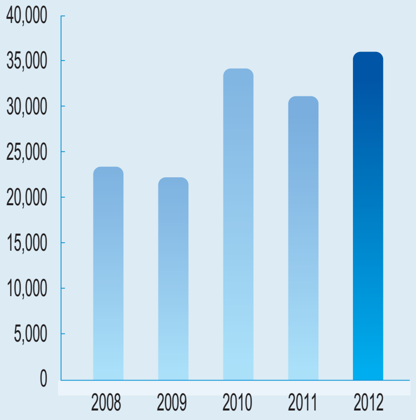
(Prepared under International Financial Reporting Standards)
(RMB million, other than basic and diluted earnings/(loss) per Share)

	As at 31 December/For the year ended 31 December				
	2012	2011 (restated)	2010 (restated)	2009 (restated)	2008 (restated)
Total assets	35,896	30,973	34,035	22,071	23,289
Total liabilities	19,403	16,855	17,267	12,464	17,158
Non-controlling interests	7,367	6,573	8,353	4,244	3,471
Owner's equity (other than non-controlling interests)	9,126	7,545	8,416	5,363	2,660
Revenue	16,800	14,136	17,324	16,613	16,768
Profit/(loss) before income tax	1,339	1,223	2,257	998	(618)
Profit/(loss) attributable to the equity holders of the Company	600	499	885	237	(1,063)
Gross profit margin	19.46%	20.28%	23.23%	18.32%	10.31%
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company (RMB)					
–Basic	0.112	0.101	0.181	0.051	(0.229)
–Diluted	0.112	0.101	0.181	0.051	(0.229)

Financial Highlights

TOTAL ASSETS

(RMB million)

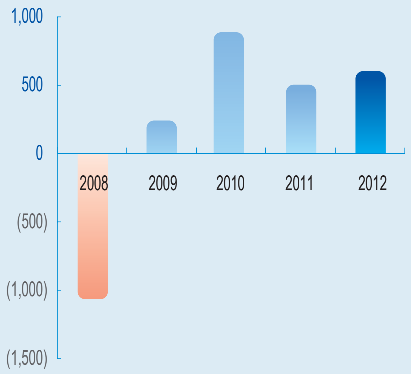


REVENUE

(RMB million)

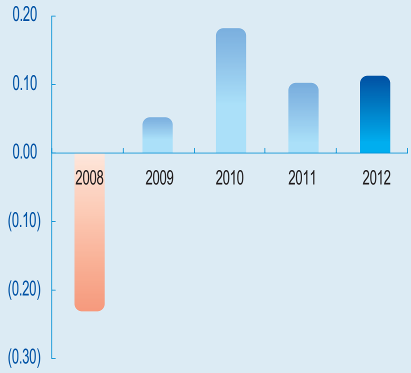
PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

(RMB million)



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

(RMB)



Chairman's Statement

To all Shareholders,

"I, on behalf of the Board, am pleased to announce that the Group achieved a rapid growth in 2012 under the joint efforts of all of its directors and the management team and by adopting an innovative, aggressive and accountable approach across its overall businesses in accordance with the strategies of the Group."

Chairman
Mr. Lin Zuoming

ANNUAL RESULTS

For the year ended 31 December 2012, the Group recorded a revenue of RMB16,800 million and the profit attributable to the equity holders of the Company amounted to RMB600 million, hitting a record high of the aviation business since the listing of the Company.

BUSINESS REVIEW

2012 was an important inheriting and formulating year in the implementation of the "China's Economic and Social Development in the 12th Five-year Plan" (the "12th Five Year Plan"); it was also the inauguration year marking the strong starting of development of aviation industry as a strategic emerging industry in China. Standing on with more than sixty years of history, China's aviation personnel have made persistent efforts and matched forward to strive for the continued development in the consolidated strengths of China's aviation industry. Important results have been achieved in self-innovation, international explorations, capital operations, social responsibilities and merging into regional economy etc., which substantially raised the reputation of and public concerns on China's aviation industry. The ranking of AVIC in Fortune Global 500 is rising continuously, with an increase of 61 rankings in the past year; AVIC was elected as one of the "500 Most Valuable Brand in China" for the first time and ranked 29 in the "2012 Top 500 Chinese Enterprises"; a number of aviation products of AVIC made their first flights in front of the nation; aviation market development has achieved fruitful results; Luo Yang, the outstanding aviation personnel representative, has shaken the whole country. All these laid a solid foundation for the comprehensive revitalization of China aviation industry.

Progress of China's aviation industry has provided a huge impetus for the development of AviChina. In 2012, the Company's rapid development of new aviation product models brought with it remarkable achievements in market development. Capital injection progressed steadily and the Company's industry chain was further expanded. The completion of the acquisition of Tianjin Aviation had actively contributed to the performance of the Company. Assets reorganization work proceeded steadily and the reorganization of the helicopter business had commenced during the year. Participation work in the large scale passenger aircraft C919 project had progressed smoothly. International cooperation project had developed with full speed. The H Share placing and issuance of Domestic

Chairman's Statement

Shares had been completed successfully, which further expanded the Company's scale. The structure of internal control was enhanced continuously and the level of corporate governance was continuously raised. At the same time, the Company actively fulfilled its social responsibilities. A number of accessory products supported the successful launch of Shenzhou 9; aviation products of the Company were swiftly delivered to the disaster area for emergency rescues; and the helicopter escort tasks was successful completed in Gulf of Aden.

OUTLOOK

The continued growth of the Chinese economy, accelerated pace of urbanization of counties and villages, increasing domestic consumer demands, sustained development of air transportation and strengthening of the national defense will all serve to push further the vigorous development of China's aviation industry. Facing the new era and the new errands, AviChina will continue to take advantage of the supporting policies of the Chinese government for the aviation industry and by realizing the edges arising from the full industry chain of the parent company, AVIC, the Company will further perfect the development strategies, implement innovation driven strategies, improve operation efficiency and market competitiveness, actively expand the market and build-up the brand name, with a view to further raising its efficiency and results as well as laying the foundation for its long term development. The Company will also enlarge the research and development on aviation products, strive with full force to break through the bottleneck in aviation technology and push forward the leapfrog development of a new generation of aviation technologies. Further, the Company will speed up the perfection of the parent and subsidiaries system through strategic navigation, consolidation of resources, value enhancement and business synergies. The Company will also actively extend and expand the aviation industry chain, optimize its assets structure, and push forward the work relating to social responsibilities, so as to build up a good aviation corporate image.

In 2013, the world economy and security conditions are becoming more complicated and the domestic economy will also face certain difficulties and challenges. China is still in a strategical period with great opportunities and AviChina will be celebrating its 10th listing anniversary. The Board and I will accurately grasp such period, and through reforms and innovation, strive firmly with confidence and with consolidated force to fully explore the markets and raise the Company's efficiency and results. At the same time, the Company will continue with the strengthening of the Board, and enhancing its corporate governance level in order to seek successes in this unfavorable environment and win a wide development space for the Company. Our staff and I have full confidence on our future. We will work hard and make persistent efforts to set the brand image of AviChina in the international capital market and strive to return excellent results to our Shareholders.

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, 25 March 2013

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 2012, the Group continued to carry out business reorganization and extend the scope of new aviation manufacture business according to its established strategic objectives. The acquisition of the entire interest in Tianjin Aviation had been completed and the operating results of Tianjin Aviation had been consolidated into the Company's financial results for the period, which brings new profit contribution to the Company. The acquisition has enhanced the Company's manufacturing capabilities in aviation products and assemblies, and further perfected the aviation business system of the Company. Hafei Aviation launched the reorganization of its helicopter business; and the L15 advanced trainer achieved sales for the first time. All businesses of the Company achieved rapid growth during the year.

Management Discussion and Analysis

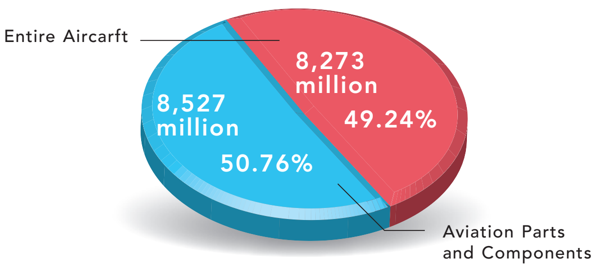
For the year ended 31 December 2012, the Group recorded a revenue of RMB16,800 million, representing an increase of 26.59% as compared with RMB 13,271 million from the continuing operations in the corresponding period of the preceding year. Profit attributable to the equity holders of the Company amounted to RMB600 million, representing an increase of 35.14% as compared with RMB444 million of the profit from the continuing operations attributable to the equity holders of the Company in the corresponding period of the preceding year.

The following diagrams show the comparison between the consolidated operating results of the Company for the year ended 31 December 2012 and that of 2011:

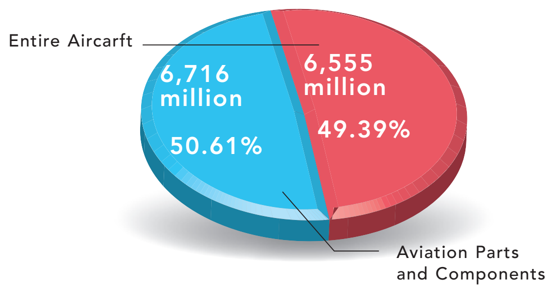
CONSOLIDATED OPERATING RESULTS

1 Composition of revenue

The revenue of the Group for 2012 was RMB16,800 million, representing an increase of 26.59% as compared with a revenue of RMB13,271 million from the Group's continuing operations in the corresponding period of the preceding year. This is mainly attributable to the increase in the helicopter and avionics businesses, among which, the revenue derived from the helicopter business amounted to RMB7,217 million, representing an increase of RMB1,660 million, or 29.87% as compared with that of the corresponding period of the preceding year and the revenue derived from the avionics business amounted to RMB5,758 million, representing an increase of RMB947 million, or 19.68% as compared with that of the corresponding period of the preceding year.



Revenue Composition of Aviation Segment in 2012



Revenue Composition of Aviation Segment in 2011

The revenue of the Group's entire aircraft business amounted to RMB8,273 million, representing an increase of RMB1,718 million, or 26.21% as compared with RMB6,555 million in the preceding year and accounting for 49.24% of the total revenue of the Group. Such increase is mainly due to the rapid growth in the helicopter business. The revenue of the Group's aviation parts and components business amounted to RMB8,527 million, representing an increase of RMB1,811 million, or 26.97% as compared with RMB6,716 million in the preceding year and accounting for 50.76% of the total revenue of the Group. Such increase is mainly due to the growth in the avionics business.

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

2 General and administrative expenses

The Group's general and administrative expenses for 2012 amounted to RMB1,833 million, representing an increase of RMB303 million, or 19.80% as compared with RMB1,530 million of the general and administrative expenses for the continuing operations in the corresponding period of the preceding year. This is mainly attributable to the increase in labor costs and research and development expenses. In 2012, the Group continued to enhance management and reduce expenses, therefore the increase of general and administrative expenses was lower than the increase in revenue. In 2012, general and administrative expenses accounted for 10.91% of the revenue for the year 2012, representing 0.62 percentage points lower than the same for the continuing operations in the corresponding period of the preceding year.

3 Sales and distribution expenses

The Group's sales and distribution expenses for 2012 amounted to RMB324 million, representing an increase of RMB48 million, or 17.39% as compared with RMB276 million of the sales and distribution expenses for the continuing operations in the corresponding period of the preceding year. Such increase was mainly attributable to the increase of market exploring expenses and remuneration of sales personnel. In 2012, the Group continued to enhance management and reduce expenses, therefore the increase of sales and distribution expenses was lower than the increase in revenue. In 2012, sales and distribution expenses accounted for 1.93% of the revenue for the year 2012, representing 0.15 percentage points lower than the same for the continuing operations in the corresponding period of the preceding year.

4 Operating profit

The operating profit of the Group for 2012 amounted to RMB1,270 million, representing an increase of RMB291 million, or 29.72% as compared to RMB979 million from the continuing operations in the corresponding period of the preceding year. This was mainly attributable to the increase of RMB617 million, or 23.26% as compared with that in the corresponding period of the preceding year in gross margin resulting from the rapid development and increase in the revenue of the helicopter and avionics business.

5 Finance income/(costs), net

The Group's net finance income amounted to RMB13 million, representing an increase in net income of RMB32 million as compared with RMB19 million of net finance costs for its continuing operations in the corresponding period of the preceding year. This was mainly attributable to the increase in interest income as compared with that in the corresponding period of the preceding year as a result of optimization in deposit structure during the year. Please refer to note 9 to the financial statements for details.

6 Income tax expense

The Group's income tax in 2012 was RMB182 million, representing an increase of RMB39 million, or 27.27% as compared with RMB143 million for its continuing operations in the corresponding period of the preceding year which was mainly due to the increase in the profit of this year. Please refer to note 10 to the financial statements for details.

7 Profit attributable to equity holders of the Company

The profit attributable to the equity holders of the Company amounted to RMB600 million in 2012, representing an increase of RMB156 million as compared with RMB444 million from its continuing operations from the corresponding period of the preceding year. The main reason was the increase in operation profits and net finance income.

GUARANTEED AND SECURED LOANS

As at 31 December 2012, the Group's total borrowings amounted to RMB3,348 million, of which RMB421 million was secured by receivables with a net book value of RMB469 million.

Borrowings placed under guarantees amounted to RMB693 million, of which RMB680 million represented guarantees amongst the members of the Group and RMB13 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 2012, 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 2012, the Group's net cash and cash equivalents amounted to RMB5,219 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 2012 and 2011 were as follows:

Unit: RMB million (except percentage)

Main items of cash flow	2012	2011 (restated)	Changes (amount)	Changes (percentage)
Net cash (used in)/generated from operating activities	(746)	97	(843)	N/A
of which: Net cash (used in)/generated from continuing operations	(746)	233	(979)	N/A
Net cash used in investing activities	(2,167)	(534)	(1,633)	305.81%
of which: Net cash used in investing activities of continuing operations	(2,167)	(582)	(1,585)	272.34%
Net cash generated from/(used in) financing activities	1,829	(232)	2,061	N/A
of which: Net cash generated from/(used in) financing activities of continuing operation	1,829	(182)	2,011	N/A
Net decrease in cash and cash equivalents	(1,084)	(669)	(415)	62.03%

2. Operating, investing and financing activities

Net cash inflows generated from operating activities of the Group for the year 2012 decreased by RMB843 million as compared with that of the corresponding period of the preceding year, among which, net cash inflows generated from the continuing operations for the year 2012 decreased by RMB979 million as compared with that of the corresponding period of the preceding year, which was mainly due to the significant increase in receivables as at the end of the reporting period and in inventories used for manufacture and operations next year.

Net cash outflows used in investing activities of the Group for the year 2012 increased by RMB1,633 million or 305.81% as compared with that of the corresponding period of the preceding year, among which, net cash outflows used in investing activities of continuing operations for the year 2012 increased by RMB1,585 million as compared with that of the corresponding period of the preceding year, which was mainly attributable to the increase of the term deposits with an initial term of over three months and use of raised funds in external investments in 2012.

Net cash inflows generated from financing activities of the Group for the year 2012 increased by RMB2,061 million as compared with that in the corresponding period of the preceding year, among which, net cash inflows generated from financing activities of continuing operations increased by RMB2,011 million as compared with that of the corresponding period of the preceding year. The main reason was the inflows from the placing of new shares by the Company and the proceeds raised by the non-public issuances of shares by subsidiaries of the Company in 2012.

As at 31 December 2012, the total borrowings of the Group amounted to RMB3,348 million, of which the short-term borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB1,994 million, RMB658 million and RMB696 million, respectively.

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

Maturity	RMB million
Within one year	658
In the second year	68
In the third to fifth year	128
After the fifth year	500
Total	1,354

As at 31 December 2012, the Group's bank borrowings amounted to RMB1,897 million with a weighted average interest rate of 6% per annum, accounting for 56.66% of the total borrowings. Other borrowings amounted to RMB1,451 million with a weighted average interest rate of 5%, accounting for 43.34% of the total borrowings.

As at 31 December 2012, there were no borrowings denominated in foreign currencies.

GEARING RATIO

As at 31 December 2012, the Group's gearing ratio was 9.33% (31 December 2011: 9.87% as restated), which was arrived at by dividing the total borrowings by the total assets as at 31 December 2012.

SEGMENT INFORMATION

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

THE ENTIRE AIRCRAFT BUSINESS

Revenue

The Group's revenue derived from entire aircraft products for 2012 was RMB8,273 million, representing an increase of 26.21% as compared with that of the corresponding period of the preceding year which was mainly attributable to the rapid increase in the helicopter business. The revenue derived from the helicopter business amounted to RMB7,217 million, representing an increase of RMB1,660 million, or 29.87% as compared with that of the corresponding period of the preceding year and accounting for 87.24% of the total revenue of the entire aircraft business.

The revenue of the entire aircraft products of the Group in 2012 accounted for 49.24% of the total revenue, representing a decrease of 0.15 percentage points as compared with that in the corresponding period of the preceding year.

Gross Margin

Gross margin of the Group's entire aircraft business for 2012 was 8.10%, which is similar to that of last year.

AVIATION PARTS AND COMPONENTS BUSINESS

Revenue

The Group's revenue derived from aviation parts and components for 2012 was RMB8,527 million, representing an increase of 26.97% as compared with that of the corresponding period of the preceding year which was mainly attributable to the increase in sales of avionics products. Among the revenue derived from aviation parts and components, revenue derived from avionics products amounted to RMB5,758 million, representing an increase of RMB947 million, or 19.68% as compared with that of the corresponding period of the preceding year and accounting for 67.53% of the total revenue of aviation parts and components business.

The revenue derived from aviation parts and components products for 2012 accounted for 50.76% of the total revenue, representing an increase of 0.15 percentage points higher than that in the corresponding period of the preceding year.

Gross Margin

Gross margin of the Group's aviation parts and components business for 2012 was 30.49%, which is slightly lower than that in 2011.

Business Review and Outlook

In the year of 2012, global economy generally slowed down with an increased downward risk. The overall national economic performance was getting stabilized in a slow advancement, and the economic and social development realized a stabilized yet advancing development. Faced with the complicated situation at home and abroad, China aviation industry, as a strategic emerging industry listed in the Twelfth Five-year Plan, actively implemented the development strategy and improved the quality and efficiency to lay a good foundation for overall revitalization of the industry. In 2012, AVIC, the controlling shareholder of the Company, was listed on the Fortune Global 500 for the fourth consecutive year with an accumulated advance in ranking of 116. It was also elected into the "500 Most Valued Brand in China" for the first time.

Driven by the strong force of development of China aviation industry, the Group continued to push forward the established strategies, vigorously developed the aviation core business of the Group in the first year upon completion of the automobile business disposal and integration to realize a rapid growth of the business of the Group in 2012.

In 2012, the Group further improved its industry chain. The acquisition of Tianjin Aviation from the Company's controlling shareholder was completed and the operating results of Tianjin Aviation have been consolidated into the Company's financial results for the period, which brings new profit contribution to the Company. The acquisition has also enhanced the Company's manufacturing capabilities in aviation products and assemblies, and further completed the system of aviation business of the Company. Meanwhile, to actively put forward the reorganization and integration of the current aviation business, Hafei Aviation launched its helicopter business reorganization.

In 2012, the Company also completed its H Shares placing and Domestic Shares issuance. In addition, AVIC Avionics smoothly completed its non-public offering of A shares. The non-public offering of A shares of JONHON Optronic has also received the approval of China Securities Regulatory Commission ("CSRC") as of the date of this report.

In 2012, both the market influence and public attention of the Group were significantly increased. Products of the Group made a successful show in the ninth Zhuhai Airshow and other international aviation exhibitions during the year. Mr. Lin Zuoming, chairman of the Board was rewarded the Most Influential Business Leader in China.

In 2012, the Group actively developed its helicopter products with remarkable achievement in market development. In December, Hafei Aviation signed sales agreements on Z-9 and fixed-wing aircraft with expected date of delivery before mid-2014. EC175, which is jointly researched and developed by Hafei Aviation and Eurocopter of French, has completed the research stage and has started volume production. The Group is also proactively exploring the market development of other new helicopter products.

In November 2012, Hongdu Aviation and China National Aero-Technology Import & Export Corporation ("CATIC") signed a sales agreement on L15 advanced trainer in Zhuhai, pursuant to which, China National Aero-Technology Import & Export Corporation agreed to purchase 12 L15 trainers from Hongdu Aviation. The L15 pulse production line of Hongdu Aviation smoothly passed the test and evaluation.

In December 2012, Y-12F smoothly completed the plateau flight test, successfully proving its good plateau performance. At present, Y-12 aircraft series have received new orders.

In June 2012, the assembling and manufacturing project for Legacy 600/650 Executive Jets by Harbin Embraer, an associated company of the Group, received the approval from the National Development and Reform Commission. In the meantime, Harbin Embraer and ICBC Financial Leasing Co. Limited signed a sales agreement for 10 Legacy 650 Executive Jets in Rio de Janeiro, which included the confirmed order for 5 jets and the intended order for another 5 jets, with first executive jet expected to be delivered at the end of 2013. At the same time, Hafei Aviation signed a subcontracting agreement with Boeing Australia for the Boeing 737 aileron adjustment sheet project, which is the third related project between Hafei Aviation and Boeing and an indication of the continuing high degree of recognition of the Group by the partners in international cooperation.

During 2012, the Group continued to improve the technology research and development capabilities of its avionics products. AVIC Avionics and JONHON Optronic, as supporting units for the Shenzhou series, provided a strong support for the successful launch of Shenzhou-9. JONHON Optronic has completed the appraisal evaluations for 14 scientific and technological achievements, which are representatives of the latest research achievements on new product development of JONHON Optronic in the recent two years. Certain new scientific and technological products of AVIC Avionics also passed the airworthiness examination.

Management Discussion and Analysis

2013 is the tenth anniversary of the listing of AviChina. After several years' efforts in reorganization and acquisition, the revenue scale of the aviation business of the Company is constantly extending with a steady increase in profit and market share. The Chinese government has further clarified the strategic position of high-end manufacturing industry, including the manufacturing of aviation equipment. The progressive implementation of low altitude airspace reform brings a potential general aviation market. Good policy support and its stable market position will provide new room for the Company to explore a new market.

In this crucial leapfrog development period in the aviation industry, the Group will proactively face the opportunities and challenges, further improve the development strategies and fully promote a sustainable and steady growth in all its businesses.

1. Actively exploring the market, increasing the market share, enhancing the communication with customers and improving the sales and after-sales network establishment.

2. Seeking support from the parent company to strengthen the investment in order to promote the scale operation of aviation industry and industrialization of high technology, and to maintain a stronger industry core competitiveness.

3. Improving qualities of the existing helicopter products and insisting on retrofitting and upgrading to improve the existing helicopter series and striving for more helicopter orders.

4. Capitalizing on the development of general aviation policies to greatly expand the general aviation industry chain.

5. Focusing on research and manufacturing of large scale passenger aircrafts to promote the industry development, transformation and upgrading of avionics equipment system and aviation material and parts.

6. Adopting various ways of expanding aviation subcontracting to continuously improve the scope and level of cooperation in subcontracting manufacturing.

7. Exploring international merger and acquisitions to extend and form a complete industry chain.

8. Comprehensively improving the management level to establish a highly capable and efficient corporate governance structure.

Orders for Aviation Products

As at the date of this report, the Group has received orders for 260 helicopters, 80 trainers, 15 general aeroplanes. The Group is endeavoring to get more orders for its aviation products.

USE OF PROCEEDS

Up to 31 December 2012, a total of RMB2,449 million of the proceeds raised from the fund raising activities (including the proceeds raised from the placings conducted in 2010 and 2012) has been used in the manufacturing, research and development of 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 2012, the Group had 36,824 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	36,750	99.80
Entire Aircraft business	17,601	47.80
Parts and components business	19,149	52.00
Other businesses	74	0.20
Total	36,824	100

For the year ended 31 December 2012, total staff costs amounted to RMB2,439 million, representing an increase of RMB59 million as compared with that of RMB2,380 million (as restated) in the corresponding period of the preceding year.

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 insists that its staff should have a high level of knowledge and skills in respect of the aviation manufacturing industry. Therefore, implementation of comprehensive employee trainings is key to the Group's continuous development. Accordingly, the Group will continuously review its existing employee training programs in order to provide comprehensive and systematic trainings to its employees.

In 2012, in order to facilitate the development of its various businesses, the Group actively established a new training environment by systematically organizing its trainings, including extending its domestic and overseas training channels, reorganizing its training systems and mechanisms, setting corresponding management systems and allocation of resources mechanism, thereby achieving remarkable results in the internationalization of its human resources training. During the year, the Company organized certain domestic and overseas trainings in laws and regulations for listed companies, securities and finance to related staff of the Company and its subsidiaries as well as sending selected outstanding employees to receive overseas trainings and studies. Through trainings, our employees are able to continuously acquire new knowledge and achieve self-enhancement, which in turn will enhance the Group's competitiveness in the ever-changing market development.

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Lin Zuoming (林左鳴)

(Chairman of Development and Strategy Committee and Nomination Committee)

55, chairman of the Board. He is a doctorate degree holder and researcher. Mr. Lin is also the chairman of the board 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 aviation industry 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; general manager of AVIC I since May 2006 and general manager of AVIC since July 2008. Mr. Lin also serves as vice chairman of the board of Commercial Aircraft Corporation of China, Ltd. and chairman of the board of Chinese Aeronautical Establishment, Mr. Lin has been appointed as the chairman of the Board and executive director since October 2008.

Mr. Tan Ruisong (譚瑞松)

51, 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 industry in July 1983, and used to be deputy chief engineer and deputy general manager of Harbin Dongan Engine Manufacturing Company, the general manager of Harbin Dongan Auto Engine Co., Ltd., member and vice chairman of the board and the general manager of Harbin Dongan Engine (Group) Co., Ltd., the chairman of the board of Harbin Aviation Industry (Group) Co., Ltd, and vice general manager of AVIC II. Mr. Tan is also vice chairman of the board of Chinese Aeronautical Establishment. 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.

Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Gu Huizhong（顧惠忠）

(Member of Audit Committee)

56, 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. since December 2008. Mr. Gu is also director of Chinese Aeronautical Establishment. Mr. Gu has been appointed as a non-executive Director of the Company since October 2008.

Mr. Gao Jianshe（高建設）

(Member of the Remuneration Committee)

49, 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 degree 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 is also director of Chinese Aeronautical Establishment. 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. Sheng Mingchuan（生明川）

54, senior economist. Mr. Sheng was appointed as the senior manager of the Debt Management Department and General Debt Operating Department of China Hua Rong Asset Management Corporation Harbin Office in April 2000, as assistant to the general manager of China Hua Rong Asset Management Corporation Tianjin Office in November 2002, as the vice president of China Hua Rong Asset Management Corporation Harbin Office in September 2005 and as the vice president of China Hua Rong Asset Management Corporation Changchun Office in November 2009. Mr. Sheng was appointed as the vice president of China Hua Rong Asset Management Corporation Harbin Office in April 2011 and as the general manager of China Hua Rong Asset Management Corporation Heilongjiang Branch in September 2012. Mr. Sheng graduated from Jiamusi Engineering College in 1982 majoring in mechanical manufacturing and received a bachelor degree. In 2006, he graduated from Macau University of Science and Technology majoring in MBA and received a master degree. Mr. Sheng commenced his career in banking in Heilongjiang Province since 1982, and was once appointed as the head of the credit and loan department, industrial and commercial department, investigation and statistics department and housing credit department of Industrial and Commercial Bank of China Heilongjiang Branch. Mr. Sheng has been appointed as a non-executive Director of the Company since May 2012.

Mr. Maurice Savart

(Member of Development and Strategy Committee)

54, 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 regional sales manager (Asia) of the Thomson-CSF/Aerospace Group, the business development director (Asia Pacific) and 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, Remuneration Committee and Nomination Committee)

80, an academician of the Chinese Academy of Engineering and a professor of Tongji University, a professor of Shanghai Jiao Tong University, the reputational dean of the Mechanical Engineering Institute and the consulting dean of Economics and Management Institute of Tongji University, 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 and Nomination Committee)

56, a professor and supervisor for master degree students majoring in accounting 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）

(Chairman of Remuneration Committee and Member of Audit Committee and Nomination Committee)

54, 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

Ms. Bai Ping（白萍）

58, 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 and as the chairman of Supervision Committee since May 2012.

Directors, Supervisors and Senior Management

Mr. Yu Guanghai（于廣海）

43, 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 disposal 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.

Ms. Li Jing（李竟）

34, a certified medium translator. She graduated from the Southwest Agriculture University with a bachelor degree in 2002. She worked in the Investment Promotion Bureau of Mianyang Scientific-Industrial Zone and the International Cooperation Division of International Cooperation and Trading Department under AVIC II. Ms. Li joined the Company since 2004 and has since been appointed as the investor relations manager. Ms. Li has been appointed as a Supervisor of the Company since May 2012.

SENIOR MANAGEMENT

Mr. Wang Jun（王軍）

59, vice president and chief financial officer, a first class 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, vice general manager and general manager 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）

57, a doctorate degree holder, researcher and 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 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）

49, 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; 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）

50, a doctor degree holder, natural science researcher, 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 vice director, director of China Leihua Electronic Technology Research Institute. He was appointed as director of Radar and Avionics Institute of AVIC in March 2004. Mr. Zhang was appointed as the vice president of the Company on 9 April 2010.

COMPANY SECRETARY

Mr. Yan Lingxi（閆靈喜）

43, a master degree holder, senior engineer, Company Secretary and Assistant to General Manager. He is also a director of 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 of the security and legal department of the Company. Mr. Yan has been appointed as the Company Secretary 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 2012.

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 2012 are set out in the Consolidated Income Statement on page 65 of this Annual Report.

The Board recommends the payment of a final dividend for the year 2012 in an aggregate amount of RMB109,488,583.34, representing a dividend of RMB0.02 per share (2011: RMB0.01 per share), calculated based on the existing number of total issued shares of 5,474,429,167 shares as at the date of this report.

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 26 June 2013 (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 21 June 2013 to 26 June 2013 (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 20 June 2013.

In accordance with Article 149 of the Articles of Association, the dividend will be declared in RMB to the shareholders. The dividend payable to shareholders 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 14 June 2013.

SHARE CAPITAL

The Company's capital structure as at 31 December 2012 was as follows:

Class of shares	Number of shares as at 31 December 2012	Percentage of total number of shares in issue as at 31 December 2012 (%)
Domestic Shares	3,117,995,265	56.96
Overseas listed foreign invested shares (H Shares)	2,356,433,902	43.04
Total	5,474,429,167	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 4 to 5 of this Annual Report.

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, 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 (Note)	Domestic Shares	Beneficial owner	2,806,088,233	90.00%	51.26%	Long position
AMES	Domestic Shares	Beneficial owner	183,404,667	5.88%	3.35%	Long position
European Aeronautic Defence and Space Company – EADS N.V.	H Shares	Beneficial owner	274,909,827	11.67%	5.02%	Long position
BlackRock, Inc.	H Shares	Interest of corporation controlled by the substantial shareholder	124,713,447 7,512,135	5.29% 0.31%	2.28% 0.14%	Long position Short position
		Derivative interests	212,000	0.009%	0.004%	Long position

Note:

AVIC was deemed to be interested in 2,989,492,900 Domestic Shares of which 2,806,088,233 Domestic Shares were held by it as the beneficial owner, and 183,404,667 domestic shares were held through AMES, its controlled corporation.

Save as disclosed above, as at 31 December 2012, 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 2012.

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 2012, 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 2012 are set out in the Consolidated Statement of Changes in Equity and note 40 to the financial statements.

DISTRIBUTABLE RETAINED EARNINGS

As at 31 December 2012, the Company had distributable retained earnings of RMB186,181,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's total purchases from the five largest suppliers for the aviation business accounted for 32.91% of the Group's total purchases, of which, purchases from the largest supplier accounted for approximately 12.29% of the Group's total purchases. The Group's sales to the five largest customers accounted for 48.51% of the Group's total sales, of which, sales to the largest customer accounted for 33.17% of the Group's total sales.

Purchases from the five largest suppliers in the entire aircraft segment accounted for 43.54% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 16.55% of the total purchases in that segment. Sales to the five largest customers in the entire aircraft segment accounted for 95.92% of the total sales in that segment, of which, sales to the largest customer accounted for 67.39% of the total sales in that segment.

Purchases from the five largest suppliers in the aviation parts and components segment accounted for 9.85% of the total purchases in the Group in that segment, of which, purchases from the largest supplier accounted for 2.21% of that segment. Sales to the five largest customers in the aviation parts and components segment accounted for 9.93% of the total sales in that segment, of which, sales to the largest customer accounted for 3.66% 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.

SUBSIDIARIES AND ASSOCIATES

Details of subsidiaries and associates are set out in note 46 to the financial statements.

DIRECTORS

Details of the Directors of the Company during the financial year ended 31 December 2012 are set out from pages 21 to 25 of this Annual Report.

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

1. On 18 January 2012, the Company completed the issuance of 183,404,667 Domestic Shares to AMES, a wholly-owned subsidiary of AVIC, as partial consideration for the acquisition of Tianjin Aviation. Upon completion of such issuance, the total number of Domestic Shares 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 transaction, please refer to the announcement of the Company dated 25 January 2011 and the circular of the Company dated 21 February 2011 respectively, and the announcement of the Company dated 18 January 2012.

2. On 27 March 2012, Changhe Aviation, a wholly-owned subsidiary of the Company, entered into the Shares Transfer Agreement with Changhe Aircraft Industries Group Co., Ltd. ("CAIG"). For details of the transaction, please refer to the section headed "One-off Connected Transactions" of this Report of the Board.

3. On 2 May 2012, the board of directors of JONHON Optronic resolved to place new JONHON Optronic A Shares for subscription by not more than 10 target investors including the Company (the "JONHON Optronic Placing"). The equity interest held by the Company in JONHON Optronic will be diluted by approximately 2.68% from 43.34% to approximately 40.66%. For details of the transaction, please refer to the section headed "One-off Connected Transactions" of this Report of the Board.

4. On 25 May 2012, the Board and the board of directors of Hafei Aviation respectively resolved to issue approximately 252,894,000 new Hafei Aviation A Shares. On 25 May 2012, Hafei Aviation entered into the Subscription Agreement with AVIC Helicopter Limited ("AVIC Helicopter"), Harbin Aircraft Industry Green Limited (AVIC Hafei") and the Company respectively relating to the placing of Hafei Aviation, as well as the supplementary agreement on 11 July 2012. For details of the transactions, please refer to the section headed "One-off Connected Transactions" of this Report of the Board.

5. On 10 September 2012, the Company entered into the Capital Injection Agreement with (i) AVIC; (ii) Aviation Industry Information Centre; (iii) AVIC Economy and Technology Institute; (iv) China Aviation News and (v) China Aviation Publishing & Media Co., Ltd. For details of the transaction, please refer to the section headed "One-off Connected Transactions" of this Report of the Board.

6. On 20 September 2012, the Company entered into the Capital Contribution Agreement with AVIC, China Aviation Industry General Aircraft Co., Ltd. and Hebei Aviation Investment Group Co., Ltd. For details of the transaction, please refer to the section headed "One-off Connected Transactions" of this Report of the Board.

7. On 22 November 2012, Tianjin Tianli Aviation Electro-mechanical Co., LTD (75% of the equity interests of which is held by Tianjin Aviation, a subsidiary of the Company) entered into the Tianjin Merlin Gerin Co., Ltd. Equity Transfer Agreement and Schneider Electric Low Voltage (Tianjin) Co., Ltd. Equity Transfer Agreement with AVIC International Beijing Company Limited. For details of the transactions, please refer to the section headed "One-off Connected Transactions" of this Report of the Board.

CONNECTED TRANSACTIONS

Continuing Connected Transactions

During the year ended 31 December 2012, the Group engaged in continuing connected transactions with AVIC Group and AVIC Avionics and its subsidiaries. AVIC is the controlling shareholder of the Company and therefore a connected person of the Company. AVIC has direct and indirect interest of 34.16% in AVIC Avionics, which is a 43.22% 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 a subsidiary of AVIC and therefore a connected person of the Company.

AVIC

During the year 2012, the Group entered into continuing connected transactions with AVIC Group pursuant to four connected transaction agreements entered into between the Company and AVIC:

1. On 30 August 2011, the Company entered into a new framework agreement, namely, the Mutual Supply of Products Agreement, with AVIC to continue certain continuing connected transactions contemplated under the then existing mutual supply agreement. With the Group's streamlining of its business to focus on the aviation business following its assets reorganization, the scope of products and the ancillary services subject to the Mutual Supply of Products Agreement was amended to cover aviation related materials, components and products and their related sale and ancillary services. 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 2014.

2. On 30 August 2011, the Company entered into a new framework agreement, namely, the Mutual Provision of Services Agreement, with AVIC to continue certain continuing connected transactions contemplated under the then existing comprehensive services agreement. The scope of services to be mutually provided by the parties to the Mutual Provision of Services Agreement was amended and extended to cover services relating to the production and business operations of each party. AVIC Group agreed to provide certain services relating to the production and business operations of the Group and the Group agreed to provide certain services relating to the production and business operations to AVIC Group for a further tem of three years expiring on 31 December 2014.

3. On 30 August 2011, the Company entered into a new framework agreement, namely, the Trademarks and Technology Cooperation Framework Agreement, with AVIC to continue certain continuing connected transactions contemplated under the then existing technology cooperation agreement. The scope of cooperation was extended to cover the licence of trademarks. AVIC Group agreed to provide, among others certain licences of trademarks and technology cooperation services to the Group for a further term of three years expiring on 31 December 2014 and the Group agreed to provide, among others certain licence of trademarks and technology cooperation services to the AVIC Group for a further term of three years expiring on 31 December 2014.

4. On 30 August 2011, the Company combined the then existing land use rights leasing agreement and the properties leasing agreement by entering into a new framework agreement, namely, the Land Use Rights and Properties Leasing Agreement, with AVIC. After the Land Use Rights and Properties Leasing Agreement came into effect, it superseded the then existing land use rights leasing agreement and the properties leasing agreement. Pursuant to the new framework agreement, AVIC Group leases 21 pieces of land with an aggregate area of approximately 1.63 million square meters to the Group at an annual rental of approximately RMB35.9 million. The Group leases a piece of land with an aggregate area of approximately 16,000 square meters to AVIC Group at an annual rental of approximately RMB429,000. AVIC Group leases certain properties with an aggregate gross floor area of approximately 0.19 million square meters to the Group at an annual rental of approximately RMB4.44 million. The Group leases certain properties with an aggregate gross floor area of approximately 52,000 square meters to AVIC Group at an annual rental of approximately RMB4.92 million.

AVIC Avionics

5. On 30 August 2011, the Company entered into a continuing connected transaction agreement with AVIC Avionics, the terms of which are substantially the same as that of the then existing framework agreement. The Group agrees to provide aviation parts and components, raw materials, production and labour services to AVIC Avionics Group, as well as providing continuing guarantee(s) to AVIC Avionics Group in relation to its bank loan(s) obtained during its ordinary course of business; and AVIC Avionics Group agrees to provide aviation parts and components and related ancillary services to the Group for a further term of three years expiring on 31 December 2014.

AVIC Finance

6. 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 announcement and circular dated 30 August 2011 and 23 September 2011 respectively and the announcement and circular dated 1 April 2010 and 16 April 2010 respectively.

The annual caps for the continuing connected transaction as compared with the actual transaction amounts incurred or received by the Group in 2012 are set out below. For the year ended 31 December 2012, the continuing connected transactions of the Company were calculated on a consolidated basis as follows:

		Actual amount for 2012 RMB million	Annual Cap RMB million
1	**Mutual Supply of Products Agreement**		
	(a) Annual expenditures of the Group	8,188	8,749
	(b) Annual revenues of the Group	12,476	15,631
2	**Mutual Provision of Services Agreement**		
	(a) Annual expenditures of the Group	65	1,965
	(b) Annual revenues of the Group	92	416
3	**Trademarks and Technology Cooperation Framework Agreement**		
	(a) Annual expenditures of the Group	1	61
	(b) Annual revenues of the Group	10	20
4	**Land Use Rights and Properties Leasing Agreement**		
	Annual expenditures of the Group	42	50
5	**AVIC Avionics CCT Agreement**		
	Expenditures of the Group	491	645
	Revenue of the Group	74	80

		Maximum daily outstanding balance of deposits for 2012 RMB million	Cap for the maximum daily outstanding balance of deposits for 2012 RMB million
6	**Financial Services Framework Agreement with AVIC Finance**		
	Daily deposit amount (including accrued interests) placed by the Group with AVIC Finance	1,095	2,000

The Board (including independent non-executive Directors) has reviewed the above continuing connected transactions and confirmed that they had been entered into subject to 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 terms under relevant agreements which 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 has been fixed 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.

In addition, according to the Listing Rules, the related party transactions mentioned in note 43 to the financial statements also constituted continuing connected transactions as defined under Chapter 14A to the Listing Rules. Such transactions were in compliance with the disclosure requirements of Chapter 14A to the Listing Rules.

ONE-OFF CONNECTED TRANSACTIONS

1. On 31 January 2012, Jingdezhen Helicopter and China Helicopter Research and Development Institute ("Helicopter R&D Institute"), a wholly-owned entity of AVIC, entered into the Project Investment Agreement pursuant to which, Jingdezhen Helicopter agreed to make an investment of RMB20 million to participate in the U8 unmanned helicopter maritime system verification project, which was undertaken by Helicopter R&D Institute. The payment will be made in two phases with RMB10 million each. The entering into of the Project Investment Agreement constituted a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules and the transaction was subject to reporting and announcement requirements but was exempted from the Company's independent shareholders' approval requirement. For details of the transaction, please refer to the announcement of the Company dated 31 January 2012.

2. On 27 March 2012, Changhe Aviation, a wholly-owned subsidiary of the Company, entered into the Shares Transfer Agreement with CAIG, pursuant to which Changhe Aviation has agreed to transfer, subject to certain conditions, 51% of the equity interest held by it in Jiujiang Changhe Automobile Co., Ltd. ("Jiujiang Auto") to CAIG, for a consideration of approximately RMB65,970,000 ("Shares Transfer"). The consideration will be satisfied by CAIG by way of cash. Upon completion of the Share Transfer, Jiujiang Auto will cease to be a subsidiary of the Company.

   Pursuant to Chapter 14A of the Listing Rules, the Share Transfer constituted a connected transaction of the Company and was subject to announcement and reporting requirements, but was exempt from the Company's independent shareholders' approval requirement. For details of the transaction, please refer to the announcement of the Company dated 27 March 2012.

3. On 2 May 2012, the board of directors of JONHON Optronic resolved to approve the JONHON Optronic Placing. The total proceeds raised from the JONHON Optronic Placing will not exceed RMB1 billion. All target investors shall subscribe for the new JONHON Optronic A Shares by cash. None of the remaining target investors is a connected person of the Company.

   On 2 May 2012, the Company entered into the Subscription Agreement with JONHON Optronic for subscription, subject to certain conditions and adjustment (if any), of the new JONHON Optronic A Shares at the placing price of RMB14.63 (the "Placing Price") by cash in an aggregate amount of RMB250 million. After the approval by the relevant PRC government authorities and the bidding prices offered by the target investors being taken into account, the Placing Price would be finally determined by the board of directors of JONHON Optronic pursuant to the authorisation of its shareholders at the general meeting. Upon completion, such new JONHON Optronic A Shares will be listed on the Shenzhen Stock Exchange. The JONHON Optronic Placing was approved by the State-owned Assets Supervision and Administration Commission on 27 July 2012, and was passed at the general meeting of the shareholders of JONHON Optronic on 1 August 2012, and was approved by the CSRC on 25 February 2013. Upon completion, the equity interest held by the Company in JONHON Optronic will be diluted by approximately 2.68% from 43.34% to approximately 40.66% of the enlarged share capital of JONHON Optronic. JONHON Optronic will remain as a subsidiary of the Company after completion.

Pursuant to the Listing Rules, such dilution constituted a deemed disposal by the Company of 2.68% equity interest in JONHON Optronic, which was exempt from the announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. For details of the transaction, please refer to the announcements of the Company dated 17 April 2012, 4 May 2012 and 30 July 2012.

4. On 25 May 2012, the Board of the Company and the board of directors of Hafei Aviation respectively resolved to issue approximately 252,894,000 new Hafei Aviation A Shares for subscription by AVIC Helicopter, AVIC Hafei, the Company and not more than ten independent qualified investors respectively (the "Hafei Aviation Placing"). On 25 May 2012, Hafei Aviation entered into the Subscription Agreement with AVIC Helicopter, AVIC Hafei and the Company respectively in relation to the Hafei Aviation Placing, as well as the Supplementary Agreement on 11 July 2012, pursuant to which Hafei Aviation will issue approximately 256,301,061 new Hafei Aviation A Shares for subscription by (i) AVIC Helicopter for approximately 107,510,979 new Hafei Aviation A Shares for a consideration to be satisfied by the transfer of the related interest held by AVIC Helicopter to Hafei Aviation ("AVIC Helicopter Subscription"); (ii) AVIC Hafei for approximately 47,341,165 new Hafei Aviation A Shares for a consideration to be satisfied by the transfer of the related assets held by AVIC Hafei to Hafei Aviation ("AVIC Hafei Subscription"); (iii) the Company for approximately 37,409,221 new Hafei Aviation A Shares for a consideration to be satisfied by the transfer of the Changhe Aviation Interest held by the Company ("Changhe Aviation Interest") to Hafei Aviation ("Company's Subscription"); and (iv) not more than 10 independent qualified investors for an aggregate of approximately 64,039,696 new Hafei Aviation A Shares for a consideration to be satisfied by cash ("Cash Subscription"). The subscription price of AVIC Helicopter Subscription, AVIC Hafei Subscription and Company's Subscription is RMB17.13 per new Hafei Aviation A Share. The subscription price of the Cash Subscription shall be not less than RMB17.13 per new Hafei Aviation A Share.

   Pursuant to Chapter 14A of the Listing Rules, the AVIC Helicopter Subscription and AVIC Hafei Subscription constituted connected transactions of the Company and were subject to the announcement, reporting and approval by the independent shareholders of the Company requirements under Chapter 14A of the Listing Rules and also constituted discloseable transactions of the Company.

   In relation to the Company's Subscription, the Company would subscribe for the new Hafei Aviation A Shares for a consideration to be satisfied by the transfer of Changhe Aviation Interest to Hafei Aviation. Following completion of the Hafei Aviation Placing, the Company will indirectly hold the equity interest in Changhe Aviation through its subsidiary, Hafei Aviation, and Changhe Aviation will continue to be a subsidiary of the Company, where the Company's equity interest in Changhe Aviation will be diluted accordingly. Pursuant to Chapter 14 of the Listing Rules, the transfer of Changhe Aviation Interest by the Company to Hafei Aviation as the consideration for the Company's Subscription constituted a discloseable transaction of the Company.

Upon completion of the Hafei Aviation Placing, the equity interest to be held directly and indirectly by the Company in Hafei Aviation will be diluted by approximately 15.30% from 50.05% to approximately 34.75%. Whereas Hafei Aviation will remain to be a subsidiary of the Company following completion of the Hafei Aviation Placing, such dilution constituted a deemed disposal by the Company of approximately 15.30% equity interest in Hafei Aviation. Pursuant to Chapter 14 of the Listing Rules, such deemed disposal constituted a discloseable transaction of the Company. For details of the transaction, please refer to the announcements of the Company dated 6 February 2012, 25 May 2012, 14 June 2012 and 11 July 2012 respectively and the circular of the Company dated 19 July 2012.

5. On 10 September 2012, the Company entered into the Capital Injection Agreement with (i) AVIC; (ii) Aviation Industry Information Centre; (iii) AVIC Economy and Technology Institute; (iv) China Aviation News and (v) China Aviation Publishing & Media Co., Ltd. pursuant to which the Company, AVIC Economy and Technology Institute and China Aviation News will inject a total of RMB33 million into China Aviation Publishing & Media Co., Ltd. by way of capital increase in cash (the "Capital Injection").

   Pursuant to the Listing Rules, the Capital Injection constituted a connected transaction of the Company and was subject to reporting and announcement requirements but was exempt from the requirement of approval by the independent shareholders of the Company. For details of the transaction, please refer to the announcement of the Company dated 11 September 2012.

6. On 20 September 2012, the Company entered into the Capital Contribution Agreement with AVIC, China Aviation Industry General Aircraft Co., Ltd. and Hebei Aviation Investment Group Co., Ltd., pursuant to which the Company, China Aviation Industry General Aircraft Co., Ltd. and Hebei Aviation Investment Group Co., Ltd. will establish AVIC Huabei Aircraft Industry Co., Ltd. Upon establishment of AVIC Huabei Aircraft Industry Co., Ltd., the Company, AVIC China Aviation Industry General Aircraft Co., Ltd. and Hebei Aviation Investment Group Co., Ltd. will own 12%, 53% and 35% of the equity interest in AVIC Huabei Aircraft Industry Co., Ltd., respectively.

   Pursuant to the Listing Rules, the transaction constituted a connected transaction of the Company and was subject to reporting and announcement requirements but was exempt from the requirement of approval by the independent shareholders of the Company. For details of the transaction, please refer to the announcement of the Company dated 20 September 2012.

7. On 22 November 2012, Tianjin Tianli Aviation Electro-mechanical Co., Ltd., (75% of the equity interest of which is held by Tianjin Aviation, a subsidiary of the Company) entered into the Tianjin Merlin Gerin Co., Ltd. Equity Transfer Agreement and Schneider Electric Low Voltage (Tianjin) Co., Ltd. Equity Transfer Agreement with AVIC International Beijing Company Limited, pursuant to which AVIC International Beijing Company Limited agreed to sell and Tianjin Tianli Aviation Electro-mechanical Co., Ltd. agreed to purchase 5% equity interests in each of Tianjin Merlin Gerin Co., Ltd. and Schneider Electric Low Voltage (Tianjin) Co., Ltd. respectively (collectively, the "Equity Transfers").

   Pursuant to the Listing Rules, the Equity Transfers constituted connected transactions of the Company and were subject to reporting and announcement requirements but were exempt from the requirement of approval by the independent shareholders of the Company. For details of the transaction, please refer to the announcement of the Company dated 22 November 2012.

EVENTS AFTER THE REPORTING YEAR

On 29 January 2013, the issuance of bonds by JONHON Optronic was completed and the final issue size is RMB500 million. For details of the issuance, please refer to the announcements of the Company dated 23 January 2013 and 29 January 2013 respectively.

SIGNIFICANT EVENT DURING THE REPORTING YEAR

1. On 18 January 2012, all of the conditions precedent to the Tianjin Aviation Acquisition, as set out in the acquisition agreement were satisfied, and the consideration shares involving 183,404,667 new Domestic Shares of the Company had been issued to AMES by the Company. Upon completion of the above shares issuance, the total number of issued shares of the Company has increased from 4,949,024,500 shares to 5,132,429,167 shares. In particular, the total number of Domestic Shares has increased from 2,934,590,598 Domestic Shares to 3,117,995,265 Domestic Shares, and the total number of H Shares held by the public shareholders remains unchanged.

2. On 24 February 2012, the Company entered into the placing agreement with BOCI Asia Limited in relation to the placing, on a fully underwritten basis, of an aggregate of 342,000,000 H Shares (the "Placing Shares") at the placing price of HK$3.55 per placing share (the "Placing"). Completion of the Placing took place on 2 March 2012. The total number of issued shares of the Company has increased from 5,132,429,167 shares to 5,474,429,167 shares resulting from the issue of the Placing Shares. The total number of H Shares held by the public has increased from 2,014,433,902 H Shares to 2,356,433,902 H Shares upon completion of the Placing.

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 2012 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 2013 will be proposed. In the past three years, the auditors of the Company remained unchanged.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At the annual general meeting of the Company held on 25 May 2012, due to the expiry of the term of office of all the directors and supervisors of the Third Session of the Board and the Supervisory Committee, the Company elected the Directors of the Fourth Session of the Board and the shareholder representative supervisors of the Fourth Session of the Supervisory Committee.

At the Board meeting held on 25 May 2012, Mr. Lin Zuoming was appointed as the chairman of the Fourth Session of the Board and Mr. Tan Ruisong was appointed as the vice chairman of the Fourth Session of the Board. After the annual general meeting and the Board meeting, the Fourth Session of the Board comprises the following members: Mr. Lin Zuoming (chairman and executive Director), Mr. Tan Ruisong (vice chairman, executive Director and general manager), Mr. Gu Huizhong (non-executive Director), Mr. Gao Jianshe (non-executive Director), Mr. Sheng Mingchuan (non-executive Director), Mr. Maurice Savart (non-executive Director), Mr. Guo Chongqing (independent non-executive Director), Mr. Li Xianzong (independent non-executive Director) and Mr. Lau Chung Man, Louis (independent non-executive Director).

At the Supervisory Committee meeting held on 25 May 2012, Ms. Bai Ping was appointed as the chairman of the Fourth Session of the Supervisory Committee. After the annual general meeting and the Supervisory Committee meeting, the Fourth Session of the Supervisory Committee comprises the following members: Ms. Bai Ping (chairman of the Supervisory Committee and shareholder representative Supervisor), Mr. Yu Guanghai (shareholder representative Supervisor) and Ms. Li Jing (employee representative Supervisor).

At the Board meeting held on 25 May 2012, Mr. Tan Ruisong was appointed as the general manager of the Company. Mr. Wang Jun, Mr. Ni Xianping, Mr. Zheng Qiang and Mr. Zhang Kunhui were appointed as the vice general managers of the Company. Mr. Wang Jun was appointed as the chief financial officer of the Company. Mr. Yan Lingxi was appointed as the Board secretary of the Company.

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 2012, save 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	0.03%	0.01%	Long position
Tan Ruisong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Wu Xiandong Note	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 Note	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Geng Ruguang Note	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Zhang Xinguo Note	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 Note	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Chen Yuanxian Note	H Share	Beneficial owner	426,280	0.02%	0.01%	Long position

Note: Directors resigned on 25 May 2012

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

As at 31 December 2012, 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 2012.

Report of the Supervisory Committee

To all Shareholders:

During the year of 2012, the Supervisory Committee strictly complied with the PRC Company Law, the Articles of Association and the Procedural Rules for Meetings of the 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.

In 2012, the Fourth Session of Supervisory Committee was established. The new session of the Supervisory Committee reviewed and amended the terms of reference of the Supervisory Committee to enhance the duties and supervisory performance. The Supervisory Committee convened three meetings in 2012, at which 10 resolutions were considered and approved. The Supervisory Committee fulfilled its tasks on reviewing the 2011 Annual Report, 2012 Interim Report, the profits distribution plans for 2011 and the first six months of 2012 respectively, budgets for 2012 of the Company. The Supervisory Committee had also attended the Board meetings and the general meetings held in 2012 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 2012, 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 2013, 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.

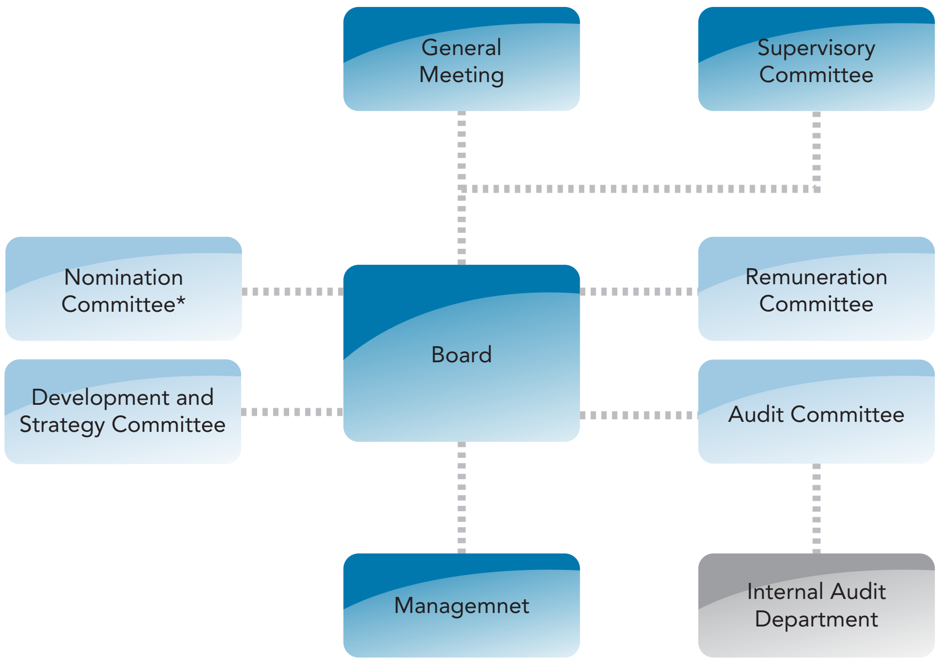
Chairman of the Supervisory Committee
Bai Ping

Beijing, 25 March 2013

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. During the reporting period, pursuant to the regulatory documentations such as the Articles of Association, Rules Governing the Operation of General Meetings, Rules Governing the Operation of Board Meetings, Terms of References of the Supervisory Committee, Working Guidelines for the Management, Terms of Reference of the audit committee, Terms of Reference of the remuneration committee, Terms of Reference of the nomination 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 overall governance structure of the Company is set out as follows:



* The nomination committee of the Company was established on 27 March 2012.

BUSINESS MODEL AND LONG TERM STRATEGY

The Company mainly operates through subsidiaries. The Company will give full play to the parent-subsidiary system, actively develop aviation business and perfect the aviation industry chain. The details of the business and financial review on 2012 are set out in the Management Discussion and Analysis of this Annual Report.

CORPORATE GOVERNANCE POLICY

During the reporting period, the Board mainly adopted the following corporate governance policies:

– Corporate governance and related suggestions: In light of the turbulence of global financial market and political environment and intense competition in 2012, the Company discussed on risks and management of risks in the meetings of the Board and the relevant special committees. The Board conducted continuous assessment on potential influence of ever-changing external environment and amendment of national laws and regulations and regulatory rules on the business of the Company.

– Improvement on ability of Directors and senior management: The Company arranged induction training for newly appointed Directors and provided from time to time information in relation to the supervision and company operations to the Directors to equip them with knowledge of the industry and the Group and to facilitate the decision-making process of the Board and the special committees. During the reporting period, the Company also arranged a series of forums on the hot topics and important issues relating to the business of the Company.

– Compliance with laws and regulations: According to the revision of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules, the Company timely reviewed its corporate governance arrangement and adopted relevant requirements in the revision. In March 2012, the Board of the Company established the Nomination Committee and updated all relevant regulatory documents of the Company. Meanwhile, the Board also studied the inside information disclosure requirements for Hong Kong companies through trainings arranged by the Company Secretary on new amendments to the Hong Kong Securities and Futures Ordinance.

– Corporate governance report: The Board reviewed the corporate governance report contained in this Annual Report before its publication and was of the view that the corporate governance report complied with the relevant requirements of the Listing Rules.

CORPORATE GOVERNANCE CODE

During the reporting period, the Company strictly complied with various applicable laws, rules and regulations as well as the Articles of Association to standardize its operation. The Board reviewed the corporate governance practices adopted by the Company for the year ended 31 December 2012 and was of the view that the Company complied with the principles and code provisions set out in the Corporate Governance Code under the Listing Rules (the "Code"), except for the deviation that the chairman of the Board was not able to attend the annual general meeting of the Company held on 25 May 2012 for urgent business matters and Mr. Tan Ruisong, vice chairman of the Board, was authorized to chair the annual general meeting and answered the questions raised at the meeting.

THE BOARD

The Company is managed by the Board, which is responsible for leading and supervising 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 nine Directors, including two executive Directors, namely, Mr. Lin Zuoming (Chairman) and Mr. Tan Ruisong (Vice Chairman), four non-executive Directors, namely, Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Sheng Mingchuan 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 comprehensive industrial skills, knowledge and experience. With extensive professional knowledge and experience, the independent non-executive Directors have assumed the supervisory and balancing roles and they are capable of making judgments independently and objectively in order to protect the interests of shareholders and the Company as a whole, which complies 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 and the relevant information that the Board is aware of, the Company believes that each independent non-executive Director remains independent.

The Company adopts the formal procedures in the appointment of new Directors and the nomination process is well determined with transparency. The Company established the nomination committee on 27 March 2012. Before such committee was established, while taking into consideration shareholders' recommendation, the Board nominated new Directors for approval by the shareholders of the Company pursuant to certain standards. All Directors had attended to such meetings. These standards include relevant professional knowledge and industry experience, personal ethics, integrity and skills of Directors, as well as their time commitment to the affairs of the Company.

Each Director (including non-executive director) holds office for a period of three years, and is eligible for re-election upon the expiration of the term of office. A list of Directors, their respective profiles and roles in the Board and special committees of the Board are set out in pages 21 to 26 of the Annual Report. Relevant information is also 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 during the reporting period.

RESPONSIBILITIES OF THE BOARD

The Board manages affairs of the Group on behalf of the shareholders of the Company. Each Director is obliged 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 shall also be responsible for the completeness of the financial information and the effectiveness of internal monitoring and control systems 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 involving conflicts of interest shall be 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 Rules Governing the Operation of the 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.

RESPONSIBILITIES OF THE MANAGEMENT

The management of the Company is mainly responsible for the operation and management of the Company. They perform their duties within the scope authorized by the Board and are responsible for their performance under the supervision and review of the Board and Supervisory Committee. The management of the Company regularly provides company information to the Directors and Supervisors and updated information relating to the Company and the industry to enhance the communication between the management and the Directors and Supervisors, facilitate the performance of the duties by the Directors and Supervisors and keep the Directors and Supervisor updated with the latest information of the overall performance, business operation, financial condition and management of the Company.

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 prepared by the Company.

DIRECTORS TRAINING

Every newly appointed Director has received comprehensive induction training upon his appointment according to his experience and background to strengthen his knowledge and awareness of the corporate culture and operations of the Group, including briefing on the structure, business and governance practices of the Group. During the reporting period, Mr. Sheng Mingchuan, a newly appointed Director of the Company, was arranged to receive the above training upon his appointment to the Board.

In addition, every Director will receive upon his appointment to the Board information in relation to guidelines on ethnics and other major governance matters. Director training is a constant process to ensure the Directors are fully informed in making their contribution to the Board. During the reporting period, the Directors received regular updates and summaries on the changes and latest development of the business and operation of the Group and the relevant legal and regulatory environment. In addition, all Directors were encouraged to participate in relevant training courses with the expense paid by the Company.

During the reporting period, the Directors emphasized on updating their specialized knowledge and techniques to meet with the requirement of the development of the Company. The Company also arranged workshops and seminars for the Directors on updates of the Directors' responsibilities under the Securities and Futures Ordinance, the Listing Rules and the Corporate Governance Code of Hong Kong, including arranging for the Directors to receive trainings on revisions to the Listing Rules and the Code on Corporate Governance Practices of Hong Kong and organizing workshops and discussions on such new regulations for the Board members, the company secretary and other relevant personnel participating in the daily operation and management of the Company. The Company also actively arranged related trainings for the independent non-executive Directors. During the reporting period, the independent non-executive Directors participated in the trainings provided by Shanghai Stock Exchange on the role of independent directors of listed companies.

In addition, the Directors also actively studied and learnt knowledge on corporate governance through reading relevant materials in order to consolidate their development in their respective specialties. The Directors of the Company also attended lectures on strategies, group management, finance, cost improvement and talent appraisal and introduction and received trainings from famous international and domestic scholars and entrepreneurs on corporate governance and from famous economists on China macro economy. The trainings received by each Director during the reporting period were as follows:

	Training Scope		
Director	Corporate Governance	Laws and Regulations	Business Management
Executive Director			
Mr. Lin Zuoming	✓	✓	✓
Mr. Tan Ruisong	✓	✓	✓
Non-executive Director			
Mr. Gu Huizhong	✓	✓	✓
Mr. Gao Jianshe	✓	✓	✓
Mr. Maurice Savart	✓	✓	✓
Mr. Sheng Mingchuan	✓	✓	✓
Independent Non-executive Director			
Mr. Guo Chongqing	✓	✓	✓
Mr. Li Xianzong	✓	✓	✓
Mr. Lau Chung Man, Louis	✓	✓	✓

BOARD MEETINGS

The Board convenes four scheduled meetings every year. Matters to be considered at these regular Board meetings have been provided for in 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 in accordance with the provisions of the Company Law of the PRC and the Articles of Association.

The company secretary assists the Chairman in preparing the agenda and related materials for each Board meeting. To the extent possible, the meeting documents are delivered to the Directors or committee members at least three days before the date of the relevant meeting of the Board or its special committee. The Chairman also ensures that all Directors are properly briefed on issues to be discussed at the Board meeting, including provision of relevant documents containing analysis and background information to the Directors.

The management has also provided the Directors and committee members with appropriate and adequate information on a timely basis. This ensures that the Directors and committee members are well-informed of the Company's latest development so that they may discharge their duties effectively.

All Directors have access to the service of the company secretary. The company secretary is responsible for ensuring that the board procedures are followed and advising the Board on compliance matters. The Directors, the audit committee, the remuneration committee, the nomination committee may seek independent professional advice at the Company's expenses in discharging their duties.

The Board encourages the Directors to discuss the subject matters of the meetings openly and candidly at Board meetings and ensures that every executive Director is available for inquires raised by non-executive Directors. Independent non-executive Directors may convene meetings amongst themselves as necessary to discuss issues related to the Group. Board minutes are kept by the company secretary. The Board minutes, together with any materials related to the Board meetings are made available for inspection by any member of the Board.

The Board has established a development and strategy committee, an audit committee, a remuneration committee and a nomination committee (the last-named was established 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 2012, the Company convened two meetings of the audit committee and two meetings of the remuneration committee. Before the establishment of the nomination committee, the Board discussed and determined the composition and size of the new session of the Board, and nominated new members of the Board. Terms of reference of the audit committee, the remuneration committee and the nomination committee are published on the websites of the Company and the Stock Exchange.

Five meetings were held by the Board during 2012. The attendance of every Director at the Board meetings in 2012 is set out below:

Directors	Times of meeting should attend	Times of attendance	Times of attendance by proxy
Executive Director			
Mr. Lin Zuoming	5	3	2
Mr. Tan Ruisong	5	4	1
Mr. Wu Xiandong[Note1]	2	2	0
Non-executive Director			
Mr. Gu Huizhong	5	3	2
Mr. Xu Zhanbin[Note1]	2	2	0
Mr. Geng Ruguang[Note1]	2	2	0
Mr. Zhang Xinguo[Note1]	2	2	0
Mr. Gao Jianshe	5	5	0
Mr. Li Fangyong[Note1]	2	2	0
Mr. Chen Yuanxian[Note1]	2	2	0
Mr. Wang Yong[Note1]	2	2	0
Mr. Maurice Savart	5	3	2
Mr. Sheng Mingchuan[Note2]	3	1	2
Independent Non-executive Directors			
Mr. Guo Chongqing	5	4	1
Mr. Li Xianzong	5	4	1
Mr. Lau Chung Man, Louis	5	4	1

Note 1: Directors resigned on 25 May 2012.
Note 2: Director newly appointed on 25 May 2012.

In 2012, Directors who did not attend a Board meeting in person due to other business commitments all read the related documents of the meeting and arranged for their alternate Directors to present their opinion and exercise their voting rights on their behalf at the meeting.

DEVELOPMENT AND STRATEGY COMMITTEE

Main responsibilities of the development and strategy committee include: to learn and know the comprehensive condition of the operations of the Company, to learn, analyse and know the current environment of the industry at home and abroad, learn and know related national policies, research on short-term, mid-term and long-term development strategies of the Company and relevant issues, provide advice and suggestions to the Company on its long-term strategies, major investments and reforms, consider and approve special research reports on development strategies and provide routine research reports on a regular or irregular basis.

Members of the development and strategy committee communicated with each other from time to time in 2012 on matters relating to the committee's development, the Company's future development strategies and international cooperation. No formal meeting was convened by the committee during the reporting period.

REMUNERATION COMMITTEE

Main responsibilities of the remuneration committee include: to formulate the Company's policies and structure of remuneration of Directors, Supervisors and senior management members, to make recommendations to the Board on the Company's policies and structure in respect of all Directors' and senior management members' remuneration and on the establishment of a formal and transparent procedure for developing remuneration policies; to review and approve proposals on the management's remuneration with reference to the Company's goals and objectives determined by the Board, to appraise and decide, on a yearly basis, remunerations of Directors, Supervisors and senior management members.

The remuneration committee is responsible for approving the emolument policies of the Directors, Supervisors and senior management staff and proposing to the Board amendments to the emolument policies and system. The remuneration committee will take into consideration factors such as job performance and experience of Directors and Supervisors when determining their remunerations and will report to the Board after each meeting. For the year ended 31 December 2012, the remuneration committee convened two meetings to consider and approve the emolument policies of the new session of Directors, Supervisors and senior management staff of the Company and to approve the revised Terms of Reference of the remuneration committee.

For the year ended 31 December 2012, remunerations of senior management members by bands are set out as follows:

Remuneration Band	Number of People in this Remuneration Band
RMB350,000-450,000	4
RMB250,000-350,000	1

Details of remunerations of Directors and Supervisors for the year ended 31 December 2012 are set out in Note 16 to the financial statements.

During the reporting period, the remuneration committee held two meetings and attendance of the meetings by members of the remuneration committee is as follows:

Name of Director	Position	Times of meetings should attend	Times of attendance	Times of attendance by Proxy
Mr. Lau Chung Man, Louis	Chairman of the Remuneration Committee, Independent Non-executive Director	2	2	0
Mr. Gao Jianshe	Non-executive Director	2	2	0
Mr. Li Xianzong	Independent Non-executive Director	2	2	0
Mr. Guo Chongqing	Independent Non-executive Director	2	1	1

AUDIT COMMITTEE

The Board has established an audit committee and set out and revised 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 and the provisions of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules (as amended from time to time).

The audit committee is responsible for monitoring the financial operation and audit procedures of the Company, assessing effectiveness of the internal control and risk control systems of the Company, reviewing and supervising the performance of the corporate governance responsibilities of the Company as well as performing other duties and responsibilities assigned by the Board, and maintaining effective communication with the management, internal audit department and external auditors of the Company. 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.

During 2012, the audit committee:

– reviewed the financial statements and the annual results announcement for the year ended 31 December 2011;

– reviewed the interim financial statements and relevant interim results announcement for the six months ended 30 June 2012;

– reviewed the profit distribution plan for the year 2011 and the interim profit distribution plan for the year 2012;

– reviewed the proposal relating to appointments of international and domestic auditors of the Company for the year 2012 and determination of their respective remunerations;

– reviewed the financial reporting system and internal control procedures; and

– reviewed the reports on operating results of the Company for the year 2011 and the first half of 2012, the internal control report of the Company for the year 2011, and listened to the report from the external auditor on its audit work in relation to the year 2011 and on its review of 2012 interim report as well as its 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 2012.

The audit committee held two meetings during 2012. The audit committee reviewed and evaluated the findings of the Auditor's Report issued by the 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 recommendations after every meeting. The attendance of the members of the committee is set out as follows:

Name of Member	Position	Times of meetings should attend	Times of attendance	Attendance by alternate director
Mr. Li Xianzong	Chairman of the Audit Committee, Independent Non-executive Director	2	2	0
Mr. Gu Huizhong	Non-executive Director	2	2	0
Mr. Guo Chongqing	Independent Non-executive Director	2	1	1
Mr. Lau Chung Man, Louis	Independent Non-executive Director	2	2	0

EXTERNAL AUDITORS

In 2012, the payment made to the Company's external auditors in relation to auditing services amounted to RMB4.3 million, the external auditors did not provide any services other than such auditing services to the Company and the Company did not make any payment to the external auditors for any non-auditing services. The payment 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 2013. The proposal is subject to the approval of shareholders at the annual general meeting of the Company for the year 2012.

The statement of the external auditor of the Company in relation to their reporting responsibilities on the consolidated financial statements is set out on pages 63 to 64 of this Annual Report.

NOMINATION COMMITTEE

The nomination committee shall perform the following duties: to review the structure, size and composition of the Board and make recommendations on any proposed changes to the Board where necessary to be in line with the Company's strategies; to study the nomination standards and procedures for the Directors and senior management of the Company and to make recommendations to the Board; to identify individuals suitably qualified to become Directors and senior management, review such candidates and make appointment-related recommendations, select and nominate relevant individuals to be appointed as Directors or make recommendations to the Board on such selection and nomination; to assess the independence of independent non-executive Directors; to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession planning for Directors, in particular for the chairman of the Board and the president of the Company; to report to the Board on the decisions or suggestions made by the nomination committee.

As a special committee newly established in March 2012, the nomination committee comprises Mr. Lin Zuoming, Chairman of the Board and independent non-executive Directors, Mr. Li Xianzong, Mr. Guo Chongqing and Mr. Lau Chung Man, Louis. Mr. Lin Zuoming acts as the chairman of the nomination committee. During 2012, members of the nomination committee have studied and learned the contents and scope of the duties and responsibilities of the committee and also carefully studied the nomination standards and procedures for the Directors and senior management of the Company.

Before the establishment of the nomination committee, the Board conducted discussions on the composition and size of the new session of the Board, confirmed the composition and size of the new session of the Board and nominated members of the new session of Board. During 2012, the nomination committee did not convene any meeting.

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 2012 have been disclosed in 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 2012 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 2012.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Directors are responsible for monitoring the preparation of the financial statements for every financial year and ensuring those financial statements provide a true and fair view on the operating results, financial performance and cash flow of the Group in the relevant financial year. In preparing the financial statements for the year ended 31 December 2012, the Directors have:

– selected appropriate accounting policies and applied them consistently;

– adopted all relevant standards in compliance with the International Financial Reporting Standards; and

– made a prudent and reasonable judgment and estimation and prepared the 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, proper and effective internal control system for the Group to safeguard its 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 provide guidance in this respect, to supervise and review the implementation of regulations on internal control systems in a timely manner and organize the conduct of internal audit and perform audit responsibilities.

In 2012, AVIC Avionics, Hongdu Aviation and Hafei Aviation, which are the main board listed A share subsidiaries of the Company, issued internal control evaluation reports after evaluating the effectiveness of their own internal control in accordance with the provisions and requirements of "The Basic Standard for Enterprise Internal Control of the PRC" and its supporting guidelines, and appointed accounting firms to conduct independent audit on their internal control in 2012. During the reporting period, those companies established and effectively implemented the internal control of the businesses and items within the scope of the evaluation, achieving the objectives of internal control with no major defect identified. On this basis, and taking into account the comments on the internal control and the state of establishment of the internal control system of other subsidiaries, the Internal Audit Department evaluated the internal control of the Group as a whole and reported the evaluation conclusions to the audit committee and the Board.

The Board reviewed through the audit committee the effectiveness of the internal control system of the Group for the year ended on 31 December 2012, including all the significant financial, operational and regulatory control and risk management functions, and was satisfied that such system was effective and sufficient. The audit committee also reviewed and was satisfied with the sufficiency of resources and the qualifications and experience of the employees for performing the Group's accounting and financial reporting functions, the adequacy of the employee training courses and the relevant budget.

Due to the inherent limitations of the internal control system, the establishment of the Group's internal control system is for the purpose of managing potential risks rather than eliminating all the risks, which is impossible to do. Therefore, the internal control system can only provide a reasonable assurance, rather than an absolute assurance, for the Group to achieve its operational targets. Likewise, it is impossible for the internal control system to completely eliminate all material inaccurate statements made or all the losses caused to the Group.

SUPERVISORY COMMITTEE

The Supervisory Committee is accountable to the general meetings of the Company. The Fourth Session of the Supervisory Committee was established in 2012 and comprises two shareholder representative Supervisors and one employee representative Supervisor. In 2012, the Supervisory Committee held three meetings and considered and approved ten resolutions. It supervised, on behalf of shareholders of the Company, the financial position of the Group, the legality and compliance of the performance of duties by the Directors and senior management of the Company, attended the Board meetings and general meetings and fulfilled its duties diligently.

DIRECTORS' RESPONSIBILITY FOR THE 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 the disclosure provisions of the International Financial Reporting Standards and the Hong Kong Companies Ordinance. To the knowledge of the Directors, there is no event or condition that may have a material adverse effect on the continuing operation of the Company.

GENERAL MEETING

The general meeting is the supreme authority of the Company. It performs its functions according to law and makes decisions on major issues in relation to the Company. The annual general meetings and extraordinary general meetings of the Company provide a channel for shareholders to communicate directly with the Board. In 2012, the Company convened one annual general meeting, at which 19 resolutions were considered and approved. All Directors, Supervisors and members of the senior management of the Company endeavored to attend the general meetings. The following is the attendance record of the Directors:

Director	Time(s) of meeting(s) should attend	Times of attendance
Mr. Lin Zuoming	1	0
Mr. Tan Ruisong	1	1
Mr. Gu Huizhong	1	1
Mr. Gao Jianshe	1	1
Mr. Sheng Mingchuan	1	1
Mr. Maurice Savart	1	0
Mr. Guo Chongqing	1	1
Mr. Li Xianzong	1	1
Mr. Lau Chung Man, Louis	1	1

Pursuant to the relevant provisions of the Company Law of the PRC and the Articles of Association, in the event that shareholders request to convene an extraordinary general meeting or a class shareholders' meeting, a request in writing setting out the matters to be considered at the meeting shall be signed and submitted by two or more shareholders who collectively hold 10% or more of the total voting rights represented at the meeting proposed to be held for the Board to convene an extraordinary general meeting or a class shareholders' meeting. Upon receipt of such written request, the Board shall convene the extraordinary general meeting or the class shareholders' meeting as soon as possible.

When the Company convenes an annual general meeting, any shareholder holding 3% or more of the total voting rights of the Company shall have the right to submit new proposals to the Company in writing, and the Company shall place on the agenda of the meeting such matters in the proposals that are within the scope of functions and powers of the general meeting.

The Board or any shareholder or shareholders who separately or collectively hold more than 3% of the voting rights of the Company are entitled to nominate candidates for election as Directors to the Board at the general meeting of the Company. A written notice of the intention to nominate a Director candidate and a notice in writing by that candidate indicating his acceptance of such nomination are required to be given to the Company not sooner than the date of despatch of the notice of the general meeting and not later than seven days before the date of such general meeting. The nomination of each Director candidate shall be submitted to the general meeting as a separate resolution for the shareholders' consideration.

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary, whose contact details are as follows:

AviChina Industry & Technology Company Limited
Postal Code: 100009
P.O. Box 1655, Beijing, the PRC
Telephone: 86-10-58354309
Facsimile: 86-10-58354300/10
E-mail: avichina@avichina.com

ARTICLES OF ASSOCIATION

The latest consolidated version of the Articles of Association is posted on the websites of the Company and Stock Exchange. In 2012, due to the issuance of new Domestic Shares and H Shares by the Company, the total number of ordinary shares in issue of the Company increased from 4,949,024,500 shares to 5,474,429,167 shares; the provisions relating to shareholding structure and issued share capital of the Company contained in the Articles of Association were amended accordingly.

Meanwhile, the size of the Board was changed from fifteen to nine Directors and independent non-executive Directors shall form at least one-third (inclusive) of the Board members. The size of Supervisors on the Supervisory Committee was changed from five to three, with two shareholder representative Supervisors and one employee representative Supervisor.

Please refer to the circular despatched to the Shareholders on 5 April 2012 by the Company for details of the amendments made to the Articles of Association.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

The company secretary is responsible for information disclosure of the Company. The Company has formulated and enforced its Rules on Information Disclosure to ensure information disclosed by the Company is accurate, complete and made in a timely manner. During the reporting period, the Company published its annual report, interim report and other relevant announcements (including the overseas regulatory 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.

The Company has assigned specific employees to assume the role of investor relationship management. During the reporting period, due to the change of information disclosure methods required by the Stock Exchange, the Company had put more efforts in the maintenance of its websites to ensure that information is disclosed accurately and in a timely manner. The Company not only renews and modifies its Chinese and English websites continuously, but also regularly publishes and updates business news and information contained in its website to help investors understand the up-to-date situation of the Company clearly. Pursuant to the latest requirements of the Listing Rules, corporate governance information disclosure segment was added in the website of the Company to provide documents such as the Articles and Association and terms of reference of related meetings for inspection by the investors. Details of 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 2012, the requirements of the Company maintained continuous dialogues and communications with shareholders pursuant to the Code. The 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 and preside over 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

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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 65 to 151, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 (Continued)
(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 2012, 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, 25 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000 (Restated)
Continuing operations			
Revenue	5	16,800,189	13,271,415
Cost of sales		(13,530,434)	(10,618,903)
Gross profit		3,269,755	2,652,512
General and administrative expenses		(1,832,737)	(1,529,921)
Selling and distribution expenses		(323,719)	(275,962)
Other income	6	74,200	67,754
Other gains, net	7	82,134	64,683
Operating profit		1,269,633	979,066
Finance income	9	173,207	126,900
Finance costs	9	(160,400)	(145,581)
Finance income/(costs), net		12,807	(18,681)
Share of loss of a joint venture		(893)	–
Share of profits of associates		57,165	91,528
Profit before income tax		1,338,712	1,051,913
Income tax expense	10	(181,720)	(143,108)
Profit for the year from continuing operations		1,156,992	908,805
Discontinued operations			
Profit for the year from discontinued operations	11	–	145,317
Profit for the year		1,156,992	1,054,122
Attributable to:			
Equity holders of the Company		600,394	498,967
Non-controlling interests		556,598	555,155
		1,156,992	1,054,122
Profit attributable to equity holders of the Company from:			
– continuing operations		600,394	444,190
– discontinued operations		–	54,777
		600,394	498,967
		RMB	RMB (Restated)
Earnings per share for profit attributable to equity holders of the Company during the year			
Basic			
– continuing operations	13	0.112	0.090
– discontinued operations	13	–	0.011
Diluted			
– continuing operations	13	0.112	0.090
– discontinued operations	13	–	0.011
		RMB'000	RMB'000
Dividend	14	109,489	54,744

The notes on pages 73 to 151 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000 (Restated)
Profit for the year	1,156,992	1,054,122
Other comprehensive losses, net of tax		
Change in fair value of available-for-sale financial assets	(73,890)	(118,286)
Transfer from available-for-sale financial assets reserve to income statement upon disposal of available-for-sale financial assets	11,084	(28,896)
	(62,806)	(147,182)
Total comprehensive income for the year	1,094,186	906,940
Attributable to:		
Equity holders of the Company	574,206	436,691
Non-controlling interests	519,980	470,249
	1,094,186	906,940
Total comprehensive income attributable to equity holders of the Company from:		
– continuing operations	574,206	381,914
– discontinued operations	–	54,777
	574,206	436,691

The notes on pages 73 to 151 are an integral part of these consolidated financial statements.

Balance Sheets

As at 31 December 2012

	Note	Group 2012 RMB'000	Group 2011 RMB'000 (Restated)	Company 2012 RMB'000	Company 2011 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	17	4,856,146	4,483,458	20,260	21,118
Investment properties	18	26,529	28,046	–	–
Land use rights	19	557,910	590,429	–	–
Intangible assets	20	51,042	52,694	2,108	2,703
Interests in subsidiaries	21	–	–	4,762,540	3,981,190
Interests in a joint venture	22	34,107	–	–	–
Interests in associates	23	1,059,579	1,052,664	163,015	102,045
Available-for-sale financial assets	24	1,095,772	632,368	219,866	31,022
Deferred income tax assets	25	69,319	66,851	4,078	–
Accounts receivable	26	51,342	–	–	–
Total non-current assets		7,801,746	6,906,510	5,171,867	4,138,078
Current assets					
Accounts receivable	26	5,957,238	4,387,540	5,726	–
Advances to suppliers	27	728,945	840,211	5,152	–
Other receivables and prepayments	28	1,081,522	1,355,061	236,075	165,005
Inventories	29	11,226,205	8,196,727	–	–
Financial assets held for trading		557	530	–	–
Pledged deposits	31	652,598	635,252	–	–
Term deposits with initial term of over three months	32	3,227,980	2,347,969	2,455,320	1,939,815
Cash and cash equivalents		5,219,321	6,303,412	210,177	105,206
Total current assets		28,094,366	24,066,702	2,912,450	2,210,026
Total assets		35,896,112	30,973,212	8,084,317	6,348,104

The notes on pages 73 to 151 are an integral part of these consolidated financial statements.

Balance Sheets

As at 31 December 2012

	Note	Group 2012 RMB'000	Group 2011 RMB'000 (Restated)	Company 2012 RMB'000	Company 2011 RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	38	5,474,429	4,949,025	5,474,429	4,949,025
Reserves	40	3,652,057	2,596,369	2,115,311	905,859
		9,126,486	7,545,394	7,589,740	5,854,884
Non-controlling interests		7,367,102	6,572,866	–	–
Total equity		16,493,588	14,118,260	7,589,740	5,854,884
LIABILITIES					
Non-current liabilities					
Long-term borrowings	37	696,080	1,171,080	–	–
Deferred income from government grants		210,751	252,632	–	–
Deferred income tax liabilities	25	9,122	10,221	–	–
Total non-current liabilities		915,953	1,433,933	–	–
Current liabilities					
Accounts payable	33	10,042,566	6,913,854	941	–
Advances from customers	34	3,017,033	3,964,371	–	–
Other payables and accruals	35	2,175,869	2,021,419	83,484	83,068
Amounts payable to ultimate holding company	36	466,379	466,379	410,152	410,152
Current portion of long-term borrowings	37	658,000	251,000	–	–
Short-term borrowings	37	1,994,010	1,636,304	–	–
Current income tax liabilities		132,714	167,692	–	–
Total current liabilities		18,486,571	15,421,019	494,577	493,220
Total liabilities		19,402,524	16,854,952	494,577	493,220
Total equity and liabilities		35,896,112	30,973,212	8,084,317	6,348,104
Net current assets		9,607,795	8,645,683	2,417,873	1,716,806
Total assets less current liabilities		17,409,541	15,552,193	7,589,740	5,854,884

Director
Tan Ruisong

Director
Gu Huizhong

The notes on pages 73 to 151 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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	Other reserves	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 38)		(Note40(b))			(Note40(c))				
For the year ended 31 December 2012										
Balance at 1 January 2012, as restated	4,949,025	(139,994)	3,697,382	20,390	177,731	43,048	(1,202,188)	7,545,394	6,572,866	14,118,260
Total comprehensive (loss)/income for the year	–	–	–	–	(26,188)	–	600,394	574,206	519,980	1,094,186
Transactions with owners:										
Issuance of new shares (Note 38)	525,404	–	628,265	–	–	–	–	1,153,669	–	1,153,669
Deemed distribution to holding company (Note 1(a))	–	–	(376,591)	–	–	–	–	(376,591)	–	(376,591)
Disposal of subsidiaries (Note 41(c))	–	–	–	–	–	–	–	–	(1,966)	(1,966)
Dilution of interests in a subsidiary (Note 1(b))	–	–	257,242	–	–	–	–	257,242	(257,242)	–
Purchase of non-controlling interests of subsidiaries	–	–	122	–	–	–	–	122	(52,947)	(52,825)
Value of employee services under share scheme (Note 39)	–	–	–	27,188	–	–	–	27,188	–	27,188
2011 final dividend	–	–	–	–	–	–	(54,744)	(54,744)	–	(54,744)
Contributions from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	686,216	686,216
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(99,805)	(99,805)
Transfer to statutory surplus reserve	–	–	–	–	–	20,399	(20,399)	–	–	–
Other appropriations	–	–	–	–	–	27,489	(27,489)	–	–	–
	525,404	–	509,038	27,188	–	47,888	(102,632)	1,006,886	274,256	1,281,142
Balance at 31 December 2012	5,474,429	(139,994)	4,206,420	47,578	151,543	90,936	(704,426)	9,126,486	7,367,102	16,493,588

The notes on pages 73 to 151 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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	Other reserves	Accumulated losses	Subtotal		Total
	RMB'000 (Note 38)	RMB'000	RMB'000 (Note40(b))	RMB'000	RMB'000	RMB'000 (Note40(c))	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31 December 2011										
Balance at 1 January 2011, as restated	4,949,025	–	5,512,496	–	240,007	37,581	(1,646,198)	9,092,911	8,506,789	17,599,700
Total comprehensive (loss)/income for the year	–	–	–	–	(62,276)	–	498,967	436,691	470,249	906,940
Transactions with owners:										
Distribution of net assets of Dongan Motor (Note 11)	–	–	(1,887,005)	–	–	–	–	(1,887,005)	(2,900,867)	(4,787,872)
Deemed contribution from holding company (Note 11)	–	–	599,417	–	–	–	–	599,417	–	599,417
Dilution of interests in subsidiaries	–	–	(527,526)	–	–	–	–	(527,526)	527,526	–
Purchase of restricted shares under share scheme (Note 39)	–	(139,994)	–	–	–	–	–	(139,994)	–	(139,994)
Value of employee services under share scheme (Note 39)	–	–	–	20,390	–	–	–	20,390	–	20,390
2010 final dividend	–	–	–	–	–	–	(49,490)	(49,490)	–	(49,490)
Contributions from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	111,461	111,461
Dividends to non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	(142,292)	(142,292)
Transfer to statutory surplus reserve	–	–	–	–	–	5,467	(5,467)	–	–	–
	–	(139,994)	(1,815,114)	20,390	–	5,467	(54,957)	(1,984,208)	(2,404,172)	(4,388,380)
Balance at 31 December 2011, as restated	4,949,025	(139,994)	3,697,382	20,390	177,731	43,048	(1,202,188)	7,545,394	6,572,866	14,118,260

The notes on pages 73 to 151 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000 (Restated)
Cash flows from operating activities			
Net cash (used in)/generated from operations	41(a)	(559,678)	415,597
Interest received		173,207	126,900
Interest paid		(150,661)	(131,363)
Enterprise income tax paid		(209,030)	(177,737)
Net cash (used in)/generated from operating activities of continuing operations		(746,162)	233,397
Net cash used in operating activities of discontinued operations	11	–	(136,176)
Net cash (used in)/generated from operating activities		(746,162)	97,221
Cash flows from investing activities			
Purchase of property, plant and equipment		(794,804)	(699,223)
Purchase of land use rights		(10,127)	(95,274)
Payments for intangible assets		(2,656)	(9,377)
Addition of available-for-sale financial assets		(541,025)	(19,891)
Disposal of available-for-sale financial assets		30,817	35,156
Disposal of financial assets held for trading		137	8,340
Redemption of term deposits with initial term of over three months		2,347,969	2,692,307
Addition of term deposits with initial term of over three months		(3,227,980)	(2,347,969)
Proceeds from sale of property, plant and equipment	41(b)(i)	25,973	154,296
Proceeds from sale of investment properties	41(b)(ii)	3,000	–
Acquisition of a subsidiary	1(a)(ii)	(193,186)	–
Net cash inflow/(outflow) from disposal/distribution of subsidiaries	41(c)	119,433	(342,817)
New investments in a joint venture		(35,000)	–
Additional investments in associates		(68,607)	(110,924)
Disposal of interests in associates		7,482	–
Dividends received from associates		147,257	131,467
Dividends received from available-for-sale financial assets and financial assets held for trading		24,510	21,895
Net cash used in investing activities of continuing operations		(2,166,807)	(582,014)
Net cash generated from investing activities of discontinued operations	11	–	47,990
Net cash used in investing activities		(2,166,807)	(534,024)

The notes on pages 73 to 151 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000 (Restated)
Cash flows from financing activities			
Issuance of new shares	38(ii)	970,265	–
Purchase of restricted shares under share scheme		–	(75,287)
Proceeds from borrowings		2,598,510	2,364,905
Repayments of borrowings		(2,308,804)	(2,391,300)
Contributions from non-controlling shareholders of subsidiaries		686,216	111,461
Purchase of non-controlling interests of subsidiaries		(7,856)	–
Dividends paid to equity holders of the Company		(54,744)	(49,490)
Dividends paid to non-controlling shareholders of subsidiaries		(54,709)	(142,292)
Net cash generated from/(used in) financing activities of continuing operations		1,828,878	(182,003)
Net cash used in financing activities of discontinued operations	11	–	(50,480)
Net cash generated from/(used in) financing activities		1,828,878	(232,483)
Net decrease in cash and cash equivalents		(1,084,091)	(669,286)
Cash and cash equivalents at 1 January		6,303,412	6,972,698
Cash and cash equivalents at 31 December		5,219,321	6,303,412

The notes on pages 73 to 151 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, and as a result AVIC became the holding company of the Company thereafter. 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 products.

The Company's directors regard AVIC, a company established in the PRC, as being the ultimate holding company of the Company. AVIC is a state-owned enterprise 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 25 March 2013.

Major changes of Group structure

(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").

The consideration of RMB 772,745,000 was satisfied by the Company by:

(i) issuing 183,404,667 new shares with par value of RMB 1 each to AMES; and

(ii) settling the remaining RMB193,186,000 in cash.

Accordingly deemed distribution of approximately RMB 376,591,000 consisting of the above share issuance and cash settlement were recognised in the Group's equity during the year.

(b) On 24 October 2012, China AVIC Avionics Equipment Co., Ltd. ("AVIC Avionics", a subsidiary of the Company) issued approximately 38 million new shares (equivalent to approximately RMB 621 million) to certain independent investors.

Upon this share issuance, the equity interests held by the Company in AVIC Avionics was diluted from 44.49% to 43.22%. AVIC Avionics remains a subsidiary of the Company since the Company had entered into an agreement that AVIC and certain of AVIC's other subsidiaries would undertake to exercise their entire voting rights in AVIC Avionics in accordance with the instructions of the Company and as a result the Company has power over more than half of the voting rights in AVIC Avionics before and after the transaction.

Notes to the Financial Statements

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 judgments in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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

Corresponding to Note 1(a), given that the Company and Tianjin Aviation are both under common control of AVIC immediately before and after the business combinations, the Company applies the principles of merger accounting in preparing these consolidated financial statements of the Group.

By applying the principles of merger accounting, these consolidated financial statements of the Group also includes the financial positions, results and cash flows of Tianjin Aviation as if they had been combined with the Group throughout the year ended 31 December 2012. Comparative figures as at 31 December 2011 and for the year then ended have been restated as a result of such.

The following are reconciliations of the effects arising from the above mentioned common control combinations on the consolidated balance sheet as at 31 December 2011, consolidated income statement and consolidated statement of cash flow for the year ended 31 December 2011.

(i) The consolidated balance sheet as at 31 December 2011:

	Balances as previously reported RMB'000	Merger of Tianjin Aviation RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000
Total non-current assets	6,446,445	460,065	–	6,906,510
Total current assets	23,131,615	949,564	(14,477)	24,066,702
Total non-current liabilities	1,433,933	–	–	1,433,933
Total current liabilities	14,966,804	468,692	(14,477)	15,421,019
Total equity	13,177,323	940,937	–	14,118,260

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 2011:

	Balances as previously reported RMB'000	Merger of Tianjin Aviation RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000
Continuing operations				
Revenues	12,900,623	396,429	(25,637)	13,271,415
Profit for the year from continuing operations	782,190	126,615	–	908,805
Discontinued operations				
Profit for the year from discontinued operations	145,317	–	–	145,317
Profit for the year	927,507	126,615	–	1,054,122

(iii) The consolidated statement of cash flow for the year ended 31 December 2011:

	Balances as previously reported RMB'000	Merger of Tianjin Aviation RMB'000	Balances as restated RMB'000
Net cash generated from operating activities	93,201	4,020	97,221
Net cash (used in)/generated from investing activities	(604,188)	70,164	(534,024)
Net cash used in financing activities	(200,583)	(31,900)	(232,483)

Notes to the Financial Statements

2 BASIS OF PREPARATION (Continued)

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

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012:

IAS 12 (Amendment)	Deferred tax: Recovery of underlying assets
IFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters
IFRS 7 (Amendment)	Disclosures – Transfers of financial assets

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 2012.

The following new/revised standards, amendments to standards and interpretation have been issued but are not yet effective for the financial year beginning 1 January 2012 and have not been early adopted:

		Effective for accounting periods beginning on or after
IAS 1 (Amendment)	Presentation of financial statements – Other comprehensive income	1 July 2012
IAS 19 (Amendment)	Employee benefits	1 January 2013
IAS 27 (revised 2011)	Separate financial statements	1 January 2013
IAS 28 (revised 2011)	Associates and joint ventures	1 January 2013
IAS 32 (Amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
IFRS 1 (Amendment)	First-time adoption – Government loans	1 January 2013
IFRS 7 (Amendment)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
IFRS 7 and IFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015
IFRS 9	Financial instruments	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
IFRIC 20	Stripping costs in the production phase of a surface mine	1 January 2013

Under IFRS 10, there is a single approach for determining control for the purpose of consolidation of subsidiaries by an entity based on the concept of power, variability of returns and the ability to use power to affect the amount of returns. This replaces the previous approach which emphasised legal control under IAS 27 (Revised) (for companies) or exposure to risks and rewards under SIC 12 (for special purpose entities). The adoption of IFRS 10 does not have any financial impact on the Group as all subsidiaries within the Group satisfy the requirements for control under IFRS 10 and there are no new subsidiaries identified under the new guidance.

Notes to the Financial Statements

2 BASIS OF PREPARATION (Continued)

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

Management is in the process of assessing the related impacts of other new/revised standards, amendments to standards and interpretation to the Group.

3 PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

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

(i) Merger accounting and subsidiaries

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

The net assets of the combining entities or businesses are combined using the carrying 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 organized 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.

Notes to the Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Consolidation (Continued)

(i) Merger accounting and subsidiaries (continued)

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

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

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

(ii) Changes in ownership interests in subsidiaries without change of control

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) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Consolidation (Continued)

(iv) Joint ventures

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating ventures and whereby the Group together with the other venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity.

An interest in a joint venture is accounted for the consolidated financial statements under the equity method. Under the equity method, the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee and any impairment loss relating to the investment. The consolidated statement of comprehensive income includes the Group's share of post-acquisition profit or loss and the Group's share of movements in other comprehensive income of the investee and any impairment loss of the investment.

Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. The accounting policies of the joint ventures are the same as the policies adopted by the Group.

(v) 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.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

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 are situated.

Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

(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, joint venture, 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 mainly comprise accounts and other receivables, cash and cash equivalents.

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.

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.

Notes to the Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Financial assets (Continued)

(ii) Recognition and measurement (continued)

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.

(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.

Notes to the Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Contracts in progress (Continued)

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

(m) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation. The comparative income statement and cash flow statements are also reclassified as "discontinued operations".

Notes to the Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Financial liabilities and equity

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

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

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(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.

(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.

Notes to the Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Current and deferred income tax (Continued)

(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.

(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.

Notes to the Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(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.

Notes to the Financial Statements

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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 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) Provisions

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

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(y) 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.

(z) 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 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 charges 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.

Notes to the Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(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.

(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 ("Aviation-entire aircrafts")

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

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

Notes to the Financial Statements

5 SEGMENT INFORMATION (Continued)

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

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

	(Continuing operations)			(Discontinued operations)
	Aviation-entire aircrafts RMB'000	Aviation-parts & components RMB'000	Total RMB'000	Automobiles RMB'000
For the year ended 31 December 2012				
Total segment revenue	8,273,277	9,414,179	17,687,456	–
Inter-segment revenue	–	(887,267)	(887,267)	–
Revenue (from external customers)	8,273,277	8,526,912	16,800,189	–
Segment results	305,600	1,095,861	1,401,461	–
Other profit & loss disclosures:				
Depreciation and amortisation	165,724	281,673	447,397	–
Provision for impairments on receivables and inventories	18,210	38,013	56,223	–
Finance (costs)/income, net	(15,181)	27,988	12,807	–
Share of loss of a joint venture	–	(893)	(893)	
Share of results of associates	(39,742)	96,907	57,165	–
Income tax expense	51,527	130,193	181,720	–

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 (restated)				
Total segment revenue	6,555,030	7,549,186	14,104,216	864,457
Inter-segment revenue	–	(832,801)	(832,801)	–
Revenue (from external customers)	6,555,030	6,716,385	13,271,415	864,457
Segment results	189,453	928,068	1,117,521	170,846
Other profit & loss disclosures:				
Depreciation and amortisation	185,098	274,095	459,193	–
Provision for impairments on receivables and inventories	1,539	15,983	17,522	8,372
Finance (costs)/income, net	(29,809)	11,128	(18,681)	1,985
Share of results of associates	(28,720)	120,248	91,528	4,061
Income tax expense	38,620	104,488	143,108	25,529

Notes to the Financial Statements

5 SEGMENT INFORMATION (Continued)

Reconciliation of segment results to profit for the year:

	2012 RMB'000	2011 RMB'000 (Restated)
Segment result for entire aircrafts and aviation parts & components	1,401,461	1,117,521
Corporate overheads	(62,749)	(65,608)
Profit before income tax for continuing operations	1,338,712	1,051,913
Income tax expense	(181,720)	(143,108)
Profit for the year from continuing operations	1,156,992	908,805
Segment result for automobiles	–	170,846
Income tax expense	–	(25,529)
Profit for the year from discontinued operations	–	145,317

Notes to the Financial Statements

6 OTHER INCOME

	2012 RMB'000	2011 RMB'000 (Restated)
Rental income	17,687	22,909
Profit from sale of scrap materials	6,818	10,282
Income from rendering of maintenance and other services	25,185	12,668
Dividend income from available-for-sale financial assets and financial assets held for trading	24,510	21,895
	74,200	67,754

7 OTHER GAINS, NET

	2012 RMB'000	2011 RMB'000 (Restated)
Fair value gain/(loss) on financial assets held for trading	27	(296)
(Loss)/gain on disposal of:		
– property, plant and equipment	(742)	26,157
– investment properties	49,465	–
– interests in subsidiaries	7,779	–
– interests in associates	(1,618)	–
– available-for-sale financial assets	27,086	30,482
– financial assets held for trading	137	8,340
	82,134	64,683

Notes to the Financial Statements

8 EXPENSES BY NATURE

	2012 RMB'000	2011 RMB'000 (Restated)
Advertising costs	7,931	8,116
Amortisation on:		
– Intangible assets	4,308	3,834
– Land use rights	12,370	13,247
Auditors' remuneration	10,441	11,763
Raw materials and consumables used	7,824,334	4,310,660
Changes in inventories of finished goods and work-in-progress	(2,253,356)	(1,245,935)
Contract costs incurred	4,548,647	4,326,669
Depreciation on:		
– Investment properties	1,206	1,430
– Property, plant and equipment	429,513	440,682
Less: amortisation of deferred income from government grants	(19,793)	(20,437)
	410,926	421,675
Fuel	262,319	259,385
Insurance	13,556	19,843
Operating lease rentals	105,091	67,964
Provision for impairment:		
– Inventories	19,523	2,858
– Receivables	36,700	14,664
Repairs and maintenance expense	157,460	172,434
Research expenditures and development costs	757,192	561,128
Staff costs, including directors' emoluments (Note 15)	2,439,195	2,380,044
Sub-contracting charges	365,805	307,934
Sundries	779,168	623,501
Transportation expenses	70,882	66,249
Travelling	114,398	98,753
Total cost of sales, selling and distribution expenses, and general and administrative expenses	15,686,890	12,424,786

Notes to the Financial Statements

9 FINANCE INCOME/(COSTS), NET

	2012 RMB'000	2011 RMB'000 (Restated)
Finance income:		
Interest income on bank balances and deposits	173,207	126,900
Finance costs:		
Interest expense on bank borrowings		
– Wholly repayable within 5 years	114,278	95,775
– Not wholly repayable within 5 years	–	6,295
Interest expense on other borrowings		
– Wholly repayable within 5 years	27,458	32,710
– Not wholly repayable within 5 years	31,651	16,035
	173,387	150,815
Less: Amount capitalised in property, plant and equipment (note)	(22,726)	(19,452)
	150,661	131,363
Other finance costs	9,739	14,218
	160,400	145,581
	12,807	(18,681)

Note:

Interest rates per annum at which finance costs were capitalised	3.51%-6.55%	4.23%-7.32%

Notes to the Financial Statements

10 INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000 (Restated)
Current income tax	174,203	184,350
Deferred income tax	7,517	(41,242)
	181,720	143,108

Notes:

(a) Except for certain subsidiaries which are taxed at a preferential rate of 15% (2011:15%), 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% (2011: 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:

	2012 RMB'000	2011 RMB'000 (Restated)
Profit before income tax from continuing operations	1,338,712	1,051,913
Tax calculated at the statutory tax rate of 25%	334,678	262,978
Preferential tax rates on the income of certain subsidiaries	(110,482)	(86,899)
Non-taxable income	(44,602)	(44,750)
Expenses not deductible for tax purposes	21,932	21,296
Utilisation of previously unrecognised tax losses	(6,775)	–
Others	(13,031)	(9,517)
Tax charge	181,720	143,108

Notes to the Financial Statements

11 DISCONTINUED OPERATIONS

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 RMB2.4 billion.

This consideration was satisfied by AVIC by:

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

- settling approximately RMB0.6 billion in cash.

The acquisition of JONHON Optronic was accounted for using merger accounting given that the Company and JONHON Optronic were under common control of AVIC before and after the acquisition. The assets/liabilities of Dongan Motor and the cash consideration were recorded as deemed distributions and contributions from holding company respectively.

The aggregate results and cash flows of the discontinued operations related to Dongan Motor up to 17 March 2011 were as follows:

	2012 RMB'000	2011 RMB'000
Revenue	–	864,457
Expenses	–	(693,611)
Profit before income tax	–	170,846
Income tax expense	–	(25,529)
Profit from discontinued operations	–	145,317
Net cash used in operating activities	–	(136,176)
Net cash generated from investing activities	–	47,990
Net cash used in financing activities	–	(50,480)
Net cash outflows	–	(138,666)

Details of assets/liabilities distributed are disclosed in Note 41(c).

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 RMB203,985,000 (2011: RMB 54,671,000).

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 39).

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:

	2012 RMB'000	2011 RMB'000 (Restated)
Profit attributable to equity holders of the Company from		
– continuing operations	600,394	444,190
– discontinued operations	–	54,777
	600,394	498,967
Weighted average number of ordinary shares in issue less shares held for restricted share scheme for calculating basic earnings per share (thousands)	5,372,773	4,921,265
Potential dilutive effect arising from restricted shares (thousands)	3,763	9,620
Weighted average number of ordinary shares in issue for calculating diluted earnings per share (thousands)	5,376,536	4,930,885

Notes to the Financial Statements

14 DIVIDEND

	2012 RMB'000	2011 RMB'000
Final dividend, proposed of RMB0.02 (2011: RMB0.01) per share	109,489	54,744

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 2013.

15 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2012 RMB'000	2011 RMB'000 (Restated)
Wages, salaries and bonuses	1,571,140	1,533,039
Housing benefits	188,537	183,965
Restricted shares (Note 39)	27,188	20,390
Contributions to pension plans	314,228	306,608
Welfare and other expenses	338,102	336,042
	2,439,195	2,380,044

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 2012 and 2011 are set out below.

	Year ended 31 December 2012				
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 (note (ii))	–	188	–	–	188
Non-executive directors					
Gu Huizhong	380	–	–	–	380
Xu Zhanbin (note (ii))	158	–	–	–	158
Geng Ruguang (note (ii))	158	–	–	–	158
Zhang Xinguo (note (ii))	158	–	–	–	158
Gao Jianshe	380	–	–	–	380
Li Fangyong (note (ii))	158	–	–	–	158
Chen Yuanxian (note (ii))	133	–	–	–	133
Sheng Mingchuan (note (i))	–	–	–	–	–
Wang Yong (note (ii))	–	–	–	–	–
Maurice Savart	60	–	–	–	60
Independent non-executive directors					
Lau Chungman	150	–	–	–	150
Guo Chongqing	100	–	–	–	100
Li Xianzong	–	–	–	–	–
	1,835	1,138	–	–	2,973

Notes:

(i) Appointed on 25 May 2012

(ii) Resigned on 25 May 2012

Notes to the Financial Statements

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

(a) Directors' emoluments (Continued)

	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

* Chief executive of the Company

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 2012 and 2011 are set out below.

	Year ended 31 December 2012				
Name of supervisor	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
Supervisors					
Bai Ping	320	–	–	–	320
Wang Yuming (note (ii))	17	–	–	–	17
Yu Guanghai	40	–	–	–	40
Li Jing (note (i))	119	–	–	–	119
Li Yuhai (note (iii))	158	–	–	–	158
Tang Jianguo (note (iii))	158	–	–	–	158
	812	–	–	–	812

Notes to the Financial Statements

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

(b) Supervisors' emoluments (Continued)

	Year ended 31 December 2011				
Name of supervisor	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
Supervisors					
Li Yuhai (note (iii))	380	–	–	–	380
Tang Jianguo (note (iii))	380	–	–	–	380
Bai Ping	320	–	–	–	320
Wang Yuming	40	–	–	–	40
Yu Guanghai	40	–	–	–	40
	1,160	–	–	–	1,160

Notes:

(i) Appointed on 25 May 2012

(ii) Resigned on 25 May 2012

(iii) Resigned on 30 December 2011 but were paid for supervisor responsibility during the transition period before new supervisor was appointed on 25 May 2012

(c) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year included five (2011: 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 2011 and 2012. 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 (2011: Nil).

Notes to the Financial Statements

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 2012	571,852	2,284,177	3,320,915	1,160,308	7,337,252
Additions	634,331	88,649	91,154	92,471	906,605
Transfer upon completion	(142,729)	41,308	65,319	36,102	–
Disposals/write-off	–	(7,976)	(55,443)	(39,936)	(103,355)
Disposal of subsidiaries	(59,667)	(15,179)	(24,226)	(1,299)	(100,371)
As at 31 December 2012	1,003,787	2,390,979	3,397,719	1,247,646	8,040,131
Accumulated depreciation and impairment					
As at 1 January 2012	–	673,757	1,605,328	574,709	2,853,794
Depreciation	–	71,269	232,093	126,151	429,513
Disposals/write-off	–	(7,168)	(40,381)	(29,091)	(76,640)
Disposal of subsidiaries	–	(4,188)	(17,282)	(1,212)	(22,682)
As at 31 December 2012	–	733,670	1,779,758	670,557	3,183,985
Net book value					
As at 31 December 2012	1,003,787	1,657,309	1,617,961	577,089	4,856,146

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 2011	606,862	2,188,204	3,138,282	954,894	6,888,242
Additions	352,320	78,852	202,697	89,241	723,110
Transfer upon completion	(363,494)	83,072	123,559	156,863	–
Disposals/write-off	(23,836)	(65,951)	(143,623)	(40,690)	(274,100)
As at 31 December 2011	571,852	2,284,177	3,320,915	1,160,308	7,337,252
Accumulated depreciation and impairment					
As at 1 January 2011	–	618,553	1,432,123	508,397	2,559,073
Depreciation	–	73,774	273,005	93,903	440,682
Disposals/write-off	–	(18,570)	(99,800)	(27,591)	(145,961)
As at 31 December 2011	–	673,757	1,605,328	574,709	2,853,794
Net book value					
As at 31 December 2011	571,852	1,610,420	1,715,587	585,599	4,483,458

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 2012	14,647	3,402	11,364	29,413
Additions	–	–	755	755
Disposals/write-off	–	–	(941)	(941)
As at 31 December 2012	14,647	3,402	11,178	29,227
Accumulated depreciation and impairment				
As at 1 January 2012	949	956	6,390	8,295
Depreciation	468	11	1,103	1,582
Disposals/write-off	–	–	(910)	(910)
As at 31 December 2012	1,417	967	6,583	8,967
Net book value				
As at 31 December 2012	13,230	2,435	4,595	20,260
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

Notes to the Financial Statements

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

As at 31 December 2012, certain of the Group's property, plant and equipment with carrying value of approximately RMB303,313,000 (2011: RMB300,324,000) 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 subsidiaries of the ultimate holding company under long-term leases. The remaining period of the Group's rights on the leasehold land at 31 December 2012 ranged from 10 to 37 years (2011: 11 to 38 years).

18 INVESTMENT PROPERTIES

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Cost		
As at 1 January	36,132	61,371
Additions	829	–
Disposal (note (a))	(2,285)	(25,239)
As at 31 December	34,676	36,132
Accumulated depreciation		
As at 1 January	8,086	9,224
Depreciation	1,206	1,430
Disposal (note (a))	(1,145)	(2,568)
As at 31 December	8,147	8,086
Net book value		
As at 31 December	26,529	28,046
At valuation (note (b))	28,221	29,445

Note:

(a) During 2012 Shanghai Aviation Electric Co., Ltd., a subsidiary of the Company, disposed an investment property to a third party with a consideration of RMB 50,605,000 (Note 7).

(b) All investment properties are located in the PRC and their valuations as at 31 December 2012 and 2011 stated above were determined by management on an open market value basis.

Notes to the Financial Statements

19 LAND USE RIGHTS

	Group 2012 RMB'000	2011 RMB'000 (Restated)
Cost		
As at 1 January	665,331	569,447
Additions	10,127	106,212
Disposal	–	(10,328)
Disposal of subsidiaries	(50,003)	–
As at 31 December	625,455	665,331
Accumulated amortisation		
As at 1 January	74,902	64,178
Amortisation	12,370	13,247
Disposal	–	(2,523)
Disposal of subsidiaries	(19,727)	–
As at 31 December	67,545	74,902
Net book amount		
As at 31 December	557,910	590,429

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 RMB77,474,000 as at 31 December 2012.

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 2012	33,825	32,285	66,110	3,535
Additions	2,216	440	2,656	324
As at 31 December 2012	36,041	32,725	68,766	3,859
Accumulated amortisation and impairment				
As at 1 January 2012	–	13,416	13,416	832
Amortisation	–	4,308	4,308	919
As at 31 December 2012	–	17,724	17,724	1,751
Net book amount				
As at 31 December 2012	36,041	15,001	51,042	2,108

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 2011	228,934	28,351	257,285	–
Additions	6,377	4,469	10,846	3,535
Disposal (note)	(201,486)	(535)	(202,021)	–
As at 31 December 2011	33,825	32,285	66,110	3,535
Accumulated amortisation and impairment				
As at 1 January 2011	–	9,582	9,582	–
Amortisation	–	3,834	3,834	832
As at 31 December 2011	–	13,416	13,416	832
Net book amount				
As at 31 December 2011	33,825	18,869	52,694	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

21 INTERESTS IN SUBSIDIARIES

	Company 2012 RMB'000	Company 2011 RMB'000
Investments, at cost		
– Shares listed in the PRC	3,001,321	3,001,321
– Unlisted investments	1,493,219	711,869
	4,494,540	3,713,190
Loans to subsidiaries (note)	268,000	268,000
	4,762,540	3,981,190
Market value of listed shares	15,929,970	16,889,850

Particulars of principal subsidiaries of the Group as at 31 December 2012 are set out in Note 46.

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 LOSS OF/INTERESTS IN A JOINT VENTURE

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Share of net assets, as at 1 January	–	–
Share of loss of a joint venture		
– loss before income tax	(893)	–
– income tax expense	–	–
	(893)	–
New investments	35,000	–
Share of net assets, as at 31 December	34,107	–

Particulars of the joint venture of the Group as at 31 December 2012 are set out in Note 46.

23 SHARE OF PROFITS OF/INTERESTS IN ASSOCIATES

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Share of net assets, as at 1 January	1,052,664	976,023
Share of profits of associates		
– profit before income tax	95,539	127,308
– income tax expense	(38,374)	(35,780)
	57,165	91,528
	1,109,829	1,067,551
Dividends received from associates	(109,757)	(134,104)
Disposal of interests in associates	(9,100)	–
Additional investments	68,607	119,217
Share of net assets, as at 31 December	1,059,579	1,052,664

Notes to the Financial Statements

23 SHARE OF PROFITS OF/INTERESTS IN ASSOCIATES (Continued)

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted investment, at cost	163,015	102,045

Particulars of principal associates of the Group as at 31 December 2012 are set out in Note 46.

24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Listed equity securities, at fair value	217,897	295,518	–	–
Unlisted investments (note)	880,118	339,093	219,866	31,022
Less: provision for impairment	(2,243)	(2,243)	–	–
	877,875	336,850	219,866	31,022
	1,095,772	632,368	219,866	31,022

Note:

These assets principally represent interests in certain unlisted companies and investments on structured deposits 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. Balance as at 31 December 2012 includes structured deposits of RMB350,000,000 with variable returns and a maturity of 3 years.

Notes to the Financial Statements

25 DEFERRED INCOME TAXES

The analysis of deferred tax assets and deferred tax liabilities, determined after appropriate offsetting, is shown in the consolidated balance sheet:

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Representing:				
Deferred income tax assets	69,319	66,851	4,078	–
Deferred income tax liabilities	(9,122)	(10,221)	–	–
Total deferred income tax assets less total deferred income tax liabilities	60,197	56,630	4,078	–

The gross movement on the deferred income tax account is as follow:

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
As at 1 January	56,630	(10,585)	–	–
(Charged)/credited to consolidated income statement	(7,517)	41,242	4,078	–
Credited to available-for-sale financial assets reserve	11,084	25,973	–	–
As at 31 December	60,197	56,630	4,078	–

Notes to the Financial Statements

25 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		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Deferred income tax assets:				
Provision for impairment of receivables	38,393	29,091	–	–
Provision for impairment of inventories	21,478	17,286	–	–
Other temporary differences	39,595	60,172	4,078	–
	99,466	106,549	4,078	–
Deferred income tax liabilities:				
Development costs	5,096	5,074	–	–
Fair value changes on available-for-sale financial assets	30,789	41,873	–	–
Other temporary differences	3,384	2,972	–	–
	39,269	49,919	–	–
Total deferred income tax assets less total deferred income tax liabilities	60,197	56,630	4,078	–

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 RMB80 million (2011: RMB89 million) in respect of tax losses amounting to approximately RMB335 million (2011: RMB379 million) that can be carried forward against future taxable income. These unrecognised tax losses are expiring within 5 years.

Notes to the Financial Statements

26 ACCOUNTS RECEIVABLE

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Trade receivables, gross (note (a))				
– Fellow subsidiaries (Note 43(b))	2,677,206	2,570,031	5,726	–
– Others	2,093,295	1,334,400	–	–
	4,770,501	3,904,431	5,726	–
Less: provision for impairment of receivables	(216,158)	(182,393)	–	–
	4,554,343	3,722,038	5,726	–
Notes receivable (note (c))				
– Fellow subsidiaries (Note 43(b))	964,938	392,411	–	–
– Others	489,299	273,091	–	–
	1,454,237	665,502	–	–
	6,008,580	4,387,540	5,726	–
Less: non-current portion	(51,342)	–	–	–
Current portion	5,957,238	4,387,540	5,726	–

Notes to the Financial Statements

26 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		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Current to 1 year	4,131,765	3,478,382	5,726	–
1 year to 2 years	478,460	256,779	–	–
Over 2 years	160,276	169,270	–	–
	4,770,501	3,904,431	5,726	–

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 2012, trade receivables of RMB 1,398,697,000 (2011: RMB 1,089,494,000 as restated) were past due but not impaired. These relate mainly to a number of customers for whom there is no recent history of default. The ageing analysis of these past due but not impaired receivables is as follows:

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Up to 1 year	928,290	789,236	–	–
1 year to 2 years	434,525	233,161	–	–
Over 2 years	35,882	67,097	–	–
	1,398,697	1,089,494	–	–

Notes to the Financial Statements

26 ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(a) As of 31 December 2012, trade receivables of RMB216,158,000 (2011: RMB182,393,000 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		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
Current to 1 year	47,829	56,602	–	–
1 year to 2 years	43,935	23,618	–	–
Over 2 years	124,394	102,173	–	–
	216,158	182,393	–	–

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

	Group		Company	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000
At 1 January	182,393	168,182	–	–
Provision for impairment	36,700	14,664	–	–
Write-off	(2,935)	(453)	–	–
At 31 December	216,158	182,393	–	–

(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 43(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 37 (g)) as at 31 December 2012.

Notes to the Financial Statements

27 ADVANCES TO SUPPLIERS

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
– Fellow subsidiaries (Note 43(b))	222,726	203,936	5,000	–
– Others	506,219	636,275	152	–
	728,945	840,211	5,152	–

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.

28 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Amounts due from customers for contract work (Note 30)	66,658	248,332	–	–
Dividends receivable from subsidiaries	–	–	106,620	50,748
Dividends receivable from associates	8,165	45,665	–	–
Other advances to (note)				
– ultimate holding company	2,665	7,240	–	–
– fellow subsidiaries	122,470	351,784	109,351	109,351
Other receivables	615,790	508,284	–	–
Prepayments and deposits	66,060	68,490	4,721	4,906
Other current assets	199,714	125,266	15,383	–
	1,081,522	1,355,061	236,075	165,005

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 43(b).

Notes to the Financial Statements

29 INVENTORIES

	Group 2012 RMB'000	2011 RMB'000 (Restated)
Raw materials	4,573,960	3,843,815
Work in progress	5,427,074	3,280,756
Finished goods	1,237,578	1,130,540
Consumables	131,573	66,073
	11,370,185	8,321,184
Less: provision for impairment losses	(143,980)	(124,457)
	11,226,205	8,196,727

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB 13,259,825,000 (2011: RMB10,406,525,000 as restated).

30 CONTRACTS IN PROGRESS

	Group 2012 RMB'000	2011 RMB'000 (Restated)
Contracts in progress at balance sheet date:		
Amounts due from customers for contract work (Note 28)	66,658	248,332
Total of contract costs incurred and profits recognised to date	6,873,596	6,837,786

Notes to the Financial Statements

31 PLEDGED DEPOSITS

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Renminbi denominated deposits	652,598	635,252

As at 31 December 2012, trade finance facilities utilised by the Group for issuing notes payable to its suppliers amounting to RMB 1,695,119,000 (2011: RMB1,676,068,000 as restated) were secured by these pledged deposits (Note 33(c)).

Pledged deposits earn interest at rates ranging from 0.35% to 3.19% (2011: 0.5% to 3.3%). 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 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	
	2012	2011	2012	2011
Currency	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Renminbi **	2,439,935	2,308,154	1,715,136	1,900,000
Hong Kong Dollar	788,045	39,815	740,184	39,815
	3,227,980	2,347,969	2,455,320	1,939,815

The weighted average effective interest rates of the Group and the Company on term deposits with initial term of over three months were 2.95% (2011: 3.07%) and 2.81% (2011: 3.18%) per annum respectively.

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

Notes to the Financial Statements

33 ACCOUNTS PAYABLE

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Trade payables (note (a))				
– Fellow subsidiaries (Note 43 (b))	1,826,662	1,305,969	901	–
– Others	5,583,154	3,817,493	40	–
	7,409,816	5,123,462	941	–
Notes payable (note (c))				
– Fellow subsidiaries (Note 43 (b))	1,411,954	880,474	–	–
– Others	1,220,796	909,918	–	–
	2,632,750	1,790,392	–	–
	10,042,566	6,913,854	941	–

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		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Current to 1 year	5,386,693	4,345,657	941	–
1 year to 2 years	1,495,635	423,823	–	–
2 years to 3 years	265,108	91,082	–	–
Over 3 years	262,380	262,900	–	–
	7,409,816	5,123,462	941	–

(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 43(b).

(c) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months. As at 31 December 2012, notes payable of RMB 1,695,119,000 (2011: RMB 1,676,068,000 as restated) were secured by pledged deposits to the extent of RMB 652,598,000 (2011: RMB635,252,000 as restated).

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

Notes to the Financial Statements

34 ADVANCES FROM CUSTOMERS

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
– Fellow subsidiaries (Note 43(b))	1,703,098	3,638,899
– Others	1,313,935	325,472
	3,017,033	3,964,371

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.

35 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Payable for property, plant and equipment				
– Fellow subsidiaries (note (i))	109,855	–	–	–
– Others	62,946	60,652	–	23
Wages, salaries, bonuses and other employee benefits	929,161	1,018,691	7,971	8,139
Accrued expenses	515,756	590,364	288	3,300
Deferred income from government grants	19,969	25,398	–	–
Consumption tax, business tax and other taxes payable	67,265	34,024	3,954	520
Other advances from (note (ii))				
– Ultimate holding company	8,860	4,013	1,834	1,632
– Fellow subsidiaries	143,670	48,682	4,730	4,733
Dividend payable to non-controlling shareholders of subsidiaries	144,564	99,468	–	–
Advances from participants of restricted share scheme (Note 39)	64,707	64,707	64,707	64,707
Other current liabilities	109,116	75,420	–	14
	2,175,869	2,021,419	83,484	83,068

Notes to the Financial Statements

35 OTHER PAYABLES AND ACCRUALS (Continued)

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 43(b).

36 AMOUNTS PAYABLE TO ULTIMATE HOLDING COMPANY

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Balance arising from changes in Group structure	150,091	150,091	150,090	150,090
Others	316,288	316,288	260,062	260,062
	466,379	466,379	410,152	410,152

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

Notes to the Financial Statements

37 BORROWINGS

	Group 2012 RMB'000	2011 RMB'000 (Restated)
Short-term borrowings		
Bank borrowings		
– Secured (note (g))	325,510	170,000
– Unsecured	878,500	840,705
	1,204,010	1,010,705
Other borrowings (note (c))		
– Secured (note (g))	95,000	80,599
– Unsecured	695,000	545,000
	1,994,010	1,636,304
Current portion of long-term borrowings	658,000	251,000
	2,652,010	1,887,304
Long-term borrowings		
Bank borrowings		
– Secured (note (g))	693,080	759,080
Other borrowings (note (c))		
– Unsecured	661,000	663,000
	1,354,080	1,422,080
Less: Current portion of long-term borrowings	(658,000)	(251,000)
	696,080	1,171,080
Total borrowings	3,348,090	3,058,384

Notes to the Financial Statements

37 BORROWINGS (Continued)

Notes:

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

	Group 2012 RMB'000	2011 RMB'000 (Restated)
Wholly repayable within five years		
– Bank borrowings	693,080	759,080
– Other borrowings	161,250	279,750
	854,330	1,038,830
Not wholly repayable within five years		
– Other borrowings	499,750	383,250
	499,750	383,250
	1,354,080	1,422,080

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

	Group 2012 RMB'000	2011 RMB'000 (Restated)
Bank borrowings		
– Within one year	638,000	191,000
– In the second year	55,080	553,000
– In the third to fifth year	–	15,080
	693,080	759,080
Other borrowings		
– Within one year	20,000	60,000
– In the second year	13,000	20,000
– In the third to fifth year	128,250	199,750
– After the fifth year	499,750	383,250
	661,000	663,000
	1,354,080	1,422,080

(c) As at 31 December 2012 and 2011, other borrowings represent loans granted by a fellow subsidiary of the Group which bear interests at 5% to 7% per annum.

Notes to the Financial Statements

37 BORROWINGS (Continued)

Notes: (Continued)

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

	Group 2012 RMB'000	Group 2011 RMB'000 (Restated)
Bank borrowings		
– Fixed rates	650,590	639,985
– Floating rates	1,246,500	1,129,800
	1,897,090	1,769,785
Other borrowings		
– Fixed rates	1,120,250	1,099,349
– Floating rates	330,750	189,250
	1,451,000	1,288,599
	3,348,090	3,058,384

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

	Group 2012	Group 2011 (Restated)
Weighted average effective interest rates		
– Bank borrowings	6%	6%
– Other borrowings	5%	4%

(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	
	2012 RMB'000	2011 RMB'000 (Restated)	2012 RMB'000	2011 RMB'000 (Restated)
Bank borrowings	55,080	568,080	53,777	549,163
Other borrowings	641,000	603,000	574,206	545,321
	696,080	1,171,080	627,983	1,094,484

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 6.15% to 6.55% as at 31 December 2012 (2011: 6.65% to 7.05%), depending on the type of the debt.

Notes to the Financial Statements

37 BORROWINGS (Continued)

Notes: (Continued)

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

	Group 2012 RMB'000	Group 2011 RMB'000 (Restated)
Securities over the Group's assets, at carrying value		
– Accounts receivable (Note 26(e))	420,510	319,830
Guarantees provided by		
– Ultimate holding company (Note 43(c)(iii))	13,080	29,080
– Subsidiaries within the Group	680,000	750,000
	693,080	779,080

(h) As at 31 December 2012, the Group had the following undrawn committed borrowing facilities.

	Group 2012 RMB'000	Group 2011 RMB'000 (Restated)
At floating rates		
– Expiring within one year	1,620,404	1,344,005

38 SHARE CAPITAL

	Company 2012 RMB'000	Company 2011 RMB'000
Registered, issued and fully paid:		
3,117,995,265 (2011: 2,934,590,598) Domestic Shares of RMB 1 each (note (i))	3,117,995	2,934,591
2,356,433,902 (2011: 2,014,433,902) H Shares of RMB 1 each (note (ii))	2,356,434	2,014,434
	5,474,429	4,949,025

Notes to the Financial Statements

38 SHARE CAPITAL (Continued)

Notes:

(i) On 18 January 2012, the Company issued 183,404,667 Domestic shares with par value of RMB 1 each to AMES (Note 1(a)).

(ii) On 2 March 2012, the Company issued 342,000,000 H shares with par value of RMB 1 each at HK$3.55 per share for placement to independent investors. The net proceeds of the placement amounted to approximately RMB 970,265,000.

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

39 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.

In 2011, 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.

Movements in the number of restricted shares granted are as follows:

	2012		2011	
	Fair value at grant date (per share) HK$	Number of restricted shares granted (Thousands)	Fair value at grant date (per share) HK$	Number of restricted shares granted (Thousands)
At 1 January	4.15	37,014	–	–
Granted	–	–	4.15	37,014
At 31 December	4.15	37,014	4.15	37,014

The fair value of restricted shares charged to the consolidated income statement was RMB 27,188,000 during the year ended 31 December 2012 (2011: RMB20,390,000).

Notes to the Financial Statements

40 RESERVES

	Company					
	Shares held for restricted share scheme RMB'000	Capital reserve RMB'000 (Note (b))	Share-based compensation reserve RMB'000	Other reserve RMB'000 (Note (c))	Retained earnings RMB'000 (Note (d))	Total RMB'000
Balance at 1 January 2012	(139,994)	925,076	20,390	43,048	57,339	905,859
Profit for the year	–	–	–	–	203,985	203,985
Issuance of new shares	–	628,265	–	–	–	628,265
Deemed contribution from holding company	–	404,758	–	–	–	404,758
Value of employee services under share scheme (Note 39)	–	–	27,188	–	–	27,188
2011 final dividend	–	–	–	–	(54,744)	(54,744)
Transfer to statutory surplus reserve	–	–	–	20,399	(20,399)	–
At 31 December 2012	(139,994)	1,958,099	47,578	63,447	186,181	2,115,311
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	(139,994)	–	–	–	–	(139,994)
Value of employee services under share scheme	–	–	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

Notes:

(a) Movements in the reserves of the Group are set out in the consolidated statement of changes in equity on pages 69 to 70.

(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 reserve 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. Upon group restructuring where there are acquisitions or distributions with holding company, the consideration is also accounted for in capital reserve of the Group as deemed distribution or contribution.

Notes to the Financial Statements

40 RESERVES (Continued)

Notes: (Continued)

(c) Other reserves

(i) 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.

(ii) Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside an amount to a safety reserve at the rate ranging from 0.1% to 2% on the total revenue of aviation products recognised for the year. The reserve can be utilised for improvements of safety on the manufacturing work of aviation products, and the amounts utilised are charged to the consolidated income statement as incurred.

(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 China Accounting Standards and the amount determined in accordance with IFRS. As at 31 December 2012, the retained earnings available for distribution was approximately RMB186,181,000 (2011: RMB 57,339,000).

Notes to the Financial Statements

41 CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations of continuing operations:

	Group 2012 RMB'000	Group 2011 RMB'000 (Restated)
Profit before income tax	1,338,712	1,051,913
Adjustments for:		
Share of results of a joint venture	893	–
Share of results of associates	(57,165)	(91,528)
Fair value (gain)/loss on financial assets	(27)	296
Loss/(gain) on disposal of		
– property, plant and equipment	742	(26,157)
– investment properties	(49,465)	–
– interests in subsidiaries	(7,779)	–
– interests in associates	1,618	–
– available-for-sale financial assets	(27,086)	(30,482)
– financial assets held for trading	(137)	(8,340)
Amortisation on		
– Intangible assets	4,308	3,834
– Land use rights	12,370	13,247
Depreciation on		
– Investment properties	1,206	1,430
– Property, plant and equipment	429,513	440,682
Value of employee services under share scheme	27,188	20,390
Provision for impairment		
– Inventories	19,523	2,858
– Receivables	36,700	14,664
Dividend income from available-for-sale financial assets and financial assets held for trading	(24,510)	(21,895)
Interest income	(173,207)	(126,900)
Interest expense	150,661	131,363
	1,684,058	1,375,375
Changes in working capital:		
– Increase in accounts receivable	(1,661,665)	(750,681)
– Decrease/(increase) in advances to suppliers, other receivables and prepayments	303,108	(203,220)
– Increase in inventories	(3,049,001)	(2,363,739)
– Increase in pledged deposits	(17,346)	(471,345)
– Increase in accounts payable	3,128,760	1,347,702
– Decrease in amounts payable to ultimate holding company	–	(213,389)
– (Decrease)/increase in advance from customers, other payables and accruals	(947,592)	1,694,894
Net cash (used in)/generated from operations of continuing operations	(559,678)	415,597

Notes to the Financial Statements

41 CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) (i) Proceeds from sale of property, plant and equipment comprise:

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Net book amount	26,715	128,139
(Loss)/gain on sale of property, plant and equipment (Note 7)	(742)	26,157
Cash proceeds	25,973	154,296

(ii) Proceeds from sale of investment properties comprise:

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Net book amount	1,140	22,671
Gain on sale of investment properties (Note 7)	49,465	–
Total consideration	50,605	22,671
in the form of:		
– receivables	47,605	22,671
– cash proceeds	3,000	–

Notes to the Financial Statements

41 CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal/distribution of subsidiaries:

	Group	
	2012	2011
	RMB'000	RMB'000
Non-current assets	107,485	2,791,465
Current assets	89,101	4,357,242
Total assets	196,586	7,148,707
Total liabilities	(44,621)	(2,360,835)
Non-controlling interests	(1,966)	(2,900,867)
Net assets disposed/distributed	149,999	1,887,005
Total consideration	(157,778)	(599,417)
	(7,779)	1,287,588

Net cash inflow/(outflow) is determined as follows:

Cash proceeds received	157,778	–
Less: cash and cash equivalents disposed/distributed	(38,345)	(342,817)
	119,433	(342,817)

Notes to the Financial Statements

41 CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Analysis of cash and cash equivalents

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Bank balances and cash	4,748,113	6,183,816	95,313	55,206
Term deposits with initial term of less than three months	471,208	119,596	114,864	50,000
	5,219,321	6,303,412	210,177	105,206

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

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Renminbi**	5,121,739	6,206,552	161,526	88,930
Other currencies	97,582	96,860	48,651	16,276
	5,219,321	6,303,412	210,177	105,206

The weighted average effective interest rates of the Group and the Company on term deposits with initial term of less than three months were 2% (2011: 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

42 COMMITMENTS

(a) Capital commitments

The Group has the following capital commitments not provided for as at 31 December 2012:

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000
Acquisition of property, plant and equipment				
– Authorised but not contracted for	30,880	105,426	–	–
– Contracted but not provided for	20,351	65,864	–	–
	51,231	171,290	–	–
Construction commitments				
– Authorised but not contracted for	507,475	27,176	–	–
– Contracted but not provided for	191,218	75,044	–	–
	698,693	102,220	–	–
Investments in a subsidiary				
– Contracted but not provided for	30,000	–	30,000	–
	779,924	273,510	30,000	–

The Company did not have any significant capital commitment as at 31 December 2012 (2011: Nil).

Notes to the Financial Statements

42 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 2012:

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Land and buildings		
– Not later than one year	130,367	8,275
– Later than one year and not later than five years	–	41,377
	130,367	49,652

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 2012 (2011: Nil).

43 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by AVIC, which owns 51.26% of the Company's shares as at 31 December 2012. The remaining 48.74% 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, the Company adopts IAS 24 (revised 2009) which grants exemptions on disclosure requirements about government-related entities.

Notes to the Financial Statements

43 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

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.

(a) Significant transactions with related parties:

	Group	
	2012 RMB'000	2011 RMB'000 (Restated)
Income		
Revenue from sale of goods and materials		
– Fellow subsidiaries	12,476,259	9,404,329
Income from rendering of services		
– Fellow subsidiaries	25,185	12,668
Expenses		
Purchases of goods and raw materials		
– Fellow subsidiaries	8,149,831	4,175,722
Service fees payable		
– Fellow subsidiaries	103,386	98,783
Rental expenses		
– Fellow subsidiaries	41,824	31,020
Key management compensations		
– Salaries, bonuses and other welfares	7,443	12,763

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 as follows:

- *Sales/purchases of goods and materials & rendering/receiving services*

  The products and ancillary services are provided: (i) according to the State-prescribed price; (ii) if there is no State-prescribed price, then according to the State-guidance price; (iii) if there is no State-guidance price, then according to the market price; and (iv) if none of the above is applicable, then according to the contractual price.

Notes to the Financial Statements

43 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(a) Significant transactions with related parties (Continued):

- *Rental expenses*

  The annual rental is reviewed and adjusted regularly and not be higher than the prevailing market annual rental as determined by an independent valuer with reference to the market rent of land or properties with similar conditions and locations.

(b) Significant balances with related parties:

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Assets		
Trade receivables		
– Fellow subsidiaries	2,677,206	2,570,031
Notes receivable		
– Fellow subsidiaries	964,938	392,411
Advances to suppliers		
– Fellow subsidiaries	222,726	203,936
Other receivables and prepayments		
– Ultimate holding company	2,665	7,240
– Fellow subsidiaries	122,470	351,784
– Associates	8,165	45,665
Liabilities		
Trade payables		
– Fellow subsidiaries	1,826,662	1,305,969
Notes payable		
– Fellow subsidiaries	1,411,954	880,474
Advances from customers		
– Fellow subsidiaries	1,703,098	3,638,899
Other payables and accruals		
– Ultimate holding company	8,860	4,013
– Fellow subsidiaries	253,525	48,682

Notes to the Financial Statements

43 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(c) Other items:

(i) On 18 January 2012 the Company acquired from AMES its entire 100% equity interests in Tianjin Aviation which is detailed in Note 1(a).

(ii) On 27 March 2012 Jiangxi Changhe Aviation Industry Co., Ltd, a subsidiary of the Company, disposed its 51% equity interests in Jiujiang Changhe Automobile Co., Ltd. to Changhe Aircraft Industries Group Co., Ltd. (a subsidiary of AVIC), for a cash consideration of approximately RMB 65,970,000 which is included in Note 41(c).

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
(iii) Guarantees on bank loans granted to the Group from ultimate holding company	13,080	29,080

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

44 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 31, 32 and 41(d). The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 37. 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 2012, 53% (2011: 57%) 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 2012, 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 RMB 28,210,000 higher/lower.

Notes to the Financial Statements

44 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(ii) Price risk

The Group is principally exposed to equity securities price risk in respect of investments held by the Group which are classified as financial assets held for trading and available-for-sale financial assets. Some of these financial assets are publicly traded in recognised stock exchanges. At 31 December 2012, 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 RMB18,521,000 higher/lower as a result of the changes in fair value of these financial assets.

(iii) Credit risk

92% (2011: 93%) 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 financial assets held for trading and available-for-sale financial assets 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 2012, the net current assets of the Group amounted to RMB 9,607,795,000 (2011: RMB 8,645,683,000 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 37(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.

Notes to the Financial Statements

44 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iv) Liquidity risk (continued)

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
At 31 December 2012				
Bank and other borrowings	2,834,545	104,251	218,006	525,519
Accounts and other payables	11,202,040	–	–	–
Amounts payable to ultimate holding company	466,379	–	–	–
At 31 December 2011 (restated)				
Bank and other borrowings	2,101,570	630,917	292,372	402,030
Accounts and other payables	7,857,160	–	–	–
Amounts payable to ultimate holding company	466,379	–	–	–
Company				
At 31 December 2012				
Accounts and other payables	72,500	–	–	–
Amounts payable to ultimate holding company	410,152	–	–	–
At 31 December 2011				
Other payables	74,409	–	–	–
Amounts payable to ultimate holding company	410,152	–	–	–

Notes to the Financial Statements

44 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 2012 and at 31 December 2011 were as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Total borrowings (Note 37)	3,348,090	3,058,384
Total equity	16,493,588	14,118,260
Gearing ratio	20%	22%

The decrease in gearing ratio during 2012 is primarily resulted from the acquisition of Tianjin Aviation (Note 1(a)).

Notes to the Financial Statements

44 FINANCIAL RISK MANAGEMENT (Continued)

(c) Fair value estimation

Certain of the Group's available-for-sale financial assets and all of its financial assets held for trading 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 24 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.

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, deposits, trade receivables, notes receivable and other receivables, financial assets held for trading 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 37(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.

45 SUBSEQUENT EVENTS

On 29 January 2013, China Aviation Optical-Electrical Technology Co., Ltd. (a subsidiary of the Company) issued a bond with a principal amount of RMB 500,000,000 with a maturity period of 5 years. The bond is guaranteed by the Company and interest-bearing at 5.08% per annum.

Notes to the Financial Statements

46 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE 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% (note (a))	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% (note (a))	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)	RMB 1,353,202,260	43.22% (note (b))	Joint stock company (listed on the Shanghai Stock Exchange)	Holding investments engaged in aviation equipment business
Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司)	RMB 43,163,439	100%	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories

Notes to the Financial Statements

46 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE 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)	RMB337,450,000	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	43.22% (note (b))	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	43.22% (note (b))	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	43.22% (note (b))	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	37.49% (note (b))	Joint stock company	Research, manufacture and sale of air data systems and various types of aviation instruments
Shaanxi Baocheng Aviation Instrument Co., Ltd. (陝西寶成航空儀表有限責任公司)	RMB 200,000,000	43.22% (note (b))	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	43.22% (note (b))	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	43.22% (note (b))	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	34.58% (note (b))	Limited liability company	Manufacture and sale of aviation electrical engineering products and accessories

Notes to the Financial Statements

46 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES (Continued)

Note:

(a) Although the Company holds less than 50% of the equity interests and voting rights in these entities, it is deemed to have control since the balances of other shareholdings are dispersed and the other shareholders have not organised their interests in such a way that they exercise more votes than the Group.

(b) Although the Company, directly or indirectly, owns less than half of the equity interest in these entities, it is able to gain power over more than one half of the voting rights by virtue of an agreement with other investors. Consequently, the Group consolidates these entities.

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Joint venture				
Indirectly held				
Hisense Jonhon (QingDao) Optical-Electrical Technologies Co, Ltd. (中航海信光電技術有限公司)	RMB70,000,000	50%	Limited liability company	Research and development, manufacturing and sales of electrical connectors, optical components and cable assemblies
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 (江西洪都商用飛機股份有限公司)	RMB1,200,000,000	25.50%	Joint stock company	Production of commercial aircraft components and parts
Jiangxi Hongdu Xinfu Real Estate Co., Ltd. (江西洪都新府置業有限公司)	RMB300,000,000	48.53%	Limited liability company	Real estate development and management, house leasing, and foreign investment.

Notes to the Financial Statements

46 PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES (Continued)

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Associates				
Indirectly held				
Tianjin Merlin Gerin Co., Ltd. (天津梅蘭日蘭有限公司)	RMB14,809,000	20.00%	Limited liability company	Manufacture of electrical apparatus mainly including air breaker, switch box and other electrical components.
Schneider Electric Low Voltage (Tianjin) Co., Ltd. (施耐德電氣低壓(天津)有限公司)	USD10,000,000	20.00%	Limited liability company	Manufacture of high-voltage and low-voltage smart electric products
Schneider Shanghai Low Voltage Terminal Apparatus Co., Ltd. (上海施耐德低壓終端電器有限公司)	USD4,200,000	20.00%	Limited liability company	Manufacture of modulus low-voltage terminal electric products

All of the above subsidiaries, joint venture and associates are established and operating in the PRC.

The English names of certain above entities 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% equity interest
"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 51.26% equity interest of the Company as at 31 December 2012
"AVIC Avionics"	China AVIC Avionics Equipment Co., Ltd., (中航航空電子設備股份有限公司) a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange with 43.22% of its equity interest being held by the Company as at 31 December 2012
"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 and wholly-owned subsidiary of AVIC Avionics
"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
"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 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

Definitions

"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, in 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 49% equity interest
"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 as at 31 December 2012
"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 the Company
"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 as at 31 December 2012

Definitions

"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. (陝西千山航空電子有限責任公司), a limited liability company established in the PRC and a wholly-owned subsidiary of AVIC Avionics
"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. (陝西寶成航空儀錶有限責任公司), a limited liability company established in the PRC and a wholly-owned subsidiary of AVIC Avionics
"Shaanxi Huayan"	AVIC Shaanxi Huayan Aero-Instrument Co., Ltd. (陝西華燕航空儀錶有限公司), a limited liability company established in the PRC
"Shanghai Aviation Electric"	Shanghai Aviation Electric Co., Ltd. (上海航空電器有限公司), a wholly-owned subsidiary of AVIC Avionics
"Shares"	Domestic Shares and H Shares
"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. (太原航空儀錶有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of AVIC Avionics
"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 and a wholly-owned subsidiary of the Company
"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
Non-Executive Director	Gu Huizhong
Non-Executive Director	Gao Jianshe
Non-Executive Director	Sheng Mingchuan
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

Tan Ruisong
Yan Lingxi

PRINCIPAL BANKERS

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

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

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

Bank of China
No.1 Fuxingmennei 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)
StockName: AVICHINA
Stock Code: 2357

REGISTERED ADDRESS

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

WEBSITE

www.avichina.com

CORRESPONDENCE ADDRESS

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

Corporate Information

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 2012 will be held at 9:00 a.m. on Friday, 14 June 2013 at Grand Skylight CATIC Hotel, Beijing, No. 18 Bei Chen East 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

Linklaters
10th Floor,
Alexandra House,
Chater Road,
Hong Kong

As to PRC law

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