THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AviChina Industry & Technology Company Limited**, you should at once hand this circular and the enclosed proxy form to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

(1) MAJOR AND CONNECTED TRANSACTIONS: DISPOSAL OF EQUITY INTEREST IN DONGAN MOTOR AND ACQUISTION OF EQUITY INTEREST IN JONHON OPTRONIC; (2) PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent financial adviser to the Independent Board Committee and Independent Shareholders

SOMERLEY LIMITED

A letter from the Independent Board Committee is set out on page 25 of this circular. A letter from Somerley to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 55 of this circular.

A notice convening the extraordinary general meeting ("EGM") of AviChina Industry & Technology Company Limited to be held at 9:00 a.m. on Tuesday, 29 December 2009 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People's Republic of China is set out on pages N-1 to N-4 of this circular.

Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Wednesday, 9 December 2009. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person if you so wish.

* *For identification purpose only.*

25 November 2009

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the acquisition of 43.34% equity interest in JONHON Optronic by the Company from AVIC for a consideration of RMB1,774,179,339 pursuant to the Equity Swap Agreement
"Articles of Association"	the articles of association of the Company
"AVIC"	Aviation Industry Corporation of China (中國航空工業集團公司), a controlling shareholder of the Company holding 61.06% equity interest in the Company
"Board"	the board of Directors
"Company"	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司)
"Completion"	completion of the transactions contemplated under the Equity Swap Agreement
"Concert Parties"	Institution of China KongKong Missile, Sino Avionics Technology Co., Ltd. and AVIC Information Technology Corporation Ltd., being the subsidiaries of AVIC which hold 6,939,645 shares, 3,825,000 shares and 3,825,000 shares in JONHON Optronic, respectively and collectively hold an aggregate of 14,589,645 shares representing 5.45% of the total issued share capital of JONHON Optronic
"CSRC"	China Securities Regulatory Commission
"Directors"	the director(s) of the Company
"Disposal"	the disposal of 54.51% equity interest in Dongan Motor by the Company to AVIC for a consideration of RMB2,367,794,200 pursuant to the Equity Swap Agreement
"Domestic Shares"	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for in Renminbi by PRC nationals and/or PRC incorporated entities
"Dongan Mitsubishi"	Harbin Dongan Automotive Engine Manufacturing Co., Ltd. (哈爾濱東安汽車發動機製造有限公司), a sino-foreign joint venture and is owned as to 36% by Dongan Motor and 15% by 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
"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 with 54.51% of its interest being held by the Company

"EGM"	the extraordinary general meeting to be held on Tuesday, 29 December 2009 to approve, ratify and confirm the entering into of the Equity Swap Agreement and the proposed amendment to the Articles of Association
"Equity Swap Agreement"	the equity swap agreement entered into between the Company and AVIC on 4 November 2009, pursuant to which the Company conditionally agreed to sell and AVIC conditionally agreed to purchase from the Company 54.51% equity interest in Dongan Motor; and AVIC in return conditionally agreed to sell and the Company conditionally agreed to purchase from AVIC 43.34% equity interest in JONHON Optronic
"Group"	the Company and its subsidiaries
"H Shares"	overseas listed foreign invested shares of nominal value RMB1.00 each in the ordinary share capital of the Company, which were traded on the Hong Kong Stock Exchange in HK dollars
"HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee comprising independent non-executive Directors, namely, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis
"Independent Shareholders"	shareholders (other than AVIC and its associates) of the Company who are not required to abstain from voting on the resolutions(s) to be proposed at the EGM
"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 with 43.34% of its equity interest being directly held by AVIC and 5.45% of its equity interest being indirectly held by AVIC through the Concert Parties
"Latest Practicable Date"	20 November 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)
"PRC"	the People's Republic of China, for the purpose of this circular, excluding Hong Kong, Macau and Taiwan

"Previous Acquisitions"	refer to the Acquisition Agreement entered into between Jiangxi Changhe Automobile Co., Ltd. and AVIC (formerly known as the "organizing unit of Aviation Industry Corporation of China") dated 9 October 2008 in relation to, among other things, the acquisition of 100% equity interest in Shanghai Aviation Electric Co., Ltd. and 100% equity interest in Lanzhou Wanli Aviation Electrical Co., Ltd.. Details of the transactions can be referred to in the announcement and circular of the Company dated 13 October 2008 and 3 November 2008, respectively
"Previous Disposals"	refer to (i) the Acquisition Agreement entered into between Jiangxi Changhe Automobile Co., Ltd. and AVIC (formerly known as the "organizing unit of Aviation Industry Corporation of China") dated 9 October 2008 in relation to, among other things, the disposal of the automobile assets of Jiangxi Changhe Automobile Co., Ltd.; (ii) the Share Transfer Agreement I entered into between the Company and AVIC Automobile Industry Co., Ltd. dated 16 April 2009 in relation to, among other things, the disposal of 100% equity interest in Harbin Hafei Automobile Industry Group Co.,; and (iii) the Share Transfer Agreement II entered into between the Company and AVIC Automobile Industry Co., Ltd. dated 16 April 2009 in relation to, among other things, the disposal of 10% equity interest in Jiangxi Changhe Suzuki Automobile Co., Ltd.
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中國國務院國有資產監督管理委員會)
"SFO"	the Securities and Futures Ordinance (Chapter 571of the laws of Hong Kong) as amended from time to time
"Somerley"	Somerley Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

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

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

(Stock Code: 2357)

Executive Directors:
Mr. Lin Zuoming
Mr. Tan Ruisong
Mr. Wu Xiandong

Non-executive Directors:
Mr. Gu Huizhong
Mr. Xu Zhanbin
Mr. Geng Ruguang
Mr. Zhang Xinguo
Mr. Gao Jianshe
Mr. Li Fangyong
Mr. Chen Yuanxin
Mr. Wang Yong
Mr. Maurice Savart

Independent non-executive Directors:
Mr. Guo Chongqing
Mr. Li Xianzong
Mr. Lau Chung Man, Louis

Registered Office:
8th Floor, Tower 2
No. 5A Rongchang East Street
Beijing Economic-Technological
Development Area
Beijing, PRC

Principal place of business in Hong Kong:
Unit B, 15/F, United Centre
Queensway 95,
Hong Kong

25 November 2009

To the Shareholders:

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTIONS:
DISPOSAL OF EQUITY INTEREST IN DONGAN MOTOR AND
ACQUISTION OF EQUITY INTEREST IN JONHON OPTRONIC;
(2) PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Reference is made to (1) the announcement of the Company dated 4 November 2009 in relation to the major and connected transactions constituted by the disposal of equity interest in Dongan Motor and the acquisition of equity interest in JONHON Optronic; and (2) the announcement of the Company dated 20 November 2009 in relation to the proposed amendment to the Articles of Association.

* *For identification purpose only.*

The purpose of this circular is to provide you with more information relating to, among other things, (1) further details of the transactions contemplated under the Equity Swap Agreement; (2) the letter from the independent board committee and the recommendation from Somerley on the connected transactions contemplated under the Equity Swap Agreement; and (3) the proposed amendment to the Articles of Association.

A. INTRODUCTION

On 4 November 2009, the Board announced that the Company and AVIC entered into the Equity Swap Agreement, pursuant to which the Company conditionally agreed to sell and AVIC conditionally agreed to purchase from the Company 54.51% equity interest in Dongan Motor; and AVIC in return conditionally agreed to sell and the Company conditionally agreed to purchase from AVIC 43.34% equity interest in JONHON Optronic. The Disposal and the Acquisition are inter-conditional.

B. EQUITY SWAP AGREEMENT

Date

4 November 2009

Parties

(1) The Company; and

(2) AVIC

Principal Terms

(1) 54.51% equity interest in DonganMotor to be disposed of by the Company to AVIC

As at the Latest Practicable Date, the Company holds 54.51% equity interest in Dongan Motor. The total number of issued shares of Dongan Motor is 462,080,000 shares, of which the Company holds 251,893,000 shares and the remaining issued shares are held by the public shareholders. The aggregate net asset value of Dongan Motor was RMB1,909,818,816 as at 31 December 2008. The net asset value attributable to 54.51% equity interest in Dongan Motor as at 31 December 2008 was RMB1,041,042,237.

(2) 43.34% equity interest in JONHON Optronic to be acquired by the Company from AVIC

As at the Latest Practicable Date, AVIC holds 43.34% equity interest in JONHON Optronic. The total number of issued shares of JONHON Optronic is 267,750,000 shares, of which AVIC directly holds 116,035,274 shares and indirectly holds 14,589,645 shares through the Concert

Parties. The remaining issued shares are held by the public shareholders. The aggregate net asset value of JONHON Optronic was RMB953,738,202 as at 31 December 2008. The net asset value attributable to 43.34% equity interest in JONHON Optronic as at 31 December 2008 was RMB413,350,137.

Upon Completion, the Company will succeed to the lock-up undertaking given by AVIC in respect of the lock-up of its equity interest in JONHON Optronic for a period of 36 months commencing from the listing date of JONHON Optronic i.e. 1 November 2007 and expiring on 31 October 2010.

Consideration

The consideration for the Disposal shall be RMB2,367,794,200, which shall be satisfied by AVIC by transferring its 43.34% equity interest in JONHON Optronic, the consideration of which shall be RMB1,774,179,339. The difference between the consideration for the Disposal and the consideration for the Acquisition, which amounts to RMB593,614,861 will be settled by AVIC in cash within 20 business days upon the Equity Swap Agreement becomes effective.

The consideration for the transactions contemplated under the Equity Swap Agreement is determined pursuant to Article 24 of "The Interim Measures for the Administration of State-owned Shareholders' Transfer of Their Shares of Listed Companies"《國有股東轉讓所持上市公司股份管理暫行辦法》 issued by SASAC and CSRC. In particular, the consideration for the Disposal is determined with reference to the 90% of the average of the daily volume-weighted average trading price of Dongan Motor for the last 30 trading days on the Shanghai Stock Exchange immediately preceding 28 October 2009. The consideration for the Acquisition is determined with reference to the 90% of the average of the daily volume-weighted average trading price of JONHON Optronic for the last 30 trading days on the Shenzhen Stock Exchange immediately preceding 28 October 2009.

Conditions Precedent

Completion of the Equity Swap Agreement is conditional upon, among other things, fulfillment of the following conditions:

(1) the Equity Swap Agreement having been duly executed by the legal representatives or authorized person(s) of the parties;

(2) AVIC having completed and satisfied all the necessary corporate procedures in accordance with the requirements of its articles of association;

(3) the Company having completed and satisfied all the necessary corporate procedures and complied with the relevant requirements under the Listing Rules and the Articles of Association, including but not limited to the transactions contemplated under the Equity Swap Agreement having been approved by the Independent Shareholders;

(4) the transfers of the equity interests in Dongan Motor and JONHON Optronic contemplated under the Equity Swap Agreement having been approved by SASAC;

(5) the changes in relation to the state-owned shares and the state-owned share management plan in Dongan Motor and JONHON Optronic having been approved by SASAC;

(6) waiver from CSRC in relation to AVIC's general offer obligation in respect of acquisition of the shares in Dongan Motor having been obtained; and

(7) waiver from CSRC in relation to the Company's general offer obligation in respect of acquisition of the shares in JONHON Optronic having been obtained.

Completion

Completion will take place upon the above conditions having been fulfilled or waived and the transfers of the equity interests in Dongan Motor and JONHON Optronic having been duly registered with China Securities Depository and Clearing Corporation Limited and that the equity interests in Dongan Motor and JONHON Optronic having been transferred to and registered under the name of AVIC and the Company, respectively.

C. INFORMATION RELATING TO THE DISPOSAL AND THE ACQUISITION

The aggregate consideration for the Disposal and the Acquisition shall be RMB2,367,794,200 and RMB1,774,179,339, respectively. The difference between the consideration for the Disposal and the consideration for the Acquisition, which amounts to RMB593,614,861, will be settled by AVIC in cash, which will be applied as general working capital of the Company after Completion.

Information on Dongan Motor

Dongan Motor is a joint stock limited company incorporated in the PRC in 1998 whose shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, Dongan Motor is owned as to 54.51% by the Company, and is principally engaged in the research and development, manufacturing and sales of vehicle engines, gear boxes, parts and components and other relevant automobile products.

The major assets of Dongan Motor include plant, equipment and machineries, etc. engaging in the business of automobile engines.

According to the audited financial statements of Dongan Motor prepared by Zhongrui Yuehua China Certified Public Accountants, a qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, as at 31 December 2008, the total assets and net assets of Dongan Motor amounted to RMB3,384,214,532 and RMB1,909,818,816, respectively. For the financial year ended 31 December 2008, the revenue and the net profits (before and after tax) of Dongan Motor amounted to RMB1,754,328,579, RMB160,196,807 and RMB160,196,807, respectively.

According to the audited financial statements of Dongan Motor prepared by Zhongrui Yuehua China Certified Public Accountants, a qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, as at 31 December 2007, the total assets and net assets of Dongan

Motor amounted to RMB 3,296,813,777 and RMB1,769,138,060, respectively. For the financial year ended 31 December 2007, the revenue and the net profit before tax and the net profits after tax of Dongan Motor amounted to RMB1,852,536,168, RMB150,701,420 and RMB150,701,420, respectively.

Information on JONHON Optronic

JONHON Optronic was incorporated in the PRC in 2002 whose shares are listed on the Shenzhen Stock Exchange. As at the Latest Practicable Date, JONHON Optronic is directly owned as to 43.34% by AVIC and indirectly owned as to 5.45% by AVIC through the Concert Parties. JONHON Optronic is principally engaged in the research and development, manufacturing and sales of electrical connectors, optical components and cable assemblies.

The major assets of JONHON Optronic include plants, equipment and machineries, etc. engaging in the business of electrical connectors and optical components.

According to the audited financial statements of JONHON Optronic prepared by Zhongrui Yuehua China Certified Public Accountants, a qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, as at 31 December 2008, the total assets and net assets of JONHON Optronic amounted to RMB1,821,282,436 and RMB953,738,202, respectively. For the financial year ended 31 December 2008, the revenue and the net profits before tax and the net profit after tax of JONHON Optronic amounted to RMB1,076,654,028, RMB145,147,906 and RMB111,915,779, respectively.

According to the audited financial statements of JONHON Optronic prepared by Zhongrui Yuehua China Certified Public Accountants, a qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, as at 31 December 2007, the total assets and net assets of JONHON Optronic amounted to RMB1,577,176,498 and RMB907,462,824, respectively. For the financial year ended 31 December 2007, the revenue, the net profits before tax and the net profit after tax of JONHON Optronic amounted to RMB831,508,041, RMB121,318,385 and RMB99,237,910, respectively.

There is no audit qualification of the financial statements of JONHON Optronic for the three years ended 31 December 2008.

D. EFFECTS AND FINANCIAL IMPLICATIONS OF THE DISPOSAL

Upon Completion, Dongan Motor will no longer be a subsidiary of the Company and the Company will no longer have any equity interest in Dongan Motor. Accordingly, the financial results of Dongan Motor will not be consolidated in the accounts of the Group. It is expected that the assets and liabilities of the Group will be reduced upon Completion.

Further, Dongan Mitsubishi, an indirect subsidiary of the Company which is owned as to 36% by Dongan Motor will cease to be a subsidiary of the Company upon completion of the Disposal. The assets, liabilities and financial results of Dongan Mitsubishi will also cease to be consolidated to the accounts of the Company. The Company will continue to hold 15% equity interest in Dongan Mitsubishi through Harbin Aviation Industry (Group) Co., Ltd., a wholly-owned subsidiary of the Company.

Prior to Completion, AVIC directly holds 43.34% equity interest in JONHON Optronic and indirectly holds 5.45% equity interest in JONHON Optronic through the Concert Parties. Notwithstanding AVIC controls only 48.79% equity interests in JONHON Optronic, AVIC has de facto control over JONHON Optronic and consolidated the accounts of JONHON Optronic in its financial statements based on the following reasons:

- Other than AVIC's and Concert Parties' interests in JONHON Optronic, the shareholding structure of JONHON Optronic is diversified with dispersed shareholding;

- Presentation of other shareholders in general meetings, in person or by proxy, is also widely dispersed. AVIC is thus able to control the majority of effective votes in general meetings, and accordingly allows it to nominate and appoint the majority of the Board of JONHON Optronic;

- JONHON Optronic considers AVIC as its controlling shareholders;

- The operations of JONHON Optronic are heavily dependent upon the management of AVIC; and

- The Company and the Concert Parties entered into an agreement on 4 November 2009 whereby subsequent to Completion, the Concert Parties undertake to exercise their rights to propose resolutions at the general meeting of JONHON Optronic and to vote at the general meeting in accordance with the instructions of the Company.

Notwithstanding the Company will control only 48.79% voting rights in JONHON Optronic, the Company will have de facto control over JONHON Optronic based on reasons set out above. Accordingly, upon Completion, JONHON Optronic's accounts will be consolidated in the group accounts of the Company and become a subsidiary of the Company.

It is expected that there will be a gain derived from the Disposal, which represents the difference between the market value of 43.34% equity interest in JONHON Optronic plus the difference between the consideration for the Disposal and the Acquisition to be settled in cash minus the net book carrying value of 54.51% equity interest in Dongan Motor. The Disposal gain will be recorded as equity of the group accounts of the Company because the transaction is conducted with the holding company, namely, AVIC, instead of a third party. This is consistent with previous treatments on similar transactions carried out by the Group. For illustrative purpose, based on the average share price in October 2009 of 43.34% equity interest in JONHON Optronic plus the difference between the consideration for the Disposal and the Acquisition to be settled in cash minus the net book carrying value of 54.51% equity interest in Dongan Motor as at 30 September 2009, the estimated net Disposal gain is RMB600 million, which is determined without taking into account of the financial impact of the Acquisition on the accounts of the Company. The actual amount of the Disposal gain can only be ascertained upon Completion. On completion of the entire proposed transactions, which involve the Disposal and the Acquisition, it is expected that there will be a net reduction in the Group's net assets. However, in view of the business strategy of the Company to dispose the automobile business and Dongan Motor, and the better business prospect and profitability of JONHON Optronic, the Company decided to enter into the transactions with AVIC.

The Group may be subject to tax payment if the PRC tax authority determines that a gain from the Disposal should be calculated by reference to the consideration for the Disposal and Dongan Motor's original cost to the Group. In accordance with the relevant tax regulations in the PRC, the Company will apply to the State Administration of Taxation for an exemption from payment of such tax should it arise. The possibility of such tax payment cannot be ascertained at the Latest Practicable Date.

E. USE OF PROCEEDS

The sales proceeds derived from the Disposal and the Acquisition contemplated under the Equity Swap Agreement of approximately RMB593,614,861, which represents the difference between the consideration for the Disposal and the consideration for the Acquisition, will be applied as general working capital of the Company after Completion.

F. REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company has commenced the disposal of its automobile business which has been suffering a continuous loss since June 2008. The disposal of the automobile assets of Jiangxi Changhe Automobile Co., Ltd. and the equity interest in Harbin Hafei Automobile Industry Group Co., Ltd. have been completed. Dongan Motor is mainly engaged in the manufacturing of automobile engines and the provision of parts and components for the abovementioned automobile businesses. Upon Completion, the Company will focus on its aviation business.

Through the acquisition of JONHON Optronic, the Company will enhance its research and development on aviation electrical products and improve its manufacturing capabilities in aviation products and assemblies to integrate the aviation business system of the Company. Accordingly, the Directors believe that the transactions contemplated under the Equity Swap Agreement will improve the operations of the Company and enhance the profitability and the capability to achieve sustainable development of the Company which will increase the investment value of the Company. The Directors are of the view that the disposal of the equity interest in Dongan Motor and the acquisition of the equity interest in JONHON Optronic will enable the Group to focus on its aviation business and further strengthen its market position in the PRC aviation industry. The Directors (excluding the independent non-executive Directors) are of the opinion that the terms of the Equity Swap Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

G. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Business Review

The Group is mainly engaged in aviation and automobile business. During the first half of 2009, the domestic economy remains depressed, and as a result, many state-owned enterprises did not perform well with revenues and profits having declined on a year-on-year basis. Despite the challenging economic environment, the Group went against the tide and managed to turn its continuing operations from loss-making to profit-making during the period under review. Upon the reorganization of the PRC aviation industry in November 2008, and based on the development strategy formulated by the new session of the Board, the Company will focus on becoming a leading manufacturer of civil aviation products in the Chinese aviation industry, creating a complete value chain and acquiring a platform for overseas financing, merger and acquisition. The Group has made remarkable progress in reorganization its business during the first half of the year. The disposal of the loss-making vehicle business of Jiangxi Changhe Automobile Co., Ltd. ("Changhe Auto") had been completed by the end of April, and the profitability of the aviation business had steadily improved during the first half of 2009, leading to a sharp improvement in the Company's financial performance.

For the six months ended 30 June 2009, the comprehensive business (Continuing operations and Discontinued operations) of the Group recorded a revenue of RMB8,996 million, representing an increase of 8.78% over that of the corresponding period in 2008. The comprehensive business resulted in a net loss of RMB20 million attributable to equity holders of the Company for the first half of 2009, representing a decrease of RMB435 million, or 95.6% compared with the loss in the corresponding period of last year.

The continuing operations business of the Group recorded a revenue of RMB7,884 million, representing an increase of 11.77% over that of the corresponding period in 2008. The continuing operations business resulted in a net profit of RMB7 million attributable to equity holders of the Company for the first half of 2009 showing a turn from loss to profit during the period under review compared with the loss of RMB301 million in the corresponding period of last year (details are set out in Note 11 to the condensed consolidated interim financial information).

Aviation Business

For the first half of 2009, despite the continuous impact of international financial crisis, the stimulating policy of the government "propel domestic demands and stimulate consumption" gradually improved the domestic macro economic environment. At the same time the national economy and social demands are growing rapidly. All the factors provide great opportunities to the development of the China aviation industry and the expansion of aviation business of the Company. The aviation business of the Group is growing steadily and the continuous promotion of a balance product mix proves to be an effective business strategy.

For the first half of 2009, the Group recorded a revenue of RMB2,030 million in the sales of aviation products, representing an increase by 15.02% as compared to that of the corresponding period in 2008, out of that, the Group's helicopter business recorded a sales revenue of RMB1,144million, representing an increase by 56.75% as compared to that of the corresponding period in 2008.

After the reorganization of automobile business, the Group set up an aviation electrical business, delivered products for different models of aircraft to satisfy the demands of its customers. At the same time it achieved a significant improvement in the bidding of projects on research and manufacture of aircraft.

During the first half of 2009, the Group further explored the market. On 15 June 2009, the 48th session of Paris Aviation Exhibition was inaugurated. Products of the Company such as H425 civil helicopter, Z11 multi-purpose light helicopter and L15 advanced trainer, of which the Group has participated in its investment and development were displayed in the Paris Aviation Exhibition which attracted the attention of international aviation industry.

In May 2009, Hafei Aviation Industry Co., Ltd., and AVIC International Leasing Co., Ltd. entered into a purchasing agreement for one Y12 aircraft.

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

On 23 June 2009, Airbus (Tianjin) Assembly Company, a joint venture which had been invested and set up by the Company inaugurated the A320 display and delivery ceremony. On the next day, the first A320 flew from Chengdu to Beijing successfully and completed its first commercial journey.

On 30 June 2009, Hafei Airbus Composite Material Manufacture center, a joint venture which was invested directly by the Group, made the groundbreaking.

Automobile Business

During the six months ended on 30 June 2009, the total sales volume of the entire vehicle automobile products of the Group's comprehensive business (Continuing operations and Discontinued operations) amounted to 174,000 units, representing an increase of 4.87% as compared to the corresponding period of last year, out of which, the sales volume of sedans was 51,600 units; and the sales volume of mini-vans and trucks was 122,400 units. The sales revenue of the Group's automobile products (Continuing operations and Discontinued operations) amounted to RMB6,966 million in the first half of 2009, representing an increase of 7.09% compared to the corresponding period last year; out of which, the sales revenue of the Group's entire vehicle automobile products amounted to RMB4,364 million, representing an increase of 3.99% as compared to the corresponding period of last year. The sales revenue of engines and automobile parts and components sold to external parties of the Group was RMB2,602 million, representing an increase of 12.68% as compared to the corresponding period of last year. After taking into account the costs attributable to the automobile segment, the automobile segment in fact made a loss attributable to Shareholders.

In the first half of 2009, the Group completed the reorganization of Changhe Auto which made continuous losses.

During the first half of 2009, with the promotion of the preferential policies such as the reduction of the Vehicle Purchase Tax and the China's Car Subsidy Program for Rural Areas, the domestic sales volume of the entire automobile showed a great increase as compared to the corresponding period of last year. At the same time, the influence of the financial crises on international automobile market still exists, the export of automobiles presented a further drop.

For the first half of the year, Changhe “Beidouxing” and Hafei “Minyi” was still on hot sale. The sales of Changhe “Furuida” series model also showed a rapid increase. The research of new engine programme of Harbin Dongan Auto Engine Co., Ltd. was still going on.

Future Outlook

Aviation Business

The PRC government recognizes the importance of the aviation industry in the development of its defence and economy, it formulated a series of strategy to rapidly promote the development of the aviation industry, which includes the release of the prior strict airspace control policy and the open of the low altitude airspace gradually, the government’s investment of RMB4,000 billion to fasten the pace in the construction of civil aviation airport and improve the basic facilities for helicopter general aviation service, the formulation of policies regarding the general aviation industry development and special subsidy, the speeding up of developing a helicopter market in PRC. All these strategies provide the Group with opportunities for continuous development.

The Company entered into the aviation electrical industry through assets swap. As an important subsection of aviation manufacturing industry, aviation electrical manufacturing will benefit from the development of the entire aviation manufacturing industry. The launching of the large scale aircraft project will promote the aviation electrical business of the Group.

In the second half of 2009 the Group will grasp the opportunities to promote the research and development of products, enhance the training of employees and ensure timely completion of the orders from customers; to fully utilize its technology, equipment, talents and capital to explore the market, and to position itself in the market. The Group will continue to strengthen its supervision system, strengthen the management, regulate the operation, improve the efficiency and reward its shareholders. At the same time, the Group will, through international capital operation, enhance its technology and management, and through international cooperation, to extend its capital strength and enlarge its the market value, and to further consolidate the market leading position of the Company in helicopter, trainers, regional jet and general purpose aircraft industry, and to position the Company as a flagship manufacturer with a comprehensive value chain in China aviation industry for the manufacture of civil aviation products.

Automobile Business

In the second half of 2009, the Group will emphasize on cost cutting, its goal is to enhance customers’ satisfaction and to improve the efficiency overall. The Group will reform its marketing strategy and enlarge its market share. According to the strategic arrangement, the reorganization of automobile business will continuously be the key of promotion. The disposal of automobile assets which are making a loss, such as Harbin Hafei Automobile Industry Group Co., Ltd. business have been completed. The Group is currently undergoing reorganization of its automobile engines business.

Financial Review

Revenue

Comprehensive business (Continuing operations and Discontinued operations)

For the six months ended 30 June 2009, the comprehensive business (Continuing operations and Discontinued operations) of the Group achieved a revenue of RMB8,996 million, representing an increase of RMB726 million, or 8.78%, as compared to RMB8,270 million for the corresponding period in 2008.

Continuing operations

For the six months ended 30 June 2009, the continuing operations of the Group achieved a revenue of RMB7,884 million, representing an increase of RMB830 million, or 11.77%, as compared to RMB7,054 million for the corresponding period in 2008. This is mainly contributed by the comprehensive impact of the balance product mix of aviation business and the supportive policy of the government on the automobile industry.

Segment Information

Comprehensive business

For the six months ended 30 June 2009, the revenue of the aviation segment of the comprehensive business of the Group, amounted to RMB2,030 million, representing an increase of 15.02% as compared to the corresponding period in 2008 and accounting for 22.57% of the total revenue. The revenue of the automobile segment of the comprehensive business amounted to RMB6,966 million, representing an increase of 7.09% as compared to the corresponding period in 2008 and accounting for 77.43% of the total revenue.

Continuing operations

For the six months ended 30 June 2009, the revenue of the aviation segment of the continuing operations amounted to RMB2,030 million, representing an increase of 15.02% as compared to the corresponding period in 2008 and accounting for 25.75% of the total revenue which is mainly attributable to the effect of balance product mix of aviation products. The revenue of the automobile segment amounted to RMB5,854million, representing an increase of 10.69% as compared to the corresponding period in 2008 and accounting for 74.25% of the total revenue. During the period, due to the benefits derived from the supportive policy of the government on the automobile industry and the further expansion of marketing of the Group, there were increases in both the sales volume of the entire vehicles and the auto engines sold to parties outside the Group.

Gross profit

Comprehensive business

For the six months ended 30 June 2009, the comprehensive business of the Group achieved a gross profit of RMB1,382 million, representing an increase of RMB453 million, or 48.79%, as compared to RMB929 million for the corresponding period in 2008, out of which the gross profit of aviation segment of the Group amounted to RMB379 million, representing an increase of 15.68% as compared to that of the corresponding period in 2008. The increase was mainly attributable to the growth in the gross profit of helicopter. The gross profit of automobile segment amounted to RMB1,003 million, representing an increase of 66.86% as compared to that of the corresponding period in 2008. This is mainly attributable to the positive progress of the results and significant rising of the gross profit of the entire automobile business and the continuous increase of the gross profit of automobile engines sold to external parties of the Group.

Continuing operations

For the six months ended 30 June 2009, the continuing operations of the Group achieved a gross profit of RMB1,311 million, representing an increase of RMB326 million, or 33.13%, as compared to RMB985 million for the corresponding period in 2008. Out of which, the gross profit of aviation segment of the Group amounted to RMB379 million, representing an increase of 15.68% as compared to that of the corresponding period in 2008. The gross profit of automobile segment amounted to RMB932 million, representing an increase of 41.84% as compared to that of the corresponding period in 2008.

Selling and distribution expenses (Continuing operations)

For the six months ended 30 June 2009, the selling and distribution expenses of the Group's continuing operations amounted to RMB401 million, representing an increase of RMB94 million, or 30.62%, as compared to RMB307 million for the corresponding period in 2008. The increase was mainly attributable to the increase of the sales volume of the automobile products.

General and administrative expenses (Continuing operations)

For the six months ended 30 June 2009, the general and administrative expenses of the Group's continuing operations amounted to RMB525 million, representing an increase of RMB119 million, or 29.31%, as compared to RMB406 million of the corresponding period in 2008. The rise was mainly attributable to the increase in the research and development expense of automobile engines.

Finance costs, net (Continuing operations)

For the six months ended 30 June 2009, the Group's net finance costs of the continuing operations amounted to RMB79 million, representing a decrease of RMB64 million, or 44.76%, as compared to that of the corresponding period in 2008. The decrease was attributable to the drop of the interest rate of the borrowings.

Net loss/profit attributable to equity holders of the Company

Comprehensive business

For the six months ended 30 June 2009, the comprehensive business of the Group suffered a net loss of RMB20 million attributable to the equity holders of the Company, which was RMB435 million or 95.6% less than the loss of RMB455 million for the corresponding period in 2008.

Continuing operations

For the six months ended 30 June 2009, the continuing operations of the Group made a net profit of RMB7 million attributable to the equity holders of the Company, which showed a turn from loss to profit compared with the loss of RMB301 million for the corresponding period in 2008. This is mainly because of the gradual increase of the profitability of the aviation product and the result of aviation business in this period. The reorganization of part of the automobile assets was completed and aviation assets were injected. Further, the loss of the entire vehicles results comparing to that of the corresponding period of last year was greatly reduced due to the support of the government to the automobile industry and the cost-controlling measures adopted by the management of the Group.

Liquidity and Financial Resources

As at 30 June 2009, the Group's net cash and cash equivalents amounted to RMB2,281 million. Cash and cash equivalents were mainly derived from cash and bank deposits at the beginning of 2009 and funds generated from its operations during this period.

As at 30 June 2009, the Group's total borrowings amounted to RMB5,774 million, out of which short-term borrowings amounted to RMB4,073 million, current portion of long-term borrowings amounted to RMB303 million and non-current portion of long-term borrowings amounted to RMB1,398 million.

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

	RMB million
Within one year	303
In the second year	473
In the third to fifth year	597
After the fith year	328
Total	1,701

As at 30 June 2009, the Group's bank borrowings amounted to RMB5,496 million with an average interest rate of 4.93% per annum, representing a decrease of RMB536 million as compared to that at the beginning of 2009; and other borrowings amounted to RMB278 million with an average interest rate of 2.23% per annum, representing a decrease of RMB319 million as compared to that at the beginning of 2009. Seasonal influence on the Group's borrowings was relatively insignificant.

Capital Structure

As at 30 June 2009, the Group's borrowings were mainly denominated in Renminbi whilst cash and cash equivalents were mainly denominated in Renminbi, Hong Kong dollars and United States dollars.

Pledge on assets

As at 30 June 2009, the Group's borrowings secured by assets amounted to RMB200 million, representing a decrease of RMB1 million as compared to RMB201 million at the beginning of 2009. These borrowings were secured by real estate properties with a book value of RMB265 million.

Gearing ratio

As at 30 June 2009, the Group's gearing ratio was 26.75% (31 December 2008: 28.47%), which was derived from dividing the total borrowings by total assets.

Exchange risks

Due to business operational needs, the Group has taken out some loans denominated in United States dollars. In addition, the Company has kept some deposits in Hong Kong dollars raised from the public offering. The Group was exposed to exchange risks as a result of fluctuation in exchange rates during the period under review.

Contingent Liabilities and Guarantees

As at 30 June 2009, the Group did not provide any guarantees for any third party and had no significant contingent liabilities.

Material Acquisition and Disposal

On 16 April 2009, the Company and AVIC Automobile Industry Co., Ltd. ("AVIC Automobile") entered into the Share Transfer Agreements, pursuant to which the Company conditionally agreed to sell and AVIC Automobile conditionally agreed to purchase from the Company 100% equity interest in Harbin Hafei Automobile Industry Group Co., Ltd. ("Harbin Automobile Group") and 10% equity interest in Jiangxi Changhe Suzuki Automobile Co., Ltd. ("Changhe Suzuki") for an aggregate consideration of RMB110.4 million, which would be satisfied by AVIC Automobile in cash. The transactions have been completed. Upon completion, Harbin Automobile Group will no longer be a subsidiary of the Company and the Company will no longer have any equity interest in Changhe Suzuki. The transactions contemplated under the Share Transfer Agreements constitute a major transaction pursuant to Chapter 14 of the Listing Rules and connected transactions pursuant to Chapter 14A of the Listing Rules. The transactions were approved by the independent shareholders of the Company at the annual general meeting of the Company held on 9 June 2009. Details of the transactions can be referred to in the announcement and circular of the Company dated 16 April 2009 and 6 May 2009 respectively.

Use of Proceeds

Pursuant to the plan on use of proceeds, as at 30 June 2009, a total of RMB955 million had been invested, of which RMB700 million had been invested in automobile products for research, development and technical upgrade of new vehicle models and new engine models, while RMB255 million had been invested in aviation products mainly for research and development of new advanced trainer models and helicopters. The rest of the proceeds has been placed in short term deposits in banks in the PRC. The Company will utilize the rest of the proceeds in accordance with the specific plan of use of proceeds.

Employees

As at 30 June 2009, the Group had 23,033 employees. The Group's staff costs amounted to RMB566 million for the six months ended 30 June 2009 representing an increase of RMB57 million compared with RMB509 million of the corresponding period of last year.

Other Major Events

1. On 30 January 2009, the Company entered into the Joint Venture Agreement, pursuant to which Harbin Aircraft Industry Group Co., Ltd., Airbus China Limited, the Company, Hafei Aviation Industry Co., Ltd. ("Hafei Aviation") and Harbin Development Zone Heli Infrastructure Development Co., Ltd. agreed to establish a joint venture company in China to engage in the business of manufacturing of composite material parts and components for the Airbus A350 XWB and Airbus A320 aircraft series. The total capital contribution of the Group (including the capital commitment of the Company and Hafei Aviation) in respect of the joint venture company amounts to USD30,000,000, representing 20% equity interest in the joint venture company. The transactions contemplated under the Joint Venture Agreement constitute a connected transaction pursuant to Chapter 14A of the Listing Rules. The transactions were approved by independent shareholders of the Company at the extraordinary general meeting of the Company held on 9 April 2009. Details of the transaction can be referred to in the announcement and circular of the Company dated 3 February 2009 and 20 February 2009, respectively.

2. On 9 October 2008, Changhe Auto, a non wholly-owned subsidiary of the Company and AVIC entered into the acquisition agreement in relation to the acquisition of aviation assets by Changhe Auto from AVIC, and the disposal of automobile assets and issuance of consideration shares by Changhe Auto to AVIC. Details of the Transaction can be referred to in the announcement and circular of the Company dated 13 October 2008 and 3 November 2008, respectively.

H. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF JONHON OPTRONICS

JONHON Optronic is a joint stock limited company incorporated in the PRC and listed domestically. Prior to Completion, AVIC is the controlling shareholder of JONHON Optronic, holding 43.34% equity interest in JONHON Optronic.

JONHON Optronic is principally engaged in the research and development, manufacturing and sales of medium to top grade electrical connectors, optical components and cable assemblies. It also provides complicated connectors solutions. JONHON Optronic has a comprehensive system on the research and development, manufacturing and testing of connectors. It is the largest military connector manufacturer in the PRC and ranks first domestically in the research, and development as well as manufacturing capabilities of both electrical and optical military connectors. It is a leader in the domestic optical components market.

Financial Performance

JONHON Optronic was listed on the Shenzhen Stock Exchange in November 2007. The audited financial information of JONHON Optronic for the year 2006, 2007 and 2008 and its audited financial information for the nine months ended 30 September 2009 are set out as followed:

Note: RMB'000

	For the nine months ended 30 Sep. 2009	For the year ended 31 Dec. 2008	For the year ended 31 Dec. 2007	For the year ended 31 Dec. 2006
Total Turnover	860,733	1,015,097	777,882	721,541
Operating Profit	112,566	158,164	135,114	115,431
Net Profit	93,180	122,665	102,880	83,831
Net Profit Attributable to shareholders of the parent company	89,829	114,341	100,593	75,921

(i) **For the year ended 31 December 2006**

For the year ended 31 December 2006, JONHON Optronic recorded a revenue of approximately RMB722 million and a net profit attributable to the parent company of approximately RMB76 million.

(ii) **For the year ended 31 December 2007**

For the year ended 31 December 2007, JONHON Optronic recorded the revenue, operating profit and net profit attributable to the shareholders of parent company of approximately RMB778 million, RMB135 million and RMB101 million respectively, representing an increase of 7.81%, 17.05% and

32.50% over that of 2006, respectively. The increases were mainly attributable to (1) the increase in orders for civil products in 2007; (2) increase in selling prices; and (3) decrease in production cost as a result of expansion in production scale of optical components.

(iii) **For the year ended 31 December 2008**

For the year ended 31 December 2008, JONHON Optronic recorded the revenue, operating profit and net profit attributable to the shareholders of parent company of approximately RMB1,015 million, RMB158million and RMB114 million respectively, representing an increase of 30.49%, 17.05% and 13.67% over that of 2007, respectively. The increases were mainly attributable to (1) a significant rise in orders for military products, which ascended by 40% as compared to that of 2007; and (2) a steady increase in overseas orders for civil products.

(iv) **For the nine months ended 30 September 2009**

For the nine months ended 30 September 2009, JONHON Optronic recorded a revenue of approximately RMB861 million, representing an increase of 19.25% over that of the same period in 2008, an operating profit of approximately RMB113 million, and a net profit attributable to the shareholders of parent company of approximately RMB90 million, representing an increase of 14.83% over that of the same period in 2008.

Current capital, financial resources and capital structure

Note: RMB'000

	For the nine months ended 30 Sep. 2009	For the year ended 31 Dec. 2008	For the year ended 31 Dec. 2007	For the year ended 31 Dec. 2006
Current Assets	1,558,465	1,328,251	1,272,148	670,683
Total Assets	2,181,305	1,821,282	1,586,366	925,595
Current Liabilities	571,820	622,681	543,575	434,482
Total Liabilities	1,013,833	750,747	632,774	480,785
Current Ratio	2.73	2.13	2.34	1.54
Assets-Liability Ratio	46.48%	41.22%	39.89%	51.94%

As at 30 September 2009, JONHON Optronic had net current assets of RMB987 million, comprising accounts receivable of RMB627 million, advance to suppliers of RMB44 million, other receivables and prepayments of RMB27 million, inventories of RMB300 million, pledged deposits of RMB104 million, term deposits with initial term of over three months of RMB268 million and cash and cash equivalents of RMB187 million. Current liabilities mainly included accounts payable of RMB370 million, advances from customers of RMB16 million, other payables and accruals of RMB92 million and short-term borrowings of RMB90 million.

Despite an increase in asset-liability ratio of JONHON Optronic in the first nine months of 2009, its asset-liability ratio remains at a reasonable level by industry standard. The current ratio of JONHON Optronic for the first nine months of 2009 had increased to a certain extent.

For the first half of 2009, most borrowings of JONHON Optronic were lent by AVIC and there was a very small amount of borrowings from banks, therefore, changes in the macro-economic policies of the PRC Government to monitor loan activities will have little effect on JONHON Optronic.

Assets pledged

As at 31 December 2006, 2007, 2008 and 30 September 2009, none of JONHON Optronic's non-current assets have been pledged.

Outlook for new business

Since its establishment, JONHON Optronic has always been engaging in the manufacturing and sales of electrical connectors, optical components and cable assemblies. It has no plan on developing other business.

Significant investments

Upon its listing in 2007, JONHON Optronic has used the proceeds from the listing to several projects as electrical connector and development and industrialization of optical-electrical transportation integration, which expect a total investment of RMB570 million. As at 30 September 2009, JONHON Optronic's accumulative total investments amounted to RMB278 million.

Significant acquisition and sale

Upon the listing, JONHON Optronic increased investment in Shenyang Xinghua Aviation Electric Equipment Company Limited (瀋陽興華航空電器有限責任公司) ("Shenyang Xinghua") by using the proceeds from the listing and self-collected fund to strengthen its shareholding proportion in Shenyang Xinghua. The additional investment was settled on 18 January 2008. Shengyang Xinghua completed changes of industrial and commercial registration on 21 March 2008. Its registered capital increased from RMB37.52 million to RMB61.2653 million, to which the contribution from JONHON Optronic increased to 51%. Shenyang Xinghua is principally engaged in the manfacturing and sales of aircraft electric equipment.

Exchange risks

RMB's relentless appreciation against US Dollar will have some effect on orders of JONHON Optronic from its overseas customers. However, as those overseas orders only accounts for 2.3% in JONHON Optronic's total orders, it has little impact on JONHON Optronic as a whole.

Employees and remuneration policy

As at 31 December 2006, 31 December 2007 and 31 December 2008, JONHON Optronic had 2,388, 2,649 and 4,536 employees, respectively. It had paid remunerations of RMB212 million to its employees in 2008. JONHON Optronic determines remuneration policies in accordance with prevailing market level and performances of certain employees.

Contingent liabilities

For the three years ended 31 December 2008 and as at 30 September 2009, JONHON Optronic had no significant contingent liabilities.

I. LISTING RULES IMPLICATIONS

As the highest of the applicable ratios for the Disposal, when aggregated with the Previous Disposals, is over 25% but is less than 75%, the Disposal constitutes a major transaction of the Company pursuant to Chapter 14 of the Listing Rules. As the highest of the applicable ratios for the Acquisition, when aggregated with the Previous Acquisitions pursuant to Rule 14A.25 of the Listing Rules, is over 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company. Pursuant to Rule 14.24, in the case of a transaction involving both an acquisition and a disposal, the Stock Exchange will apply the percentage ratios to both the acquisition and the disposal and the transaction will be classified by reference to the larger of the acquisition or disposal. Accordingly, the Acquisition will also constitute a major transaction of the Company. In addition, as AVIC is the controlling Shareholder of the Company holding 61.06% equity interest in the Company, AVIC is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the Disposal and the Acquisition constitute connected transactions of the Company, which will be subject to approval by Independent Shareholders. As AVIC has material interest in the Disposal and Acquisition, AVIC and its associates will abstain from voting on the ordinary resolution to be proposed at the EGM.

An Independent Board Committee comprising all the independent non-executive Directors will be formed to advise the Independent Shareholders on the connected transactions contemplated under the Equity Swap Agreement. Somerley has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

J. GENERAL

Information on Parties

Information on the Company

As at the Latest Practicable Date, the Company is held as to 61.06% by AVIC, being the controlling shareholder of the Company. The Company is mainly engaged in the research, development, manufacture and sales of vehicles and aviation products.

Information on AVIC

As at the Latest Practicable Date, AVIC is held and controlled by the State Council of the PRC. AVIC is the controlling shareholder of the Company holding 61.06% equity interest in the Company. AVIC is mainly engaged in the development and manufacture of aviation products and non-aviation products such as the automobile engine and parts and components.

Information on Dongan Motor

As at the Latest Practicable Date, the Company is the controlling shareholder of Dongan Motor holding 54.51% equity interest in Dongan Motor. Dongan Motor is principally engaged in the research and development, manufacture and sales of vehicle engines, gear box, parts and components and other relevant automobile products.

Information on JONHON Optronic

As at the Latest Practicable Date, AVIC is the controlling shareholders of JONHON Optronic and directly holds 43.34% equity interest in JONHON Optronic and indirectly holds 5.45% equity interest in JONHON Optronic. JONHON Optronic is a subsidiary of AVIC. JONHON Optronic is principally engaged in the research and development, manufacture and sales of electrical connectors, optical components and cable assemblies.

K. PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION

In order to reflect the person designated to be in charge of the financial affairs of the Company, the Company proposed to add a new clause, which reads as follows, to Article 105 of the Articles of Association as clause (2) of Article 105:

"The Board will designate a deputy general manager holding the position of chief financial officer to be the person in charge of the financial affairs of the Company. Unless otherwise specified in the articles of association of the Company, all references to the person in charge of the financial affairs of the Company (i.e. the chief financial officer) shall mean the deputy general manager so designated by the Board."

The Company confirms that there is nothing unusual about the proposed amendment to the Articles of Association for a company listed in Hong Kong.

L. EGM

The notice of the EGM to be held at 9:00 a.m. on Tuesday, 29 December 2009 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People's Republic of China is set out on pages N-1 to N-4 of this circular, at which (1) an ordinary resolution will be proposed to approve, among other matters, the terms and conditions of the Equity Swap Agreement and; (2) a special resolution will be proposed to amend the Articles of Association.

A reply slip and a form of proxy for use at the EGM are enclosed herewith. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event no later than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you wish.

AVIC and its associate(s), if any, are connected persons of the Company as defined under the Listing Rules and they will abstain from voting at the EGM in respect of the ordinary resolution to be proposed at the EGM. As at the Latest Practicable Date, AVIC and its associate(s), if any, directly owned 2,835,305,636 shares, representing approximately 61.06% of the total issued share capital of the Company. AVIC was entitled to control all voting rights in respect of such shares. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the EGM will be taken by poll. The Company will announce the results of the poll in accordance with the Listing Rules following the EGM.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 25 of this circular. The Directors and the Independent Board Committee, having taken into account the advice of Somerley, consider that the terms of the Equity Swap Agreement are fair and reasonable and the transactions contemplated under the Equity Swap Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolution relating to the Equity Swap Agreement to be proposed at the EGM.

Further, the Board also considers the proposed amendment to the Articles of Association to be in the interests of the Company and the Shareholders, and recommends the Shareholders to vote in favour of the special resolution to amend the Articles of Association to be proposed at the EGM.

Your attention is also drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
By Order of the Board
Lin Zuoming
Chairman

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

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

(Stock Code: 2357)

25 November 2009

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the "Circular") dated 25 November 2009 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the terms of the Equity Swap Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Somerley has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Equity Swap Agreement.

We wish to draw your attention to the letter from the Board set out on pages 4 to 24 of the Circular and the letter from Somerley set out on pages 26 to 55 of the Circular.

Having considered the advice given by Somerley, we are of the opinion that the Equity Swap Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider the entering into of the Equity Swap Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee
AviChina Industry & Technology Company Limited*
Guo Chongqing, Li Xianzong, Lau Chung Man, Louis
Independent Non-executive Directors

* *For identification purpose only.*

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

25 November 2009

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Equity Swap Agreement entered into between the Company and AVIC on 4 November 2009. Details of the Equity Swap Agreement are contained in the circular to the Shareholders dated 25 November 2009 (the "Circular"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, the Company was owned as to approximately 61.06% by AVIC. Accordingly, the transactions as contemplated under the Equity Swap Agreement between the Company and AVIC will constitute connected transactions of the Company and be subject to approval by Independent Shareholders by way of poll pursuant to the Listing Rules.

The Independent Board Committee comprising all of the three independent non-executive Directors, namely Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, has been formed to advise the Independent Shareholders in respect of the terms of the Equity Swap Agreement. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and have assumed that they are true, accurate and complete at the date of the Circular and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts has been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. However, we have not conducted any independent investigation into the business and affairs of each of the Group (including Dongan Motor which is the subject matter of the Equity Swap Agreement), JONHON Optronic, AVIC and their respective subsidiaries and associated companies.

PRINCIPAL FACTORS AND REASONS CONSIDERED

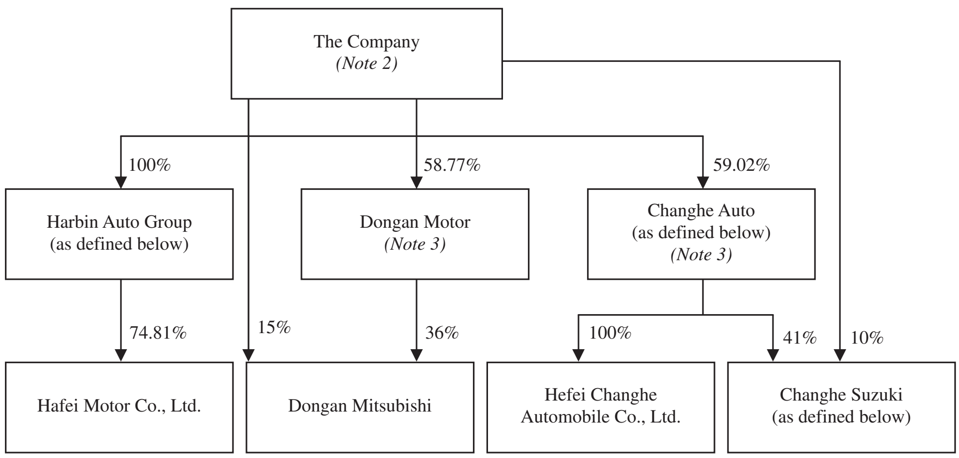
In considering whether the terms of the Equity Swap Agreement are fair and reasonable insofar as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Background to and reasons for entering into the Equity Swap Agreement

The Group is owned as to 61.06% by AVIC which is the only PRC state-owned enterprise specialising in the manufacturing of aircrafts and aviation products. As a member company of AVIC, the Group is also engaged in the aviation industry. In addition, the Group also manufactures automobile and auto products, using skills generated from its aviation operation.

The aviation segment has always been the principal profit contributor of the Group, while the automobile business made continuous losses up to the year ended 31 December 2008. Given this, the Group has started from the second half of 2008 embarked on a restructure policy (the "Reorganisation") to divest of its automobile business and re-allocate its resources and manpower to the aviation segment, in which the Group, being the Hong Kong listed flagship of AVIC, has a competitive advantage. The Directors also believe that this strategy would enable the Group to increase its share in the growing PRC aviation market, which, according to the management of the Group, is one of the strongly promoted industries by the PRC Government.

Set out below is the group chart of the Company's automobile segment prior to the Reorganisation:



Notes:

(1) For the purpose of this letter, the aviation segment of the Group was not shown in the above group chart.

(2) Shares of the Company are listed on the Stock Exchange.

(3) Shares of Dongan Motor and Changhe Auto are listed on Shanghai Stock Exchange.

On 13 October 2008, the Company announced the first step of the Reorganisation which involves swapping its automobile assets held through Jiangxi Changhe Automobile Co., Ltd. ("Changhe Auto"), a subsidiary of the Company and shares of which are listed on the Shanghai Stock Exchange, for aviation assets held by other companies controlled by AVIC (the "Assets Swap"). This transaction was completed on 30 April 2009.

On 16 April 2009, the Company announced the second step of the Reorganisation which involved disposal of the 100% equity interest in Harbin Hafei Automobile Industry Group Co., Ltd. ("Harbin Auto Group") and a 10% equity interest in Jiangxi Changhe Suzuki Automobile Co., Ltd. ("Changhe Suzuki"), both being engaged in the manufacture and sale of automobiles, to a wholly-owned subsidiary of AVIC for an aggregate cash consideration of approximately RMB110.4 million. The disposal of Harbin Auto Group was completed on 21 October 2009.

The Group now proposes to divest of its automobile engine manufacturing subsidiary, Dongan Motor, by entering into the Equity Swap Agreement. Pursuant to the said agreement, the Group has agreed to sell to AVIC its 54.51% interest in Dongan Motor, the issued shares of which are listed on the Shanghai Stock Exchange, in exchange for a 43.34% interest in JONHON Optronic, the issued shares of which are listed on the Shenzhen Stock Exchange, with the balance of the consideration to be satisfied in cash.

Upon completion of the above Reorganisation, the Group would cease to have any controlling interest in any automobile business. The Group would, however, still maintain, through a subsidiary engaged in aviation segment, a 15% interest in Dongan Mitsubishi, which is a joint venture company set up with, among others, Mitsubishi Motors Corporation.

The Directors noted that for the first half of 30 June 2009, the Group's automobile business achieved a positive segment result which was higher than its aviation segment. This phenomenon is unusual. However, this has not changed the Directors' policy to continue with the Reorganisation as the results achieved by the automobile segment was, according to the Directors, largely resulted from the PRC Government's recently launched preferential policies which include reduction of the Vehicle Purchase Tax and the Car Subsidy Program for Rural Areas in the PRC. As set out in the relevant PRC policies, the favourable tax treatment and rural car purchase subsidy program became effective in the first quarter of 2009 and would come to an end on 31 December 2009. Therefore, we agree with the Directors that the sustainability of the growth of the Group's automobile segment beyond 2009 is uncertain. Besides, in the opinion of the Directors, Dongan Motor and Dongan Mitsubishi, being automobile engine manufacturers, would face increasing competition in the market. The Directors are aware that the large automobile manufacturers are establishing or enhancing their own engine manufacturing facilities and this vertical integration process is also promoted by the PRC government. This is further discussed in the section below headed "Business and financial information of Dongan Motor".

In the circumstances, the Directors would like to put forward to Independent Shareholders the proposal of swapping the Group's controlling interest in Dongan Motor for a controlling interest in JONHON Optronic which started up as a developer of aviation electrical products. Through the acquisition of JONHON Optronic, the Company would enhance its research and development on aviation electrical products and improve its manufacturing capabilities of aviation products and assemblies, thereby making the aviation business system of the Company more complete.

Having considered the above, we agree with the Directors that the entering into of the Equity Swap Agreement is in line with the Group's stated strategy. The transaction would also enable the Group to focus on its aviation business and further strengthen its market position in the PRC aviation industry, which is in the interests of the Company.

2. **Principal terms of the Equity Swap Agreement**

(i) ***Subject matters and Consideration***

Dongan Motor is currently a 54.51% owned subsidiary of the Company, while AVIC has a 43.34% direct interest in JONHON Optronic. Pursuant to the Equity Swap Agreement entered into between the Company and AVIC on 4 November 2009:

(i) the Group has agreed to sell to AVIC its 54.51% equity interest in Dongan Motor at a consideration of approximately RMB2,367.8 million (the "Acquisition Consideration");

(ii) the Group has agreed to purchase from AVIC its 43.34% equity interest in JONHON Optronic at a consideration of approximately RMB1,774.2 million (the "Disposal Consideration"); and

(iii) the balance of approximately RMB593.6 million (the "Balance") would be settled by cash payment from AVIC to the Group.

Both the Acquisition Consideration and the Disposal Consideration have been determined in accordance with the relevant PRC rules and regulations, based on the 90% of the average of the daily volume-weighted average trading prices of Dongan Motor and JONHON Optronic respectively for the last 30 trading days on the Shanghai Stock Exchange and the Shenzhen Stock Exchange respectively up to and including 27 October 2009 (the "Last Trading Day"), being the last trading day immediately preceding the announcement by the Company of the possibility of entering into the Equity Swap Agreement with AVIC.

The Balance would be settled by AVIC in cash within 20 days upon the Equity Swap Agreement becoming effective.

Upon Completion, the Company will succeed to the lock-up undertaking given by AVIC in respect of the lock-up of its equity interest in JONHON Optronic for a period of 36 months commencing from the listing date of JONHON Optronic, namely 1 November 2007, and expiring on 31 October 2010.

(ii) ***Conditions precedent***

Completion of the Equity Swap Agreement is conditional upon fulfilment of the following conditions:

(1) the Equity Swap Agreement having been duly executed by the legal representatives or authorized person(s) of the parties;

(2) AVIC having completed and satisfied all the necessary corporate procedures in accordance with the requirements of its articles of association;

(3) the Company having completed and satisfied all the necessary corporate procedures and complied with the relevant requirements under the Listing Rules and the Articles of Association, including but not limited to the transactions contemplated under the Equity Swap Agreement having been approved by the Independent Shareholders;

(4) the transfers of the equity interests in Dongan Motor and JONHON Optronic contemplated under the Equity Swap Agreement having been approved by SASAC;

(5) the changes in relation to the state-owned shares and the state-owned share management plan in Dongan Motor and JONHON Optronic having been approved by SASAC;

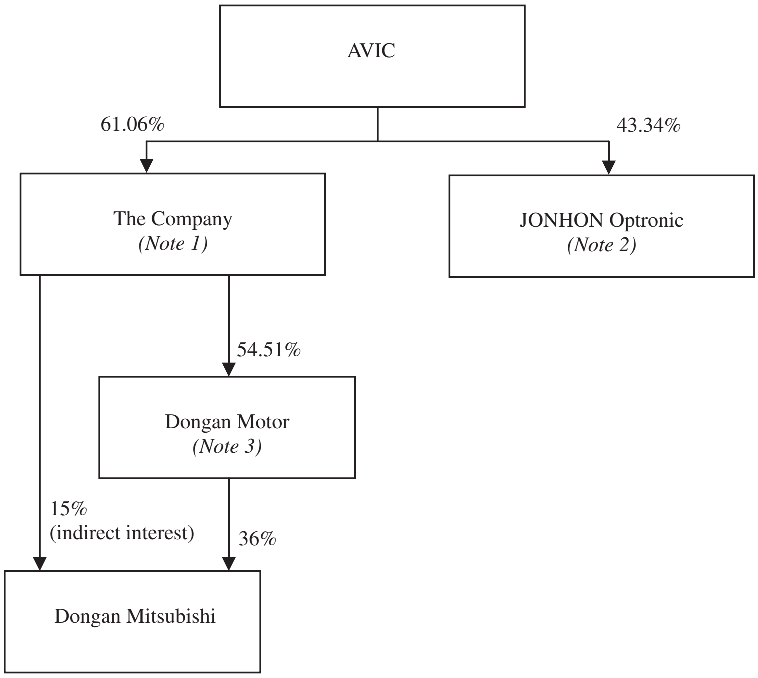
(6) waiver from CSRC in relation to AVIC's general offer obligation in respect of acquisition of the shares in Dongan Motor having been obtained; and

(7) waiver from CSRC in relation to the Company's general offer obligation in respect of acquisition of the shares in JONHON Optronic having been obtained.

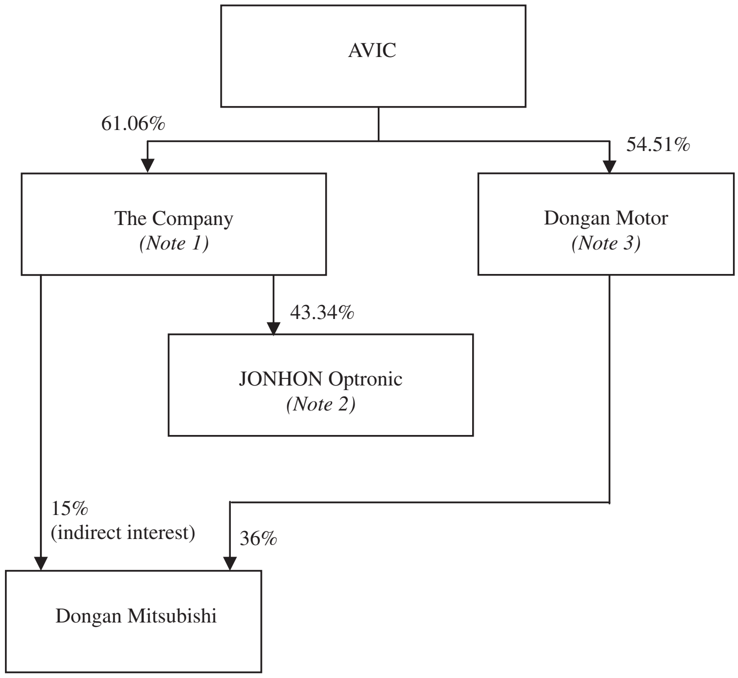
(iii) ***Change in shareholding structure***

Set out below is the shareholding structure of Dongan Motor and JONHON Optronic before and after Completion:

Before Completion



After Completion



Notes:

(1) Shares of the Company are listed on the Stock Exchange.

(2) Shares of JONHON Optronic are listed on Shenzhen Stock Exchange.

(3) Shares of Dongan Motor are listed on Shanghai Stock Exchange.

Upon Completion, the Group's 54.51% equity interest in Dongan Motor will be transferred to AVIC, while AVIC's 43.34% equity interest in JONHON Optronic will be transferred to the Group.

Apart from AVIC's 43.34% direct interest in JONHON Optronic, AVIC indirectly holds 5.45 equity interest in JONHON Optronic through the Concert Parties. The Company has on 4 November 2009 entered into an agreement with the Concert Parties, whereby the Concert Parties undertake to, subsequent to Completion, exercise the voting rights held by them in JONHON Optronic in accordance with the instructions of the Company. This means that, upon Completion, the Company will in effect control 48.79% of the voting rights of JONHON Optronic, which will be accounted for as a subsidiary of the Company. The operating results and financial position of JONHON Optronic will be consolidated into the financial statements of the Group. Such accounting treatment has been confirmed with the auditors of the Company.

3. **Business and financial information of the Group**

The Company is a joint stock limited company incorporated in the PRC whose shares have been listing on the Stock Exchange since 2003. The Company is principally engaged in the development, manufacture and sales of aviation and automobile products and related components, with most of its turnovers coming from the PRC market. AVIC currently has an approximately 61.06% equity interest in the Company.

The businesses of the Group comprise principally the aviation segment and the automobile segment. Set out below is the condensed segment information of the Group for each of the two years ended 31 December 2008 and for the six months ended 30 June 2009 as extracted from the Group's 2008 annual report and 2009 interim report:

	Aviation	**Automobiles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
For the six months ended 30 June 2009 (unaudited) *(Note)*			
Operating results			
Turnover	2,030,075	5,853,808	7,883,883
Segment results	146,550	205,402	351,952
Loss attributable to shareholders			(20,443)
Assets and liabilities			
Segment assets (including interests in associates)	9,954,187	10,666,420	20,620,607
Unallocated assets			959,814
Total assets			21,580,421
Net assets attributable to Shareholders			2,800,258
Other segment information			
Depreciation and amortisation	70,551	366,227	436,778
Provision for impairment	5,581	9,051	14,632
For the year ended 31 December 2008 (audited)			
Operating results			
Turnover	4,596,140	11,788,744	16,384,884
Segment results	248,542	(633,359)	(384,817)
Loss attributable to shareholders			(1,156,611)
Assets and liabilities			
Segment assets (including interests in associates)	9,112,468	12,294,086	21,406,554
Unallocated assets			1,038,077
Total assets			22,444,631
Net assets attributable to Shareholders			2,332,653

	Aviation *RMB'000*	Automobiles *RMB'000*	Total *RMB'000*
Other segment information			
Depreciation and amortisation	106,312	1,239,724	1,346,036
Provision/(reversal of provision) for impairment	23,989	(6,370)	17,619
For the year ended 31 December 2007 (audited)			
Operating results			
Turnover	5,327,408	11,213,237	16,540,645
Segment results	306,241	(852,840)	(546,599)
Loss attributable to shareholders			(1,026,226)
Assets and liabilities			
Segment assets (including interests in associates)	9,096,155	12,870,071	21,966,226
Unallocated assets			812,372
Total assets			22,778,598
Net assets attributable to Shareholders			3,488,073
Other segment information			
Depreciation and amortisation	91,454	998,942	1,090,396
Provision for impairment	24,549	359,772	384,321

Note: The Group completed the Assets Swap on 30 April 2009, and the operating result of the previous automobile business of Changhe Auto was presented in the Group's financial statements for the six months ended 30 June 2009 as discontinued operations. Accordingly, the turnover and segment results presented above for the six months ended 30 June 2009 excluded those contributed by Changhe Auto. The operating results of the Group for 2007 and 2008 as presented above was extracted from the Group's 2008 annual report, and included the operating result of the previous automobile business of Changhe Auto.

As shown in the condensed segment analysis above, although sales contributed by the automobile segment represent a majority of the total sales of the Group, the automobile segment made losses for each of the two years ended 31 December 2008. As mentioned in the section above headed "Background to and reasons for entering into the Equity Swap Agreement", although the automobile business achieved a positive segment result for the first half of 2009, the management of the Group considered that it was principally due to the temporary PRC government's preferential policies, which would expire by the end of 2009. According to the management of the Group, after taking into account the other costs attributable to the automobile segment, the automobile segment in fact made a loss attributable to Shareholders. The aviation segment continued to make a positive contribution to the results of the Group during the same period.

For the first half of 2009, the segment results of the automobile segment were approximately RMB205.4 million, which represented mainly contributions from Harbin Auto Group, Dongan Motor and Dongan Mitsubishi. Operating results of the automobile business of Changhe Auto, disposal of which was completed on 30 April 2009, were included in the Group's financial statements for the six months ended 30 June 2009 as discontinued operations. On 21 October 2009, the Group completed its disposal of Harbin Auto Group, which was then de-consolidated from the Group's financial statements.

As shown in the above table, the charges for depreciation and the provisions for impairment related to the automobile segment were significantly higher than that for the aviation segment.

4. **Business and financial information of Dongan Motor**

Dongan Motor has been listing on the Shanghai Stock Exchange since 1998. As at the Latest Practicable Date, the Company had an approximately 54.51% equity interest in the Dongan Motor. The results and assets and liabilities of Dongan Motor are consolidated into the financial statements of the Group.

Dongan Motor is currently engaged in the research and development, manufacture and sales of mini-sized automobile engines, gear boxes, parts and components and other relevant automobile products. Its major products are automobile engines with engine displacement of 1.3 litres or below, suitable for mini-sized sedans or vans. Most of the sales of Dongan Motor are made to member companies of AVIC.

One of the major investments of Dongan Motor is a 36% equity interests in Dongan Mitsubishi. Dongan Mitsubishi is a joint venture set up among Dongan Motor (36%), Harbin Aviation Industry (Group) Co., Ltd. (15%) (a wholly-owned subsidiary of the Company), Harbin Dongan Automotive Engine Manufacturing Co., Ltd. (19%), Mitsubishi Motors Corporation (15.3%), Mitsubishi Corporation (5.7%) and MCIC Holding Bhn. (9%). Dongan Mitsubishi is currently engaged in the manufacture and sale of automobile engines, mainly using technologies and components supplied by Mitsubishi. Its major products are automobile engines with engine displacement of 1.3 litres or above, suitable for medium-sized sedans. Products of Dongan Mitsubishi are mainly sold to independent car manufacturers in the PRC. Dongan Mitsubishi, being 51% owned by the Company and its subsidiary in aggregate, is currently being accounted for as a subsidiary of the Company.

For the first half of 2009, sales of both Dongan Motor and Dongan Mitsubishi benefited from the PRC recently launched preferential policies. Dongan Motor in particular benefited from the Car Subsidy Program for Rural Areas which applies to purchases of cars with engine displacement of 1.3 litres or below in the rural areas of the PRC. However, those policies would expire by the end of 2009 and in the view of the management of the Group, the automobile engine business in the PRC would face intense competition. To the knowledge of the management of the Company, two major customers of Dongan Mitsubishi are developing or expanding their own engine manufacturing facilities. Besides, the PRC government has issued a policy which requires investors of new automobile projects to establish their own engine manufacturing facilities. In the circumstances, the whole automobile engine market would be squeezed. Besides the above challenges, Dongan Motor also has a narrow external customer base, given that a majority of the products manufactured by Dongan Motor are supplied to the group companies of AVIC. The historical results of Dongan Motor were not promising. Although Dongan Motor has made profits in the past years, this was principally due to the profit contribution from its 36% owned associate, Dongan Mitsubishi. If the profit contribution from Dongan Mitsubishi was excluded from the operating results of Dongan Motor, Dongan Motor would have had made losses in 2007 and 2008.

The following table summarises the financial information of Dongan Motor, prepared in accordance with the Generally Accepted Accounting Principles in the PRC ("PRC GAAP"), for the nine months ended 30 September 2009 and 2008, and for the two years ended 31 December 2008, as extracted from the 2009 third-quarter report and 2008 annual report of Dongan Motor:

Profit and loss

	Nine months ended 30 September	**Nine months ended 30 September**	**Year ended 31 December**	
	2009	**2008**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*
Turnover	1,626,964	1,333,834	1,754,329	1,852,536
Gross profit	202,739	57,918	64,142	163,443
Gross profit %	*12.5%*	*4.3%*	*3.7%*	*8.8%*
Investment profit *(Note)*	79,935	124,700	283,965	268,893
Reversal of provision/ (provision for impairment)	3,684	23,447	16,760	(91,860)
Operating profit	113,764	63,850	158,637	145,633
Profit before tax	113,860	63,941	160,197	150,701
Profit after tax	108,504	63,941	160,197	150,701
Profit attributable to shareholders	108,504	63,941	160,197	150,701

Note: Investment profit represented mainly the contribution of profit from Dongan Motor's 36% equity investment in Dongan Mitsubishi. During the first half of 2008, Dongan Motor completed the disposal of its 0.83% interest in Changhe Auto, resulting in a gain on disposal of approximately RMB29.8 million, which was included in the investment profit of Dongan Motor.

2008 compared to 2007

For the year ended 31 December 2008, Dongan Motor recorded turnover of approximately RMB1,754.3 million, which represented a slight decrease of approximately 5.3% when compared to 2007. According to the management of the Group, this was mainly due to the intensified competition in the PRC auto industry during 2008, which led to the decrease in sales volume and selling prices of Dongan Motor's products. At the same time, gross profit margin also dropped from approximately 8.8% in 2007 to approximately 3.7% in 2008, which was mainly due to the decrease in selling price of Dongan Motor's products and an increase in material costs.

Despite the decrease in gross profit from approximately RMB163.4 million in 2007 to approximately RMB64.1 million in 2008, operating profit of Dongan Motor increased by approximately 8.9% to approximately RMB158.6 million in 2008. This was mainly due to (i) the reversal of provision for impairment of approximately RMB16.8 million in 2008 as compared to the provision for impairment of approximately RMB91.9 million in 2007; and (ii) increase in investment profit from approximately RMB268.9 million in 2007 to approximately RMB284.0 million in 2008, majority of which was derived from the contribution from Dongan Motor's 36% owned Dongan Mitsubishi. Accordingly, profit attributable to shareholders increased by approximately 6.3%, from approximately RMB150.7 million in 2007 to approximately RMB160.2 million in 2008.

Nine months ended 30 September 2009 compared to nine months ended 30 September 2008

Turnover for the nine months ended 30 September 2009 increased by approximately 22.0% to approximately RMB1,627.0 million. As advised by the management of the Group, this was mainly a result of the preferential policies adopted by the PRC government, such as the reduction of the Vehicle Purchase Tax and the Car Subsidy Program for Rural Areas in the PRC, which boosted the sales of automobiles and related components including engines. As a result of a larger economy of scale from increased sales, gross profit margin increased to approximately 12.5% for the nine months ended 30 September 2009 when compared to the same period in 2008.

Despite the significant increase in gross profit from approximately RMB57.9 million for the nine months ended 30 September 2008 to approximately RMB202.7 million for the nine months ended 30 September 2009, operating profit only increased by approximately 78.2% to RMB113.8 million. This was mainly due to (i) a gain on disposal of approximately RMB29.8 million recognised in respect of the disposal of its 0.83% interest in Changhe Auto during the nine months ended 30 September 2008; (ii) decreased contribution from Dongan Mitsubishi which suffered from higher selling and administrative expenses incurred as a result of increases in sales rebate to customers and research and development expenses; and (iii) increased selling and administrative expenses of Dongan Motor itself, which were largely in line with the increase in sales. Profit attributable to shareholders increased by approximately 69.7% to approximately RMB108.5 million for the nine months ended 30 September 2009.

Financial position

	As at 30 September 2009	As at 31 December 2008	2007
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	*(audited)*	*(audited)*
Non-current assets	1,464,902	1,473,721	1,306,700
Current assets	2,273,882	1,910,493	1,990,114
Total assets	3,738,784	3,384,214	3,296,814
Non-current liabilities	(223,000)	(81,417)	(26,725)
Current liabilities	(1,497,461)	(1,392,978)	(1,500,951)
Total liabilities	(1,720,461)	(1,474,395)	(1,527,676)
Equity attributable to shareholders	2,018,323	1,909,819	1,769,138
Minority interests	—	—	—
Total equity	2,018,323	1,909,819	1,769,138

As at 30 September 2009, major assets of Dongan Motor were accounts receivable and bills receivable with an aggregate value of approximately RMB1,402.0 million, long-term investment of approximately RMB809.9 million which represented mainly Dongan Motor's 36% investment in Dongan Mitsubishi, fixed assets and construction in progress with an aggregate value of approximately RMB655.0 million, and cash and bank deposits of approximately RMB588.4 million.

Major liabilities of Dongan Motor as at 30 September 2009 included accounts payable and bills payable with an aggregate value of approximately RMB827.2 million and borrowings of approximately RMB560 million.

Dongan Motor's net cash position (defined as cash and bank deposits net of borrowings) as at 30 September 2009 was approximately RMB28.4 million.

Cash flow

	Nine months ended 30 September 2009	Nine months ended 30 September 2008	Year ended 31 December 2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(audited)*	*(audited)*
Net cash (used in)/generated from operating activities	(90,452)	(112,421)	54,857	(549,558)
Net cash (used in)/generated from investing activities	(1,268)	(26,689)	(26,400)	1,612
Net cash generated from financing activities	108,090	234,918	272,509	113,131
Net increase/(decrease) in cash and cash equivalents	16,370	95,808	300,966	(434,815)

As shown above, except for 2008, Dongan Motor generated negative cash flows from operating activities. Most of the cash generated from financing activities came from borrowings. Except for 2007, Dongan Motor had negative cash flow from investing activities, which principally arose from purchase of fixed assets. Management of the Group advised that Dongan Motor was embarking on an investment project relating to new products, with an expected capital requirement of approximately RMB2.5 billion in the coming years. This would have an impact on the future cash flow from investing activities. During the above years/periods under review, Dongan Mitsubishi contributed dividend incomes to Dongan Motor, which were included in net cash generated from/(used in) investing activities of Dongan Motor.

5. **Business and financial information of JONHON Optronic**

JONHON Optronic is principally engaged in the research and development, manufacture and sales of electrical connectors, optical components and cable assemblies. JONHON Optronic started up as a developer of aviation electrical products. With the expansion of its production capacity, JONHON Optronic started manufacturing and marketing its products to industries other than aviation. Recently, JONHON Optronic has successfully tapped into the emerging 3G telecommunication market and sales to the telecommunication market have out-numbered the sales to the aviation industry. Sales from telecommunication segment now constitute the most significant portion of the sales of JONHON Optronic. Currently, the Group's purchases of similar aviation electrical products are mostly made from JONHON Optronic. It is expected that this trend would continue after Completion and on this basis, the Directors believe that acquisition of JONHON Optronic would compliment the Group's aviation business.

As at the Latest Practicable Date, JONHON Optronic was directly owned as to 43.34% by AVIC. AVIC also indirectly held a 5.45 equity interest in JONHON Optronic through the Concert Parties as at the Latest Practicable Date.

In order to ensure management continuity of the existing business of JONHON Optronic, the Directors have informed us that all the senior management and employees of JONHON Optronic will remain in their existing positions following Completion.

The following table summarises the consolidated financial information of JONHON Optronic, prepared in accordance with International Financial Reporting Standards ("IFRS"), for the nine months ended 30 September 2009 and 2008, and for the two years ended 31 December 2008, as extracted from the accountant's report of JONHON Optronic as contained in Appendix II to the Circular.

Profit and loss

	Nine months ended 30 September 2009	**Nine months ended 30 September 2008**	**Year ended 31 December 2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(unaudited)*	*(audited)*	*(audited)*
Turnover	860,733	721,769	1,015,097	777,882
Gross profit	273,193	250,575	342,058	271,205
Gross profit %	*31.7%*	*34.7%*	*33.7%*	*34.9%*
Provision for impairment	(7,484)	(9,052)	(11,625)	(3,849)
Operating profit	112,566	114,158	158,164	135,114
Profit before tax	104,344	106,482	150,403	123,236
Profit after tax	93,180	77,411	122,665	102,880
Profit attributable to shareholders	89,829	72,673	115,583	100,593

Note: The above financial information is extracted from the accountant's report on JONHON Optronic, full report of which is contained in Appendix II to the Circular, prepared in accordance with IFRS for the purpose of meeting the Listing Rule requirements applicable to the Acquisition. As an A-share company, JONHON Optronic published financial statements prepared under PRC GAAP, which can be found in the website of Shenzhen Stock Exchange.

2008 compared to 2007

For the year ended 31 December 2008, turnover of JONHON Optronic increased by approximately 30.5%, from approximately RMB777.9 million in 2007 to approximately RMB1,015.1 million in 2008. This was principally due to the increase in orders during 2008. Gross profit margin slightly decreased to 33.7% in 2008, which was principally due to increased material costs.

The 2008 operating profit of JONHON Optronic increased by approximately 17.1%, from approximately RMB135.1 million in 2007 to RMB158.2 million in 2008, which was principally due to the increase in turnover and accordingly gross profit in 2008. Profit attributable to shareholders increased by approximately 14.9%, from approximately RMB100.6 million in 2007 to approximately RMB115.6 million in 2008.

Nine months ended 30 September 2009 compared to nine months ended 30 September 2008

Turnover of JONHON Optronic for the nine months ended 30 September 2009 further improved by approximately 19.3% to approximately RMB860.7 million. Gross profit margin decreased to 31.7% for the nine months ended 30 September 2009, which was again mainly due to the effect of increased material costs.

Operating profit of JONHON Optronic decreased slightly by approximately 1.4% to approximately RMB112.6 million for the nine months ended 30 September 2009. However, profit attributable to shareholders increased by approximately 23.6% to approximately RMB89.8 million for the nine months ended 30 September 2009. This was largely due to the reduction in applicable tax rate starting from 1 January 2009. JONHON Optronic was regarded as a PRC high-tech enterprise as from 1 January 2009 and therefore subject to a lower tax rate of 15%. JONHON Optronic's applicable tax rate was 25% in 2008. Tax expenses incurred by JONHON Optronic for the nine months ended 30 September 2009 decreased by approximately 61.6% to approximately RMB11.2 million as compared to the same period in 2008.

Financial position

	As at 30 September	As at 31 December	
	2009	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Non-current assets	622,840	493,031	314,218
Current assets	1,558,465	1,328,251	1,272,148
Total assets	2,181,305	1,821,282	1,586,366
Non-current liabilities	(442,013)	(128,066)	(89,199)
Current liabilities	(571,820)	(622,681)	(543,575)
Total liabilities	(1,013,833)	(750,747)	(632,774)
Equity attributable to shareholders	1,037,450	941,096	893,057
Minority interests	130,022	129,439	60,535
Total equity	1,167,472	1,070,535	953,592

As at 30 September 2009, major assets of JONHON Optronic were accounts receivable of approximately RMB626.7 million, cash and bank deposits (including pledged deposits and term deposits) of approximately RMB560.1 million, and property, plant and equipment of approximately RMB535.8 million.

Major liabilities of JONHON Optronic as at 30 September 2009 included borrowings of approximately RMB411.6 million, and accounts payable of approximately RMB369.6 million.

JONHON Optronic's net cash position (defined as cash and bank deposits net of borrowings) as at 30 September 2009 was approximately RMB148.5 million.

Cash flow

	Nine months ended 30 September 2009	Nine months ended 30 September 2008	Year ended 31 December 2008	Year ended 31 December 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(unaudited)*	*(audited)*	*(audited)*
Net cash (used in)/generated from operating activities	(22,305)	(92,589)	110,506	13,722
Net cash used in investing activities	(266,314)	(92,635)	(392,366)	(93,229)
Net cash generated from/(used in) financing activities	183,387	(11,090)	(3,090)	485,080
Net (decrease)/increase in cash and cash equivalents	(105,232)	(196,314)	(284,950)	405,573

JONHON Optronic generated positive cash flows from operating activities for each of the two years ended 31 December 2007 and 2008. However, for the nine months ended 30 September 2008 and 2009, JONHON Optronic generated negative cash flows from operating activities, which were principally due to the increase in accounts receivables for the nine months ended 30 September 2008, and the increase in pledged deposits made to secure trade finance facilities during the nine months ended 30 September 2009. Continued net cash used in investing activities represented principally purchase of fixed assets.

6. **Comparison between Dongan Motor and JONHON Optronic**

Set out below is a summary table comparing the key financial statistics between Dongan Motor and JONHON Optronic. Since Dongan Motor has not prepared financial statements under IFRS, the below comparison is made based on the financial statements of Dongan Motor and JONHON Optronic prepared under PRC GAAP, the full reports of which can be found in the website of Shanghai Stock Exchange and Shenzhen Stock Exchange respectively.

	Dongan Motor			**JONHON Optronic**		
	As at 30 September 2009	**As at 31 December 2008**	**As at 31 December 2007**	**As at 30 September 2009**	**As at 31 December 2008**	**As at 31 December 2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Scale of operations						
Turnover	1,626,964	1,754,329	1,852,536	897,452	1,076,654	831,508
Profit attributable to shareholders	108,504	160,197	150,701	85,190	111,916	99,238
Total assets	3,738,784	3,384,214	3,296,814	2,181,116	1,821,282	1,577,176
Equity attributable to shareholders	2,018,323	1,909,819	1,769,138	1,032,237	953,738	907,463
Financial ratios	*%*	*%*	*%*	*%*	*%*	*%*
Gross profit margin	12.5%	3.7%	8.8%	31.2%	32.7%	34.0%
Profit margin *(Note 1)*	6.7%	9.1%	8.1%	9.5%	10.4%	11.9%
Return on assets *(Note 2)*	3.9%	4.7%	4.6%	5.3%	6.4%	6.4%
Return on shareholders' equity *(Note 2)*	7.2%	8.4%	8.5%	11.0%	11.7%	10.9%
Growth in total assets *(Note 3)*	10.5%	2.7%	N/A	19.8%	15.5%	N/A
Growth in profit attributable to shareholders *(Note 3)*	69.7%	6.3%	N/A	12.4%	12.8%	N/A

Notes:

1. Profit margin is defined as profit attributable to shareholders divided by turnover.

2. The numerators of return on assets and return on shareholders' equity are defined as profit after tax and profit attributable to shareholders respectively, while the denominators are defined as total assets and shareholders' equity respectively as at year end date.

   Return on assets and return on shareholders' equity are annualised for the nine months ended 30 September 2009.

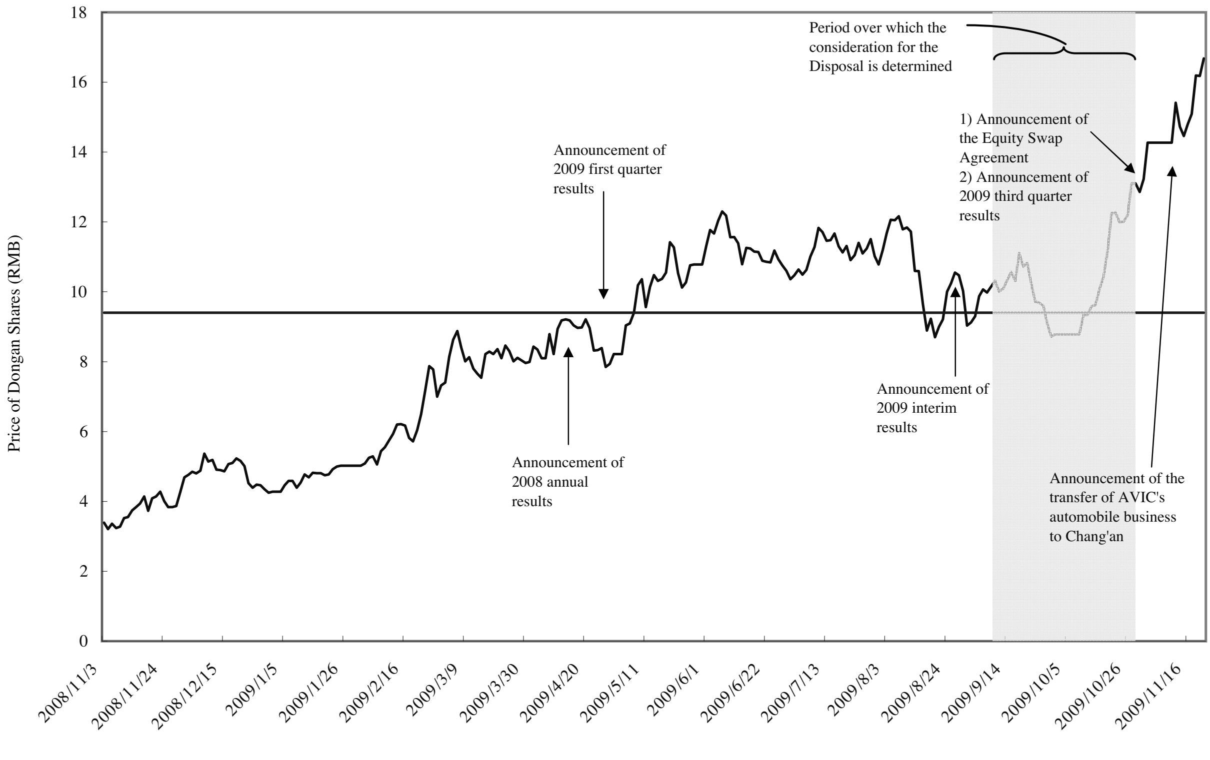
3. Growth in total assets in 2009 represents year-to-date growth of total assets as at 30 September 2009 when compared with those as at 31 December 2008. Growth in net profit in 2009 represents the growth of net profits for the nine months ended 30 September 2009 when compared with the corresponding period in 2008.

The scale of operations of Dongan Motor is notably larger than that of JONHON Optronic. However, JONHON Optronic out-performed Dongan Motor in terms of the above financial ratios, except for Dongan Motor's 69.7% growth in profit attributable to shareholders for the nine months ended 30 September 2009, when compared to JONHON Optronic's 14.8% growth. However, the management of the Group are of the view that Dongan Motor's growth in profitability achieved in 2009 may not be sustainable as it was principally due to the temporary PRC government's preferential policies, as mentioned in the section above headed "Background to and reasons for entering into the Equity Swap Agreement".

7. **Share price performance**

(i) *Share price performance of Dongan Motor*

Set out below is the daily closing market prices of the Dongan Motor's shares ("Dongan Share(s)") during a period starting from 1 November 2008 (approximately one year preceding the date of the Equity Swap Agreement) up to and including the Latest Practicable Date:



Source: Bloomberg

As shown in the above price chart, closing prices of the Dongan Shares were steadily increasing during the period from November 2008 to mid-February 2009. Prices of the Dongan Shares then increased significantly from RMB5.72 on 18 February 2009 to a high of RMB7.87 on 24 February 2009, representing an increase of approximately 37.6%. On 25 February 2009, Dongan Motor issued a clarification announcement confirming that there was no price sensitive information as regards Dongan Motor. Despite a brief decrease in the next two trading days, prices of Dongan Shares continued to increase to RMB8.88 on 5 March 2009, then fluctuated within a range of RMB7.54 to RMB9.21 from 6 March 2009 to 29 April 2009. During this period, Dongan Motor announced its 2008 results on 10 April 2009, reporting a profit for the year of approximately 160.2 million, based on audited financial statements prepared under PRC GAAP. Such profit figure represented a slight increase of approximately 6.3% when compared to 2007. Dongan Motor also announced its 2009 first quarter results on 24 April 2009, with a significant decrease in profit for the period prepared under PRC GAAP by approximately 47.1% to approximately RMB22.9 million, principally as a result of lower contribution of profits from Dongan Mitsubishi, Dongan Motor's 36% owned associate.

Prices of Dongan Shares started to increase in May 2009, and reached a high of RMB12.30 on 5 June 2009, then fluctuated within a range of RMB10.36 to RMB12.18 from 8 June 2009 to 6 August 2009. Prices of Dongan Shares started to drop afterwards, to a low of RMB8.70 on 19 August 2009. Dongan Motor then announced its 2009 interim results on 25 August 2009, reporting a profit for the period prepared under PRC GAAP of approximately RMB94.5 million, which represented an increase of approximately 28.7% when compared to the same period in 2007, as a result of increased sales and gross profit. Prices of Dongan Shares then fluctuated within a range of RMB8.72 to RMB11.11 from 26 August 2009 to 30 September 2009.

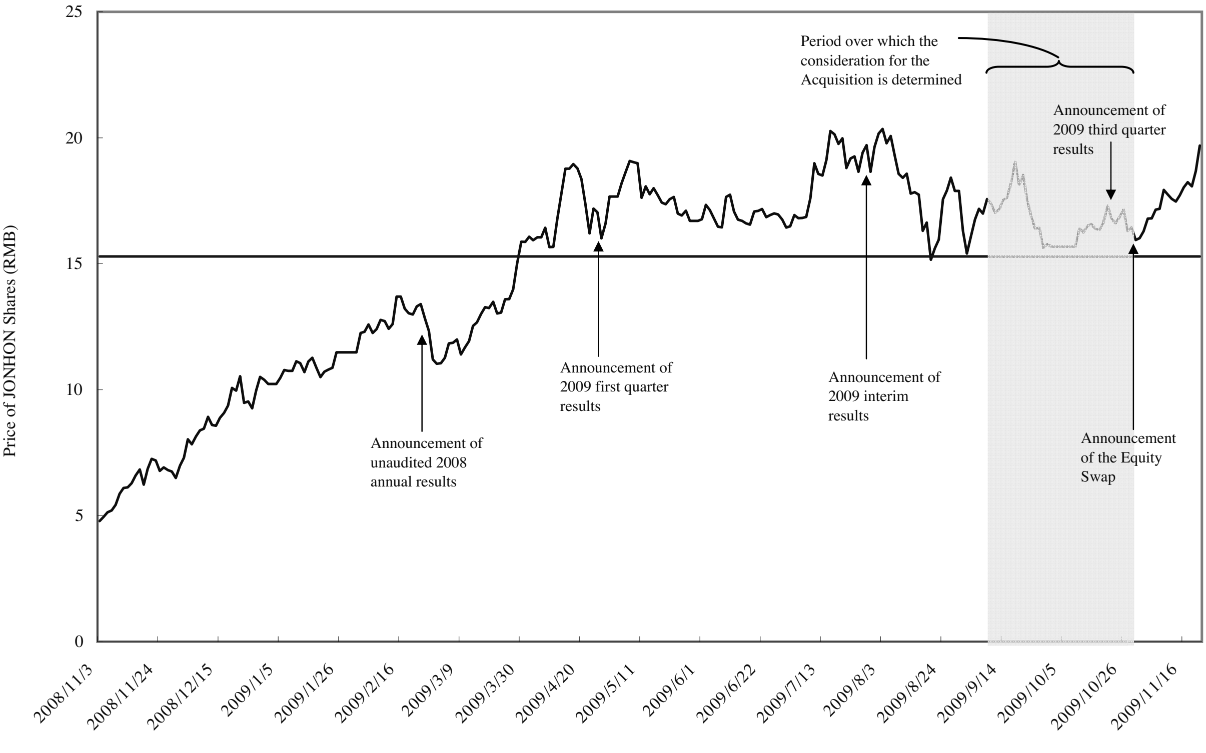
After the National Holidays in the PRC, prices of Dongan Motors increased significantly from RMB8.78 on 30 September 2009 to a high of RMB12.27 on 21 October 2009. On 22 October 2009, Dongan Motor issued an announcement to clarify that AVIC, Dongan Motor's ultimate shareholder, had not reached any agreement with third parties in respect of a possible reorganisation of the automobile business of AVIC. On 28 October 2009, the day immediately after the Last Trading Day, Dongan Motor announced the entering into of the Equity Swap Agreement between the Company and AVIC. On the same day, Dongan Motor also announced its 2009 third quarter results, with an increase in profit for the period prepared under PRC GAAP by approximately 69.7% to approximately RMB108.5 million. Such increase arose from increase in sales and gross profit. Prices of Dongan Shares continued to rise to a high of RMB14.27 on 2 November 2009, before the suspension of its trading on 3 November 2009, pending the announcement of a further change in shareholding of Dongan Motor.

On 11 November 2009, Dongan Motor issued an announcement stating the intention of AVIC to transfer its automobile business to Chang'an Automobile Group ("Chang'an"). It was also widely reported in the newspapers on the same day that AVIC intends to inject Dongan Motor and other automobile business previously acquired from the Group into Chang'an, in return for an approximately 23% interest in the enlarged Chang'an. The above merger is reported in the press to be part of a government-backed consolidation of PRC's fragmented automobile industry. We also understand that the assets to be injected into Chang'an would include assets not owned by the Group. In the circumstances, we are of the view that no useful inference can be drawn from the above merger for the purpose of an analysis of the terms of the Equity Swap Agreement.

Following the announcement and resumption of trading on 11 November 2009, prices of Dongan Shares increased by approximately 8.0% to RMB15.41 on the same day, then gradually increased to a high of RMB16.68 on the Latest Practicable Date.

(ii) *Share price performance of JONHON Optronic*

Set out below is the daily closing market prices of the JONHON Optronic's shares ("JONHON Share(s)") during a period starting from 1 November 2008 (approximately one year preceding the date of the Equity Swap Agreement) up to and including the Latest Practicable Date:



Source: Bloomberg

Similar to the Dongan Shares, closing prices of the JONHON Shares were steadily increasing during the period from November 2008 to mid-February 2009. On 6 January 2009, JONHON Optronic issued an announcement confirming that it was regarded as a PRC high-tech enterprise and therefore subject to a lower tax rate of 15%, compared to 25% in 2008. On 23 February 2009, JONHON Optronic announced its unaudited 2008 profit attributable to shareholders prepared under PRC GAAP of approximately RMB112.9 million (which is close to the audited profit attributable to shareholders prepared under PRC GAAP of approximately RMB111.9 million as announced by Dongan Motor on 30 March 2009), representing an increase of approximately 13.8% when compared to 2007. Despite the increase in 2008 profit, prices of JONHON Shares dropped from RMB13.40 on 23 February 2009 to a low of RMB11.05 on 2 March 2009, but then started to rise again for the rest of March 2009 until it reached a high of RMB18.96 on 16 April 2009. Prices of JONHON Shares started to drop again, from RMB18.96 on 16 April 2009 to RMB17.04 on 24 April 2009. On 25 April 2009, JONHON

Optronic announced its 2009 first quarter results, reporting an increase in profit attributable to shareholders prepared under PRC GAAP of approximately RMB23.7 million, representing an increase in approximately 40.7% as compared to the same period in 2008.

Following the announcement of JONHON Optronic's 2009 first quarter results, prices of JONHON Shares rose to a high of RMB19.08 on 6 May 2009, then fluctuated within a range of RMB16.44 to RMB20.35 from 7 May 2009 to 3 August 2009. On 28 July 2009, JONHON Optronic announced its 2009 interim results, with its profit attributable to shareholders prepared under PRC GAAP for the first half of 2009 increased by approximately 35.8% to approximately RMB59.3 million. Prices of JONHON Shares then started to drop from RMB20.35 on 3 August 2009 to a low of RMB15.16 on 19 August 2009, then fluctuated within a range of RMB15.41 to RMB19.04 from 20 August 2009 to 27 October 2009. During that period, JONHON Optronic announced its 2009 third quarter results, reporting a profit attributable to shareholders prepared under PRC GAAP of RMB85.2 million, representing an increase of approximately 12.4% when compared to same period in 2008.

On 28 October 2008, the day immediately after the Last Trading Day, JONHON Optronic announced the entering into of the Equity Swap Agreement between the Company and AVIC. Following the above announcement, prices of JONHON Shares gradually rose to a high of RMB19.69 on the Latest Practicable Date.

(iii) *Comparison of the prices of Dongan Share and the JONHON Share as implied by the Consideration*

The price per Dongan Share as implied by the Consideration of RMB9.40 represents:

(a) 90% of the average of the daily volume-weighted average trading price of the Dongan Shares for the last 30 trading days on the Shanghai Stock Exchange up to and including the Last Trading Day. This was the agreed basis for setting the consideration of the Disposal;

(b) a discount of approximately 11.6% to the average of the daily volume-weighted average trading price of approximately RMB10.63 per Dongan Share on the Shanghai Stock Exchange over the 15 trading days up to and including the Last Trading Day;

(c) a discount of approximately 7.5% to the average of the daily volume-weighted average trading price of approximately RMB10.16 per Dongan Share on the Shanghai Stock Exchange over the 45 trading days up to and including the Last Trading Day;

(d) a discount of approximately 28.2% to the closing price of RMB13.10 per Dongan Share on the Shanghai Stock Exchange on the Last Trading Day;

(e) a discount of approximately 43.6% to the closing price of RMB16.68 per Dongan Share on the Shanghai Stock Exchange as at the Latest Practicable Date;

(f) a premium of approximately 227.6% over the audited net asset value per Dongan Share of approximately RMB4.13 as at 31 December 2008;

(g) a premium of approximately 215.1% over the unaudited net asset value per Dongan Share of approximately RMB4.37 as at 30 September 2009.

The price per JONHON Share as implied by the Consideration of RMB15.29 represents:

(a) 90% of the average of the daily volume-weighted average trading price of the JONHON Shares for the last 30 trading days on the Shenzhen Stock Exchange up to and including the Last Trading Day. This was the agreed basis for setting the consideration of the Acquisition;

(b) a discount of approximately 7.3% to the average of the daily volume-weighted average trading price of approximately RMB16.49 per JONHON Share on the Shenzhen Stock Exchange over the 15 trading days up to and including the Last Trading Day;

(c) a discount of approximately 9.7% to the average of the daily volume-weighted average trading price of approximately RMB16.93 per JONHON Share on the Shenzhen Stock Exchange over the 45 trading days up to and including the Last Trading Day;

(d) a discount of approximately 6.3% to the closing price of RMB16.31 per JONHON Share on the Shenzhen Stock Exchange on the Last Trading Day;

(e) a discount of approximately 22.3% to the closing price of RMB19.69 per JONHON Share on the Shenzhen Stock Exchange as at the Latest Practicable Date;

(f) a premium of approximately 429.5% over the audited net asset value per JONHON Share of approximately RMB3.56 as at 31 December 2008;

(g) a premium of approximately 396.1% over the unaudited net asset value per JONHON Share of approximately RMB3.86 as at 30 September 2009.

Both the considerations for the Disposal and the Acquisition are set with reference to 90% of the average of the daily volume-weight average trading prices of the respective shares on the PRC stock exchanges for the last 30 trading days up to and including the Last Trading Day, which according to the Directors and the Company's legal advisers is the only permissible pricing mechanism in the case of the transactions contemplated by the Equity Swap Agreement. This pricing mechanism is set out in Article 24 of "The Interim Measures for the Administration of State-owned Shareholders' Transfer of Their Shares of Listed Companies" 《國有股東轉讓所持上市公司股份管理暫行辦法》 issued by SASAC and CSRC.

8. **Evaluation of the Consideration**

	Share price RMB (A)	Basic earnings per share for 2008 RMB (B)	2008 price/ earnings ("P/E") ratio (A)/(B)
Dongan Motor			
- as at the Latest Practicable Date	16.68	0.35	47.7
- average of the daily volume-weighted average trading prices of Dongan Shares on the Shanghai Stock Exchange for the last 30 trading days up to and including the Last Trading Day (the "Average Dongan Share Price")	10.44	0.35	29.8
- as implied by the Consideration (i.e. 90% of the Average Dongan Share Price)	9.40	0.35	26.9
JONHON Optronic			
- as at the Latest Practicable Date	19.69	0.42	46.9
- average of the daily volume-weighted average trading prices of JONHON Shares on the Shenzhen Stock Exchange for the last 30 trading days up to and including the Last Trading Day (the "Average JONHON Share Price")	16.99	0.42	40.5
- as implied by the Consideration (i.e. 90% of the Average JONHON Share Price")	15.29	0.42	36.4

Note: The basic earnings per share for 2008 for Dongan Motor and JONHON Optronic are calculated based on the respective companies' financial statements prepared under PRC GAAP.

Source: Bloomberg

Since the consideration for the Disposal is determined, pursuant to the relevant PRC rules and regulations, on the basis of the Average Dongan Share Price, we have assessed it against the average of daily volume-weighted average trading prices on the PRC stock exchanges for the last 30 trading days up to and including the Last Trading Day of the following companies (the "Automobile Comparable Companies"), which were PRC A-share listed companies engaging principally in the automobile engine business that we were able to identify from the websites of Shenzhen Stock Exchange and Shanghai Stock Exchange as at the Latest Practicable Date:

Name of Automobile Comparable Companies	**Average of the daily volume-weighted average trading price of the shares for the last 30 trading days on the PRC stock exchange up to and including the Last Trading Day** *(RMB)* *(A)*	**Basic earnings per share for 2008** *(RMB)* *(B)*	**2008 P/E ratio** *(A)/(B)*
Weichai Power Co., Ltd. (stock code: 000338.CH) ("Weichai") *(Note 2)*	52.01	2.32	22.4
Kunming Yunnei Power Co., Ltd. (stock code: 000903.CH)	10.35	0.36	28.8
Jinan Diesel Engine Co., Ltd. (stock code: 000617.CH)	13.06	0.37	35.3
		Average:	***28.8***
		Median:	***28.8***
Average Dongan Share Price	***10.44***	***0.35***	***29.8***

Source: Bloomberg

Notes:

1. The above companies are all listed on the Shenzhen Stock Exchange, and the above basic earnings per share are calculated based on audited financial statements prepared under PRC GAAP.

2. The H-shares of Weichai are listed in the Stock Exchange (stock code: 2338.HK).

As illustrated above, the Automobile Comparable Companies have average and median trading P/E ratios both of approximately 28.8 times, which are close to the trading P/E ratio of Dongan Motor of approximately 29.8 times, calculated based on the Average Dongan Share Price.

Since the consideration for the Acquisition is also determined, pursuant to the relevant PRC rules and regulations, on the basis of the Average JONHON Share Price, we have assessed it against the average of the daily volume-weighted average trading prices on the PRC stock exchanges for the last 30 trading days up to and including the Last Trading Day of the following companies (the "Aviation Comparable Companies"). Listed out below were all PRC A-share listed companies engaging principally in the aviation business that we were able to identify from the websites of Shenzhen Stock Exchange and Shanghai Stock Exchange as at the Latest Practicable Date:

Name of Aviation Comparable Companies	**Average of the daily volume-weighted average trading price of the shares for the last 30 trading days on the PRC stock exchange up to and including the Last Trading Day** *(RMB)* *(A)*	**Basic earnings per share for 2008** *(RMB)* *(B)*	**2008 P/E ratio** *(A)/(B)*
China Dongfanghong Spacesat Co., Ltd. (stock code: 600118.CH)	20.42	0.50	40.8
Hafei Aviation Industry Co., Ltd. (stock code: 600038.CH)	15.92	0.29	54.5
Jiangxi Hongdu Aviation Industry Co., Ltd. (stock code: 600316.CH)	28.29	0.29	97.0
Aerospace Times Electronic Technology Co., Ltd. (stock code: 600879.CH)	10.89	0.31	35.1
Sichuan Chengfa Aero-science & Technology Co., Ltd. (stock code: 600391.CH)	22.95	0.51	45.0
Sichuan Haite High-tech Co., Ltd. (stock code: 002023.CH)	13.99	0.19	73.6
Xi'an Aircraft International Corporation (stock code: 000768.CH)	14.21	0.16	88.8
Guizhou Space Appliance Co., Ltd. (stock code: 002025.CH)	11.19	0.37	30.2
		Average:	***58.1***
		Median:	***49.7***
Average JONHON Share Price	***16.99***	***0.42***	***40.5***

Note: The above companies are all listed in the stock exchanges in the PRC, and the above basic earnings per share are calculated based on audited financial statements prepared under PRC GAAP. For the purpose of the above analysis, since the other A-share companies would not normally publish accounts prepared under IFRS, we have assessed the trading P/E ratio of JONHON Optronic, calculated based on audited financial statements prepared under PRC GAAP, against that of the Aviation Comparable Companies.

Source: Bloomberg

As illustrated above, the Aviation Comparable Companies have average and median trading P/E ratios of approximately 58.1 times and 49.7 times respectively, which are higher than the trading P/E ratio of JONHON Optronic of approximately 40.5 times, calculated based on the Average JONHON Share Price.

JONHON Optronic became the subject of the Group's target acquisition, because of its capability on developing aviation electrical products. However, since the current major sales of JONHON Optronic are made to the telecommunication sector, we have also assessed the trading P/E ratio of JONHON Optronic against the average of the daily volume-weighted average trading prices on the PRC stock exchanges for the last 30 trading days up to and including the Last Trading Day of the following companies, which were all PRC A-share listed companies engaging principally in manufacturing similar telecommunication products as JONHON Optronic ("Telecommunication Comparable Companies") that we were able to identify from the websites of Shenzhen Stock Exchange and Shanghai Stock Exchange as at the Latest Practicable Date:

Name of Telecommunication Comparable Companies	**Average of the daily volume-weighted average trading price of the shares for the last 30 trading days on the PRC stock exchange up to and including the Last Trading Day** *(RMB)* *(A)*	**Basic earnings per share for 2008** *(RMB)* *(B)*	**2008 P/E ratio** *(A)/(B)*
Wuhan Fingu Electronic Technology Co., Ltd. (stock code: 002194.CH)	17.36	0.59	29.4
Accelink Technologies Co., Ltd. (stock code: 002281.CH)	29.26	0.63	46.4
Allwin Telecommunication Company, Ltd. (stock code: 002231.CH)	15.26	0.21	72.7
Fiberhome Telecommunication Technologies Co., Ltd. (stock code: 600498.CH)	21.40	0.43	49.8
Jiangsu Zhongtian Technologies Co., Ltd. (stock code: 600522.CH)	22.35	0.54	41.4
Jiangsu Hengtong Photoelectric Stock Co., Ltd. (stock code: 600487.CH)	24.08	0.64	37.6
Shenzhen SDG Information Co., Ltd. (stock code: 000070.CH)	7.35	0.14	52.5
Sichuan Huiyuan Optical Communications Co., Ltd. (stock code: 000586.CH)	6.78	(0.62)	N/A
Zhejiang East Crystal Electronic Co., Ltd. (stock code: 002199.CH)	16.41	0.27	60.8
		Average:	***48.8***
		Median:	***48.1***
Average JONHON Share Price	***16.99***	***0.42***	***40.5***

Note: The above companies are all listed in the stock exchanges in the PRC, and the above basic earnings per share are calculated based on audited financial statements prepared under PRC GAAP. For the purpose of the above analysis, since the other A-share companies would not normally publish accounts prepared under IFRS, we have assessed the trading P/E ratio of JONHON Optronic, calculated based on audited financial statements prepared under PRC GAAP, against that of the Telecommunication Comparable Companies.

Source: Bloomberg

The Telecommunication Comparable Companies have average and median trading P/E ratios of approximately 48.8 times and 48.1 times respectively, which are higher than the trading P/E ratio of JONHON Optronic of approximately 40.5 times, calculated based on the Average JONHON Share Price.

The Automobile Comparable Companies have average and median trading P/E ratios close to the trading P/E ratio of Dongan Motor, calculated based on the Average Dongan Share Price, while the Aviation Comparable Companies and the Telecommunication Comparable Companies have average and median trading P/E ratios higher than the trading P/E ratio of JONHON Optronic, calculated based on the Average JONHON Share Price. Based on the above, we consider that the considerations for the disposal of Dongan Motor and the acquisition of JONHON Optronic are fair and reasonable to the Company and the Independent Shareholders.

9. **Financial effects on the Group**

(i) ***Earnings and asset value***

Following Completion, Dongan Motor and Dongan Mitsubishi would no longer be subsidiaries of the Company. The Company would no longer have any equity interest in Dongan Motor, and would only hold an approximately 15% equity interest in Dongan Mitsubishi. Accordingly, the operating results and financial positions of Dongan Motor and Dongan Mitsubishi would no longer be consolidated into the financial statements of the Group and it is expected that there would be a substantial decrease in turnover of the Group following Completion. On the other hand, the operating results and financial positions of JONHON Optronic would be consolidated into the financial statements of the Group upon Completion.

It is expected that there will be a gain derived from the Disposal, which represents the difference between the aggregate of the market value of 43.34% equity interest in JONHON Optronic and the Balance of approximately RMB593.6 million, and the carrying value of 54.51% equity interest in Dongan Motor. The exact amount of the gain would be calculated on the basis of the relevant figures as at the date of Completion prepared under IFRS. Such gain on Disposal would not be included in the consolidated income statement of the Group, but would be credited to reserve.

The Group may be subject to tax payment, estimated to amount to approximately RMB335 million (please refer to note 4(a)(ii) to the unaudited pro forma consolidated statement of assets and liabilities of the Group as contained in Appendix III to the Circular) if the PRC tax authority determines that a gain from the Disposal should be calculated by reference to the consideration for the Disposal and Dongan Motor's original cost to the Group. Based on the communication with the PRC tax authority and the fact that both Dongan Motor and JONHON Optronic are under the common control of AVIC, the Company is of the view that there is a ground to apply for a waiver from making such tax payment. However, the possibility of such tax payment cannot be ascertained as at the Latest Practicable Date.

Since Dongan Motor and JONHON Optronic are both under the control of AVIC, merger accounting would therefore be applied, and the Disposal and the Acquisition would be accounted for at their respective book values. Upon Completion and after taking into account the above-mentioned gain from Disposal and potential tax payment, it is expected that there will be a net reduction in the net assets attributable to Shareholders, as the aggregate amount of (i) the 43.34% net book value of JONHON Optronic acquired and (ii) the cash consideration to be received by the Group from AVIC for the Disposal, is expected to be less than the net book value attributable to a 54.51% interest in Dongan Motor which is subject to the Disposal. The difference will be accounted for as a debit to equity and therefore, there would be no impact on the income statement of the Group. The exact amount of the net reduction in net assets attributable to Shareholders would be calculated on the basis of the relevant figures as at the date of Completion prepared under IFRS. In view of the Group's stated strategy to dispose of its automobile business, and the better business prospect and profitability of JONHON Optronic, such reduction in the Group's net assets attributable to Shareholders is considered acceptable.

According to the unaudited pro forma consolidated statement of assets and liabilities of the Group as contained in Appendix III to the Circular, upon completion of the Equity Swap Agreement, there would be a significant reduction by approximately RMB3.0 billion in net assets of the Group, which include net assets attributable to minority shareholders and shareholders of the Company. As confirmed by the Company, such reduction is principally attributable to the reduction in net assets attributable to minority interests, which arose largely as a result of the de-consolidation of Dongan Motor and Dongan Mitsubishi.

(ii) ***Gearing***

The net cash position (defined as cash and bank deposits net of borrowings) of Dongan Motor was approximately RMB28.4 million as at 30 September 2009, which was lower than JONHON Optronic's net cash position of approximately RMB148.5 million. Accordingly, the gearing ratio of the Group is expected to be lower following Completion.

(iii) ***Working capital***

Following Completion, the Balance of approximately RMB593.6 million would be paid by AVIC to the Group, which would be applied by the Group as general working capital.

As at 30 September 2009, the cash and bank deposits of Dongan Motor and JONHON Optronic were approximately RMB588.4 million and RMB560.1 million respectively. The cash and bank balance of the Group would therefore be slightly decreased following the de-consolidation of Dongan Motor and consolidation of JONHON Optronic upon Completion.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Equity Swap Agreement is on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider the entering into of the Equity Swap Agreement is in the interests of the Company and its Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve, among others, the entering into of the Equity Swap Agreement.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Sylvia Leung
Director

1. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The PRC aviation manufacturing industry is encountering historical opportunity, the market demand is extremely broad. According to the overseas forecast for the PRC aerial transportation in the next 20 years, the total volume of the PRC aerial transportation will achieve an increase of above 7% per year, which will be the world's biggest aviation market apart from the United States. The Board is of the view that, through the transactions contemplated under the Equity Swap Agreement, the Group will be able to dispose of vehicle engine business. In the future, the Group will focus on the aviation business, and will, with the support by the controlling shareholder through its strong capability in the aviation industry, endeavor to become a flagship company in the PRC civil aviation products manufacturing industry.

2. SUMMARY FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the three years ended 31 December 2006, 2007 and 2008, as extracted from the relevant annual reports of the Company which are not subject to any qualified opinion.

CONSOLIDATED INCOME STATMENTS
For the years ended 31 December

	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*
Revenue	16,384,884	16,540,645	17,110,508
Cost of sales	(14,818,736)	(14,780,935)	(15,204,907)
Gross profit	1,566,148	1,759,710	1,905,601
Other income	105,915	113,796	98,411
Other gains, net	22,498	99,082	37,767
Selling and distribution expenses	(872,292)	(980,648)	(1,156,994)
General and administrative expenses	(1,216,235)	(1,049,823)	(1,103,119)
Other operating expenses	—	(466,112)	(105,954)
Operating loss	(393,966)	(523,995)	(324,288)
Finance income	79,280	57,966	78,256
Finance costs	(447,281)	(387,391)	(272,282)
Finance costs, net	(368,001)	(329,425)	(194,026)
Share of results of associates	40,068	56,711	45,051
Loss before income tax	(721,899)	(796,709)	(473,263)
Income tax expense	(188,596)	(51,635)	(13,399)
Loss for the year	(910,495)	(848,344)	(486,662)
Attributable to:			
Equity holders of the Company	(1,156,611)	(1,026,226)	(331,079)
Minority interests	246,116	177,882	(155,583)
	(910,495)	(848,334)	(486,662)
Loss per share for loss attributable to equity holders of the Company during the year	*RMB*	*RMB*	*RMB*
— Basic and diluted	(0.249)	(0.221)	(0.071)

CONSOLIDATED BALANCE SHEETS

As at 31 December

	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	6,897,248	7,325,989	9,049,538
Land use rights	151,307	81,375	96,331
Intangible assets	240,120	331,614	450,654
Interests in subsidiaries	—	—	—
Interests in associates	329,969	297,921	247,967
Available-for-sale financial assets	230,379	587,417	131,247
Deferred income tax assets	97,603	126,241	75,305
	7,946,626	8,750,557	10,051,042
Current assets			
Accounts receivable	3,759,684	3,237,673	3,716,924
Advances to suppliers	314,736	519,014	628,383
Other receivables and prepayments	1,170,638	1,203,537	708,218
Inventories	5,120,762	5,277,527	4,804,913
Financial assets at fair value through profit or loss	11,488	7,414	—
Pledged deposits	536,605	638,350	694,391
Term deposits with initial term of over three months	1,259,962	691,820	1,051,128
Cash and cash equivalents	2,324,130	2,452,706	3,155,527
	14,498,005	14,028,041	14,759,484
Total assets	22,444,631	22,778,598	24,810,526

	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	4,643,609	4,643,609	4,643,609
Reserves	(2,310,956)	(1,155,536)	(314,710)
	2,332,653	3,488,073	4,328,899
Minority interests	3,240,885	3,170,322	3,793,213
Total equity	5,573,538	6,658,395	8,122,112
LIABILITIES			
Non-current liabilities			
Long-term borrowings	934,191	1,111,540	836,704
Deferred income from government grants	135,491	149,886	157,002
Deferred income tax liabilities	36,816	156,332	35,872
	1,106,498	1,417,758	1,029,578
Current liabilities			
Accounts payable	7,218,591	6,761,213	7,037,244
Advances from customers	688,750	884,568	460,470
Other payables and accruals	1,364,177	1,324,343	1,667,884
Amounts payable to ultimate holding company	520,524	520,524	520,524
Provisions	205,128	174,431	103,284
Current portion of long-term borrowings	728,000	650,457	433,695
Short-term borrowings	4,910,404	4,312,163	5,401,598
Current income tax liabilities	129,021	74,746	34,137
	15,764,595	14,702,445	15,658,836
Total liabilities	16,871,093	16,120,203	16,688,414
Total equity and liabilities	22,444,631	22,778,598	24,810,526

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2008

The following are the audited consolidated financial statements of the Group prepared under HKFRS for the year ended 31 December 2008 which are extracted from the annual report of the Company for the year ended 31 December 2008.

Consolidated Income Statement
For the year ended 31st December 2008

	Note	**2008** *RMB'000*	**2007** *RMB'000*
Revenue	5	16,384,884	16,540,645
Cost of sales		(14,818,736)	(14,780,935)
Gross profit		1,566,148	1,759,710
Other income	6	105,915	113,796
Other gains, net	7	22,498	99,082
Selling and distribution expenses		(872,292)	(980,648)
General and administrative expenses		(1,216,235)	(1,049,823)
Other operating expenses		—	(466,112)
Operating loss		(393,966)	(523,995)
Finance income	9	79,280	57,966
Finance costs	9	(447,281)	(387,391)
Finance costs, net		(368,001)	(329,425)
Share of results of associates	19	40,068	56,711
Loss before income tax		(721,899)	(796,709)
Income tax expense	10	(188,596)	(51,635)
Loss for the year		(910,495)	(848,344)
Attributable to:			
Equity holders of the Company	11	(1,156,611)	(1,026,226)
Minority interests		246,116	177,882
		(910,495)	(848,344)
Loss per share for loss attributable to equity holders of the Company during the year		*RMB*	*RMB*
— Basic and diluted	12	(0.249)	(0.221)

Balance Sheets
As at 31st December 2008

		Group		Company	
	Note	**2008**	**2007**	**2008**	**2007**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	15	6,897,248	7,325,989	6,788	7,413
Land use rights	16	151,307	81,375	—	—
Intangible assets	17	240,120	331,614	—	—
Interests in subsidiaries	18	—	—	3,506,886	3,544,134
Interests in associates	19	329,969	297,921	30,000	30,000
Available-for-sale financial assets	20	230,379	587,417	—	—
Deferred income tax assets	21	97,603	126,241	—	—
		7,946,626	8,750,557	3,543,674	3,581,547
Current assets					
Accounts receivable	22	3,759,684	3,237,673	—	—
Advances to suppliers	23	314,736	519,014	—	—
Other receivables and prepayments	24	1,170,638	1,203,537	193,017	151,358
Inventories	25	5,120,762	5,277,527	—	—
Financial assets at fair value through profit or loss		11,488	7,414	—	—
Pledged deposits	27	536,605	638,350	—	—
Term deposits with initial term of over three months	28	1,259,962	691,820	687,638	661,820
Cash and cash equivalents	37(d)	2,324,130	2,452,706	232,026	143,266
		14,498,005	14,028,041	1,112,681	956,444
Total assets		22,444,631	22,778,598	4,656,355	4,537,991

	Note	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	35	4,643,609	4,643,609	4,643,609	4,643,609
Reserves	36	(2,310,956)	(1,155,536)	(482,323)	(601,370)
		2,332,653	3,488,073	4,161,286	4,042,239
Minority interests		3,240,885	3,170,322	—	—
Total equity		5,573,538	6,658,395	4,161,286	4,042,239
LIABILITIES					
Non-current liabilities					
Long-term borrowings	34	934,191	1,111,540	—	—
Deferred income from government grants		135,491	149,886	—	—
Deferred income tax liabilities	21	36,816	156,332	—	—
		1,106,498	1,417,758	—	—
Current liabilities					
Accounts payable	29	7,218,591	6,761,213	—	—
Advances from customers	30	688,750	884,568	—	—
Other payables and accruals	31	1,364,177	1,324,343	30,771	31,454
Amounts payable to ultimate holding company	32	520,524	520,524	464,298	464,298
Provisions	33	205,128	174,431	—	—
Current portion of long-term borrowings	34	728,000	650,457	—	—
Short-term borrowings	34	4,910,404	4,312,163	—	—
Current income tax liabilities		129,021	74,746	—	—
		15,764,595	14,702,445	495,069	495,752
Total liabilities		16,871,093	16,120,203	495,069	495,752
Total equity and liabilities		22,444,631	22,778,598	4,656,355	4,537,991
Net current (liabilities)/ assets		(1,266,590)	(674,404)	617,612	460,692
Total assets less current liabilities		6,680,036	8,076,153	4,161,286	4,042,239

Consolidated Statement of Changes in Equity

For the year ended 31st December 2008

	Attributable to equity holders of the Company							
	Share capital	**Capital reserve**	**Available-for-sale financial assets reserve**	**Statutory surplus reserve**	**Accumulated losses**	**Subtotal**	**Minority interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 35)	*(Note 36(b))*		*(Note 36(c))*	*(Note 36(d))*			
For the year ended 31st December 2008								
Balance at 1st January 2008	4,643,609	77,475	185,510	31,178	(1,449,699)	3,488,073	3,170,322	6,658,395
Gain on disposal of certain interests in a subsidiary(note 36(e))	—	140,332	—	—	—	140,332	12,616	152,948
Change in fair value of available-for-sale financial assets								
- gross	—	—	(177,358)	—	—	(177,358)	(143,419)	(320,777)
- deferred taxation	—	—	49,845	—	—	49,845	40,307	90,152
Realisation of gain on available-for-sale financial assets in income statement upon disposal								
- gross	—	—	(19,433)	—	—	(19,433)	(15,715)	(35,148)
- deferred taxation	—	—	8,232	—	—	8,232	6,295	14,527
Others	—	(427)	—	—	—	(427)	(346)	(773)
Net income/(expense) recognised directly in equity	—	139,905	(138,714)	—	—	1,191	(100,262)	(99,071)
(Loss)/profit for the year	—	—	—	—	(1,156,611)	(1,156,611)	246,116	(910,495)
Total recognised income/ (expense) for the year	—	139,905	(138,714)	—	(1,156,611)	(1,155,420)	145,854	(1,009,566)
Purchase of additional interests in a subsidiary	—	—	—	—	—	—	(11)	(11)
Disposal of certain interests in subsidiaries	—	—	—	—	—	—	13,930	13,930
Dividend to minority shareholders of subsidiaries	—	—	—	—	—	—	(89,210)	(89,210)
Balance at 31st December 2008	4,643,609	217,380	46,796	31,178	(2,606,310)	2,332,653	3,240,885	5,573,538

	Attributable to equity holders of the Company							
	Share capital	**Capital reserve**	**Available-for-sale financial assets reserve**	**Statutory surplus reserve**	**Accumulated losses**	**Subtotal**	**Minority interests**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 35)	*(Note 36(b))*		*(Note 36(c))*	*(Note 36(d))*			
For the year ended 31st December 2007								
Balance at 1st January 2007	4,643,609	77,585	—	26,712	(419,007)	4,328,899	3,793,213	8,122,112
Transfer to statutory reserve	—	—	—	4,466	(4,466)	—	—	—
Change in fair value of available-for-sale financial assets								
- gross	—	—	251,845	—	—	251,845	203,653	455,498
- deferred taxation	—	—	(66,335)	—	—	(66,335)	(53,280)	(119,615)
Others	—	(110)	—	—	—	(110)	(2,281)	(2,391)
Net (expense)/income recognised directly in equity	—	(110)	185,510	4,466	(4,466)	185,400	148,092	333,492
(Loss)/profit for the year	—	—	—	—	(1,026,226)	(1,026,226)	177,882	(848,344)
Total recognised (expense) /income for the year	—	(110)	185,510	4,466	(1,030,692)	(840,826)	325,974	(514,852)
Contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	2,000	2,000
Purchase of additional interests in a subsidiary	—	—	—	—	—	—	(2,909)	(2,909)
Disposal of certain interests in subsidiaries	—	—	—	—	—	—	14,973	14,973
Disposal of a subsidiary	—	—	—	—	—	—	(2,203)	(2,203)
Dividend to minority shareholders of subsidiaries	—	—	—	—	—	—	(37,230)	(37,230)
Effect on proportionate consolidation of a jointly controlled entity (Note 3(a)(iii))	—	—	—	—	—	—	(923,496)	(923,496)
Balance at 31st December 2007	4,643,609	77,475	185,510	31,178	(1,449,699)	3,488,073	3,170,322	6,658,395

Consolidated Cash Flow Statement

For the year ended 31st December 2008

	Note	**2008** *RMB'000*	**2007** *RMB'000*
Cash flows from operating activities			
Net cash generated from operations	37(a)	1,032,394	503,390
Interest received		79,280	57,966
Interest paid		(427,238)	(398,171)
Enterprise income tax paid		(120,520)	(65,911)
Net cash generated from operating activities		563,916	97,274
Cash flows from investing activities			
Purchase of property, plant and equipment		(769,579)	(894,643)
Purchase of land use rights		(79,644)	—
Payments for intangible assets		(1,201)	(6,392)
Addition of available-for-sale financial assets		(14,000)	—
Disposal of available-for-sale financial assets		55,381	380
Decrease in pledged deposits		101,745	56,041
(Increase)/decrease in term deposits with initial term of over three months		(568,142)	359,308
Proceeds from sale of property, plant and equipment	37(b)	1,852	14,819
Net cash outflow from disposal of a subsidiary	37(c)	—	(1,559)
Effect on proportionate consolidation of a jointly controlled entity (Note 3(a)(iii))		—	(136,257)
Proceeds from disposal of certain interests in subsidiaries		166,878	47,413
Additional investments in associates		(42,631)	(30,000)
Disposal of interests in associates		7,750	99
Dividends received from associates		39,539	33,256
Dividends received from available-for-sale financial assets		2,428	4,870
Purchase of additional interests in a subsidiary		(11)	(2,909)
Net cash used in investing activities		(1,099,635)	(555,574)
Cash flows from financing activities			
Proceeds from borrowings		5,399,750	7,896,298
Repayments of borrowings		(4,911,193)	(8,077,298)
Contributions from minority shareholders of subsidiaries		—	2,000
Dividend paid to minority shareholders of subsidiaries		(81,414)	(37,451)
Dividend paid to holding company		—	(28,070)
Net cash generated from/(used in) financing activities		407,143	(244,521)
Net decrease in cash and cash equivalents		(128,576)	(702,821)
Cash and cash equivalents at 1st January		2,452,706	3,155,527
Cash and cash equivalents at 31st December	37(d)	2,324,130	2,452,706

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 30th April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation (the "Reorganisation") of China Aviation Industry Corporation II ("AVIC II"). The Company's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30th October 2003.

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

The Company's directors regard AVIC II, a company established in the PRC, as being the ultimate holding company of the Company, up to 6th November 2008 when AVIC II merged with China Aviation Industry Corporation I to form China Aviation Industry Group Corporation ("AVIC Group") which then became the Company's ultimate holding company. AVIC Group, AVIC I and AVIC II are all state-owned enterprises under control of the State Council of the PRC government.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated, and have been approved for issue by the Board of Directors on 9th April 2009.

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 at fair value through profit or loss, as appropriate.

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

In preparing these financial statements, the directors have taken into account all information that could reasonably be expected to be available including the proposed transactions as disclosed in note 42 and have ascertained that the Group has obtained adequate financial resources to support the Group to continue in operational existence for the foreseeable future. Under these circumstances, the directors consider that it is proper to prepare the financial statements on a going concern basis notwithstanding that at 31st December 2008, the Group's current liabilities exceeded its current assets by RMB 1,266,590,000.

(a) **Amendments and interpretations effective in 2008**

IAS 39 and IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC Int 11	IFRS 2 - Group and Treasury Share Transactions
IFRIC Int 12	Service Concession Arrangements
IFRIC Int 14	IFRS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirement and Their Interaction

The adoption of these amendments and interpretations to the standards does not have any significant impact to the results and financial position of the Group.

(b) **Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group**

IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 1st January 2009)
IFRS 1 and IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for annual periods beginning on or after 1st January 2009)
IFRS 2 (Amendment)	Share-based Payment - Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1st January 2009)
IFRS 3 (Revised)	Business Combinations (effective for annual periods beginning on or after 1st July 2009)
IFRS 7 (Amendments)	Improving Disclosures about Financial Instruments (effective for annual periods beginning on or after 1st January 2009)
IFRS 8	Operating Segments (effective for annual periods beginning on or after 1st January 2009)
IAS 1 (Revised)	Presentation of Financial Statements (effective for annual periods beginning on or after 1st January 2009)
IAS 23 (Revised)	Borrowing Costs (effective for annual periods beginning on or after 1st January 2009)
IAS 27 (Revised)	Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1st July 2009)
IAS 32 and IAS 1 (Amendments)	Puttable Financial Instruments and Obligations arising on Liquidation (effective for annual periods beginning on or after 1st January 2009)
IAS 39 (Amendment)	Eligible Hedged Items (effective for annual periods beginning on or after 1st July 2009)

IFRIC Int 9 and IAS 39 (Amendments)	Embedded Derivatives (effective for annual periods ending on or after 30th June 2009)
IFRIC Int 13	Customer Loyalty Programmes (effective for annual periods beginning on or after 1st July 2008)
IFRIC Int 15	Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1st January 2009)
IFRIC Int 16	Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1st October 2008)
IFRIC Int 17	Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1st July 2009)
IFRIC Int 18	Transfers of Assets from Customers (effective for transfers of assets from customers received on or after 1st July 2009)

The effect that the adoption of IFRS 3 (Revised), IAS 27 (Revised) and IFRIC Int 17 will have on the results and financial position of the Group will depend on the incidence and timing of transactions within the scope of these standards and interpretation occurring on or after 1st January 2010. The effect of adoption of IFRS 8 will result in certain presentational changes in the Group's financial statements. The directors anticipate that the adoption of other new standards, amendments and interpretations to standards will not result in a significant impact on the results and financial position of the Group.

In addition, the International Accounting Standards Board also published a number of amendments for the existing standards under its annual improvement project. These amendments are not expected to have a significant financial impact on the results and financial position of the Group.

3 PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

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

(i) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, including any contingent liabilities assumed, the difference is recognised directly in the consolidated income statement.

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

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

(ii) ***Transactions and minority interests***

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

(iii) ***Jointly 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.

The Group's interest in a jointly controlled entity is accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entity's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the Group's purchase of assets from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. As a result of a change in management roles and responsibilities in Jiangxi Changhe Suzuki Automobile Co., Ltd. ("JCSA"), a former subsidiary indirectly held by the Group, the directors of the Company consider that the Group no longer controls JCSA as a subsidiary and therefore have reclassified JCSA as a jointly controlled entity of the Group during the year ended 31st December 2007 and accounted for JCSA using proportionate consolidation from the date when the Group's control over JCSA ceased.

Certain of the Group's activities are conducted through joint ventures where the venturers have a direct ownership interest in and jointly control the assets of the venture. The income, expenses, assets and liabilities of these jointly controlled assets are included in the consolidated financial statements in proportion to the Group's interest.

(iv) ***Associates***

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

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

(b) **Property, plant and equipment**

Property, plant and equipment 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.

(b) **Property, plant and equipment**

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	5-12years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. During the year, the directors reassessed the estimate useful lives of certain plant and equipment in the Group mainly in relation to its automobile segment, after taking into account the current business environment, market conditions and the expected pattern of economic benefits from the respective assets, and revised their accounting estimates accordingly. The revised accounting estimates on depreciation are within the range of the Group as shown above. The aggregate effect of the changes is that the depreciation charge and the Group's loss for the year has been increased by RMB 212,620,000.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3 (f)).

Gains and losses on disposals are determined by comparing net 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.

(d) **Land use rights**

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 30 to 50 years.

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

(e) **Intangible assets**

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

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

Technology know-how is initially recognised at cost. Technology know-how that has a definite useful life is carried at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost of technology know-how over their estimated useful lives of 6 years.

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

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

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

(g) **Financial assets**

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

(i) ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables include accounts and other receivables.

(iii) ***Held-to-maturity investments***

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

(iv) ***Available-for-sale financial assets***

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

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

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

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

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

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

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

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

(h) **Inventories**

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

(i) **Contracts in progress**

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

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

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

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

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

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

(j) **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.

(k) **Cash and cash equivalents**

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

(l) **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.

(m) **Borrowings**

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

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

(n) **Borrowing costs**

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

(o) **Current and deferred income tax**

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

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

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

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

(p) **Employee benefits**

(i) ***Pension obligations***

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

(ii) ***Early retirement benefits***

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

(iii) ***Housing benefits***

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

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

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

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

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

(q) **Provisions**

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

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

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

(r) **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.

(s) **Financial guarantee contract liabilities**

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of (i) the amount initially recognised less, where appropriate, cumulative amortisation recognised in the income statement over the period of the relevant liabilities and (ii) the amount of which the Group is obliged to reimburse the recipient under the financial guarantee contracts.

(t) **Foreign currency translation**

(i) ***Functional and presentation currency***

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

(ii) ***Transactions and balances***

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

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

(iii) ***Group companies***

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

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

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

(c) all resulting exchange differences are recognised as a separate component of equity.

(u) **Revenue recognition**

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

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

Turnover represents revenues recognised on sales of automobiles and aviation products. Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

The Group combines its proportionate share of the jointly controlled entity's turnover as described in Note 3(a)(iii) with similar recognition policies mentioned above.

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

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

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

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

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

(v) **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.

(w) **Dividend distribution**

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

(x) **Derivative financial instruments**

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

(y) **Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(i) **Depreciation and amortisation**

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

(ii) **Development costs**

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

(iii) **Impairment of non-financial assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount in accordance with the accounting policy stated in Note 3(f). The recoverable amount of an asset or a cash-generating unit is determined based on the higher of its fair value less costs to sell and value-in-use. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates.

(iv) **Impairment of account and other receivables**

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

(v) **Inventories**

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

(vi) **Revenue recognition**

The Group uses the percentage of completion method in accounting for its contract revenues. Use of the percentage of completion method requires the Group to estimate the contract costs incurred up to the balance sheet date as a proportion of the total estimated cost for each contract. 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. Management is confident that the actual outcome will not materially differ from the estimates made at the balance sheet date.

(vii) **Income taxes**

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

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(viii) **Provisions**

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

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

5 SEGMENT INFORMATION

The Group is principally engaged in the manufacturing, assembly, sales and servicing of civilian aircrafts and automobiles . In accordance with the Group's internal financial reporting system, the Group has determined business segments be presented as the primary reporting format.

(a) **Primary reporting format - business segments**

The Group is organised into two main business segments:

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

- Automobiles - manufacturing, assembly, sales and servicing of automobiles.

All segment revenues were made to external parties.

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

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

Primary reporting format - business segments

	As at and for the year ended 31st December 2008		
	Aviation	**Automobiles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Operating results			
Segment revenue	4,596,140	11,788,744	16,384,884
Segment results	248,542	(633,359)	(384,817)
Unallocated income			17,304
Unallocated costs			(26,453)
Operating loss			(393,966)
Finance costs, net	(88,377)	(279,624)	(368,001)
Share of results of associates	38,420	1,648	40,068
Loss before income tax			(721,899)
Income tax expense			(188,596)
Loss for the year			(910,495)
Assets			
Segment assets	8,809,718	12,266,867	21,076,585
Interests in associates	302,750	27,219	329,969
Unallocated assets			1,038,077
Total assets			22,444,631
Liabilities			
Segment liabilities	3,751,898	6,014,716	9,766,614
Borrowings	2,487,991	4,084,604	6,572,595
Unallocated liabilities			531,884
Total liabilities			16,871,093
Other segment information			
Capital expenditures	177,278	868,458	1,045,736
Depreciation	104,042	1,173,456	1,277,498
Amortisation	2,270	66,268	68,538
Provision/(reversal of provision) for impairments	23,989	(6,370)	17,619
Write-off of intangible assets	—	33,869	33,869

	As at and for the year ended 31st December 2007		
	Aviation	**Automobiles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Operating results			
Segment revenue	5,327,408	11,213,237	16,540,645
Segment results	306,241	(852,840)	(546,599)
Unallocated income			48,745
Unallocated costs			(26,141)
Operating loss			(523,995)
Finance costs, net	(73,707)	(255,718)	(329,425)
Share of results of associates	53,389	3,322	56,711
Loss before income tax			(796,709)
Income tax expense			(51,635)
Loss for the year			(848,344)
Assets			
Segment assets	8,855,603	12,812,702	21,668,305
Interests in associates	240,552	57,369	297,921
Unallocated assets			812,372
Total assets			22,778,598
Liabilities			
Segment liabilities	3,888,127	5,505,832	9,393,959
Borrowings	2,080,340	3,993,820	6,074,160
Unallocated liabilities			652,084
Total liabilities			16,120,203
Other segment information			
Capital expenditures	217,461	702,851	920,312
Depreciation	89,145	936,147	1,025,292
Amortisation	2,309	62,795	65,104
Provision for impairments	24,549	359,772	384,321
Write-off of intangible assets	—	83,117	83,117

(b) **Secondary reporting format - geographical segments**

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

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

6 OTHER INCOME

	2008	2007
	RMB'000	*RMB'000*
Profit from sale of scrap materials	24,592	22,312
Income from government grants	69,050	70,000
Refund of value-added tax and real estate tax	1,829	3,683
Rental income from plant and equipment	6,578	1,074
Income from rendering of other services	1,438	11,857
Dividend income from available-for-sale financial assets	2,428	4,870
	105,915	113,796

7 OTHER GAINS, NET

	2008	2007
	RMB'000	*RMB'000*
Amortisation of deferred income relating to government grants	17,755	33,161
Fair value (loss)/gain on financial assets at fair value through profit or loss	(1,991)	338
(Loss)/gain on disposal of		
— Property, plant and equipment	(9,082)	16,838
— Certain interests in subsidiaries	—	32,440
— Associates	794	—
— Available-for-sale financial assets	36,112	—
— Financial assets at fair value through profit or loss	(21,090)	16,305
	22,498	99,082

8 EXPENSES BY NATURE

	2008	2007
	RMB'000	*RMB'000*
Advertising costs	192,474	171,949
Amortisation of		
— Intangible assets (Note 17)	58,826	58,875
— Land use rights (Note 16)	9,712	6,229
Auditors' remuneration	7,650	7,190
Changes in inventories of finished goods and work-in-progress	394,442	(424,184)
Contract costs incurred	2,282,697	2,726,946
Depreciation on property, plant and equipment (Note 15)	1,277,498	1,025,292
Fuel	324,273	395,295
Insurance	16,725	19,334
Operating lease rentals		
— Land and buildings	45,985	45,548
— Property, plant and equipment	—	216
Provision/(reversal of provision) for impairment		
— Available-for-sale financial assets	—	(1,326)
— Intangible assets (Note 17)	—	5,958
— Inventories	7,914	121,875
— Property, plant and equipment (Note 15)	—	243,421
— Receivables	9,705	13,067
Raw materials and consumables used	9,573,180	10,047,509
Repairs and maintenance expense	174,663	229,257
Research expenditures and development costs	235,794	244,539
Staff costs, including directors' emoluments (Note 13)	1,090,027	945,478
Sub-contracting charges	216,271	218,664
Sundries	413,815	392,157
Transportation expenses	351,827	400,887
Travelling	48,077	53,322
Warranty expenses (Note 33)	141,839	246,903
Write-off of intangible assets (Note 17)	33,869	83,117
Total cost of sales, selling and distribution expenses, general and administrative expenses, and other operating expenses	16,907,263	17,277,518

9 FINANCE COSTS, NET

	2008	2007
	RMB'000	*RMB'000*
Finance income:		
Interest income on bank balances and deposits	79,280	57,966
Finance costs:		
Interest expense on bank borrowings		
— Wholly repayable within 5 years	414,736	381,010
— Not wholly repayable within 5 years	22,193	17,054
Interest expense on other borrowings		
— Not wholly repayable within 5 years	186	107
	437,115	398,171
Less: Amount capitalised in property, plant and equipment	(24,646)	(26,111)
(note) Government interest subsidies	—	(33,245)
	412,469	338,815
Exchange (gains)/losses	(15,913)	35,183
Other finance costs	50,725	13,393
	447,281	387,391
	368,001	329,425

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

	2008	2007
Interest rates per annum at which finance costs were capitalised	6.89%-7.47%	5.49% -6.57%

10 INCOME TAX EXPENSE

	2008	2007
	RMB'000	*RMB'000*
PRC enterprise income tax	174,795	106,520
Deferred income taxes	13,801	(54,885)
	188,596	51,635

Notes:

(a) Except for certain subsidiaries which are taxed at a transitional preferential rate of 18% (2007: preferential rates from 7.5% to 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% on the assessable income of the Group (2007: 33%).

(b) The reconciliation between the Group's actual tax charge and the amount which is calculated based on the statutory tax rate of 25% (2007: 33%) in the PRC is as follows:

	2008	2007
	RMB'000	*RMB'000*
Loss before income tax	(721,899)	(796,709)
Tax calculated at the statutory tax rate of 25% (2007: 33%)	(180,475)	(262,914)
Preferential tax rates on the income of certain subsidiaries	(87,148)	(214,523)
Non-taxable income	(90,721)	(61,811)
Expenses not deductible for tax purposes	142,347	124,669
Tax losses for which no deferred income tax asset was recognised	330,763	483,181
Utilisation of previously unrecognised tax losses	—	(6,769)
Effect of changes in future tax rates	(10,628)	(18,297)
Write-off of previously recognised deferred tax assets	84,144	15,347
Others	314	(7,248)
Tax charge	188,596	51,635

(c) Share of taxation attributable to associates for the year ended 31st December 2008 is RMB 11,148,000 (2007: RMB 4,686,000).

11 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a profit of RMB 119,047,000 (2007: a loss of RMB 462,588,000).

12 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the Company of RMB 1,156,611,000 (2007: RMB 1,026,226,000) and based on the weighted average number of 4,643,608,500 (2007: 4,643,608,500) shares in issue during the year.

There was no dilution effect on the basic loss per share for the years ended 31st December 2008 and 2007 as there were no potential dilutive shares outstanding during the years ended 31st December 2008 and 2007.

13 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2008	**2007**
	RMB'000	*RMB'000*
Wages, salaries and bonuses	689,186	605,951
Housing benefits	64,268	62,626
Contributions to pension plans	174,729	160,080
Welfare and other expenses	161,844	116,821
	1,090,027	945,478

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

(a) Directors' emoluments

The emoluments of each of the directors of the Company for the years ended 31st December 2008 and 2007 are set out below.

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

Notes:

(i) Resigned on 16th October 2008.

(ii) Appointed on 16th October 2008.

Name of director	Year ended 31st December 2007 Fees	Basic salaries, housing allowance, other allowances and benefits in kind	Bonuses	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Zhang Hongbiao	—	180	—	—	180
Wu Xiandong	—	160	—	—	160
Tan Ruisong	—	160	—	—	160
Non-executive directors					
Liang Zhenhe	120	—	—	—	120
Song Jingang	120	—	—	—	120
Tian Min	120	—	—	—	120
Chen Huaiqiu	120	—	—	—	120
Wang Bin	120	—	—	—	120
Wang Yong	35	—	—	—	35
Maurice Savart	—	—	—	—	—
Independent non-executive directors					
Lau Chungman	119	—	—	—	119
Guo Chongqing	60	—	—	—	60
Li Xianzong	60	—	—	—	60
	874	500	—	—	1,374

(b) **Supervisors' emoluments**

The emoluments of each of the supervisors of the Company for the years ended 31st December 2008 and 2007 are set out below.

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

Notes:

(i) Resigned on 16th October 2008.

(ii) Appointed on 16th October 2008.

(iii) Resigned on 25th August 2008.

(iv) Appointed on 25th August 2008.

	Year ended 31st December 2007				
Name of supervisor	**Fees**	**Basic salaries, housing allowance, other allowances and benefits in kind**	**Bonuses**	**Employer's contributions to retirement schemes**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Supervisors					
Tang Jianguo	160	—	—	—	160
Wang Shouxin	120	—	—	—	120
Li Shentian	120	—	—	—	120
Bai Ping	120	—	—	—	120
Han Xiaoyang	120	—	—	—	120
Li Deqing	25	—	—	—	25
Yu Yan	—	—	—	—	—
Independent supervisors					
Zheng Li	35	—	—	—	35
Xie Zhihua	35	—	—	—	35
	735	—	—	—	735

(c) **Five highest paid individuals**

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

	Number of individuals	
	2008	**2007**
In the capacity as:		
Director	3	3
Supervisor	—	1
Senior management	2	1
	5	5

The five individuals whose emoluments were highest in the Group for the year included three (2007: four) directors/supervisors whose emoluments are reflected in the analyses presented above. The emoluments payable to the remaining two (2007: one) individuals during the years ended 31st December 2008 and 2007 are as follows:

	2008	2007
	RMB'000	*RMB'000*
Basic salaries, housing allowance, other allowances and benefits in kind	280	140
Contributions to retirement schemes	—	—
	280	140

The emoluments fell within the following band:

	Number of individuals	
	2008	2007
Nil - RMB 881,900 (equivalent to HKD 1,000,000)	2	1

(d) No directors or supervisors of the Company waived any emoluments during the years ended 31st December 2007 and 2008. 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 (2007: Nil).

15 PROPERTY, PLANT AND EQUIPMENT

	Group				
	Construction in progress	Buildings	Plant and equipment	Furniture and fixtures, other equipment and motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
As at 1st January 2008	526,674	2,082,120	9,195,253	781,504	12,585,551
Additions	695,396	218,147	32,186	19,162	964,891
Transfer upon completion	(545,218)	144,868	358,169	42,181	—
Disposals/write-off	(6,144)	(49,380)	(332,651)	(20,792)	(408,967)
As at 31st December 2008	670,708	2,395,755	9,252,957	822,055	13,141,475
Accumulated depreciation and impairment					
As at 1st January 2008	—	627,080	4,267,078	365,404	5,259,562
Depreciation	—	93,482	1,113,867	70,149	1,277,498
Disposals/write-off	—	(5,458)	(271,559)	(15,816)	(292,833)
As at 31st December 2008	—	715,104	5,109,386	419,737	6,244,227
Net book value					
As at 31st December 2008	670,708	1,680,651	4,143,571	402,318	6,897,248

	Group				
	Construction in progress	Buildings	Plant and equipment	Furniture and fixtures, other equipment and motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
As at 1st January 2007	737,969	2,194,278	9,822,664	735,264	13,490,175
Additions	507,430	136,975	27,849	199,773	872,027
Transfer upon completion	(602,388)	84,227	496,943	21,218	—
Disposals/write-off	—	(138,705)	(358,999)	(35,393)	(533,097)
Effect on proportionate consolidation of a jointly controlled entity (Note 3(a)(iii))	(116,337)	(194,655)	(793,204)	(139,358)	(1,243,554)
As at 31st December 2007	526,674	2,082,120	9,195,253	781,504	12,585,551
Accumulated depreciation and impairment					
As at 1st January 2007	—	638,964	3,464,096	337,577	4,440,637
Depreciation	—	48,374	888,726	88,192	1,025,292
Impairment charge (note (c))	—	—	243,421	—	243,421
Disposals/write-off	—	(45,263)	(205,675)	(20,460)	(271,398)
Effect on proportionate consolidation of a jointly controlled entity (Note 3(a)(iii))	—	(14,995)	(123,490)	(39,905)	(178,390)
As at 31st December 2007	—	627,080	4,267,078	365,404	5,259,562
Net book value					
As at 31st December 2007	526,674	1,455,040	4,928,175	416,100	7,325,989

	Company		
	Plant and equipment	Furniture and fixtures, other equipment and motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost			
As at 1st January 2008	6,637	8,584	15,221
Additions	—	330	330
As at 31st December 2008	6,637	8,914	15,551
Accumulated depreciation and impairment			
As at 1st January 2008	3,630	4,178	7,808
Depreciation	328	627	955
As at 31st December 2008	3,958	4,805	8,763
Net book value			
As at 31st December 2008	2,679	4,109	6,788
Cost			
As at 1st January 2007	6,637	8,654	15,291
Additions	—	180	180
Disposals	—	(250)	(250)
As at 31st December 2007	6,637	8,584	15,221
Accumulated depreciation and impairment			
As at 1st January 2007	3,340	3,746	7,086
Depreciation	290	607	897
Disposals	—	(175)	(175)
As at 31st December 2007	3,630	4,178	7,808
Net book value			
As at 31st December 2007	3,007	4,406	7,413

Notes:

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

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Property, plant and equipment pledged (Note 34(h))	507,134	542,303

(b) As at 31st December 2008, certain of the Group's property, plant and equipment with carrying value of approximately RMB 617,960,000 (2007: RMB 700,993,000) were situated on leasehold land in the PRC which are granted by AVIC Group (2007: AVIC II) for the Group's use at no cost or have been leased from certain fellow subsidiaries under long-term leases. The remaining period of the Group's rights on the leasehold land at 31st December 2008 ranged from 14 to 41 years (2007: 15 to 42 years).

(c) During 2007, the Group reviewed the recoverable amount of its property, plant and equipment, taking into account the product lines of the Group and the market conditions, which consequently led to the recognition of an impairment loss of RMB 243,421,000 mainly in relation to its automobile segment. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The pre-tax discount rate used in measuring value in use was 9.7% per annum.

16 LAND USE RIGHTS

	Group 2008 *RMB'000*	Group 2007 *RMB'000*
Cost		
As at 1st January	115,871	125,286
Additions	79,644	—
Disposal	—	(2,093)
Effect on proportionate consolidation of a jointly controlled entity (Note 3(a)(iii))	—	(7,322)
As at 31st December	195,515	115,871
Accumulated amortisation		
As at 1st January	34,496	28,955
Amortisation	9,712	6,229
Disposal	—	(311)
Effect on proportionate consolidation of a jointly controlled entity (Note 3(a)(iii))	—	(377)
As at 31st December	44,208	34,496
Net book amount		
As at 31st December	151,307	81,375

17 INTANGIBLE ASSETS

	Development costs	Group Technology know-how	Total
	RMB'000	*RMB'000*	*RMB'000*
	(note (i))	*(note (ii))*	
Cost			
As at 1st January 2008	781,629	32,983	814,612
Additions	1,201	—	1,201
Write-off (note (iii))	(171,248)	—	(171,248)
As at 31st December 2008	611,582	32,983	644,565
Accumulated amortisation and impairment			
As at 1st January 2008	477,643	5,355	482,998
Amortisation	54,361	4,465	58,826
Write-off (note (iii))	(137,379)	—	(137,379)
As at 31st December 2008	394,625	9,820	404,445
Net book amount			
As at 31st December 2008	216,957	23,163	240,120
Cost			
As at 1st January 2007	848,951	41,710	890,661
Additions	36,574	11,711	48,285
Write-off (note (iii))	(103,896)	—	(103,896)
Effect on proportionate consolidation of a jointly controlled entity (note 3(a)(iii))	—	(20,438)	(20,438)
As at 31st December 2007	781,629	32,983	814,612
Accumulated amortisation and impairment			
As at 1st January 2007	437,838	2,169	440,007
Impairment charge (note (iii))	5,958	—	5,958
Amortisation	54,626	4,249	58,875
Write-off (note (iii))	(20,779)	—	(20,779)
Effect on proportionate consolidation of a jointly controlled entity (note 3(a)(iii))	—	(1,063)	(1,063)
As at 31st December 2007	477,643	5,355	482,998
Net book amount			
As at 31st December 2007	303,986	27,628	331,614

Notes:

(i) In 2005, the Group entered into a jointly controlled asset arrangement with a fellow subsidiary to develop a new model of aircraft in which the Group has 60.56% participating interests. As at 31st December 2008, the aggregate amounts of development costs incurred by the Group amounted to RMB 201,486,000 (2007: RMB 201,486,000).

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

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

During 2007, impairment losses on intangible assets were mainly in relation to certain development costs of automobile segment for which management estimated that the carrying amounts of these assets have exceeded their recoverable amounts as determined based on value-in-use calculations. The key assumptions and discount rate used in determining the recoverable amounts are consistent to those applied for reviewing other assets impairment.

18 INTERESTS IN SUBSIDIARIES

	Company	
	2008	**2007**
	RMB'000	*RMB'000*
Investments, at cost		
- Shares listed in the PRC	2,168,509	2,205,757
- Unlisted investments	1,295,171	1,295,171
	3,463,680	3,500,928
Less: Provision for impairment losses	(491,794)	(491,794)
	2,971,886	3,009,134
Loans to subsidiaries (note)	535,000	535,000
	3,506,886	3,544,134
Market value of listed shares	4,819,142	10,538,842

Particulars of the principal subsidiaries of the Group as at 31st December 2008 are set out in Note 43.

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.

19 SHARE OF RESULTS OF / INTERESTS IN ASSOCIATES

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Share of net assets, as at 1st January	297,921	247,967
Share of results of associates		
- Profit before income tax	51,216	61,397
- Income tax expense	(11,148)	(4,686)
	40,068	56,711
	337,989	304,678
Dividends received from associates	(39,539)	(33,256)
New investments	42,631	30,000
Disposals	(11,112)	(3,501)
Share of net assets, as at 31st December	329,969	297,921

	Company	
	2008	**2007**
	RMB'000	*RMB'000*
Unlisted investment, at cost	30,000	30,000

Particulars of the principal associates of the Group as at 31st December 2008 are set out in Note 43.

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Listed equity securities, at fair value	166,430	528,719
Other investments, unlisted (note)	74,978	69,727
Less: Provision for impairment	(11,029)	(11,029)
	63,949	58,698
	230,379	587,417

Note:

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

21 DEFERRED INCOME TAXES

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

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

Deferred income tax assets:

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
As at 1st January	126,241	75,305
(Charged)/credited to consolidated income statement	(28,638)	55,730
Effect on proportionate consolidation of a jointly controlled entity (Note 3(a)(iii))	—	(4,794)
As at 31st December	97,603	126,241

Deferred income tax liabilities:

	Group 2008 RMB'000	Group 2007 RMB'000
As at 1st January	(156,332)	(35,872)
Credited/(charged) to consolidated income statement	14,837	(845)
Credited/(charged) to available-for-sale financial assets reserve	104,679	(119,615)
As at 31st December	(36,816)	(156,332)

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

	Group 2008 RMB'000	Group 2007 RMB'000
Deferred income tax assets:		
Provision for impairment of receivables	9,765	64,765
Provision for impairment of inventories	9,899	18,437
Provision for impairment of investments	—	2,545
Provision for impairment of property, plant and equipment	726	4,667
Provision for warranty expense	31,582	43,443
Other temporary differences	60,242	20,710
	112,214	154,567
Deferred income tax liabilities:		
Development costs	32,011	59,341
Fair value changes on available-for-sale financial assets	14,936	119,615
Other temporary differences	4,480	5,702
	51,427	184,658
Total deferred income tax assets less total deferred income tax liabilities	60,787	(30,091)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Representing:		
Deferred income tax assets	97,603	126,241
Deferred income tax liabilities	(36,816)	(156,332)
Total deferred income tax assets less total deferred income tax liabilities	60,787	(30,091)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately RMB 654 million (2007: RMB 323 million) in respect of tax losses amounting to approximately RMB 2,616 million (2007: RMB1,465 million) that can be carried forward against future taxable income. These unrecognised tax losses are expiring within 5 years.

22 ACCOUNTS RECEIVABLE

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Trade receivables, gross (note (a))		
- Related parties (note (b))	1,740,897	1,165,491
- Third parties	1,039,864	1,266,414
	2,780,761	2,431,905
Less: Provision for impairment of receivables	(214,090)	(234,264)
	2,566,671	2,197,641
Notes receivable (note (c))		
- Related parties (Note 40(b))	520,600	209,000
- Third parties	672,413	831,032
	1,193,013	1,040,032
	3,759,684	3,237,673

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	
	2008	**2007**
	RMB'000	*RMB'000*
Current to 1 year	2,531,081	2,109,716
1 year to 2 years	43,260	87,174
2 years to 3 years	10,450	58,255
Over 3 years	195,970	176,760
	2,780,761	2,431,905

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 31st December 2008, trade receivables of RMB 149,197,000 (2007: RMB 176,228,000) were past due but not impaired. These relate mainly to a number of customers in the aviation segment for whom there is no recent history of default. The ageing analysis of these past due but not impaired receivables is as follows:

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Up to 1 year	107,464	64,666
1 year to 2 years	41,733	61,920
2 years to 3 years	—	47,336
Over 3 years	—	2,306
	149,197	176,228

As of 31st December 2008, trade receivables of RMB 214,090,000 (2007: RMB 234,264,000) 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	
	2008	**2007**
	RMB'000	*RMB'000*
Current to 1 year	6,143	23,637
1 year to 2 years	1,527	25,254
2 years to 3 years	10,450	10,919
Over 3 years	195,970	174,454
	214,090	234,264

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

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
At 1st January	234,264	222,108
Provision for impairment of accounts receivable	14,750	16,734
Unused amounts reversed	(15,793)	(4,578)
Write-off	(19,131)	—
At 31st December	214,090	234,264

(b) Trade receivables from related parties are unsecured, non-interest bearing and are repayable in accordance with the relevant trading terms. Details of the balances with these related parties are disclosed in Note 40(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 notes receivable were pledged as security for bank loans (Note 34(h)) as at 31st December 2007.

23 ADVANCES TO SUPPLIERS

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Advances to suppliers		
- Related parties (Note 40(b))	87,243	176,551
- Third parties	227,493	342,463
	314,736	519,014

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

24 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances for purchases of property, plant and equipment	—	4,788	—	—
Amounts due from customers for contract work (Note 26)	367,843	422,596	—	—
Dividends receivable from subsidiaries	—	—	178,994	151,128
Other advances from related parties (note)	333,003	250,885	—	—
Other receivables	285,704	379,485	—	—
Prepayments and deposits	67,246	56,000	14,023	—
Other current assets	116,842	89,783	—	230
	1,170,638	1,203,537	193,017	151,358

Note:

Other advances mainly represent current account balances with the respective related parties which are unsecured, non-interest bearing and are repayable on demand. Details of the balances with these related parties are disclosed in Note 40(b).

25 INVENTORIES

	Group 2008	Group 2007
	RMB'000	*RMB'000*
Raw materials	2,490,870	2,272,486
Work in progress	1,163,873	924,117
Finished goods	1,529,735	2,163,933
Consumables	88,598	105,212
	5,273,076	5,465,748
Less: Provision for impairment losses	(152,314)	(188,221)
	5,120,762	5,277,527

The cost of inventories recognised as expense amounted to RMB 14,521,841,000 (2007: RMB 14,662,735,000).

26 CONTRACTS IN PROGRESS

	Group 2008	Group 2007
	RMB'000	*RMB'000*
Contracts in progress at balance sheet date:		
Amounts due from customers for contract work (Note 24)	367,843	422,596
Contract costs incurred and recognised profits to date	2,541,277	3,031,092

At 31st December 2008, no retentions were held by customers for contract work and no advances were received on construction contracts (2007: Nil).

27 PLEDGED DEPOSITS

	Group 2008	Group 2007
	RMB'000	*RMB'000*
Renminbi denominated deposits	536,605	638,350

As at 31st December 2008, trade finance facilities utilised by the Group for issuing notes payable to its suppliers amounting to RMB 1,460,105,000 (2007: RMB 1,487,488,000) were secured by these pledged deposits (Note 29(c)).

Pledged deposits earn interest at rates ranging from 0.36% to 3.78% (2007: 0.72% to 3.78%). 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.

28 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	
	2008	**2007**	**2008**	**2007**
Currency	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Renminbi *	1,242,324	645,000	670,000	615,000
Hong Kong Dollar	17,638	46,820	17,638	46,820
	1,259,962	691,820	687,638	661,820

The weighted average effective interest rates of the Group and the Company on term deposits with initial term of over three months were 2.55% (2007: 2.36%) and 3.27% (2007: 2.41%) 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.

29 ACCOUNTS PAYABLE

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Trade payables (note (a))		
- Related parties (note (b))	1,310,843	807,856
- Third parties	4,100,522	4,122,331
	5,411,365	4,930,187
Notes payable (note (c))		
- Related parties (Note 40(b))	735,074	846,294
- Third parties	1,072,152	984,732
	1,807,226	1,831,026
	7,218,591	6,761,213

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	
	2008	**2007**
	RMB'000	*RMB'000*
Current to 1 year	4,909,432	4,287,572
1 year to 2 years	449,696	489,816
2 years to 3 years	4,188	116,883
Over 3 years	48,049	35,916
	5,411,365	4,930,187

(b) Trade payables to related parties are unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms. Details of the balances with these related parties are disclosed in Note 40(b).

(c) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months. As at 31st December 2008, notes payable of RMB 1,460,105,000 (2007: RMB 1,487,488,000) were secured by pledged deposits to the extent of RMB 536,605,000 (2007: RMB 638,350,000).

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

30 ADVANCES FROM CUSTOMERS

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Advances from customers		
- Related parties	380,764	466,457
- Third parties	307,986	418,111
	688,750	884,568

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. Details of the balances with these related parties are disclosed in Note 40(b).

31 OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008	2007	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payable for property, plant and equipment				
- Fellow subsidiaries (note (i))	6,992	6,767	—	—
- Others	114,268	130,583	—	—
Wages, salaries and bonuses payables	283,131	308,234	623	137
Accrued expenses	321,336	356,613	4,824	4,705
Deferred income from government grants	73,445	17,755	—	—
Consumption tax, business tax and other taxes payable	25,394	31,253	13	50
Other advances (note (ii))				
- Ultimate holding company	2,940	13,680	9,420	12,240
- Fellow subsidiaries	302,904	161,971	15,891	14,322
- Other related parties	—	1,795	—	—
Payable relating to share reform	—	96,029	—	—
Other current liabilities	233,767	199,663	—	—
	1,364,177	1,324,343	30,771	31,454

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 parties which are unsecured, non-interest bearing and are repayable on demand.

Details of the balances with these related parties are disclosed in Note 40(b).

32 AMOUNTS PAYABLE TO ULTIMATE HOLDING COMPANY

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Supplementary pension subsidies (note (a))	464,298	464,298	464,298	464,298
One-off housing benefit (note (b))	56,226	56,226	—	—
	520,524	520,524	464,298	464,298

Notes:

(a) Prior to the Reorganisation, the Group paid supplementary pension subsidies to its retired employees who retired prior to the Reorganisation. In addition, the Group was committed to make periodic benefits payments to certain former employees who retired early in accordance with various rationalisation programmes adopted by the Group prior to the Reorganisation. Pursuant to the Reorganisation, the Group and AVIC II agreed that, upon establishment of the Company, the Group's obligations to make these supplementary pension benefits and early retirement payments as at 30th June 2002 were assumed by AVIC II and the actual payments of these obligations will be made by AVIC II. The Group is not obliged to any further liabilities in respect of these supplementary pension benefits and early retirement payments to these former employees after 30th June 2002. The above obligations were actuarially determined by a PRC insurance company using the projected unit credit method and are repayable to AVIC II with no fixed repayment terms under the Reorganisation. The balance is unsecured and non-interest bearing.

(b) This represents provision made by a subsidiary in connection with one-off housing subsidies for its eligible employees as at 31st December 2000 as detailed in Note 3(p)(iii). AVIC II has undertaken to bear any final actual cash settlement to those eligible employees in excess of RMB 56,226,000. During 2006, it was agreed that such one-off housing subsidies and future settlements shall be handled by AVIC II and accordingly the balance payable was transferred to AVIC II.

During the year AVIC Group undertook all the assets and liabilities of AVIC I and AVIC II upon their merger on 6th November 2008 as detailed in Note 1. Accordingly the above amounts became payable to AVIC Group as of 31st December 2008.

33 PROVISIONS

	Group Warranty
	RMB'000
As at 1st January 2008	174,431
Additional provisions	141,839
Utilised during the year	(111,142)
As at 31st December 2008	205,128
As at 1st January 2007	103,284
Additional provisions	246,903
Utilised during the year	(171,364)
Effect on proportionate consolidation of a jointly controlled entity (Note 3(a)(iii))	(4,392)
As at 31st December 2007	174,431

Note:

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

34 BORROWINGS

	Group 2008	Group 2007
	RMB'000	*RMB'000*
Short-term borrowings		
Bank borrowings		
- Secured (note (h))	3,423,774	2,664,794
- Unsecured	1,066,630	1,637,369
	4,490,404	4,302,163
Other short-term borrowings		
- Secured (notes (c)(i) and (h))	100,000	—
- Unsecured (note (c)(ii))	320,000	10,000
	4,910,404	4,312,163
Current portion of long-term borrowings	728,000	650,457
	5,638,404	4,962,620
Long-term borrowings		
Bank borrowings		
- Secured (note (h))	1,442,890	1,611,890
- Unsecured	60,000	—
	1,502,890	1,611,890
Other borrowings		
- Secured (note (h))	9,301	10,650
- Unsecured (note (d))	150,000	139,457
	159,301	150,107
	1,662,191	1,761,997
Less: Current portion of long-term borrowings	(728,000)	(650,457)
	934,191	1,111,540
Total borrowings	6,572,595	6,074,160

Notes:

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

	Group 2008	Group 2007
	RMB'000	*RMB'000*
Wholly repayable within five years		
- Bank borrowings	1,217,000	1,340,000
- Other borrowings	150,000	139,457
	1,367,000	1,479,457
Not wholly repayable within five years		
- Bank borrowings	285,890	271,890
- Other borrowings	9,301	10,650
	295,191	282,540
	1,662,191	1,761,997

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

	Group 2008	Group 2007
	RMB'000	*RMB'000*
Bank borrowings:		
- Within one year	578,000	511,000
- In the second year	370,000	319,000
- In the third to fifth year	269,000	510,000
- After the fifth year	285,890	271,890
	1,502,890	1,611,890
Other borrowings:		
- Within one year	150,000	139,457
- After the fifth year	9,301	10,650
	159,301	150,107
	1,662,191	1,761,997

(c) (i) As at 31st December 2008, other short-term secured borrowings represented a loan granted by a fellow subsidiary of the Group which bears interest at 5.045% per annum and is repayable in full in 2009;

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

— loans of RMB 310,000,000 granted by certain unrelated parties of the Group which bear interest at 4.374% per annum and are repayable in full in 2009; and

— a loan of RMB 10,000,000 (2007: RMB 10,000,000) granted by Shenzhen Finance Bureau to a subsidiary of the Group which is non-interest bearing and is repayable on demand.

(d) Other long-term borrowings

Other long-term unsecured borrowings represent a loan granted by Shenzhen Finance Bureau to a subsidiary of the Group which is non-interest bearing and is repayable on demand as at 31st December 2008.

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

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Bank borrowings		
- Fixed rates	3,121,795	2,830,963
- Floating rates	2,871,499	3,083,090
	5,993,294	5,914,053
Other borrowings		
- Fixed rates	579,301	160,107
	6,572,595	6,074,160

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

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Weighted average effective interest rates		
- Bank borrowings	6.13%	6.39%
- Other borrowings	3.24%	0.07%

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

	Group	
Currency	**2008**	**2007**
	RMB'000	*RMB'000*
Renminbi	6,285,599	5,536,316
United States Dollar	139,751	10,650
Euro	48,295	455,500
Others	98,950	71,694
	6,572,595	6,074,160

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

	Group			
	Carrying amount		Fair value	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	924,890	1,100,890	916,837	1,027,450
Other borrowings	9,301	10,650	5,582	4,359
	934,191	1,111,540	922,419	1,031,809

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristic as at the balance sheet dates. Such discount rates ranged from 5.40% to 5.94% as at 31st December 2008 (2007: 7.56% to 7.83%), depending on the type of the debt.

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

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Securities over the Group's assets, at carrying value		
- Property, plant and equipment, at net book value (Note 15(a))	507,134	542,303
- Notes receivable (Note 22(e))	—	59,866
Guarantees provided by		
- Related parties (Note 40(c))	2,001,345	480,540
- Subsidiaries within the Group (cross guarantees)	2,773,620	3,702,094
- Third parties	—	50,000

(i) As at 31st December 2008, the Group had the following undrawn committed borrowing facilities.

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
At floating rates		
- Expiring within one year	1,579,509	—
- Expiring beyond one year	200,000	1,476,567
	1,779,509	1,476,567

35 SHARE CAPITAL

	Company	
	2008	**2007**
	RMB'000	*RMB'000*
Registered:	4,643,609	4,643,609
Issued and fully paid:		
2,963,808,000 Domestic Shares of RMB 1 each	2,963,808	2,963,808
1,679,800,500 H Shares of RMB 1 each	1,679,801	1,679,801
	4,643,609	4,643,609

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

36 RESERVES

	Company			
	Capital reserve	Statutory surplus reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note (b))	*(Note (c))*	*(Note (d))*	
Balance at 1st January 2008	(2,073)	31,178	(630,475)	(601,370)
Profit for the year	—	—	119,047	119,047
As at 31st December 2008	(2,073)	31,178	(511,428)	(482,323)
Balance at 1st January 2007	(2,073)	26,712	(163,421)	(138,782)
Loss for the year	—	—	(462,588)	(462,588)
Transfer to statutory reserve	—	4,466	(4,466)	—
As at 31st December 2007	(2,073)	31,178	(630,475)	(601,370)

Notes:

(a) Movements in the reserves of the Group are set out in the consolidated statement of changes in equity.

(b) Capital reserve

Capital reserve of the Company represents the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment, set off by net premium on issue of shares upon listing of the Company.

Capital reserves of the Group also included reserves arising from the issuance of additional shares by a subsidiary, capital contributions in associates and gains/losses on disposals to minority interests (Note 36(e)).

(c) Statutory surplus reserve

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

(d) Retained earnings available for distribution

In accordance with the relevant PRC regulations and Articles of Association of the Company, retained earnings available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with the PRC GAAP and the amount determined in accordance with IFRS. As at 31st December 2007 and 2008, there were no retained earnings available for distribution under both PRC GAAP and IFRS.

(e) Disposal of certain interests in a subsidiary

During the year the Group disposed of an aggregate of 16,140,000 A shares of Jiangxi Changhe Automobile Co., Ltd. ("Changhe Automobile") representing 3.94% of its total share capital, at market price.

In accordance with the Group's accounting policy, transactions with minority shareholders are dealt with in reserves. Accordingly, the aggregate effect on the gain on disposal of equity interests in Changhe Automobile of RMB 152,948,000 was accounted for as an addition to the Group's equity in the consolidated financial statements for the year ended 31st December 2008.

In the Company's financial statements, the effect of disposal of the Company's directly owned equity interests in Changhe Automobile totalling RMB 93,799,000 was credited directly to the Company's income statement for the year ended 31st December 2008.

37 CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Loss before income tax	(721,899)	(796,709)
Adjustments for:		
Share of results of associates	(40,068)	(56,711)
Loss/(gain) on disposal of		
- Property, plant and equipment	9,082	(16,838)
- Certain interests in subsidiaries	—	(32,440)
- Associates	(794)	—
- Available-for-sale financial assets	(36,112)	—
Amortisation of		
- Intangible assets	58,826	58,875
- Land use rights	9,712	6,229
Amortisation of deferred income relating to government grants	(17,755)	(33,161)
Depreciation on property, plant and equipment	1,277,498	1,025,292
Write-off of intangible assets	33,869	83,117
Provision/(reversal of provision) for impairment		
- Property, plant and equipment	—	243,421
- Intangible assets	—	5,958
- Available-for-sale financial assets	—	(1,326)
- Receivables	9,705	13,067
- Inventories	7,914	121,875
Dividend income from available-for-sale financial assets	(2,428)	(4,870)
Interest income	(79,280)	(57,966)
Interest expense	412,469	338,815
	920,739	896,628
Changes in working capital (excluding the effects of disposals of subsidiaries):		
- (Increase)/decrease in accounts receivable	(520,968)	289,938
- Decrease/(increase) in advances to suppliers, other receivables and prepayments	341,771	(284,615)
- Decrease/(increase) in inventories	148,851	(851,867)
- Increase in financial assets at fair value through profit or loss	(4,074)	(7,414)
- Increase in accounts payable	457,378	57,108
- (Decrease)/increase in advance from customers, other payables and accruals	(342,000)	328,073
- Increase in provisions	30,697	75,539
Net cash generated from operations	1,032,394	503,390

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

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Net book amount (Note 15)	116,134	261,699
(Loss)/gain on sale of property, plant and equipment (Note 7)	(9,082)	16,838
Receivables from sale of property, plant and equipment	(105,200)	(263,718)
Proceeds from sale of property, plant and equipment	1,852	14,819

(c) **Disposal of a subsidiary**

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Property, plant and equipment	—	516
Current assets	—	43,588
Total assets	—	44,104
Total liabilities	—	(51)
Minority interests	—	(2,203)
Net assets sold	—	41,850
Total consideration	—	41,850
Result on disposal of a subsidiary	—	—
Net cash outflow from disposal is determined as follows:		
Proceeds received from disposal of a subsidiary	—	41,850
Less: Cash and cash equivalents in a subsidiary disposed	—	(43,409)
Net cash outflow from disposal of a subsidiary	—	(1,559)

(d) **Analysis of cash and cash equivalents**

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank balances and cash	2,124,130	2,375,706	232,026	98,266
Term deposits with initial term of less than three months	200,000	77,000	—	45,000
	2,324,130	2,452,706	232,026	143,266

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

	Group		Company	
	2008	**2007**	**2008**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Renminbi*	2,285,801	2,384,976	230,370	140,916
Other currencies	38,329	67,730	1,656	2,350
	2,324,130	2,452,706	232,026	143,266

The weighted average effective interest rate of the Group and the Company on term deposits with initial term of less than three months was 1.71% (2007: 1.71%) 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.*

38 COMMITMENTS

(a) Capital commitments

The Group has the following capital commitments not provided for as at 31st December 2008:

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Acquisition of property, plant and equipment		
- Authorised but not contracted for	998,476	48,557
- Contracted but not provided for	313,690	228,001
	1,312,166	276,558
Construction commitments		
- Authorised but not contracted for	30,000	14,070
- Contracted but not provided for	13,012	57,846
	43,012	71,916
Investment in a jointly controlled asset		
- Contracted but not provided for	—	40,764
Investments in an associate		
- Contracted but not provided for	34,000	88,175
	1,389,178	477,413

(b) **Operating lease commitments**

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases as at 31st December 2008:

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Land and buildings		
- Not later than one year	27,110	17,406
- Later than one year and not later than five years	39,690	47,170
- Later than five years	10,798	21,426
	77,598	86,002

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

(c) The Company did not have any significant commitment as at 31st December 2008 (2007: Nil).

39 INTEREST IN A JOINTLY CONTROLLED ENTITY

Particulars of the jointly controlled entity of the Group as at 31st December 2008 are set out in Note 43.

The following amounts represent the Group's share of the jointly controlled entity's assets and liabilities as at 31st December 2008, and the Group's share of its income and results for the year then ended, which are included in the Group's consolidated balance sheet and consolidated income statement:

	2008	2007
	RMB'000	*RMB'000*
Assets:		
Non-current assets	1,002,813	1,097,546
Current assets	641,615	609,947
	1,644,428	1,707,493
Liabilities:		
Non-current liabilities	10,080	—
Current liabilities	1,190,041	1,033,513
	1,200,121	1,033,513
Net assets	444,307	673,980
Income	1,297,537	1,263,021
Expenses	(1,527,210)	(1,685,139)
Net loss	(229,673)	(422,118)
Proportionate interest in the jointly controlled entity's capital commitments	111,731	92,729

The jointly controlled entity did not have any material operating lease commitments as at 31st December 2008 (2007: Nil).

There are no contingent liabilities relating to the Group's interest in the jointly controlled entity and the jointly controlled entity did not have any material contingent liabilities as at 31st December 2008 (2007: Nil).

40 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by AVIC Group (2007: AVIC II), which owns 61.06% of the Company's shares as at 31st December 2008. The remaining 38.94% of the shares are widely held.

Related parties refer to entities in which AVIC Group (2007: AVIC II) has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions; or directors or officers of the Company and of its ultimate holding company, 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 Group (2007: AVIC II), 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 Group (2007: AVIC II) (also a state-owned enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither AVIC Group (2007: AVIC II) nor the PRC government publishes financial statements for public use. In the normal course of the Group's business, it may either enter into various transactions with one or more of such state-owned enterprises and their subsidiaries.

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

(a) Significant transactions with related parties:

	Group 2008	2007
	RMB'000	*RMB'000*
Income		
Revenue from sale of goods and materials		
- Fellow subsidiaries	4,467,323	4,685,494
- A jointly controlled entity	141,498	163,066
- Other related parties	—	14,948
- Other state-owned enterprises	882,020	1,115,196
Income from rendering of services		
- Fellow subsidiaries	1,438	11,857
Expenses		
Purchases of goods and raw materials		
- Fellow subsidiaries	1,849,753	2,553,654
- A jointly controlled entity	48,732	34,445
- Other related parties	147,632	248,272
- Other state-owned enterprises	62,372	1,206,301
Service fees payable		
- Fellow subsidiaries	204,606	166,988
- Other related parties	91,247	14,067
- Other state-owned enterprises	243	63,654
Rental expenses		
- Fellow subsidiaries	31,770	41,892
Interest expense		
- Other state-owned enterprises	359,590	355,140
Key management compensations		
- Salaries, bonuses and other welfares	2,715	2,648

Notes:

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.

(b) Significant balances with related parties:

	Group 2008	Group 2007
	RMB'000	*RMB'000*
Assets		
Trade receivables		
- Fellow subsidiaries	1,415,068	992,205
- A jointly controlled entity	266,370	109,007
- Other related parties	862	949
- Other state-owned enterprises	58,597	63,330
Notes receivable		
- Fellow subsidiaries	520,600	209,000
Advances to suppliers		
- Fellow subsidiaries	71,923	76,718
- A jointly controlled entity	904	—
- Other related parties	14,283	6,242
- Other state-owned enterprises	133	93,591
Other receivables and prepayments		
- Ultimate holding company	4,522	6,011
- Fellow subsidiaries	189,808	181,181
- A jointly controlled entity	50,028	43,051
- Other related parties	18,084	20,258
- Other state-owned enterprises	70,561	384
Pledged deposits		
- Other state-owned enterprises	536,605	638,350
Term deposits with initial term of over three months		
- Other state-owned enterprises	1,109,962	691,820
Cash and cash equivalents deposited with		
- Other state-owned enterprises	2,257,898	2,126,852

	Group 2008	Group 2007
	RMB'000	*RMB'000*
Liabilities		
Trade payables		
- Fellow subsidiaries	928,432	529,067
- A jointly controlled entity	17,565	2,774
- Other related parties	15,523	8,372
- Other state-owned enterprises	349,323	267,643
Notes payable		
- Fellow subsidiaries	468,566	366,881
- Other state-owned enterprises	266,508	479,413
Advances from customers		
- Fellow subsidiaries	359,486	405,917
- Other state-owned enterprises	21,278	60,540
Other payables and accruals		
- Ultimate holding company	2,940	13,680
- Fellow subsidiaries	309,896	168,738
- A jointly controlled entity	—	192
- Other state-owned enterprises	—	1,603
Amounts payable to ultimate holding company	520,524	520,524
Bank borrowings		
- Other state-owned enterprises	5,003,141	5,161,985

(c) Other items:

	Group 2008	Group 2007
	RMB'000	*RMB'000*
Guarantees on bank loans granted to the Group from		
- Ultimate holding company	1,167,590	389,890
- Fellow subsidiaries	594,301	90,650
- Other related parties	239,454	—

In addition, AVIC Group (2007: AVIC II) granted certain leasehold land for the Group's use at no cost, details of which are disclosed in Note 15(b).

(d) Whilst other state-owned enterprises are related parties of the Group as defined under IAS 24, the directors are of the opinion that each party is operating independently; and the above balances are arising in the ordinary course of the Group's businesses. Details of these balances are included under Notes 27, 28, 34 and 37(d) to the financial statements.

41 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled in RMB. Foreign exchange rate risk arises when future commercial translation or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk primarily with respect to the United States Dollar, Euro and Hong Kong Dollar.

The Group's assets and liabilities, and transactions arising from its operations primarily do not expose to material foreign exchange risk. Other than certain term deposits, bank balances and borrowings, the Group's assets and liabilities are primarily denominated in RMB. The Group generates RMB from sales in the PRC to meet its liabilities denominated in RMB. The Group has not used any forward contracts to hedge its exposure as the cost-benefit is considered not effective.

As at 31st December 2007 and 2008, certain of the Group's borrowings (Note 34), term deposits and bank balances (Notes 28 and 37(d)) were denominated in foreign currencies. RMB experienced certain appreciation in recent years which is the major reason for the exchange differences recognised by the Group for the years ended 31 December 2007 and 2008. Further appreciation or depreciation of RMB against these currencies will affect the Group's financial position and results of operations.

However, as foreign currency denominated assets and liabilities are relatively insignificant to the Group, management considers that the Group's volatility against changes in exchange rates of foreign currencies would not be significant. Accordingly, no sensitivity analysis is presented for foreign exchange risk.

(ii) ***Cash flow and fair value 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 27, 28 and 37(d). The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 34. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk. As of 31st December 2008, 56% (2007: 49%) of the Group's borrowings were at fixed rates. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

At 31st December 2008, 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, loss for the year would have been RMB 4,684,000 (2007: RMB 2,250,000) lower/higher.

(iii) ***Price risk***

The Group is exposed to equity securities price risk in respect of investments held by the Group which are classified as available-for-sale financial assets and financial assets at fair value through profit or loss. Some of these financial assets are publicly traded in recognised stock exchanges. At 31st December 2008, if the quoted market price of these equity investments held by the Group had increased/decreased by 10%, with all other variables held constant, loss for the year would have been RMB 861,600 (2007: RMB 556,000) lower/higher and equity would have been RMB 14,147,000 (2007: RMB 39,654,000) higher/lower as a result of the changes in fair value of financial assets at fair value through profit or loss and available-for-sale financial assets.

(iv) ***Credit risk***

The carrying amounts of bank deposits and balances, receivables, available-for-sale financial assets and financial assets at fair value through profit or loss included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

95% (2007: 91%) of the Group's pledged deposits, term deposits and cash and cash equivalents are held in state-owned financial institutions, which management believes are of high credit quality. Most of the Group's available-for-sale financial assets and financial assets at fair value through profit or loss are also publicly traded in recognised stock exchanges. Management does not expect any losses from non-performance by these counterparties.

The Group has no significant concentrations of credit risk. The carrying amount of receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to these financial assets. Ageing analysis of the Group's accounts receivable is disclosed in Note 22. 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.

(v) ***Liquidity risk***

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

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

As at 31st December 2008, the net current liabilities of the Group amounted to RMB 1,266,590,000 (2007: RMB 674,404,000). 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 34 to the financial statements. The directors believe that the Group's current operating cash flows and credit facilities from PRC banks are sufficient for financing its capital commitments in the near future and for working capital purposes.

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Group				
At 31st December 2008				
Bank and other borrowings	6,027,434	421,816	348,107	314,603
Accounts and other payables	8,582,768	—	—	—
Amounts payable to ultimate holding company	520,524	—	—	—
At 31st December 2007				
Bank and other borrowings	5,295,282	337,024	534,143	299,700
Accounts and other payables	8,085,556	—	—	—
Amounts payable to ultimate holding company	520,524	—	—	—
Company				
At 31st December 2008				
Other payables	30,771	—	—	—
Amounts payable to ultimate holding company	464,298	—	—	—
At 31st December 2007				
Other payables	31,454	—	—	—
Amounts payable to ultimate holding company	464,298	—	—	—

(b) **Capital risk management**

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

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

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

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain a stable gearing ratio. The gearing ratios at 31st December 2008 and at 31st December 2007 were as follows:

	Group	
	2008	**2007**
	RMB'000	*RMB'000*
Total borrowings	6,572,595	6,074,160
Less: Cash and cash equivalents (Note 37(d))	(2,324,130)	(2,452,706)
Net debt	4,248,465	3,621,454
Total equity	5,573,538	6,658,395
Total capital	9,822,003	10,279,849
Gearing ratio	43%	35%

The increase in the gearing ratio during 2008 resulted primarily from the decrease in total equity as a result of the loss for the year.

(c) **Fair value estimation**

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

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

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, deposits, trade receivables, notes receivable and other receivables, and the Group's current financial liabilities, including trade and other payables and current borrowings, approximate their fair values. The fair value of non-current portion of borrowings are disclosed in Note 34 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.

42 SUBSEQUENT EVENTS

(a) **Proposed transaction between Jiangxi Changhe Automobile Co., Ltd. ("Changhe Automobile") and AVIC Group**

(i) ***Nature of the transaction***

On 9th October 2008, Changhe Automobile, a subsidiary of the Company, and AVIC Group entered into a sale and purchase agreement, pursuant to which Changhe Automobile will conditionally:

- acquire from AVIC Group the entire equity interests in Shanghai Aviation Electric Co., Ltd. ("Shanghai Aviation") and Lanzhou Wanli Aviation Electrical Co., Ltd. ("Lanzhou Aviation");
- dispose of its entire assets and liabilities to AVIC Group; and
- issue consideration shares to AVIC Group.

The proposed transaction was approved by the independent shareholders of the Company on 15th December 2008. Up to the date of this report, completion of the transaction is conditional upon, among other things, the fulfillment of several conditions including the approval by the China Securities Regulatory Commission.

Upon completion of the transaction, Changhe Automobile will:

- dispose of its entire existing businesses, which recorded a loss of approximately RMB 400 million for the year ended 31st December 2008;
- acquire Shanghai Aviation and Lanzhou Aviation, which had an aggregate net current assets and net assets of approximately RMB 292 million and RMB 581 million respectively as at 31st December 2008; and
- allot and issue 74,625,174 consideration shares to AVIC Group.

(ii) ***Estimated financial effect to the Group***

The Group will commence to account for the business combinations with Shanghai Aviation and Lanzhou Aviation from the effective date when Changhe Automobile gains control over the relevant companies and businesses.

Given that Changhe Automobile, Shanghai Aviation and Lanzhou Aviation are all under common control of the PRC government before and after the business combinations, the Company will apply the principles of merger accounting in preparing the consolidated financial statements of the Group after those business combinations become effective, which is expected to be completed during the year ending 31st December 2009.

By applying the principles of merger accounting, the consolidated financial statements of the Group will include the results of the existing businesses of Changhe Automobile up to the date when Changhe Automobile disposes of its entire then existing assets and liabilities to AVIC Group. The consolidated financial statements of the Group will also include the financial positions, results and cash flows of those companies comprising the Group, when the business combination becomes effective, as if the resulting group structure had been in existence throughout the year. Comparative figures as at 31st December 2008 and for the year then ended will be re-presented on the same basis. However, since the aggregate results and financial positions of Shanghai Aviation and Lanzhou Aviation are relatively immaterial to the Group, the restatement of the comparative figures is not expected to significantly affect the Group's overall financial position and results as of and for the year ended 31st December 2008.

In addition, based on the directors' best estimates, as the value of net assets to be received by Changhe Automobile is likely to exceed the value of its aggregate considerations to be given, a gain is expected to arise from the proposed transaction which will be credited to the equity of the Group.

(b) **Proposed disposal of Hafei Automobile to AVIC Group**

Pursuant to a board resolution passed on 9th April 2009, the Group will dispose of its entire interest in a subsidiary, Harbin Hafei Automobile Industry Group Co., Ltd. ("Hafei Automobile"), and the remaining 10% equity interests of JCSA to AVIC Group for a cash consideration, subject to the approval of the independent shareholders of the Company and the relevant governing bodies. Based on the directors' best estimates, a gain on disposal is expected to arise from this proposed transaction which will be credited to the equity of the Group.

43 PARTICULARS OF PRINCIPAL SUBSIDIARIES, ASSOCIATES AND A JOINTLY CONTROLLED ENTITY

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Subsidiaries				
Directly held				
Harbin Aviation Industry Group Ltd (哈爾濱航空工業(集團)有限責任公司)	RMB616,102	100%	Limited liability company	Manufacture and sale of general- purpose aeroplane and automobile
Jiangxi Changhe Aviation Industry Company Limited (江西昌河航空工業有限公司)	RMB421,037,974	100%	Limited liability company	Manufacture and sale of general-purpose aeroplane, automobile and automobile parts and components
Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司)	RMB228,768,039	55.29%	Joint stock company (listed on the Shanghai Stock Exchange)	Design, development, manufacture and sale of basic trainers, general-purpose aeroplane and other aero products, including parts and components
Harbin Dongan Auto Engine Co., Ltd. (哈爾濱東安汽車動力股份有限公司)	RMB462,080,000	58.77%	Joint stock company (listed on the Shanghai Stock Exchange)	Manufacture and sale of automobile engine
Jiangxi Changhe Automobile Co., Ltd. (江西昌河汽車股份有限公司)	RMB410,000,000	59.02%	Joint stock company (listed on the Shanghai Stock Exchange)	Design, development, manufacture and sale of mini-sized vehicles
Harbin Hafei Automobile Industry Group Co., Ltd. (哈爾濱哈飛汽車工業集團有限公司)	RMB 758,035,000	100%	Joint stock company	Manufacture and sale of automobile products
Indirectly held				
Hafei Aviation Industry Co., Ltd. (哈飛航空工業股份有限公司)	RMB300,393,899	50.05%	Joint stock company (listed on the Shanghai Stock Exchange)	Research, development, design, manufacture and sale of aero products, including parts and components
Jiujiang Changhe Automobile Co., Ltd. (九江昌河汽車有限責任公司)	RMB161,250,000	72.89%	Limited liability company	Development, manufacture and sale of parts and components for mini-sized vehicles

Name	Registered and paid up capital	Attributable equity interest	Type of legal entity	Principal activities
Harbin Dongan Automotive Engine Manufacturing Co., Ltd. (哈爾濱東安汽車發動機製造有限公司)	RMB450,888,750	36.16%	Equity joint venture	Manufacture and sale of automobile engines
Hafei Motor Co., Ltd. (哈飛汽車股份有限公司)	RMB 804,322,000	74.81%	Joint stock company	Manufacture and sale of automobile products
Associates				
Directly held				
Baoding Huide Wind Power Engineering Co., Ltd. (保定惠德風電工程有限公司)	RMB150,000,000	20.00%	Equity joint venture	Development, manufacture and sale of large-scale wind power generation equipments
Indirectly held				
Harbin Wanxiang Hafei Motor Chassis System Co., Ltd. (哈爾濱萬向汽車底盤系統有限責任公司)	RMB60,000,000	35.00%	Limited liability company	Manufacture and sales of motor chassis system
Harbin Embraer Aircraft Industry Co., Ltd. (哈爾濱安博威飛機工業有限公司)	USD25,000,000	36.76%	Limited liability company	Production of regional jets and provision of relevant sales and after-sale services
Jointly controlled entity				
Indirectly held				
Jiangxi Changhe Suzuki Automobile Co., Ltd. (江西昌河鈴木汽車有限責任公司)	USD311,800,000	34.20%	Equity joint venture	Manufacture and sale of mini-sized vehicles

Notes:

(i) All the above subsidiaries, associates and the jointly controlled entity are established and operating in the PRC.

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

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong for the purpose of incorporation into this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

25 November 2009

The Directors
AviChina Industry & Technology Company Limited

Dear Sirs

We set out below our report on the financial information (the "Financial Information") of China Aviation Optical-Electrical Technology Co., Ltd. (the "Target Company") and its subsidiaries (together, the "Target Group") set out in Sections I to III below, for inclusion in the circular of AviChina Industry & Technology Company Limited (the "Company") dated 25 November 2009 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company (the "Proposed Acquisition"). The Financial Information comprises the consolidated balance sheets of the Target Group as at 31 December 2006, 2007 and 2008 and 30 September 2009, the balance sheets of the Target Company as at 31 December 2006, 2007 and 2008 and 30 September 2009, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Target Group for each of the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2008 and 2009 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes.

The Target Company was established in the People's Republic of China (the "PRC") as a limited liability company on 31 December 2002. As at the date of this report, the Target Company has direct and indirect interests in subsidiaries as set out in Note 36 of Section II below. All of these companies are private companies. The consolidated financial statements of the Target Group prepared in accordance with the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises in the PRC for the year ended 31 December 2006 and the consolidated financial statements of the Target Group prepared in accordance with the Accounting Standards for Business Enterprises (2006) of the PRC for each of the years ended 31 December 2007 and 2008 were audited by RSM China Certified Public Accountants.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Target Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") issued by the

International Accounting Standards Board. We have audited the Underlying Financial Statements for each of the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009 in accordance with International Standards on Auditing. The Financial Information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

Directors' responsibility

The directors of the Target Company during the Relevant Periods are responsible for the preparation and the true and fair presentation of the consolidated financial statements of the Target Group in accordance with the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises in the PRC or the Accounting Standards for Business Enterprises (2006) of the PRC as appropriate. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements of the Target Group that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the Financial Information for each of the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, the directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

For the Financial Information for the nine months ended 30 September 2008, the directors of the Company are responsible for the preparation and the presentation of the Financial Information in accordance with the accounting policies set out in Note 3 of Section II below which are in conformity with IFRS.

Reporting accountant's responsibility

For the Financial Information for each of the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, our responsibility is to express an opinion on the Financial Information based on our examination and to report our opinion to you. We examined the Underlying Financial Statements used in preparing the Financial Information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

For the Financial Information for the nine months ended 30 September 2008, our responsibility is to express a conclusion on the Financial Information based on our review and to report our conclusion to you. We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of the Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Opinion and review conclusion

In our opinion, the Financial Information for each of the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2009, for the purpose of this report, gives a true and fair view of the state of affairs of the Target Company and of the Target Group as at 31 December 2006, 2007 and 2008 and 30 September 2009 and of the Target Group's results and cash flows for the respective years and period then ended.

Based on our review, which does not constitute an audit, nothing has come to our attention that causes us to believe that the Financial Information for the nine months ended 30 September 2008, for the purpose of this report, is not prepared, in all material respects, in accordance with the accounting policies set out in Note 3 of Section II below which are in conformity with IFRS.

I. FINANCIAL INFORMATION OF THE TARGET GROUP

The following is the Financial Information of the Target Company and the Target Group as at 31 December 2006, 2007 and 2008 and 30 September 2009 and for each of the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2008 and 2009.

(a) CONSOLIDATED BALANCE SHEETS

		As at 31 December			As at 30 September
	Note	**2006**	**2007**	**2008**	**2009**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Land use rights	7	22,321	21,841	71,249	70,126
Property, plant and equipment	8	224,000	276,904	407,340	535,805
Intangible assets	9	2,435	8,765	8,287	9,577
Deferred income tax assets	11	6,156	6,708	6,155	7,332
		254,912	314,218	493,031	622,840
Current assets					
Accounts receivable	12	274,298	356,121	496,067	626,746
Advance to suppliers		12,617	55,261	36,579	44,061
Other receivables and prepayments	13	16,239	37,158	35,780	27,498
Inventories	14	165,532	213,925	265,030	300,021
Pledged deposits	15	29,907	32,020	32,082	104,295
Term deposits with initial term of over three months	16	—	—	170,000	268,363
Cash and cash equivalents	17	172,090	577,663	292,713	187,481
		670,683	1,272,148	1,328,251	1,558,465
Total assets		925,595	1,586,366	1,821,282	2,181,305

	Note	As at 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	As at 30 September 2009 RMB'000
EQUITY					
Share capital	18	89,000	119,000	178,500	267,750
Reserves	19	294,740	774,057	762,596	769,700
		383,740	893,057	941,096	1,037,450
Minority interests		61,070	60,535	129,439	130,022
Total equity		444,810	953,592	1,070,535	1,167,472
LIABILITIES					
Non-current liabilities					
Long-term borrowings	22	12,190	6,190	—	319,630
Deferred income from government grants	23	12,270	82,001	126,209	120,348
Deferred income tax liabilities		1,843	1,008	1,857	2,035
		26,303	89,199	128,066	442,013
Current liabilities					
Accounts payable	20	158,308	198,224	277,709	369,573
Advances from customers		7,408	13,152	13,976	16,270
Other payables and accruals	21	113,373	109,107	82,761	91,673
Current income tax liabilities		7,543	6,092	16,235	2,304
Short-term borrowings	22	145,000	211,000	230,000	90,000
Current portion of long-term borrowings	22	22,850	6,000	2,000	2,000
		454,482	543,575	622,681	571,820
Total liabilities		480,785	632,774	750,747	1,013,833
Total equity and liabilities		925,595	1,586,366	1,821,282	2,181,305
Net current assets		216,201	728,573	705,570	986,645
Total assets less current liabilities		471,113	1,042,791	1,198,601	1,609,485

(b) BALANCE SHEETS OF THE TARGET COMPANY

		As at 31 December			As at 30 September
	Note	**2006**	**2007**	**2008**	**2009**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS					
Non-current assets					
Land use rights	7	12,933	12,641	12,349	12,130
Property, plant and equipment	8	135,896	197,040	270,420	320,445
Intangible assets	9	1,782	1,448	2,715	5,226
Interests in subsidiaries	10	—	36,028	149,536	149,536
Deferred income tax assets	11	3,083	3,483	2,510	3,687
		153,694	250,640	437,530	491,024
Current assets					
Accounts receivable	12	183,662	255,323	350,063	433,850
Advance to suppliers		8,376	11,363	32,710	13,185
Other receivables and prepayments	13	12,076	5,808	9,234	24,341
Inventories	14	108,787	120,782	176,475	200,846
Pledged deposits	15	29,907	32,020	32,082	104,295
Term deposits with initial term of over three months	16	—	—	170,000	268,363
Cash and cash equivalents	17	121,601	543,130	166,090	106,113
		464,409	968,426	936,654	1,150,993
Total assets		618,103	1,219,066	1,374,184	1,642,017

	Note	As at 31 December 2006 RMB'000	As at 31 December 2007 RMB'000	As at 31 December 2008 RMB'000	As at 30 September 2009 RMB'000
EQUITY					
Share capital	18	89,000	119,000	178,500	267,750
Reserves	19	231,773	747,571	783,203	789,395
Total equity		320,773	866,571	961,703	1,057,145
LIABILITIES					
Non-current liabilities					
Long-term borrowings	22	8,190	4,190	—	205,936
Deferred income from government grants	23	6,120	7,824	12,382	13,245
Deferred income tax liabilities	11	1,843	1,008	1,857	2,035
		16,153	13,022	14,239	221,216
Current liabilities					
Accounts payable	20	146,055	180,055	245,920	311,493
Advances from customers		1,654	4,686	2,725	6,727
Other payables and accruals	21	66,431	63,958	37,128	43,769
Current income tax liabilities		5,037	5,774	12,469	1,667
Short-term borrowings	22	42,000	81,000	100,000	—
Current position of long-term borrowings	22	20,000	4,000	—	—
		281,177	339,473	398,242	363,656
Total liabilities		297,330	352,495	412,481	584,872
Total equity and liabilities		618,103	1,219,066	1,374,184	1,642,017
Net current assets		183,232	628,953	538,412	787,337
Total assets less current liabilities		336,926	879,593	975,942	1,278,361

(c) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the year ended 31 December			Nine months ended 30 September	
	Note	**2006**	**2007**	**2008**	**2008**	**2009**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue		721,541	777,882	1,015,097	721,769	860,733
Cost of sales	25	(460,042)	(506,677)	(673,039)	(471,194)	(587,540)
Gross profit		261,499	271,205	342,058	250,575	273,193
Other income	23	7,996	18,632	17,704	7,004	10,904
Selling and distribution expenses	25	(42,363)	(57,012)	(72,335)	(49,838)	(63,577)
General and administrative expenses	25	(116,139)	(101,489)	(135,684)	(98,599)	(113,634)
Other gains/(losses), net	24	4,438	3,778	6,421	5,016	5,680
Operating profit		115,431	135,114	158,164	114,158	112,566
Finance income	28	1,021	1,668	6,122	2,257	2,774
Finance costs	28	(10,617)	(13,546)	(13,883)	(9,933)	(10,996)
		(9,596)	(11,878)	(7,761)	(7,676)	(8,222)
Profit before income tax		105,835	123,236	150,403	106,482	104,344
Income tax expense	29	(22,004)	(20,356)	(27,738)	(29,071)	(11,164)
Profit for the year/period		83,831	102,880	122,665	77,411	93,180
Total comprehensive income for the year/period		83,831	102,880	122,665	77,411	93,180
Attributable to:						
Equity holders of the Target Company		75,921	100,593	115,583	72,673	89,829
Minority interests		7,910	2,287	7,082	4,738	3,351
		83,831	102,880	122,665	77,411	93,180
Earnings per share for profit attributable to equity holders of the Target Company during the year/period						
Basic and diluted(RMB)	31	0.38	0.48	0.43	0.27	0.34

(d) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the Target Company						
		Share capital	Capital reserve	Statutory and discretionary reserve	Retained earnings	Sub-total	Minority interests	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2006								
Balance at 1 January 2006		70,000	72,949	73,987	26,450	243,386	53,160	296,546
Profit for the year		—	—	—	75,921	75,921	7,910	83,831
Total comprehensive income		—	—	—	75,921	75,921	7,910	83,831
Capital injection		19,000	55,600	—	—	74,600	—	74,600
Transfer to reserves	19(c)	—	—	53,190	(53,190)	—	—	—
Dividends		—	—	—	(10,167)	(10,167)	—	(10,167)
Balance at 31 December 2006		89,000	128,549	127,177	39,014	383,740	61,070	444,810
For the year ended 31 December 2007								
Balance at 1 January 2007		89,000	128,549	127,177	39,014	383,740	61,070	444,810
Profit for the year		—	—	—	100,593	100,593	2,287	102,880
Total comprehensive income		—	—	—	100,593	100,593	2,287	102,880
Transfer to reserves	19(c)	—	—	34,158	(34,158)	—	—	—
Issue of new shares	18(a)	30,000	432,313	—	—	462,313	—	462,313
Deemed distribution to shareholder	19(d)(i)	—	(36,028)	—	—	(36,028)	—	(36,028)
Dividends		—	—	—	(17,561)	(17,561)	—	(17,561)
Dividends to minority shareholders of subsidiaries		—	—	—	—	—	(2,822)	(2,822)
Balance at 31 December 2007		119,000	524,834	161,335	87,888	893,057	60,535	953,592

	Note	Share capital	Capital reserve	Statutory and discretionary reserve	Retained earnings	Sub-total	Minority interests	Total
		Attributable to equity holders of the Target Company						
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2008								
Balance at 1 January 2008		119,000	524,834	161,335	87,888	893,057	60,535	953,592
Profit for the year		—	—	—	115,583	115,583	7,082	122,665
Total comprehensive income		—	—	—	115,583	115,583	7,082	122,665
Bonus issue	18(b)	59,500	(35,700)	—	(23,800)	—	—	—
Contribution by minority interests		—	—	—	—	—	6,178	6,178
Transfer to reserves	19(c)	—	—	10,626	(10,626)	—	—	—
Additional investment in a subsidiary	19(d)(ii)	—	(55,644)	—	—	(55,644)	55,644	—
Dividends		—	—	—	(11,900)	(11,900)	—	(11,900)
Balance at 31 December 2008		178,500	433,490	171,961	157,145	941,096	129,439	1,070,535
For the period ended 30 September 2009								
Balance at 1 January 2009		178,500	433,490	171,961	157,145	941,096	129,439	1,070,535
Profit for the period		—	—	—	89,829	89,829	3,351	93,180
Total comprehensive income		—	—	—	89,829	89,829	3,351	93,180
Bonus issue	18(c)	89,250	(53,550)	—	(35,700)	—	—	—
Deemed contribution	22(g)	—	15,450	—	—	15,450	—	15,450
Dividends		—	—	—	(8,925)	(8,925)	—	(8,925)
Dividends to minority shareholders of subsidiaries		—	—	—	—	—	(2,768)	(2,768)
Balance at 30 September 2009		267,750	395,390	171,961	202,349	1,037,450	130,022	1,167,472

(e) CONSOLIDATED CASH FLOW STATEMENT

	Note	For the year ended 31 December			Nine months ended 30 September	
		2006	2007	2008	2008	2009
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Cash flows from/(used in) operating activities						
Cash generated from/(used in) operations	33	86,631	49,810	139,224	(60,279)	20,482
Interest received		1,021	1,668	6,122	2,257	2,774
Interest paid		(11,737)	(14,562)	(18,647)	(14,885)	(19,467)
Enterprise income tax paid		(31,624)	(23,194)	(16,193)	(19,682)	(26,094)
Net cash generated from/(used in) operating activities		44,291	13,722	110,506	(92,589)	(22,305)
Cash flows from investing activities						
Purchase of property, plant and equipment		(55,166)	(87,481)	(178,688)	(94,185)	(169,062)
Purchase of land use rights		(9,389)	—	(50,907)	—	—
Purchase of intangible assets		(1,601)	(7,311)	(1,871)	(1,454)	(3,077)
Cash proceeds from disposals of property, plant and equipment		5,114	1,563	9,100	3,004	4,188
Increase in term deposits with initial term of over three months		—	—	(170,000)	—	(98,363)
Net cash used in investing activities		(61,042)	(93,229)	(392,366)	(92,635)	(266,314)
Cash flows from financing activities						
Issue of shares	18(a)	—	462,313	—	—	—
Contribution by capital injection		74,600	—	—	—	—
Proceeds from borrowings		179,190	216,000	288,000	278,000	485,080
Repayments of borrowings		(135,650)	(172,850)	(279,190)	(277,190)	(290,000)
Dividends paid		(10,167)	(20,383)	(11,900)	(11,900)	(11,693)
Net cash generated from/ (used in) financing activities		107,973	485,080	(3,090)	(11,090)	183,387
Net increase/ (decrease) in cash and cash equivalents		91,222	405,573	(284,950)	(196,314)	(105,232)
Cash and cash equivalents at the beginning of the year/period		80,868	172,090	577,663	577,663	292,713
Cash and cash equivalents at the ending of the year/period		172,090	577,663	292,713	381,349	187,481

II NOTES TO THE FINANCIAL STATEMENTS

1 General Information

China Aviation Optical-Electrical Technology Co., Ltd. (the "Target Company"), a joint stock company limited by shares, was established in the the People's Republic of China (the "PRC") on 31 December 2002. The Target Company listed its A shares on The Shenzhen Stock Exchange on 1 November 2007. The registered address of the Target Company is 洛陽高新技術開發區周山路10 號, the PRC.

The Target Company and its subsidiaries (collectively the "Target Group") is principally engaged in the manufacturing and sale of optoelectronics products in the PRC.

The Target Company's directors regard Aviation Industry Corporation of China ("AVIC") as the ultimate holding company.

On 26 March 2007 and 21 March 2008, the Target Company acquired 20% and 31%, respectively, equity interests in 瀋陽興華航空電器有限責任公司 from its ultimate holding company, resulting in business combination under common control which is deemed to have existed throughout the Relevant Periods.

Other than the acquisition mentioned above, there is no significant change in the organisational structure of the Target Group during the Relevant Periods.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) *Standards, amendments and interpretations to existing standards that are relevant to the Target Group but not yet effective and have not been early adopted by the Target Group except as stated otherwise.*

IFRS 3 (Revised)	Business Combinations (effective for annual periods beginning on or after 1 July 2009)
IFRS 5 (Amendment)	Non-current Assets held for sale and discontinued operations (effective for annual periods beginning on or after 1 January 2010)
IFRS 8 (Amendment)	Operating Segments (effective for annual periods beginning on or after 1 January 2010)
IFRS 9	Financial Instruments (effective for annual periods beginning on or after 1 January 2013)
IAS 7 (Amendment)	Statement of Cash Flows (effective for annual periods beginning on or after 1 January 2010)
IAS 17 (Amendment)	Leases (effective for annual periods beginning on or after 1 January 2010)
IAS 24 (Revised)	Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)
IAS 27 (Revised)	Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009)
IAS 36 (Amendment)	Impairment of Assets (effective for annual periods beginning on or after 1 January 2010)
IAS 38 (Amendment)	Intangible assets (effective for periods beginning on or after 1 July 2009)
IFRIC 17	Distribution of non-cash assets to owners (effective for periods beginning on or after 1 July 2009)

- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

- Amendment to IFRS 5 'Non-current Assets held for sale and discontinued operations'. Disclosures in standards other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs specifically require disclosures for them.

- Amendment to IFRS 8 'Operating segments'. Disclosure of information about total assets and liabilities for each reportable segment is required only if such amounts are regularly provided to the chief operating decision maker.

- IFRS 9 'Financial Instruments'. This improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. It applies a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria.

- Amendment to IAS 7 'Statement of cash flows'. Only expenditures that result in a recognised asset are eligible for classification as investing activities.

- Amendment to IAS 17 'Leases'. The amendment removes the specific guidance on the classification of long-term leases of land as operating leases. When classifying land leases, the general principles applicable to the classification of leases should be applied. The classification of land leases has to be reassessed on adoption of the amendment on the basis of information existing at inception of the leases.

- IAS 24 (revised) 'Related Party Disclosures'. This removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities; and clarifies and simplifies the definition of a related party.

- Amendment to IAS 36 'Impairment of assets'. This clarifies that the largest unit permitted for the goodwill impairment test is the lowest level of operating segment before any aggregation as defined in IFRS 8.

- Amendment to IAS 38 'Intangible assets'. This clarifies the description of the valuation techniques commonly used to measure intangible assets acquired in a business combination when they are not traded in an active market. In addition, an intangible asset acquired in a business combination might be separable but only together with a related contract, identifiable asset or liability. In such cases, the intangible asset is recognised separately from goodwill but together with the related item.

- IFRIC 17, 'Distributions of non-cash assets to owners'. This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies certain accounting treatments on dividends.

The effect that the adoption of IFRS 3 (Revised), IAS 27 (Revised) and IFRIC 17 will have on the results and financial position of the Target Group will depend on the incidence and timing of transactions within the scope of these standards and interpretation occurring on or after 1 January 2010. Management anticipate that the adoption of other new standards, amendments and interpretations to standards will not result in a significant impact on the results and financial position of the Target Group.

(b) ***Merger accounting and consolidation***

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

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

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

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

Subsidiaries are all entities over which the Target Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Target Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Target Group. They are de-consolidated from the date that control ceases.

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

Except for combination of businesses under common control by using merger accounting as described in Note 1, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Target Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Target Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, including any contingent liabilities assumed, the difference is recognised directly in the consolidated income statement.

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 Target Group.

In the Target 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 Target Company on the basis of dividends received and receivable.

(c) ***Segment reporting***

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance.

(d) ***Foreign currency translation***

(i) *Functional and presentation currency*

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

(ii) *Transactions and balances*

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

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

(iii) *Group companies*

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

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

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

(c) all resulting exchange differences are recognised as a separate component of equity.

(e) ***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 Target 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 years
Plant and machinery	5 - 10 years
Other equipment and motor vehicles	5 - 10 years

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 above.

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 (i)).

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.

(f) ***Land use right***

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 30 to 50 years.

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

(g) ***Intangible assets***

(i) *Patent and proprietary technologies*

Patent and proprietary technologies 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 5 years.

(ii) *Computer software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

(h) ***Research and development expenditure***

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(i) 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.

(i) ***Impairment of investments in subsidiaries 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.

(j) ***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 trade and other receivables is established when there is objective evidence that the Target Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered objective indicators that the trade receivable is impaired. 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 trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

(k) ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). 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.

(l) ***Cash and cash equivalents***

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

(m) ***Financial liabilities and equity***

Financial liabilities and equity instruments issued by the Target 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 plus transaction costs that are directly attributable to the issue of the financial liability, 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 Target 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.

(n) ***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 Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) ***Borrowings costs***

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

(p) ***Current and deferred income tax***

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

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

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

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

(q) ***Employee benefits***

(i) *Pension obligations*

The Target 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 Target Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(ii) *Housing benefits*

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

(r) ***Provisions***

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

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

(s) ***Revenue recognition***

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

The Target Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Target Group. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Target 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) Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(ii) Interest income is recognised on a time-proportion basis using the effective interest method.

(t) ***Operating leases***

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised on a straight-line basis over the lease term.

(u) ***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 Target 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.

(v) ***Dividend distribution***

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

4 Financial risk management

(a) *Financial risk factors*

The Target Group's activities expose it to a variety of financial risks: interest rate risk, credit risk and liquidity risk. The Target Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Target Group's financial performance. The Target Group regularly monitors its exposure and currently considers not necessary to hedge any of these financial risks.

(i) *Interest rate risk*

The Target Group's exposure to changes in interest rates is mainly attributable to its borrowings, pledged deposits and bank deposits.

Borrowings at variable rates expose the Target Group to cash flow interest-rate risk. As at 31 December 2006, 2007 and 2008 and 30 September 2009, approximately RMB 24,850,000, RMB 64,000,000, RMB 82,000,000, and RMB 52,000,000 of the Target Group's borrowings were at variable rates, respectively.

All pledged deposits and bank deposits of the Target Group were at variable rates and so expose it to cash flow interest-rate risk.

The interest rates and maturities of the Target Group's borrowings, pledged deposits, term deposits with initial term of over three months, and bank balances are disclosed in Notes 22, 15, 16 and 17.

If the interest rates on bank borrowings, deposits and bank balances had been 50 basis points higher/lower with all other variables held constant, which were considered reasonably possible at each of the dates by management, equity as at 31 December 2006, 2007 and 2008 and 30 September 2009, and profits for the years/period then ended would have been approximately RMB 59,000, RMB 191,000, RMB 177,000, and RMB 85,000 lower/higher, respectively.

(ii) *Credit risk*

The carrying amounts of bank deposits and receivables included in the consolidated balance sheet represent the Target Group's maximum exposure to credit risk in relation to its financial assets.

As at 31 December 2006, 2007 and 2008 and 30 September 2009, 91%, 99%, 94% and 99% of the Target 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. Management does not expect any losses from non-performance by these counterparties.

The Target Group has no significant concentrations of credit risk. The carrying amount of receivables included in the consolidated balance sheet represents the Target Group's maximum exposure to credit risk in relation to these financial assets. Ageing analysis of the Target Group's accounts receivable is disclosed in Note 12. The Target Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and the Target Group performs periodic credit evaluations of its customers. Normally, the Target 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 Target Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the financial statements.

(iii) *Liquidity risk*

To manage the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The Target Group expects to fund its future cash flow needs through internally generated cash flows from operations, borrowings from related parties and financial institutions, as well as equity financing through shareholders or initial public offering. Most borrowings from related parties are non-current to enable the Target Group to maintain a liquid financial position in future. The Target Group does not expect significant difficulties in subsequent renewals of these borrowings.

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 22. Generally there is no specific credit period granted by the suppliers but the related trade payables are normally expected to be settled within three months after receipt of goods or services.

The table below analyses the Target Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining periods at 31 December 2006, 2007 and 2008 and 30 September 2009 to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
	RMB'000	*RMB'000*	*RMB'000*
At 31 December 2006			
Borrowings	173,147	6,107	6,297
Accounts and other payables	269,337	—	—
At 31 December 2007			
Borrowings	229,786	6,647	—
Accounts and other payables	303,031	—	—
At 31 December 2008			
Borrowings	245,406	—	—
Accounts and other payables	353,164	—	—
At 30 September 2009			
Borrowings	101,106	—	336,681
Accounts and other payables	451,099	—	—

(b) ***Fair value estimation***

The carrying amounts of the Target Group's financial assets, including cash and bank balances, pledged deposits, term deposits with initial term of over three months, receivables; and financial liabilities including payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Target Group for similar financial instruments. The fair values of non-current borrowings are disclosed in Note 22 (g).

(c) ***Capital risk management***

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

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to equity holders, return capital to equity holders, issue new shares or sell assets to reduce debt.

The Target Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt. The Target Group aims to maintain the gearing ratio at a level of not more than 20%.

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total borrowings (Note 22)	180,040	223,190	232,000	411,630
Less: cash and cash equivalents (Note 17)	(172,090)	(577,663)	(292,713)	(187,481)
Net debt	7,950	(354,473)	(60,713)	224,149
Total equity	444,810	953,592	1,070,535	1,167,472
Total capital	452,760	N/A	N/A	1,391,621
Gearing ratio	2%	N/A	N/A	16%

5 Critical accounting estimates and judgements

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

(i) *Taxation*

The Target 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.

(ii) ***Depreciation and amortisation***

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

(iii) ***Impairment of receivables***

Provision for impairment of receivables is determined based on the evaluation of collectibility of 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.

6 Segment information

The Target Group is principally engaged in the optoelectronics products business in Luoyang and Shenyang in the PRC. Separate individual financial information of the two locations are presented to the chief operating decision maker (the Board of Directors) who reviews the internal reporting in order to assess performance and allocate resources. Due to the similarities in economic charactecrics, nature of products and production, customers, etc, they are aggregated into a single reportable segment.

The Target Group‘s turnover and profit for the Relevant Periods were derived from selling of optoelectronics products in the PRC with the main products disclosed below.

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

	Line Spring	Optical Fiber	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006				
Revenue	637,279	73,176	11,086	721,541
Gross profit	250,460	7,347	3,692	261,499
Year ended 31 December 2007				
Revenue	618,868	112,244	46,770	777,882
Gross profit	221,058	34,736	15,411	271,205
Year ended 31 December 2008				
Revenue	786,316	137,238	91,543	1,015,097
Gross profit	277,358	33,260	31,440	342,058
Period ended 30 September 2008 (unaudited)				
Revenue	591,909	113,026	16,834	721,769
Gross profit	217,541	28,638	4,396	250,575
Period ended 30 September 2009				
Revenue	619,735	223,856	17,142	860,733
Gross profit	218,413	47,883	6,897	273,193

7 Land use rights

Target Group

	For the year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Nine months ended 30 September 2009 RMB'000
Opening net book amount	13,256	22,321	21,841	71,249
Additions	9,389	—	50,907	—
Amortisation	(324)	(480)	(1,499)	(1,123)
Closing net book amount	22,321	21,841	71,249	70,126

Target Company

	For the year ended 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000	Nine months ended 30 September 2009 RMB'000
Opening net book amount	13,225	12,933	12,641	12,349
Amortisation	(292)	(292)	(292)	(219)
Closing net book amount	12,933	12,641	12,349	12,130

8 Property, plant and equipment

Target Group

	Buildings	Plant and machinery	Motor vehicles	Other equipment	Construction in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006						
Cost	59,536	220,666	10,166	9,952	10,728	311,048
Accumulated depreciation	(22,450)	(91,058)	(4,138)	(3,857)	—	(121,503)
Net book amount	37,086	129,608	6,028	6,095	10,728	189,545
Year ended 31 December 2006						
Opening net book amount	37,086	129,608	6,028	6,095	10,728	189,545
Additions	504	4,628	130	1,234	66,047	72,543
Reclassification upon completion	3,463	38,420	2,208	1,177	(45,268)	—
Disposals	(329)	(3,901)	(128)	(78)	—	(4,436)
Depreciation	(2,659)	(26,447)	(1,901)	(2,645)	—	(33,652)
Closing net book amount	38,065	142,308	6,337	5,783	31,507	224,000
At 31 December 2006						
Cost	62,988	254,635	12,223	12,056	31,507	373,409
Accumulated depreciation	(24,923)	(112,327)	(5,886)	(6,273)	—	(149,409)
Net book amount	38,065	142,308	6,337	5,783	31,507	224,000
Year ended 31 December 2007						
Opening net book amount	38,065	142,308	6,337	5,783	31,507	224,000
Additions	—	18,795	1,459	1,723	67,621	89,598
Reclassification upon completion	142	6,665	—	1,967	(8,774)	—
Disposals	(25)	(753)	(190)	(179)	(538)	(1,685)
Depreciation	(2,507)	(27,848)	(1,976)	(2,678)	—	(35,009)
Closing net book amount	35,675	139,167	5,630	6,616	89,816	276,904

	Buildings	Plant and machinery	Motor vehicles	Other equipment	Construction in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2007						
Cost	63,114	276,779	12,946	15,360	89,816	458,015
Accumulated depreciation	(27,439)	(137,612)	(7,316)	(8,744)	—	(181,111)
Net book amount	35,675	139,167	5,630	6,616	89,816	276,904
Year ended 31 December 2008						
Opening net book amount	35,675	139,167	5,630	6,616	89,816	276,904
Additions	—	47,533	1,066	7,166	123,190	178,955
Reclassification upon completion	70,708	59,175	—	—	(129,883)	—
Disposals	(509)	(7,007)	(352)	(1,096)	—	(8,964)
Depreciation	(4,703)	(30,959)	(1,645)	(2,248)	—	(39,555)
Closing net book amount	101,171	207,909	4,699	10,438	83,123	407,340
At 31 December 2008						
Cost	132,896	370,500	13,470	20,800	83,123	620,789
Accumulated depreciation	(31,725)	(162,591)	(8,771)	(10,362)	—	(213,449)
Net book amount	101,171	207,909	4,699	10,438	83,123	407,340
Period ended 30 September 2009						
Opening net book amount	101,171	207,909	4,699	10,438	83,123	407,340
Additions	12,355	45,732	819	3,608	108,522	171,036
Reclassification upon completion	—	13,881	—	—	(13,881)	—
Disposals	—	(4,364)	—	(45)	—	(4,409)
Depreciation	(4,741)	(29,594)	(1,338)	(2,489)	—	(38,162)
Closing net book amount	108,785	233,564	4,180	11,512	177,764	535,805
At 30 September 2009						
Cost	145,251	420,750	14,289	24,200	177,764	782,254
Accumulated depreciation	(36,466)	(187,186)	(10,109)	(12,688)	—	(246,449)
Net book amount	108,785	233,564	4,180	11,512	177,764	535,805

Target Company

	Buildings	Plant and machinery	Motor vehicles	Other equipment	Construction in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006						
Cost	36,418	115,577	3,565	4,851	2,459	162,870
Accumulated depreciation	(9,762)	(44,306)	(1,390)	(1,675)	—	(57,133)
Net book amount	26,656	71,271	2,175	3,176	2,459	105,737
Year ended 31 December 2006						
Opening net book amount	26,656	71,271	2,175	3,176	2,459	105,737
Additions	504	3,992	130	1,234	38,362	44,222
Reclassification upon completion	—	12,242	—	—	(12,242)	—
Disposals	(329)	(21)	—	(16)	—	(366)
Depreciation	(1,962)	(10,139)	(580)	(1,016)	—	(13,697)
Closing net book amount	24,869	77,345	1,725	3,378	28,579	135,896
At 31 December 2006						
Cost	36,408	131,330	3,695	5,939	28,579	205,951
Accumulated depreciation	(11,539)	(53,985)	(1,970)	(2,561)	—	(70,055)
Net book amount	24,869	77,345	1,725	3,378	28,579	135,896
Year ended 31 December 2007						
Opening net book amount	24,869	77,345	1,725	3,378	28,579	135,896
Additions	—	17,895	885	1,626	57,090	77,496
Reclassification upon completion	—	4,529	—	—	(4,529)	—
Disposals	(13)	(624)	—	(13)	—	(650)
Depreciation	(1,814)	(12,044)	(671)	(1,173)	—	(15,702)
Closing net book amount	23,042	87,101	1,939	3,818	81,140	197,040
At 31 December 2007						
Cost	36,391	150,709	4,525	7,422	81,140	280,187
Accumulated depreciation	(13,349)	(63,608)	(2,586)	(3,604)	—	(83,147)
Net book amount	23,042	87,101	1,939	3,818	81,140	197,040

	Buildings	Plant and machinery	Motor vehicles	Other equipment	Construction in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2008						
Opening net book amount	23,042	87,101	1,939	3,818	81,140	197,040
Additions	—	46,645	304	6,681	43,951	97,581
Reclassification upon completion	70,708	46,945	—	—	(117,653)	—
Disposals	(509)	(447)	(279)	(37)	—	(1,272)
Depreciation	(4,082)	(16,608)	(708)	(1,531)	—	(22,929)
Closing net book amount	89,159	163,636	1,256	8,931	7,438	270,420
At 31 December 2008						
Cost	106,172	239,409	4,377	13,832	7,438	371,228
Accumulated depreciation	(17,013)	(75,773)	(3,121)	(4,901)	—	(100,808)
Net book amount	89,159	163,636	1,256	8,931	7,438	270,420
Period ended 30 September 2009						
Opening net book amount	89,159	163,636	1,256	8,931	7,438	270,420
Additions	12,355	43,737	540	3,330	15,295	75,257
Reclassification upon completion	—	6,313	—	—	(6,313)	—
Disposals	—	(239)	—	(45)	—	(284)
Depreciation	(4,141)	(18,320)	(416)	(2,071)	—	(24,948)
Closing net book amount	97,373	195,127	1,380	10,145	16,420	320,445
At 30 September 2009						
Cost	118,527	288,649	4,917	16,952	16,420	445,465
Accumulated depreciation	(21,154)	(93,522)	(3,537)	(6,807)	—	(125,020)
Net book amount	97,373	195,127	1,380	10,145	16,420	320,445

9 Intangible assets

Target Group

	Patent and proprietary technologies	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2006			
Cost	—	2,185	2,185
Accumulated amortisation	—	(659)	(659)
Net book amount	—	1,526	1,526
Year ended 31 December 2006			
Opening net book amount	—	1,526	1,526
Additions	—	1,601	1,601
Amortisation	—	(692)	(692)
Closing net book amount	—	2,435	2,435
At 31 December 2006			
Cost	—	3,786	3,786
Accumulated amortisation	—	(1,351)	(1,351)
Net book amount	—	2,435	2,435
Year ended 31 December 2007			
Opening net book amount	—	2,435	2,435
Additions	6,005	1,306	7,311
Amortisation	(100)	(881)	(981)
Closing net book amount	5,905	2,860	8,765
At 31 December 2007			
Cost	6,005	5,092	11,097
Accumulated amortisation	(100)	(2,232)	(2,332)
Net book amount	5,905	2,860	8,765

	Patent and proprietary technologies	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2008			
Opening net book amount	5,905	2,860	8,765
Additions	922	949	1,871
Amortisation	(1,265)	(1,084)	(2,349)
Closing net book amount	5,562	2,725	8,287
At 31 December 2008			
Cost	6,927	6,041	12,968
Accumulated amortisation	(1,365)	(3,316)	(4,681)
Net book amount	5,562	2,725	8,287
Period ended 30 September 2009			
Opening net book amount	5,562	2,725	8,287
Additions	—	3,077	3,077
Amortisation	(973)	(814)	(1,787)
Closing net book amount	4,589	4,988	9,577
At 30 September 2009			
Cost	6,927	9,118	16,045
Accumulated amortisation	(2,338)	(4,130)	(6,468)
Net book amount	4,589	4,988	9,577

Target Company

	Patent and proprietary technologies RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2006			
Cost	—	841	841
Accumulated amortisation	—	(119)	(119)
Net book amount	—	722	722
Year ended 31 December 2006			
Opening net book amount	—	722	722
Additions	—	1,257	1,257
Amortisation	—	(197)	(197)
Closing net book amount	—	1,782	1,782
At 31 December 2006			
Cost	—	2,098	2,098
Accumulated amortisation	—	(316)	(316)
Net book amount		1,782	1,782
Year ended 31 December 2007			
Opening net book amount	—	1,782	1,782
Additions	—	38	38
Amortisation	—	(372)	(372)
Closing net book amount	—	1,448	1,448
At 31 December 2007			
Cost	—	2,136	2,136
Accumulated amortisation	—	(688)	(688)
Net book amount	—	1,448	1,448

	Patent and proprietary technologies	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2008			
Opening net book amount	—	1,448	1,448
Additions	800	948	1,748
Amortisation	(64)	(417)	(481)
Closing net book amount	736	1,979	2,715
At 31 December 2008			
Cost	800	3,084	3,884
Accumulated amortisation	(64)	(1,105)	(1,169)
Net book amount	736	1,979	2,715
Period ended 30 September 2009			
Opening net book amount	736	1,979	2,715
Additions	—	2,987	2,987
Amortisation	(72)	(404)	(476)
Closing net book amount	664	4,562	5,226
At 30 September 2009			
Cost	800	6,071	6,871
Accumulated amortisation	(136)	(1,509)	(1,645)
Net book amount	664	4,562	5,226

10 Interests in subsidiaries

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost of investments, at cost	—	36,028	149,536	149,536

Particulars of the principal subsidiaries of the Target Group as at 30 September 2009 are set out in Note 36.

11 Deferred income tax assets

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

Target Group

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

Deferred income tax assets:

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As the beginning of the year/period	13,159	6,156	6,708	6,155
(Charged)/credited to consolidated income statement	(7,003)	552	(553)	1,177
As the end of the year/period	6,156	6,708	6,155	7,332

Deferred income tax liabilities:

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As the beginning of the year/period	—	(1,843)	(1,008)	(1,857)
(Charged)/credited to consolidated income statement	(1,843)	835	(849)	(178)
As the end of the year/period	(1,843)	(1,008)	(1,857)	(2,035)

The deferred income taxes are provided for in respect of:

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets:				
Impairment of assets	3,608	4,386	6,084	6,621
Other temporary differences	2,548	2,322	71	711
	6,156	6,708	6,155	7,332
Deferred income tax liabilities:				
Accelerated tax depreciation	(1,843)	(1,008)	(1,857)	(2,035)

Target Company

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

Deferred income tax assets:

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As the beginning of the year/period	1,497	3,083	3,483	2,510
Credited/(charged) to income statement	1,586	400	(973)	1,177
As the end of the year/period	3,083	3,483	2,510	3,687

Deferred income tax liabilities:

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As the beginning of the year/period	—	(1,843)	(1,008)	(1,857)
(Charged)/credited to income statement	(1,843)	835	(849)	(178)
As the end of the year/period	(1,843)	(1,008)	(1,857)	(2,035)

The deferred income tax assets are provided for in respect of:

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets:				
Impairment of assets	1,241	1,527	2,440	2,977
Other temporary differences	1,842	1,956	70	710
	3,083	3,483	2,510	3,687
Deferred income tax liabilities:				
Accelerated tax depreciation	(1,843)	(1,008)	(1,857)	(2,035)

12 Accounts receivable

Target Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes receivables, gross				
- Related parties (Note 35)	105,852	121,773	174,434	234,788
- Third parties	182,573	251,833	347,106	425,173
	288,425	373,606	521,540	659,961
Less: provision for impairment	(14,127)	(17,485)	(25,473)	(33,215)
	274,298	356,121	496,067	626,746

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes receivables, gross				
- Related parties (Note 35)	47,136	52,243	88,191	114,328
- Third parties	144,887	213,266	277,074	338,562
	192,023	265,509	365,265	452,890
Less: provision for impairment	(8,361)	(10,186)	(15,202)	(19,040)
	183,662	255,323	350,063	433,850

(a) Substantially all the Target Group's and the Target Company's accounts receivable are denominated in RMB.

(b) The carrying amounts of the accounts receivable approximated their fair values.

(c) There is no concentration of credit risk with respect to the Target Group's accounts receivable, as the Target Group has a large number of customers which are nationally dispersed. Ageing analysis of accounts receivable is as follows:

Target Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	275,834	345,239	493,432	608,032
1 to 2 years	9,661	22,626	21,267	42,519
2 to 3 years	1,486	3,683	4,219	5,397
More than 3 years	1,444	2,058	2,622	4,013
	288,425	373,606	521,540	659,961

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	189,026	257,097	351,566	438,458
1 to 2 years	2,344	7,339	11,045	10,257
2 to 3 years	394	883	2,298	3,515
More than 3 years	259	190	356	660
	192,023	265,509	365,265	452,890

(d) As of 31 December 2006, 2007 and 2008 and 30 September 2009, certain accounts receivable were past due but not impaired. These relate mainly to a number of customers with the Target Group, for whom there is no recent history of default. The ageing analysis of these past due but not impaired accounts receivable is as follows:

Target Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	18,357	17,113	38,256	51,656
1 to 2 years	5,958	18,306	15,438	35,056
	24,315	35,419	53,694	86,712

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	13,597	15,339	19,537	36,093
1 to 2 years	1,110	4,605	6,441	7,231
	14,707	19,944	25,978	43,324

(e) As of 31 December 2006, 2007 and 2008 and 30 September 2009, certain accounts receivable were impaired. The individually impaired receivable mainly relate to small customers which are in financial difficulties. The accounts of these impaired accounts receivable is as follows:

Target Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	7,494	7,424	12,803	16,342
1 to 2 years	3,703	4,320	5,829	7,463
2 to 3 years	1,486	3,683	4,219	5,397
More than 3 years	1,444	2,058	2,622	4,013
	14,127	17,485	25,473	33,215

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 year	6,474	6,379	7,944	11,839
1 to 2 years	1,234	2,734	4,604	3,026
2 to 3 years	394	883	2,298	3,515
More than 3 years	259	190	356	660
	8,361	10,186	15,202	19,040

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

Target Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	11,368	14,127	17,485	25,473
Provision for impairment of accounts receivable	4,476	3,734	8,508	7,744
Write-off	(1,717)	(376)	(520)	(2)
At 31 December	14,127	17,485	25,473	33,215

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	5,932	8,361	10,186	15,202
Provision for impairment of accounts receivable	3,303	2,062	5,016	3,838
Write-off	(874)	(237)	—	—
At 31 December	8,361	10,186	15,202	19,040

13 Other receivables and prepayments

Target Group

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other advances from related parties (Note 35)				
- Ultimate holding company	6,092	18,511	21,294	3,561
- Fellow subsidiaries	105	—	—	8
Other receivables	10,042	18,647	14,486	23,929
	16,239	37,158	35,780	27,498

Target Company

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Dividends receivable from subsidiaries	—	—	—	2,882
Other advances from related parties (Note 35)				
- Ultimate holding company	5,882	300	—	2,200
- Fellow subsidiaries	104	—	—	8
Other receivables	6,090	5,508	9,234	19,251
	12,076	5,808	9,234	24,341

Note: Other advances mainly represent current account balances with the respective related parties which are unsecured, non-interest bearing and repayable on demand. Details of the balances with these related parties are disclosed in Note 35(b).

14 Inventories

Target Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	44,038	43,288	40,525	48,246
Work in progress	41,806	46,878	58,623	56,188
Finished goods	70,573	123,067	166,520	195,934
Consumables	9,737	1,429	427	458
	166,154	214,662	266,095	300,826
Less: provision for impairment	(622)	(737)	(1,065)	(805)
	165,532	213,925	265,030	300,021

The cost of inventories recognised as expense and included in cost of sales for years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2008 and 30 September 2009 amounted to RMB 425,986,000, RMB 467,790,000, RMB 633,489,000 , RMB 442,386,000 and RMB 552,855,000, respectively.

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	46,459	36,264	33,852	38,356
Work in progress	14,557	12,350	19,756	15,442
Finished goods	48,393	72,905	123,932	147,853
	109,409	121,519	177,540	201,651
Less: provision for impairment	(622)	(737)	(1,065)	(805)
	108,787	120,782	176,475	200,846

15 Pledged deposits

Target Group and Target Company

As at 31 December 2006, 2007 and 2008 and 30 September 2009, trade finance facilities utilised by the Target Group for issuing notes payable to its suppliers amounting to RMB 49,606,000, RMB 79,760,000, RMB107,782,000 and RMB 146,062,000 were secured by these pledged deposits.

Pledged deposits earn interest at rates ranging from 0.72% to 0.81%, 0.72% to 0.81%, 0.36% to 2.25%, 0.36% to 2.25%, and 0.36% to 2.25% for the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2008 and 30 September 2009, respectively.

All of the pledged deposits are denominated in RMB. The conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

16 Term deposits with initial term of over three months

Target Group and the Target Company

The weighted average effective interest rate on term deposits with maturity ranging from three months to one year is 2.25% per annum for the year ended 31 December 2008 and the nine months ended 30 September 2009.

The balances were denominated in RMB. 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.

17 Cash and cash equivalents

Target Group

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash in hand	141	591	288	153
Bank deposits	171,949	577,072	292,425	187,328
	172,090	577,663	292,713	187,481
Cash and bank balances denominated in:				
RMB	166,652	565,233	282,274	166,438
USD	5,438	12,430	6,834	17,238
EUR	—	—	1,106	1,306
HKD	—	—	2,499	2,499
	172,090	577,663	292,713	187,481

Target Company

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash in hand	118	510	242	9
Bank deposits	121,483	542,620	165,848	106,104
	121,601	543,130	166,090	106,113
Cash and bank balances denominated in:				
RMB	116,163	530,769	158,149	87,771
USD	5,438	12,361	6,834	17,238
EUR	—	—	1,107	1,104
	121,601	543,130	166,090	106,113

Note: Bank balances earn interest at floating rates based on daily bank deposit rates. The conversion of RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by PRC government.

18 Share capital

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
		(Note(a))	(Note(b))	(Note(c))
Registered, issued and fully paid of RMB1.00 each	89,000	119,000	178,500	267,750

Notes:

(a) On 18 October 2007, the Target Company issued 30,000,000 A shares in an initial public offering in the Shenzhen Stock Exchange raising net proceeds to the Target Company of approximately RMB 462,313,000.

(b) On 9 May 2008, a bonus issue of five bonus shares, credited as fully paid, for every ten shares were made by way of capitalisation of RMB 35,700,000 and RMB 23,800,000 as a debit to the capital reserve and as a distribution to shareholders, respectively, of the Target Company. These bonus shares rank pari passu in all respects with the existing ordinary shares.

(c) On 8 May 2009, a bonus issue of five bonus shares, credited as fully paid, for every ten shares were made by way of capitalisation of RMB 53,550,000 and RMB 35,700,000 as a debit to the capital reserve and as a distribution to shareholders, respectively, of the Target Company. These bonus shares rank pari passu in all respects with the existing ordinary shares.

19 Reserves

Target Company

	Capital reserve	Statutory and discretionary reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	13,591	73,987	32,107	119,685
Contribution from shareholder	55,600	—	—	55,600
Total comprehensive income	—	—	66,655	66,655
Transfer to reserves (note(b))	—	53,190	(53,190)	—
Dividends	—	—	(10,167)	(10,167)
At 31 December 2006	69,191	127,177	35,405	231,773
At 1 January 2007	69,191	127,177	35,405	231,773
Total comprehensive income	—	—	101,046	101,046
Issue of new shares	432,313	—	—	432,313
Transfer to reserves (note(b))	—	34,158	(34,158)	—
Dividends	—	—	(17,561)	(17,561)
At 31 December 2007	501,504	161,335	84,732	747,571
At 1 January 2008	501,504	161,335	84,732	747,571
Total comprehensive income	—	—	107,032	107,032
Transfer to reserves (note(b))	—	10,626	(10,626)	—
Bonus issue (Note 18(b))	(35,700)	—	(23,800)	(59,500)
Dividends	—	—	(11,900)	(11,900)
At 31 December 2008	465,804	171,961	145,438	783,203
At 1 January 2009	465,804	171,961	145,438	783,203
Deemed contribution (Note 22(g))	14,064	—	—	14,064
Total comprehensive income	—	—	90,303	90,303
Bonus issue (Note 18(c))	(53,550)	—	(35,700)	(89,250)
Dividends	—	—	(8,925)	(8,925)
At 30 September 2009	426,318	171,961	191,116	789,395

Notes:

(a) Movements in the reserves of the Target Group are set out in the consolidated statement of changes in equity.

(b) Capital reserve

Capital reserve of the Target Company represents the difference between the amount of share capital issued by the Target Company and the historical net value of the assets, liabilities and interests transferred to the Target Company upon its establishment; and the premium on issue of shares upon listing of the Target Company.

(c) Statutory and discretionary reserves

Pursuant to the PRC regulations and the Companies' Articles of Association, each of the Target Group companies is required to transfer 10% of its profit for the year, as determined under the PRC Accounting Regulations, to a statutory common reserve fund until the fund balance exceeds 50% of the Target Group company's registered capital. The statutory common reserve fund can be used to make good previous years' losses, if any, and to issue new shares to shareholders in proportion to their existing shareholdings or to increase the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Each of the Target Group companies is also permitted to transfer a certain percentage of its profit for the year as determined under the PRC Accounting Regulations, to a discretionary common reserve fund. The transfer to this reserve is subject to approval at shareholders' meetings.

(d) Deemed distribution to shareholder

(i) As mentioned in Note 1, the acquisition of equity interests in 瀋陽興華航空電器有限責任公司 by the Target Company is a business combination under common control. Accordingly, the financial statements of 瀋陽興華航空電器有限責任公司 have been included in the financial information throughout the Relevant Period by applying merger accounting. As such the consideration paid by the Target Company in 2007 is accounted for as a deemed distribution to shareholder.

(ii) In 2008, the Target Company further injected cash amounting to Rmb 113,508,000 as capital into the subsidiary, 瀋陽興華航空電器有限責任公司, thereby raising its shareholding in this company from 20% to 51% and diluting the remaining interests in this company held by AVIC from 80% to 49%. Therefore, this is a deemed acquisition of business from AVIC and is accounted for as a business combination under common control. The premium representing the excess of the cash consideration paid over the 31% of the net assets value of the subsidiary at the time of acquisition is being reflected as a deemed distribution to shareholder.

20 Accounts payable

Target Group

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes payables				
- Related parties (Note 35(b))	1,651	722	2,880	5,757
- Third parties	156,657	197,502	274,829	363,816
	158,308	198,224	277,709	369,573

Target Company

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and notes payables				
- Related parties (Note 35(b))	947	141	1,421	3,624
- Third parties	145,108	179,914	244,499	307,869
	146,055	180,055	245,920	311,493

Note:

(a) The normal credit period for trade payables generally ranges from 1 to 6 months. Ageing analysis of trade payables is as follows:

Target Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 years	153,221	191,541	267,024	351,196
1 to 2 years	1,452	2,665	6,120	13,084
2 to 3 years	248	666	1,346	1,211
Over 3 years	3,387	3,352	3,219	4,082
	158,308	198,224	277,709	369,573

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current to 1 years	144,781	177,182	240,300	302,372
1 to 2 years	838	1,990	4,267	7,210
2 to 3 years	96	557	995	573
More than 3 years	340	326	358	1,338
	146,055	180,055	245,920	311,493

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

(c) Trade payables to related parties are unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms.

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

21 Other payables and accruals

Target Group

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wages, salaries and bonus payables	44,082	22,328	19,167	21,736
Deferred income from government grants	1,089	1,915	4,014	5,839
Consumption tax, business tax and other taxes payable	1,255	2,385	3,292	6,111
Other advances (note (i))				
- Ultimate holding company	16,082	32,310	12,523	14,613
- Fellow subsidiaries	31,128	30,190	33,220	31,304
Other current liabilities	19,737	19,979	10,545	12,070
	113,373	109,107	82,761	91,673

Target Company

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wages, salaries and bonus payables	43,011	21,017	16,470	20,579
Deferred income from government grants	771	771	771	771
Consumption tax, business tax and other taxes payable	976	2,254	1,394	3,787
Other advances (note (i))				
- Ultimate holding company	15,279	30,930	12,143	13,969
Other current liabilities	6,394	8,986	6,350	4,663
	66,431	63,958	37,128	43,769

Notes:

(i) Other advances mainly represent current account balances with the respective related parties which are unsecured, non-interest bearing and are repayable on demand. Details of the balances with these related parties are disclosed in Note 35(b).

22 Borrowings

Target Group

	Note	As at 31 December			As at 30 September
		2006	2007	2008	2009
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current					
Secured bank borrowings	(a)	12,190	6,190	—	15,080
Unsecured bank borrowings		—	—	—	50,000
Unsecured other borrowings	(c)	—	—	—	254,550
Total non-current borrowings		12,190	6,190	—	319,630
Current					
Current portion of long-term secured bank borrowings	(a)	5,850	6,000	2,000	2,000
Current portion of long-term unsecured bank borrowings		17,000	—	—	—
Short-term secured bank borrowings	(a)	61,000	10,000	—	—
Short-term unsecured bank borrowings		84,000	201,000	130,000	90,000
Unsecured other borrowings	(b)	—	—	100,000	—
Total current borrowings		167,850	217,000	232,000	92,000
Total borrowings		180,040	223,190	232,000	411,630

Target Company

	Note	As at 31 December			As at 30 September
		2006	2007	2008	2009
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current					
Secured bank borrowings	(a)	8,190	4,190	—	—
Unsecured bank borrowings		—	—	—	—
Unsecured other borrowings	(c)	—	—	—	205,936
Total non-current borrowings		8,190	4,190	—	205,936
Current					
Current portion of long-term secured bank borrowings	(a)	3,000	4,000	—	—
Current portion of long-term unsecured bank borrowings		17,000	—	—	—
Short-term secured bank borrowings	(a)	21,000	—	—	—
Short-term unsecured bank borrowings		21,000	81,000	—	—
Unsecured other borrowings	(b)	—	—	100,000	—
Total current borrowings		62,000	85,000	100,000	—
Total borrowings		70,190	89,190	100,000	205,936

Notes:

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

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Securities over accounts receivable	32,190	8,190	—	—

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees provided by				
- Ultimate holding company	6,850	4,000	2,000	17,080
- Fellow subsidiaries	40,000	10,000	—	—
	46,850	14,000	2,000	17,080

Target Company's long-term and short-term borrowings are secured as follows:

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Securities over accounts receivable	32,190	8,190	—	—

(b) As at 31 December 2008, unsecured other short-term borrowings of the Target Group and the Target Company represented a loan granted by a fellow subsidiary of the Target Group which bears interest at 5.3% per annum and repayable in 2009.

(c) As at 30 September 2009, unsecured other long-term borrowings of the Target Group amounting to RMB254,550,000 and the Target Company amounting to RMB205,936,000 represented loans granted by a fellow subsidiary of the Group which bear interest ranged from 3.5% to 4.0% per annum and repayable within 5 years.

(d) The maturities of the Target Group's total borrowings are set out as follows:

Target Group

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
- Within 1 year	167,850	217,000	232,000	92,000
- Between 1 and 2 years	6,000	6,190	—	—
- Between 2 and 5 years	6,190	—	—	319,630
	180,040	223,190	232,000	411,630

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
- Within 1 year	62,000	85,000	100,000	—
- Between 1 and 2 years	4,000	4,190	—	—
- Between 2 and 5 years	4,190	—	—	205,936
	70,190	89,190	100,000	205,936

(e) All the Target Group's and the Target Company's borrowings are denominated in RMB.

(f) The weighted average effective interest rates (per annum) at the balance sheet date are set out as follows:

Target Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
Bank borrowings	6.52%	7.23%	6.64%	7.34%
Other borrowings	—	—	5.30%	5.50%

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
Bank borrowings	6.13%	6.07%	5.81%	—
Other borrowings	—	—	5.30%	5.50%

(g) Current

The carrying amounts of short-term and current portion of long-term bank borrowings of the Target Group and the Target Company approximated their fair values.

Non-current

The fair values of non-current bank borrowings of the Target Group were RMB 12,000,000, RMB 6,123,000 and RMB 64,350,000 as at 31 December 2006, 2007 and 30 September 2009 respectively.

Non-current other borrowings of the Target Group represented loans from a fellow subsidiary granted near to 30 September 2009. The total face value is RMB 270,000,000 and the difference of RMB 15,450,000 (as a result of the interest differential between the market rate of 5.50% and contractual rate of 3.90%) was regarded as a deemed contribution.

The fair values of non-current bank borrowings of the Target Company were RMB 8,000,000 and RMB 4,123,000 as at 31 December 2006 and 31 December 2007 respectively.

Non-current other borrowings of the Target Company represented loans from a fellow subsidiary granted near to 30 September 2009. The total face value is RMB 220,000,000 and the difference of RMB 14,064,000 (as a result of the interest differential between the market rate of 5.50% and contractual rate of 3.51%) was regarded as a deemded contribution.

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Target Group and the Target Company for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates.

23 Government grants

Deferred government grants are mainly related to purchase of property, plant and equipment and land use rights which are credited to the income statement as other income on a straight-line basis over the expected lives of the related assets.

	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Other income					
- relating to government grants	7,996	18,632	17,704	7,004	10,904

24 Other gains/(losses), net

	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Gain/(loss) on disposal of property, plant and equipment	678	(122)	136	303	(221)
Net foreign exchange (loss)/gain	(97)	(480)	(801)	(709)	7
Profit from sale of scrap materials	3,857	4,380	7,086	5,422	5,894
	4,438	3,778	6,421	5,016	5,680

25 Expenses by nature

	For the year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Advertising	4,524	4,337	5,203	2,193	1,054
Amortisation of intangible assets (note 9)	692	981	2,349	995	1,787
Amortisation of land use rights (note 7)	324	480	1,499	1,124	1,123
Changes in inventories of finished goods and work-in-progress	(28,350)	(57,566)	(55,198)	(55,451)	(26,979)
Depreciation of property,plant and equipment (note 8)	33,652	35,009	39,555	29,414	38,162
Employee benefit expenses (note 26)	159,848	173,260	210,054	132,233	196,062
Fuel	52,892	53,396	72,802	52,346	54,369
Office expenses	18,510	30,284	36,774	26,031	24,753
Operating leases expenses	643	2,005	1,554	1,059	2,939
Provision for impairment of receivables (note 12)	4,476	3,734	8,508	9,789	7,744
Provision/(reversal of provision) for impairment of inventories	2,702	115	3,117	(737)	(260)
Raw materials and consumables used	303,710	349,226	463,303	343,824	396,049
Repairs and maintenance	6,974	7,270	9,433	6,650	4,043
Research and development costs	11,844	17,775	20,800	27,030	20,823
Sundries	18,438	17,618	29,573	20,749	18,981
Transportation costs	3,510	5,258	7,897	5,307	7,989
Travelling	24,155	21,996	23,835	17,075	16,112
Total cost of sales, selling and distribution expenses and general and administrative expenses	618,544	665,178	881,058	619,631	764,751

26 Employee benefit expenses (including directors' emoluments)

	For the year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Salaries, wages and bonuses	105,295	129,000	153,722	100,023	142,539
Contributions to retirement contribution plan	32,208	34,526	40,822	23,006	35,974
Welfare and other expenses	22,345	9,734	15,510	9,204	17,549
	159,848	173,260	210,054	132,233	196,062

27 Directors', supervisors' and senior management's emoluments

(a) *Directors' emoluments*

The emoluments of each of the directors and supervisors of the Target Company for the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2008 and 30 September 2009 are set out below.

	Year ended 31 December 2006		
Name	Basic salaries, housing allowance, other allowances and benefits in kind	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Li Juwen	280	12	292
Wang Yujie	15	—	15
Gan Fengqi	15	—	15
Kang Rui	15	—	15
Chang Huaizhong	—	—	—
Chen Guanjun	—	—	—
Zhou Guoqiang	—	—	—
Yuan Shunxing	—	—	—
Hu Yusheng	—	—	—
Supervisors			
Cao Hewei	226	13	239
Xi Mingqiang	62	12	74
Wang Yanyang	60	13	73
Li Zexing	—	—	—
Zhang Hu	—	—	—
Xie Tieshan	—	—	—
Xu Xuanzhi	—	—	—
Rong Yichao	—	—	—
	673	50	723

	Year ended 31 December 2007		
Name	Basic salaries, housing allowance, other allowances and benefits in kind	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Li Juwen	298	14	312
Wang Yujie	50	—	50
Gan Fengqi	50	—	50
Kang Rui	50	—	50
Li Bing	—	—	—
Chen Lijuan	—	—	—
Yuan Shunxing	—	—	—
Hu Yusheng	—	—	—
Zhou Guoqiang	—	—	—
Supervisors			
Cao Hewei	248	14	262
Xi Mingqiang	108	13	121
Wang Yanyang	109	13	122
Li Zexing	15	—	15
Zhang Hu	—	—	—
Xie Tieshan	—	—	—
Xu Xuanzhi	—	—	—
Rong Yichao	—	—	—
	928	54	982

Name	Year ended 31 December 2008 Basic salaries, housing allowance, other allowances and benefits in kind	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Li Juwen	281	22	303
Wang Yujie	50	—	50
Gan Fengqi	50	—	50
Kang Rui	50	—	50
Li Bing	—	—	—
Chen Lijuan	—	—	—
Yuan Shunxing	—	—	—
Hu Yusheng	—	—	—
Zhou Guoqiang	—	—	—
Supervisors			
Cao Hewei	242	22	264
Xi Mingqiang	117	18	135
Wang Yanyang	126	18	144
Li Zexing	15	—	15
Zhang Hu	—	—	—
Xie Tieshan	—	—	—
Xu Xuanzhi	—	—	—
Rong Yichao	—	—	—
	931	80	1,011

Name	Nine months ended 30 September 2008 (Unaudited) Basic salaries, housing allowance, other allowances and benefits in kind	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Li Juwen	171	39	210
Wang Yujie	38	—	38
Gan Fengqi	38	—	38
Kang Rui	38	—	38
Li Bing	—	—	—
Chen Lijuan	—	—	—
Yuan Shunxing	—	—	—
Hu Yusheng	—	—	—
Zhou Guoqiang	—	—	—
Supervisors			
Li Zexing	11	—	11
Cao Hewei	148	34	182
Xi Mingqiang	71	17	88
Wang Yanyang	75	19	94
Zhang Hu	—	—	—
Xie Tieshan	—	—	—
Xu Xuanzhi	—	—	—
Rong Yichao	—	—	—
	590	109	699

Name	Nine months ended 30 September 2009 Basic salaries, housing allowance, other allowances and benefits in kind	Employer's contributions to retirement schemes	Total
	RMB'000	*RMB'000*	*RMB'000*
Executive directors			
Li Juwen	225	56	281
Wang Yujie	50	—	50
Gan Fengqi	50	—	50
Kang Rui	50	—	50
Li Bing	—	—	—
Chen Lijuan	—	—	—
Yuan Shunxing	—	—	—
Hu Yusheng	—	—	—
Zhou Guoqiang	—	—	—
Supervisors			
Li Zexing	15	—	15
Cao Hewei	193	49	242
Xi Mingqiang	93	24	117
Wang Yanyang	100	26	126
Zhang Hu	—	—	—
Xie Tieshan	—	—	—
Xu Xuanzhi	—	—	—
Rong Yichao	—	—	—
	776	155	931

(b) ***Five highest paid individuals***

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

	Number of individuals				
	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
				(Unaudited)	
In the capacity as:					
Director	1	1	1	1	1
Senior management	4	4	4	4	4
	5	5	5	5	5

The five individuals included one director whose emolument is reflected in the analyses presented above. The emoluments payable to the remaining four individuals during the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2008 and 30 September 2009 are as follows:

	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Basic salaries, housing allowance, other allowances and benefits in kind	632	718	740	625	701
Contributions to retirement schemes	398	382	300	155	339
	1,030	1,100	1,040	780	1,040

The emoluments fell within the following band:

	Number of individuals				
	For the year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
				(Unaudited)	
Nil - HKD 1,000,000	4	4	4	4	4

(c) No directors or supervisors of the Target Company waived any emoluments during the Relevant Period and no emoluments have been paid by the Target Group to the directors or supervisors of the Target Company or any of the five highest paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office.

28 Finance income and finance costs

Target Group

	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Finance income:					
Interest income on bank balances and deposits	1,021	1,668	6,122	2,257	2,774
Finance costs:					
Interest expense on bank borrowings					
- Wholly repayable within 5 years	11,737	14,562	18,647	14,885	14,917
Interest expense on other borrowings					
- Not wholly repayable within 5 years	—	—	—	—	4,550
	11,737	14,562	18,647	14,885	19,467
Less: Amount capitalised in property, plant and equipment (Note)	(1,280)	(1,343)	(5,241)	(5,087)	(9,093)
	10,457	13,219	13,406	9,798	10,374
Other finance costs	160	327	477	135	622
	10,617	13,546	13,883	9,933	10,996

Note:

	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest rates per annum at which finance costs were capitalised	5.43%-7.78%	5.43%-7.78%	5.98%-7.78%	5.98%-7.78%	4.20%-7.34%

29 Income tax expense

Target Group

Companies of the Target Group are subject to PRC enterprise income tax, which has been provided based on the enterprise income tax rate of 33%, 33%, 25%, 25% and 25% of the assessable income of each of these companies during the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2008 and 30 September 2009, respectively as determined in accordance with the relevant PRC income tax rules and regulations except for the Target Company which was taxed at preferential rate during the Relevant Period .

Pursuant to the approval of State Administration of Taxation and according to the related regulations in respect of preferential tax benefit for enterprises engaged in high-tech business, the Target Company is eligible to enjoy a preferential tax rate of 15% during the Relevant Period.

	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Current income tax	13,158	21,743	26,336	28,177	12,163
Deferred income tax charge/ (credit) (Note 11)	8,846	(1,387)	1,402	894	(999)
	22,004	20,356	27,738	29,071	11,164

The tax on the Target Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before income tax	105,835	123,236	150,403	106,482	104,344
Tax calculated at PRC statutory tax rate	34,926	40,659	37,601	26,621	26,086
Income not subject to taxation	(2,639)	(6,149)	(4,426)	(1,751)	(2,726)
Expenses not deductible for tax purposes	7,278	5,521	8,265	4,201	2,485
Effect of preferential tax rates	(17,561)	(19,675)	(13,702)	—	(14,681)
Income tax expense	22,004	20,356	27,738	29,071	11,164

30 Profit attributable to equity holders of the Target Company

The profit attributable to equity holders of the Target Company is dealt with in the financial statements of the Target Company to the extent of a profit of RMB 66,655,000, RMB 101,064,000, RMB107,032,000, RMB 87,327,000, and RMB 90,303,000 for the years ended 31 December 2006, 2007 and 2008 and the nine months ended 30 September 2008 and 30 September 2009 respectively.

31 Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the Relevant Period.

	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit attributable to equity holders	75,921	100,593	115,583	72,673	89,829
*Weighted average number of ordinary shares in issue ('000)	200,250	211,500	267,750	267,750	267,750

** Adjusted for bonus issues*

As there are no potentially dilutive securities, there is no difference between the basic and diluted earnings per share.

32 Dividends

	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Dividends attributable to equity holders of the Target Company	10,167	17,561	11,900	11,900	8,925
Dividends per share (cents)	1.45	2.10	1.00	1.00	5.00

33 Notes to the consolidated cash flow statements

Reconciliation of profit before income tax to net cash generated from operations is provided as follows:

	For the year ended 31 December			Nine months ended 30 September	
	2006	2007	2008	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit for the year/period	83,831	102,880	122,665	77,411	93,180
Adjustments for:					
Income tax expense	22,004	20,356	27,738	29,071	11,164
(Gain)/loss on disposal of property, plant and equipment	(678)	122	(136)	(303)	221
Amortisation of					
- land use rights	324	480	1,499	1,124	1,123
- intangible assets	692	981	2,349	995	1,787
Depreciation of property, plant and equipment	33,652	35,009	39,555	29,414	38,162
Provision/(reversal of provision) for impairments of					
- receivables	4,476	3,734	8,508	9,789	7,744
- inventories	2,702	115	3,117	(737)	(260)
Interest income	(1,021)	(1,668)	(6,122)	(2,257)	(2,774)
Interest expense	11,737	14,562	18,647	14,885	19,467
	157,719	176,571	217,820	159,392	169,814
Changes in working capital					
- Increase in accounts receivable	(61,561)	(85,181)	(147,934)	(159,514)	(138,421)
- (Increase)/decrease in other receivables, prepayments and other current assets	(12,509)	(102,084)	22,662	(13,972)	(1,176)
- Increase in inventories	(53,855)	(48,508)	(51,433)	(63,217)	(34,731)
- Decrease/(increase) in pledged deposits	6,009	(2,113)	(62)	(3,896)	(72,213)
- (Decrease)/increase in accounts payables	(18,581)	39,916	79,485	41,541	91,864
- Increase/(decrease) in advances from customers, other payables and accruals	57,139	1,478	(25,522)	(28,518)	11,206
- Increase/(decrease) in deferred income from government grants	12,270	69,731	44,208	7,905	(5,861)
Cash generated from/(used in) operations	86,631	49,810	139,224	(60,279)	20,482

34 Commitments

(a) ***Capital commitments***

The Target Group and the Target Company has the following capital commitments not provided for:

Target Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Acquisition of property, plant and equipment				
- Contracted but not provided for	7,569	15,762	104,072	63,396

Target Company

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Acquisition of property, plant and equipment				
- Contracted but not provided for	7,569	15,762	35,123	5,230

(b) ***Operating lease commitments***

The Target Group and the Target Company has commitments to make the following future minimum lease payments under non-cancellable operating leases as follows:

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land and buildings				
- Not later than one year	643	2,005	1,554	2,939
- Later than one year and not later than five years	—	97	891	849
	643	2,102	2,445	3,788

35 Significant related party transactions

The Target Group is controlled by AVIC during the Relevant Period. 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 Target Company and of its ultimate holding company. 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 Target 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 and associates 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 Target Group. Neither AVIC nor the PRC government publishes financial statements for public use. In the normal course of the Target Group's business, it may either enter into various transactions with one or more of such state-owned enterprises and their subsidiaries.

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Target 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 Target Group are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

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

	For the year ended 31 December			Nine months ended 30 September	
	2006	**2007**	**2008**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Income					
Revenue from sale of goods and materials					
- Fellow subsidiaries	177,328	156,454	235,314	142,824	144,686
- Other state-owned enterprises	100,746	88,398	137,451	103,089	198,275
Expenses					
Purchases of goods and raw materials					
- Fellow subsidiaries	6,100	168	13,857	10,342	14,799
- Other state-owned enterprises	818	2,021	358	2,519	3,136
Service fees payable					
- Ultimate holding company	750	1,000	—	500	—
Interest expense					
- Other state-owned enterprises	9,270	10,488	11,164	7,668	7,425
Key management compensations					
- Salaries, bonuses and other welfares	6,850	1,168	13,857	10,893	14,799

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

(b) ***Significant balances with related parties:***

Target Group

	As at 31 December			As at 30 September
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Accounts receivable				
- Fellow subsidiaries	56,277	62,011	104,610	131,190
- Other state-owned enterprises	46,725	53,972	47,448	83,579
Notes receivable				
- Fellow subsidiaries	2,850	5,790	22,376	20,019
Advances to suppliers				
- Fellow subsidiaries	1,755	857	10,900	10,828
- Other state-owned enterprises	386	420	102	329
Other receivables and prepayments				
- Ultimate holding company	6,092	18,511	21,294	3,561
- Fellow subsidiaries	105	—	—	8
Pledged deposits				
- Other state-owned enterprises	29,907	32,020	32,082	96,751
Term deposits with initial term of over three months				
- Other state-owned enterprises	—	—	170,000	268,363
Cash and cash equivalents deposited with				
- Other state-owned enterprises	156,602	571,886	275,150	185,606

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Accounts payable				
- Fellow subsidiaries	514	350	2,018	3,146
- Other state-owned enterprises	1,137	372	862	2,611
Advances from customers				
- Fellow subsidiaries	901	1,989	1,310	3,256
- Other state-owned enterprises	2,513	3,662	3,770	6,270
Other payables and accruals				
- Ultimate holding company	16,082	32,310	12,523	14,613
- Fellow subsidiaries	31,128	30,190	33,220	31,304
Borrowings				
- Other state-owned enterprises	180,040	223,190	132,000	157,000
- Fellow subsidiaries	—	—	100,000	254,550

Target Company

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Accounts receivable				
- Fellow subsidiaries	27,368	29,116	48,780	59,428
- Other state-owned enterprises	16,918	17,337	17,035	34,881
Notes receivable				
- Fellow subsidiaries	2,850	5,790	22,376	20,019
Advances to suppliers				
- Fellow subsidiaries	590	857	10,900	27
- Other state-owned enterprises	386	420	102	329
Other receivables and prepayments				
- Ultimate holding company	5,882	300	—	2,200
- Fellow subsidiaries	104	—	—	8
Pledged deposits				
- Other state-owned enterprises	29,907	32,020	32,082	96,751
Term deposits with initial term of over three months				
- Other state-owned enterprises	—	—	170,000	268,363
Cash and cash equivalents deposited with				
- Other state-owned enterprises	110,657	537,699	156,125	105,052

	As at 31 December			As at 30 September
	2006	2007	2008	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Liabilities				
Accounts payable				
- Fellow subsidiaries	141	98	1,332	2,212
- Other state-owned enterprises	806	43	89	1,412
Advances from customers				
- Fellow subsidiaries	103	7	451	2,166
- Other state-owned enterprises	124	397	195	2,684
Other payables and accruals				
- Ultimate holding company	15,279	30,930	12,143	13,969
Borrowings				
- Other state-owned enterprises	70,190	89,190	—	—
- Fellow subsidiaries	—	—	100,000	205,936

36 Particulars of principal subsidiary

Company name	Issued and paid up capital *(RMB'000)*	Attributable equity interest	Type of legal entity	Principal activities	Auditor	Years of audit
瀋陽興華航空電器有限責任公司	61,265	51%	Limited liability company	Manufacture and sale of aircraft electric equipment	RSM China Certified Public Accountants	2006, 2007,2008

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of the companies now comprising the Target Group in respect of any period subsequent to 30 September 2009. No dividend or distribution has been declared or made by the Target Company in respect of any period subsequent to 30 September 2009.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

Introduction

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group ("Unaudited Pro Forma Financial Information") have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Proposed Disposal and Proposed Acquisition (collectively "the Proposed Transactions") as if they had taken place on 30 June 2009. The Unaudited Pro Forma Financial Information has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Transactions been completed as at 30 June 2009 or at any future dates.

This Unaudited Pro Forma Financial Information has been prepared using the accounting policies consistent with that of the Group as set out in the published annual report of the Group for the year ended 31 December 2008, after making certain pro forma adjustments as set out in the notes below.

The Unaudited Pro Forma Financial Information is based on the unaudited condensed consolidated balance sheet of the Group as at 30 June 2009 as extracted from the interim report of the Company for the six months ended 30 June 2009, the unaudited consolidated balance sheet of Dongan Motor and its subsidiaries (collectively, the "Disposed Group") as at 30 June 2009 as extracted from the management accounts of the Company, and the audited consolidated balance sheet of JOHNON Optronic (the "Target Company") as at 30 September 2009 as extracted from the accountants' report of JOHNON Optronic and its subsidiaries (collectively, the "Target Group") as set out in Appendix II to this circular.

Prior to the Proposed Transactions, AVIC directly holds 43.34% equity interest in JONHON Optronic and indirectly holds 5.45% equity interest in JONHON Optronic through the Concert Parties. Notwithstanding AVIC controls only 48.79% equity interests in JONHON Optronic, AVIC has de facto control over JONHON Optronic. The Company expects to continue to have de facto control over JONHON Optronic immediately after the acquisition of JONHON Optronic from AVIC. Accordingly, the Proposed Acquisition has been accounted for using merger accounting given that the Company and the Target Company are under common control of AVIC before and after the Proposal Acquisition. Please refer to the details of the Company's analysis of de facto control over JONHON Optronic as set out in Section D "Effects and Financial Implications of the Disposal" of Letter from the Board to this circular.

		Pro forma adjustments				
	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2009	Unaudited consolidated statement of assets and liabilities of the Disposed Group as at 30 June 2009	Audited consolidated statement of assets and liabilities of the Target Group as at 30 September 2009	Other pro forma adjustments		Pro forma consolidated balances of the Enlarged Group as at 30 June 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*		*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*			
ASSETS						
Non-current assets						
Property, plant and equipment	5,645,815	1,473,343	535,805			4,708,277
Investment properties	48,720	—	—			48,720
Land use rights	260,440	65,624	70,126			264,942
Intangible assets	222,516	—	9,577			232,093
Interests in associates	332,779	22,389	—			310,390
Available-for-sale financial assets	433,628	—	—			433,628
Deferred income tax assets	86,332	58,085	7,332			35,579
	7,030,230	1,619,441	622,840	—		6,033,629
Current assets						
Accounts receivable	3,268,455	2,265,530	626,746			1,629,671
Advance to suppliers	552,392	20,355	44,061			576,098
Other receivables & prepayments	1,500,251	25,134	27,498	70,000	*(Note 4(b)(i))*	1,572,615
Inventories	4,633,119	642,458	300,021			4,290,682
Financial assets held for trading	3,183	—	—			3,183
Pledged deposits	407,408	188,865	240,580			459,123
Term deposits with initial term of over three months	1,903,891	579,547	132,078			1,456,422
				593,615	*(Note 4(a)(i))*	
Cash and cash equivalents	2,281,492	1,170,489	187,481	(334,855)	*(Note 4(a)(ii))*	1,557,244
	14,550,191	4,892,378	1,558,465	328,760		11,545,038
TOTAL ASSETS	21,580,421	6,511,819	2,181,305	328,760		17,578,667

	Unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2009	Pro forma adjustments: Unaudited consolidated statement of assets and liabilities of the Disposed Group as at 30 June 2009	Pro forma adjustments: Audited consolidated statement of assets and liabilities of the Target Group as at 30 September 2009	Pro forma adjustments: Other pro forma adjustments		Pro forma consolidated balances of the Enlarged Group as at 30 June 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*		*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*			
LIABILITIES						
Non-current liabilities						
Long-term borrowings	1,397,855	—	319,630			1,717,485
Deferred income from government grants	176,734	—	120,348			297,082
Deferred income tax liabilities	44,339	—	2,035			46,374
	1,618,928	—	442,013	—		2,060,941
Current liabilities						
Accounts payable	5,989,427	1,535,590	369,573	1,057,111	*(Note 4(b)(ii))*	5,880,521
Advances from customers	904,673	40,473	16,270			880,470
Other payables and accruals	1,511,692	792,891	91,673			810,474
Amounts payable to ultimate holding company	370,524	—	—			370,524
Provisions	178,279	84,405	—			93,874
Current portion of non-current borrowings	303,000	—	2,304			305,304
Short-term borrowings	4,072,810	537,140	90,000			3,625,670
Current income tax liabilities	82,407	54,629	2,000			29,778
	13,412,812	3,045,128	571,820	1,057,111		11,996,615
Total liabilities	15,031,740	3,045,128	1,013,833	1,057,111		14,057,556

Notes:

1 The balances are extracted from the unaudited consolidated balance sheet of the Company as at 30 June 2009 as set out in the Company's interim report for the six months ended 30 June 2009.

2 The balances are extracted from the unaudited consolidated balance sheet of the Disposed Group as at 30 June 2009 and these are deducted from the Group's assets and liabilities.

3 The adjustment represents the inclusion of the statement of assets and liabilities of the Target Group as at 30 September 2009 as extracted from the accountants' report of the Target Group as set out in Appendix II to this circular, and is added to the Group's assets and liabilities.

4 (a) These adjustments represent cash:

(i) to be settled by AVIC upon Completion of the Proposed Transactions, which is calculated by the difference between the consideration for the Proposed Disposal (Rmb 2,367,794,000) and the consideration for the Proposed Acquisition (Rmb 1,774,179,000);

(ii) payments for capital gain tax arising from the Proposed Disposal, which is calculated based on 25% of the disposal gain amounting to RMB1,339,418,000 in accordance with the relevant PRC tax rules and regulations. The disposal gain is calculated based on the difference between the consideration for the Proposed Disposal amounting to RMB2,367,794,000 and the investment cost of the Disposed Group of RMB1,028,376,000.

(b) These adjustments represent:

(i) advance from the Company to the Disposed Group;

(ii) accounts payables to the Disposal Group recorded in a subsidiary of the Company.

Prior to the Proposed Disposal, the Company had 54.51% equity interest in the Disposed Group and the intercompany balances with the Disposed Group were eliminated. These balances would not be eliminated in the consolidated statements of assets and liabilities as the Disposal Group would no longer be part of the Enlarged Group upon Completion of the Proposed Disposal.

5 On 31 August 2009, the Company disposed its entire 100% equity interests in a subsidiary, Harbin Hafei Automobile Industry Group Co., Ltd. ("Hafei Automobile") to a fellow subsidiary for a cash consideration of Rmb 1 million. Hafei Automobile had total assets and total liabilities of approximately Rmb 4.8 billion and Rmb 6.4 billion respectively as at 30 June 2009. This is a non-adjusting event of the Group after 30 June 2009.

6. No other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Group subsequent to 30 June 2009 and the Target Group subsequent to 30 September 2009 respectively.

REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF AVICHINA INDUSTRY & TECHNOLOGY COMPANY LIMITED

We report on the unaudited pro forma financial information set out on pages III-1 to III-4 under the heading of "Unaudited Pro Forma Consolidated Statement of Assets and Liabilities of the Enlarged Group" (the "Unaudited Pro Forma Financial Information") in Appendix III of the circular dated 25 November 2009 (the "Circular") of AviChina Industry & Technology Company Limited (the "Company"), in connection with the proposed disposal of Harbin Dongan Auto Engine Co., Ltd. and the proposed acquisition of China Aviation Optical-Electrical Technology Company Limited (collectively the "Proposed Transactions") by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Proposed Transactions might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages III-1 to III-4 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2009 with the unaudited condensed consolidated financial statements of the Group as at 30 June 2009, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2009 or any future date.

Opinion

In our opinion:

a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 25 November 2009

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained herein misleading.

2. (a) THE INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY

As at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company has any interests and short positions in the Shares, underlying Shares and debentures of the Company (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to the Company and the Stock Exchange.

(b) THE INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY'S ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company has any interests and short positions in the Shares, underlying Shares and debentures of any associated corporations of the Company (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to the Company and the Stock Exchange.

3. THE INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN THE SECURITIES OF THE COMPANY

As at the Latest Practicable Date, so far as is known to any Directors, chief executive or supervisors of the Company, the following persons (not being a Director, chief executive or a supervisor of the Company) had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of the Divisions 2 and

3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Name of Shareholders	Class of shares	Capacity	Number of shares	Approximate percentage of shareholding to the same class of shares	Approximate percentage of shareholding to share capital in issue	Nature of shares held
AVIC	Domestic Shares	Beneficial owner	2,835,305,636	95.66%	61.06%	Long position
European Aeronautic Defence and Space Company — EADS N.V.	H Shares	Interests of a party to an agreement to acquire interests in a listed corporation under s.317(1)(a) and s.318	232,180,425	13.82%	5%	Long position
The Hamon Investment Group Pte Limited	H Shares	Investment manager	164,278,000 *(Note)*	9.78%	3.54%	Long position
The Dreyfus Corporation	H Shares	Investment Manager	105,226,000	6.26%	2.27%	Long position

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

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

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2008, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

6. CONSENT AND QUALIFICATION OF EXPERTS

The following are the qualifications of the professional adviser who has given the Company an opinion or provided advice referred to or contained in this circular:

Name	Qualifications
Somerley	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO.
Pricewaterhouse Coopers (“PwC”)	Certified Public Accountants

As at the Latest Practicable Date, each of Somerley and PwC did not have shareholding interest in any member of the Group or any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Somerley and PwC did not have any direct or indirect interest in any assets which has been, since 31 December 2008, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

Each of Somerley and PwC has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and references to its name included in this circular in the form and context in which it is included.

7. INDEBTEDNESS OF THE GROUP AND THE JONHON OPTRONIC GROUP (“TARGET GROUP”)

Borrowings

As at 31 October 2009, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group and the Target Group had outstanding borrowings of approximately RMB4,059 million, comprising secured borrowings of approximately RMB1,768 million and unsecured borrowings of approximately RMB2,291 million. Among the secured borrowings, borrowings of approximately RMB868 million was guaranteed by related parties, and RMB880 million was cross-guaranteed amongst the subsidiaries of the Group.

Contingent liabilities

As at 31 October 2009, the Group and the Target Group had no significant contingent liabilities.

Pledge of assets

As at 31 October 2009, the Group and the Target Group had borrowings of approximately RMB20 million which was secured by accounts receivables amounting to RMB20 million.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group and the Target Group, the Group and the Target Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31 October 2009.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group and the Target Group since 31 October 2009.

8. SUFFICIENCY OF WORKING CAPITAL OF THE GROUP AND THE TARGET GROUP

Taking into account the financial resources available to the Group and the Target Group, including internally generated funds, the Directors are of the opinion that the Group and the Target Group will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular, in the absence of any unforeseen circumstances.

9. MATERIAL CONTRACTS

The particulars of material contracts (not being contracts entered into in the ordinary course of business) entered into by the member of the Group within the two years immediately preceding the issue of this circular are set out as follows:

(a) The subscription agreement entered into between the Company and Hongdu Aviation on 29 December 2007, as amended by the supplemental agreement on 22 February 2008, whereby the Company undertakes to subscribe, subject to conditions and adjustment, for approximately 9,842,520 new Hongdu Aviation shares for a total consideration of approximately RMB250 million. Details of the subscription agreement and the supplemental agreement are set out in the announcements of the Company dated 9 January 2008 and 22 February 2008, respectively.

(b) The subscription agreement entered into between Hongdu Group and Hongdu Aviation on 29 December 2007, as amended by the supplemental agreement on 22 February 2008, whereby Hongdu Group undertakes to subscribe, subject to conditions and adjustment, for approximately 13,779,527 new Hongdu Aviation shares for a total consideration of approximately RMB350 million. Details of the subscription agreement and the supplemental agreement are set out in the announcements of the Company dated 9 January 2008 and 22 February 2008, respectively.

(c) The capital injection agreement entered into between Hongdu Aviation, China Aviation Industry Corporation II and its associates, China Huarong Asset Management Corporation, AviChina Undercarriage Limited Liability Company and an independent third party on 26 March 2008. Pursuant to the capital injection agreement, Hongdu Aviation agrees to make a capital injection of RMB100 million in AviChina Undercarriage Limited Liability Company. Details of the agreement are set out in the announcement of the Company dated 27 March 2008.

(d) The capital injection agreement entered into between Hongdu Aviation, Hongdu Group and Jiangxi Changjiang General Aviation Company Limited on 26 March 2008. Pursuant to the capital injection agreement, Hongdu Aviation agrees to make a capital injection of RMB49,960,000 in Jiangxi Changjiang General Aviation Company Limited. Details of the agreement are set out in the announcement of the Company dated 27 March 2008.

(e) The acquisition agreement entered into between Jiangxi Changhe Automobile Co., Ltd. and AVIC (formerly known as the "organizing unit of Aviation Industry Corporation of China") dated 9 October 2008 in relation to, among other things, the acquisition of 100% equity interest in Shanghai Aviation Electric Co., Ltd. and 100% equity interest in Lanzhou Wanli Aviation Electrical Co., Ltd.. Details of the transactions can be referred to in the announcement and circular of the Company dated 13 October 2008 and 3 November 2008, respectively.

(f) The joint venture agreement entered into between the Company, Harbin Aircraft Industry Group Co., Ltd., Airbus China Limited, Hafei Aviation Industry Co., Ltd. and Harbin Development Zone Heli Infrastructure Development Co., Ltd. on 30 January 2009 to set up a joint venture company to engage in the business of manufacturing of composite material parts and components for the Airbus A350 XWB and Airbus A320 aircraft series. Pursuant to the joint venture agreement, the Group agrees to contribute USD 30 million cash to the registered capital of the joint venture for a 20% equity interest in the joint venture, amongst which 10% equity interest is directly held by the Company and the remaining 10% is indirectly held by the Company through its non wholly-owned subsidiary Hafei Aviation Industry Co., Ltd.. Details of the agreement are set out in the announcement of the Company dated 3 February 2009.

(g) The share transfer agreement I entered into between the Company and AVIC Automobile Industry Co., Ltd. dated 16 April 2009 in relation to, among other things, the disposal of 100% equity interest in Harbin Hafei Automobile Industry Group Co.. Details of the agreement are set out in the announcement of the Company dated 16 April 2009.

(h) The share transfer agreement II entered into between the Company and AVIC Automobile Industry Co., Ltd. dated 16 April 2009 in relation to, among other things, the disposal of 10% equity interest in Jiangxi Changhe Suzuki Automobile Co., Ltd.. Details of the agreement are set out in the announcement of the Company dated 16 April 2009.

(i) The subscription agreement entered into between the Hongdu Group and Hongdu Aviation on 29 July 2009, as amended by a supplemental agreement dated 18 August 2009, in relation to the subscription in 23,128,680 new Hongdu Aviation shares. Details of the agreement are set out in the announcement of the Company dated 7 August 2009.

(j) The assets acquisition agreement dated 29 July 2009 entered into between Hongdu Aviation and Hongdu Group in relation to the acquisition of aircraft business assets relating to the production of Export Type L15 advanced trainer and related assets by Hongdu Aviation from Hongdu Group. Details of the agreement are set out in the announcement of the Company dated 7 August 2009.

(k) The capital contribution agreement entered into among Hongdu Aviation, Hongdu Group and Changjiang General Aviation Co., Ltd. on 18 August 2009 in relation to a capital contribution of RMB49,960,000 by Hongdu Aviation to Changjiang General Aviation. Details of the agreement are set out in the announcement of the Company dated 7 August 2009.

(l) The Equity Swap Agreement.

10. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates have any interests in a business which competes or may compete with the business of the Group.

11. NO MATERIAL ADVERSE CHANGE

The Directors are of the opinion that since 31 December 2008, being the date to which the latest published audited accounts of the Group have been made up, there have been no material adverse changes in the financial or trading position of the Group.

12. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as known to the Directors, there is no litigation or claim of material importance pending or threatened against any member of the Group.

13. MISCELLANEOUS

(a) Mr. Yan Lingxi, the company secretary of the Company, is a senior engineer and holds a bachelor degree in engineering (majoring in management information system) and a master degree in management. He commenced his career in the aviation industry in 1991 and has extensive experience in the aviation industry. He has been appointed as the Company Secretary since 2003 and is familiar with the security market and related supervision regulations.

(b) The registered address of the Company is situated at 8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic-Technological Development Area, Beijing, PRC. The registrar of the Company is Computershare Hong Kong Investor Services Limited, whose address is at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(c) The principal place of business of the Company in Hong Kong is at Unit B, 15/F, United Center, Queensway 95, Hong Kong.

(d) The Chinese text of this circular and the revised proxy form shall prevail over their respective English text in the case of inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company from the date of this circular up to and including 29 December 2009:

(a) the letter dated 25 November 2009 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 25 of this circular;

(b) the letter of advice dated 25 November 2009 from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 26 to 55 of this circular;

(c) the written consent of each of Somerley and PwC referred to in paragraph 6 of this Appendix;

(d) the material contracts of the Company referred to in paragraph 9 of this Appendix;

(e) the Articles of Association;

(f) the Company's annual reports for the two financial years ended 31 December 2008;

(g) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A which has been issued since the date of the latest published accounts;

(h) the accountant's report on JONHON Optronic from PwC as set out in Appendix II to this circular; and

(i) the report from PwC regarding the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular.

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

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

(Stock Code: 2357)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting ("EGM") of AviChina Industry & Technology Company Limited (the "Company") will be held at 9:00 a.m. on Tuesday, 29 December 2009, at Avic Hotel, No. 10 Yi, Central East Third Ring Road , Chaoyang District, Beijing, the People's Republic of China to consider and approve the following resolutions. Unless othwerise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 25 November 2009 (the "Circular"):

ORDINARY RESOLUTION

1. **"THAT**:

(a) the terms and conditions of the Equity Swap Agreement dated 4 November 2009 entered into between the Company and AVIC (a copy of which has been produced to this meeting marked "A" and initialed by the Chairman of the meeting) in relation to, among other matters, the disposal of 54.51% equity interest in Dongan Motor by the Company to AVIC for an aggregate consideration of RMB2,367,794,200 (the "**Disposal**"), which shall be satisfied by AVIC by transferring its 43.34% equity interest in JONHON Optronic to the Company for a consideration of RMB1,774,179,339 (the "**Acquisition**") and the difference between the consideration for the Disposal and the consideration for the Acquisition, which amounts to RMB593,614,861, shall be settled by AVIC in cash

be and are hereby approved, ratified and confirmed; and

(b) the Executive Directors (or any one of them) be and are hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete or in connection with the transactions contemplated under the Equity Swap Agreement, including, without limitation, to obtain all necessary approvals from the relevant PRC government authorities, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the Equity Swap Agreement as the Executive Directors (or any one of them) may in their absolute discretion deem fit."

SPECIAL RESOLUTION

2. “THAT:

(a) a new clause, which reads as follows, is added as clause (2) of Article 105 of the Articles of Association: “The Board will designate a deputy general manager holding the position of chief financial officer to be the person in charge of the financial affairs of the Company. Unless otherwise specified in the articles of association of the Company, all references to the person in charge of the financial affairs of the Company (i.e. the chief financial officer) shall mean the deputy general manager so designated by the Board”; and

(b) any one of the Executive Directors be and is hereby authorised to make such other modifications to the proposed amendment to the Articles of Association as may be required by the relevant regulatory authorities of the PRC.”

By Order of the Board
AviChina Industry & Technology Company Limited*
Yan Lingxi
Company Secretary

Hong Kong, 25 November 2009

* *For identification purpose only.*

Notes:

(1) **Closure of register of members and eligibility to attend the EGM**

Pursuant to Article 38 of the Articles of Association of the Company, the H Share register of the Company will be closed from Wednesday, 9 December 2009 to Tuesday, 29 December 2009 (both days inclusive), during which period no transfer of H shares will be effected. Holders of the Company’s H Shares and Domestic Shares whose names appear on the Company’s Register of Members on Tuesday, 29 December 2009 are entitled to attend the EGM and to vote in the EGM.

In order to qualify to attend and vote in the EGM, holders of the Company’s H shares shall lodge all transfers together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company’s H Shares Registrar, not later than 4:30 p.m. on Tuesday, 8 December 2009 at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queens’ Road East, Wanchai, Hong Kong.

(2) **Registration procedures for attending the EGM**

(a) The shareholder or its proxies shall produce his identification proof. If a corporation shareholder’s legal representative or any other person authorized by the board of directors or other governing body of such corporate shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.

(b) Holders of H Shares or Domestic Shares who wish to attend the EGM must complete the reply slip to confirm the attendance, and return the same to the correspondence address designated by the Company not later than 20 days before the date of the EGM, i.e. before Wednesday, 9 December 2009.

(c) Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.

(3) **Proxies**

(a) Any shareholder who is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his behalf at the EGM. A proxy need not be a shareholder of the Company. Any shareholder who wishes to appoint a proxy should first review the form of proxy for use in the EGM.

(b) Any shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the board of the body corporate or by attorneys duly authorized. If the instrument is signed by an attorney of the appointer, the power of attorney authorizing the attorney to sign or other documents of authorization must be notarially certified. In order to be valid, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered in the case of holders of Domestic Shares, to the correspondence address designated by the Company, and in the case of holders of H Shares, to Computershare Hong Kong Investor Services Limited at the address stated in note (1) above not less than 24 hours before the time for holding the EGM and return of a form of proxy will not preclude a shareholder from attending in person and voting at the EGM if he or she so wishes.

(4) **The EGM is expected to last for half a day. Shareholders attending the meeting are responsible for their own transportation and accommodation expenses.**

Designated address of the Company:
P.O. Box 1655, Beijing, the PRC (Postal code: 100009)
Telephone No.: 86-10-64094835/06
Facsimile No.: 86-10-64094826
Attention: Mr. Xu Bin/Mr. Wang Yongzhi

(5) **Ordinary resolution 1 will be voted by poll by the Independent Shareholders. No Shareholder is required to abstain from voting for special resolution 2.**

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