



AviChina

AviChina Industry & Technology Company Limited

中國航空科技工業股份有限公司

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

(Stock Code: 2357)

Interim Report 2008



AviChina



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The board of directors (the "Board") of AviChina Industry & Technology Company Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2008 prepared under International Financial Reporting Standards.

Revenue	RMB8,078,733,000
Net loss attributable to the equity holders of the Company	RMB353,323,000
Loss per share, basic and diluted	RMB0.08
Equity attributable to the equity holders of the Company	RMB3,018,634,000

INTERIM DIVIDEND

The Board proposes that no interim dividend be paid for the six months ended 30 June 2008.



BUSINESS REVIEW

The Group is mainly engaged in aviation and automobile business. For the six months ended 30 June 2008, the Group recorded a revenue of RMB8,079 million – a slight increase of 0.59% over that of the corresponding period in 2007. However, since the Group's entire vehicle automobile business was still in the red, this resulted in a net loss of RMB353 million attributable to equity holders of the Company for the first half of 2008.

Aviation Business:

For the six months ended 30 June 2008, natural disasters such as the snow storm and the earthquake happened in the PRC resulted in a delay in deliveries of certain aviation parts and components, which thereby affected deliveries of aviation products. As a result, the Group recorded a sales revenue of RMB1,573 million in its aviation products, representing a drop by 11.23% as compared to that of the corresponding period in 2007.

For the first half of 2008, the Group's helicopter business recorded a sales revenue of RMB730 million, representing a drop by 23.72% as compared to that of the corresponding period in 2007.

For the first half of 2008, the Group's sales revenue in aviation parts and components amounted to RMB692 million, representing a drop by 6.49% as compared to that of the corresponding period in 2007. In July 2008, Jiangxi Changhe Aviation Industry Co., Ltd., a subsidiary of the Company, delivered the 100th tail rotor pylon of S-92 helicopter, which it developed and manufactured, to USA Sikorsky.

In addition, on 22 April 2008, Hafei Aviation Industry Co., Ltd., a subsidiary of the Company, delivered two Y-12 IV ocean surveillance aircraft and one H410 ocean surveillance helicopter to the State Oceanic Administration of the People's Republic of China (the "PRC").

On 10 May 2008, the 03 prototype of L15 advanced trainer, of which Jiangxi Hongdu Aviation Industry Co., Ltd. ("Hongdu Aviation"), a subsidiary of the Company, has participated in its development and manufacture, successfully had its debut flight.

On 9 July 2008, N5B agricultural-forestry multi-purpose aircraft, which was re-designed and modified in accordance with the customers' need by Hongdu Aviation, successfully had its debut flight, which was a phased progress made by Hongdu Aviation in the development of this model.



Automobile Business:

For the first half of 2008, the sales volume of the Group's entire vehicle automobile products recorded a mild growth. As at 30 June 2008, the total sales volume of the Group's entire vehicle automobile products amounted to 165,900 units, representing an increase of 1.47% as compared to that of the corresponding period in 2007. Of them, the sales volume of sedans was 60,000 units, representing an increase of 1.69% as compared to that of the corresponding period in 2007; and the sales volume of mini-vans and trucks reached 105,900 units, representing an increase of 1.34% as compared to that of the corresponding period in 2007. The export volume of the entire vehicle automobile products of the Group decreased due to the appreciation of Renminbi in the first half of 2008. The sales revenue from the Group's automobile products amounted to RMB6,506 million in the first half of 2008, representing an increase of 3.93% over that of the corresponding period in 2007. Of them, the sales revenue of the Group's entire vehicle automobile products amounted to RMB4,196 million, representing a decrease by 1.85% as compared to that of the corresponding period in 2007. The sales revenue of engines sold to external parties of the Group and automobile parts and components was RMB2,310 million, representing an increase of 16.37% over that of the corresponding period in 2007.

In the first half of 2008, the development of the Group's entire vehicle and engine products had made active progress. The preparatory work for batch production of multi-purpose passenger vehicle model HF9 was completed, and the certification announcement of multi-purpose passenger vehicle model HF10 was completed. The development of Hafei Lobo energy-saving π equipped with AMT gear box had completed, and entered into the phase of small batch production. The quality review conducted on dual-row freight wagons under Changhe Furuida had completed. The pilot production of right-hand driven model under the "Ideal" series was completed, and the upgrading of other relevant models is also in progress. The first round of sample development and capability development test on gasoline engine model DA468QB was accomplished. The development of engine model 4G15MIVEC has also been completed.

On 1 March 2008, the Group launched the major models which met with the State's Phase IV vehicle emission standard into the Beijing markets and on 1 July 2008, all the models which met with the State's Phase III vehicle emission standard were also launched into the market.

FUTURE OUTLOOK

Aviation Business:

In the second half of 2008, the Group will further strengthen its management strategy and put more efforts on coordinating the out-sourcing from domestic and overseas suppliers so as to ensure timely delivery of aviation products. The Group is actively preparing for its participation in the forthcoming 7th China International Aviation & Aerospace Exhibition to be held in Zhuhai in November 2008, and the Company will take this opportunity to enhance its reputation in the aviation industry and explore further opportunities for its products in the international market.

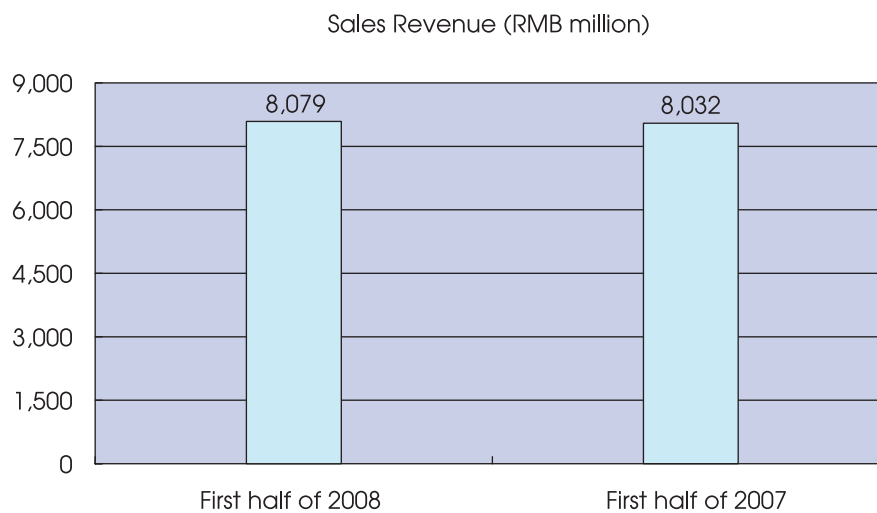


Automobile Business:

The automobile business of the Group has been facing a period of hardship. The Group's major subsidiaries in the entire vehicle automobile business have suffered losses and face a relatively bigger demand for funds. It is therefore difficult to solely rely on the Group's internal resources to effectively support the development of the automobile business. As a result, the Board decided to replace all the evaluated assets and liabilities in Jiangxi Changhe Automobile Co., Ltd. ("Changhe Auto") by certain aviation assets of the parent company of the Group.

FINANCIAL REVIEW

Revenue



For the six months ended 30 June 2008, the Group achieved a revenue of RMB8,079 million, representing an increase of RMB47 million, or 0.59%, as compared to RMB8,032 million for the corresponding period in 2007.



Gross profit

For the six months ended 30 June 2008, the Group achieved a gross profit of RMB855 million, representing a decrease by RMB94 million, or 9.91%, as compared to RMB949 million for the corresponding period in 2007. Of them, the gross profit of aviation segment of the Group amounted to RMB217 million, representing an increase of 13.61% as compared to that of the corresponding period in 2007. The increase was mainly attributable to the growth in the gross profit of aviation parts and components. The gross profit of automobile segment amounted to RMB638 million, representing a decrease by 15.83% as compared to that of the corresponding period in 2007. This is mainly attributable to a drop in the gross profit of the Group's entire vehicle automobile products although the gross profit of automobile engines sold to external parties of the Group still recorded a growth.

Selling and distribution expenses

For the six months ended 30 June 2008, the Group's selling and distribution expenses amounted to RMB392 million, representing a decrease by RMB48 million, or 10.91%, as compared to RMB440 million for the corresponding period in 2007. The decrease was mainly attributable to a drop in the expenses on after-sale services and sales commissions.

General and administrative expenses

For the six months ended 30 June 2008, the Group's general and administrative expenses amounted to RMB427 million, representing a decrease by RMB51 million, or 10.67%, as compared to RMB478 million of the corresponding period in 2007. The decrease was mainly attributable to a drop in the expenses on research and development as compared to that for the same period in 2007.

Finance costs, net

For the six months ended 30 June 2008, the Group's net finance costs amounted to RMB191 million, representing an increase of RMB76 million, or 66.09%, as compared to that of the corresponding period in 2007. The increase was attributable to enlarged interests expenses incurred as a result of the increased interest rate of bank loans. Details are set out in note 8 to the Condensed Consolidated Interim Financial Information.

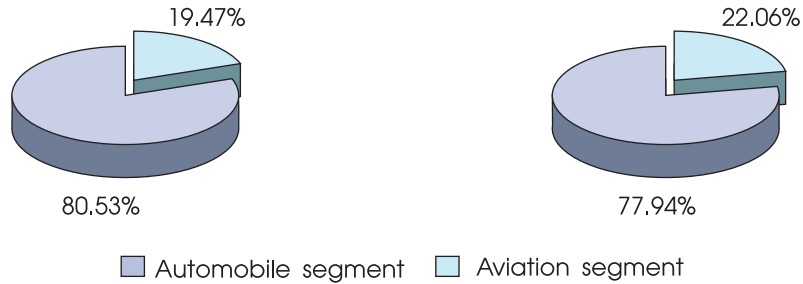
Net loss attributable to equity holders of the Company

For the six months ended 30 June 2008, the Group suffered a net loss of RMB353 million attributable to the equity holders of the Company, which was RMB136 million higher than the loss of RMB217 million for the corresponding period in 2007. This was mainly attributable to the widened loss in the revenue generated from the entire vehicle automobile products.

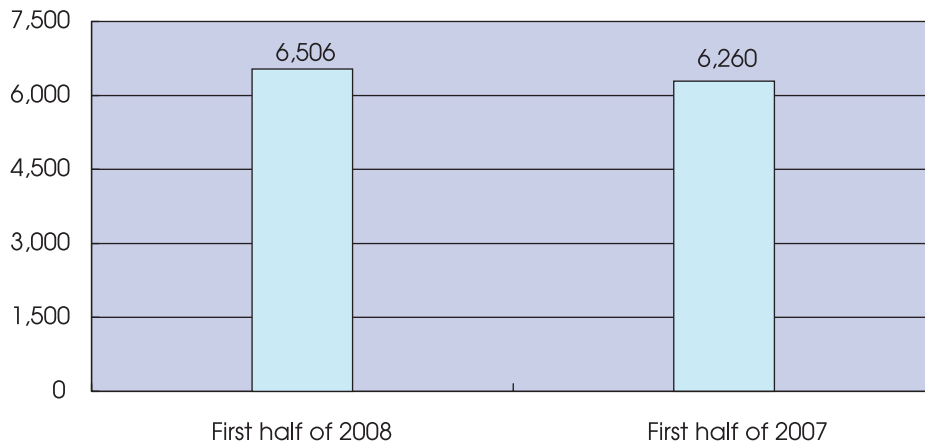


Segmental Information

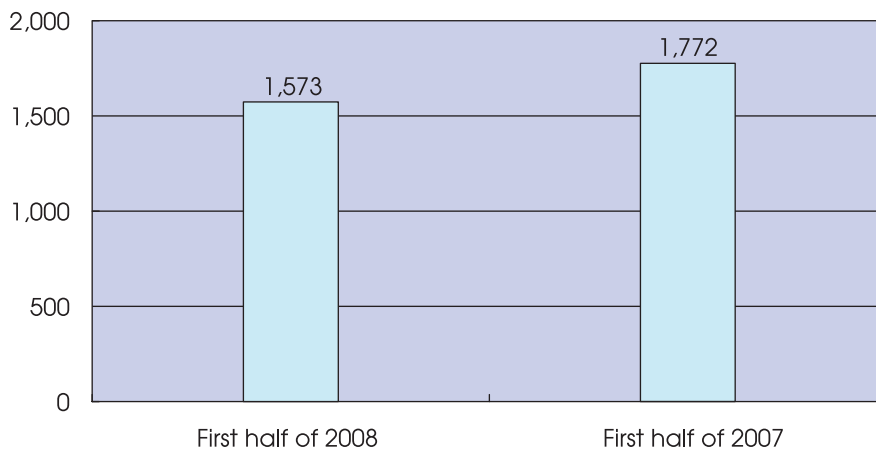
Revenue composition in the first half of 2008 Revenue composition in the first half of 2007



Revenue of Automobile Segment (RMB million)



Revenue of Aviation Segment (RMB million)





The revenue of the Group's aviation segment amounted to RMB1,573 million, representing a decrease by 11.23% as compared to that of the corresponding period in 2007 and accounted for 19.47% of the total revenue. The revenue of the Group's automobile segment amounted to RMB6,506 million for the first half of 2008, representing an increase of 3.93% as compared to that of the corresponding period in 2007 and accounted for 80.53% of the total revenue.

As shown in the charts above, for the first half of 2008, the proportion of aviation products in the total revenue has decreased by 2.59 percentage points as compared to that of the corresponding period in 2007.

Liquidity and Financial Resources

As at 30 June 2008, the Group's net cash and cash equivalents amounted to RMB2,007 million, representing a decrease by RMB446 million as compared to RMB2,453 million at the beginning of 2008. Cash and cash equivalents were mainly derived from cash and bank deposits at the beginning of 2008 and funds generated from its operations during this period.

As at 30 June 2008, the Group's total borrowings amounted to RMB6,389 million, of which short-term borrowings amounted to RMB4,331 million, current portion of long-term borrowings amounted to RMB835 million and non-current portion of long-term borrowings amounted to RMB1,223 million.

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

	RMB million
Within one year	835
In the second year	371
In the third to fifth year	549
After the fifth year	303
	<hr/>
Total	2,058
	<hr/> <hr/>

As at 30 June 2008, the Group's bank borrowings amounted to RMB6,225 million with an average interest rate of 7% per annum, representing an increase of RMB311 million as compared to that at the beginning of 2008; and other borrowings amounted to RMB164 million with an average interest rate of 0.06% per annum, representing an increase of RMB4 million as compared to that at the beginning of 2008.

Seasonal influence on the Group's borrowings was relatively insignificant.

CAPITAL STRUCTURE

As at 30 June 2008, the Group's borrowings were mainly denominated in Renminbi whilst cash and cash equivalents were mainly denominated in Renminbi, Hong Kong dollars, Euros and United States dollars.



PLEDGE ON ASSETS

As at 30 June 2008, the Group's borrowings secured by assets amounted to RMB401 million, representing a decrease by RMB30 million as compared to RMB431 million at the beginning of 2008. These borrowings were secured by machines, plants and equipment with a book value of RMB524 million.

GEARING RATIO

As at 30 June 2008, the Group's gearing ratio was 28.07% (31 December 2007: 26.67%), which was derived by dividing the total borrowings by total assets as at 30 June 2008.

EXCHANGE RISKS

Due to business operational needs, the Group has taken out some loans denominated in United States dollars and Euros. 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 rate during the period under review.

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2008, the Group did not provide any guarantees for any third party and had no significant contingent liabilities.

MATERIAL ACQUISITION AND DISPOSAL

For the six months ended 30 June 2008, the Group did not have any material acquisition or disposal.

USE OF PROCEEDS

Pursuant to the plan on use of proceeds, as at 30 June 2008, a total of RMB925 million had been invested, of which RMB700 million had been invested in automobile products for the research, development and technical upgrade of new vehicle and new engine models, while RMB225 million had been invested in aviation products for the research and development of new advanced trainer models and helicopter models. 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 2008, the Group had 27,605 employees. The Group's staff costs amounted to RMB496 million for the six months ended 30 June 2008.



CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at 30 June 2008, apart from Mr. Liu Hongde's resignation from his position as the vice president of the Company at the Board meeting held on 11 April 2008, there was no change to the directors, supervisors and senior management of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its code for securities transacted by its directors and supervisors. The Board has also confirmed that, having made specific enquiry of all directors and supervisors, all the directors and supervisors of the Company have complied with the required standards set out in the Model Code for the six months ended 30 June 2008.

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

As at 30 June 2008, none of the directors, supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which are required to be notified to the Company and the Stock Exchange pursuant to Part XV, Part 7 and Part 8 of the SFO, or required to be recorded and kept in the register by the Company pursuant to Section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.



SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, pursuant to the register kept under Section 336 of the SFO, shareholders holding more than 5% equity interests in the Company and its associated corporations were as follows:

Name of Shareholders	Class of shares	Number of shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of share held
China Aviation Industry Corporation II	Domestic shares	2,835,305,636	95.66%	61.06%	Long position
European Aeronautic Defence and Space Company – EADS N.V.	H shares	232,180,425	13.82%	5%	Long position
The Hamon Investment Group Pte Limited	H shares	204,580,000	12.18%	4.41%	Long position
The Bank of New York Mellon Corporation	H shares	101,412,000	6.04%	2.18%	Long position
Montpellier Asset Management Limited	H shares	90,420,000	5.38%	1.95%	Long position
Mellon Financial Corporation	H shares	85,706,000	5.10%	1.85%	Long position

Save as disclosed above, as at 30 June 2008, the Company had not been notified of any interests or short position in 5% or more of shares and underlying shares of the Company which had been recorded in the register kept pursuant to Section 336 of the SFO.

AUDIT COMMITTEE

The Board has established an audit committee and set out the Terms of Reference of the Audit Committee in accordance with "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. The audit committee had reviewed the Company's unaudited condensed consolidated interim financial information for the six months ended 30 June 2008.



CORPORATE GOVERNANCE

The Company has strictly complied with and has operated according to applicable laws, and regulations as well as its Articles of Association. The Company has also established an Internal Audit Department to enhance the monitoring of the Group's continuing connected transactions. After reviewing the Company's arrangements on corporate governance, the Board is of the view that the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules for the six months ended 30 June 2008.

OTHER MAJOR EVENTS

In June 2008, the PRC government decided to set up the organization unit of China Aviation Industry Group Corporation ("China Aviation Group Organizing Unit") to form a group corporation by merging China Aviation Industry Corporation I and China Aviation Industry Corporation II. The reorganized group corporation will become the controlling shareholder of the Company.

On 16 July 2008, Changhe Auto and China Aviation Group Organizing Unit entered into a framework agreement in relation to replacement of assets and acquisition of assets by means of share issuance, subject to terms and conditions (the "Agreement"). According to the Agreement, Changhe Auto proposes to sell all its assets and liabilities to China Aviation Group Organizing Unit and to issue no more than 90,000,000 shares to China Aviation Group Organizing Unit. China Aviation Group Organizing Unit will transfer to Changhe Auto its 100% equity interests in Shanghai Aviation Electric Co., Ltd. and its 100% equity interests in Lanzhou WanLi Aero Electro-Mechanism Limited Corporation as consideration. Details are set out in the announcement published by the Company on 18 July 2008.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, there is a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.



PURCHASE, SALE AND REDEMPTION OF SECURITIES

For the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board

Zhang Hongbiao

Chairman

Beijing, 25 August 2008

As at the date of this report, the Board of the Company comprises executive directors Mr. Zhang Hongbiao, Mr. Wu Xiandong and Mr. Tan Ruisong and non-executive directors Mr. Liang Zhenhe, Mr. Tian Min, Mr. Song Jingang, Mr. Wang Bin, Mr. Chen Huaqiu, 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.



Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30TH JUNE 2008

		For the six months ended 30th June	
		2008	2007
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
	Note		
Revenue	3	8,078,733	8,031,971
Cost of sales		(7,224,209)	(7,083,323)
Gross profit		854,524	948,648
Other income	4	14,183	53,906
Other gains, net	5	182,247	14,348
Selling and distribution expenses		(392,437)	(440,118)
General and administrative expenses		(427,227)	(477,726)
Other operating expenses, net	6	(36,313)	(64,300)
Operating profit	7	194,977	34,758
Finance income	8	42,527	30,091
Finance costs	8	(233,602)	(144,788)
Finance costs, net	8	(191,075)	(114,697)
Share of results of associates		31,301	1,707
Profit/(loss) before taxation		35,203	(78,232)
Income tax (expense)/credit	9	(168,041)	2,959
Loss for the period		(132,838)	(75,273)
Attributable to:			
Equity holders of the Company		(353,323)	(216,835)
Minority interests		220,485	141,562
		(132,838)	(75,273)
Loss per share for loss attributable to the equity holders of the Company during the period			
- Basic and diluted	11	RMB (0.08)	RMB (0.05)

Condensed Consolidated Balance Sheet



AS AT 30TH JUNE 2008

	Note	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	7,241,416	7,325,989
Land use rights	12	156,309	81,375
Intangible assets	12	305,347	331,614
Interests in associates		284,173	297,921
Available-for-sale financial assets		293,002	587,417
Deferred income tax assets		81,373	126,241
		<u>8,361,620</u>	<u>8,750,557</u>
Current assets			
Accounts receivable	13	3,146,161	3,237,673
Advances to suppliers		702,485	519,014
Other receivables and prepayments	14	1,354,219	1,203,537
Inventories		5,524,034	5,277,527
Financial assets at fair value through profit or loss		13,192	7,414
Pledged deposits		318,833	638,350
Term deposits with initial term of over three months		1,336,673	691,820
Cash and cash equivalents		2,006,689	2,452,706
		<u>14,402,286</u>	<u>14,028,041</u>
Total assets		<u><u>22,763,906</u></u>	<u><u>22,778,598</u></u>



Condensed Consolidated Balance Sheet

AS AT 30TH JUNE 2008

	Note	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		4,643,609	4,643,609
Reserves		(1,624,975)	(1,155,536)
		3,018,634	3,488,073
Minority interests		3,238,089	3,170,322
Total equity		6,256,723	6,658,395
LIABILITIES			
Non-current liabilities			
Long-term borrowings	18	1,222,557	1,111,540
Deferred income from government grants		142,689	149,886
Deferred income tax liabilities		88,507	156,332
		1,453,753	1,417,758
Current liabilities			
Accounts payable	15	7,071,356	6,761,213
Advances from customers		785,355	884,568
Other payables and accruals	16	1,226,322	1,324,343
Amounts payable to ultimate holding company	17	520,524	520,524
Provisions		183,383	174,431
Current portion of long-term borrowings	18	834,729	650,457
Short-term borrowings	18	4,331,335	4,312,163
Current income tax liabilities		100,426	74,746
		15,053,430	14,702,445
Total liabilities		16,507,183	16,120,203
Total equity and liabilities		22,763,906	22,778,598
Net current liabilities		(651,144)	(674,404)
Total assets less current liabilities		7,710,476	8,076,153

Condensed Consolidated Statement of Changes in Equity



FOR THE SIX MONTHS ENDED 30TH JUNE 2008

	Attributable to equity holders of the Company						Minority	Total
	Share capital	Capital reserve	Available-for-sale financial assets reserve	Statutory surplus reserve	Accumulated losses	Subtotal	interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
For the six months ended								
30th June 2008								
As 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
Change in fair value of available-for-sale financial assets								
- gross	—	—	(138,039)	—	—	(138,039)	(111,625)	(249,664)
- deferred taxation	—	—	34,510	—	—	34,510	27,906	62,416
Net expense recognised directly in equity	—	—	(103,529)	—	—	(103,529)	(83,719)	(187,248)
(Loss)/profit for the period	—	—	—	—	(353,323)	(353,323)	220,485	(132,838)
Total recognised (expense) /income for the period	—	—	(103,529)	—	(353,323)	(456,852)	136,766	(320,086)
Realisation of gain on available-for-sale financial assets in income statement upon disposal								
- gross	—	—	(19,967)	—	—	(19,967)	(16,146)	(36,113)
- deferred taxation	—	—	4,992	—	—	4,992	4,036	9,028
Disposal of certain interests in a subsidiary	—	—	—	—	—	—	13,930	13,930
Dividend to minority shareholders of subsidiaries	—	—	—	—	—	—	(72,389)	(72,389)
Others	—	(985)	3,373	—	—	2,388	1,570	3,958
As at 30th June 2008	4,643,609	76,490	70,379	31,178	(1,803,022)	3,018,634	3,238,089	6,256,723



Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30TH JUNE 2008

	Attributable to equity holders of the Company					Minority	Total
	Share capital	Capital reserve	Statutory surplus reserve	Accumulated losses	Subtotal	interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
For the six month ended 30th June 2007							
As at 1st January 2007	4,643,609	77,585	26,712	(419,007)	4,328,899	3,793,213	8,122,112
(Loss)/profit for the period	—	—	—	(216,835)	(216,835)	141,562	(75,273)
Total recognised (expense)/income for the period	—	—	—	(216,835)	(216,835)	141,562	(75,273)
Purchase of additional interests in a subsidiary	—	—	—	—	—	(2,909)	(2,909)
Additional contribution in an associate	—	218	—	—	218	—	218
Dividend to minority shareholders of subsidiaries	—	—	—	—	—	(26,349)	(26,349)
Effect on proportionate consolidation of a jointly controlled entity	—	—	—	—	—	(918,702)	(918,702)
Others	—	—	—	(331)	(331)	(3,964)	(4,295)
As at 30th June 2007	4,643,609	77,803	26,712	(636,173)	4,111,951	2,982,851	7,094,802

Condensed Consolidated Cash Flow Statement



FOR THE SIX MONTHS ENDED 30TH JUNE 2008

For the six months ended 30th June

	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(126,044)	(630,152)
Net cash used in investing activities	(884,781)	(681,057)
Net cash generated from financing activities	564,808	64,139
Net decrease in cash and cash equivalents	(446,017)	(1,247,070)
Cash and cash equivalents at 1st January	2,452,706	3,155,527
Cash and cash equivalents at 30th June	<u>2,006,689</u>	<u>1,908,457</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u>2,006,689</u>	<u>1,908,457</u>



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 automobiles and aviation products.

The Company’s directors regard AVIC II, a company established in the PRC, as being the ultimate holding company of the Company.

This condensed consolidated interim financial information is presented in thousands of Renminbi (“RMB’000”), unless otherwise stated.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information (the “Condensed Financial Information”) has been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” promulgated by the International Accounting Standards Board (“IASB”) and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This Condensed Financial Information should be read in conjunction with the 2007 annual financial statements. The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2007.

The following new interpretations are mandatory for financial year beginning 1st January 2008:

IFRIC-Int 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC-Int 12	Service Concession Arrangements
IFRIC-Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above interpretations did not have any significant financial impact on the Group.



2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The following standards, amendments to standard and interpretations have been issued but are not yet effective for financial year beginning 1st January 2008. The directors are currently assessing the impact on their adoption.

IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 32 and IAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 2 (Amendments)	Share-Based Payment – Vesting Conditions and Cancellations
IFRS 3 (Revised), IAS 27 (Amendments), IAS 28 (Amendments) and IAS 31 (Amendments)	Business Combinations
IFRS 8	Operating Segments
IFRIC-Int 13	Customer Loyalty Programmes
IFRIC-Int 15	Agreements for the Construction of Real Estate
IFRIC-Int 16	Hedges of a Net Investment in a Foreign Operation



3 SEGMENT INFORMATION

The Group is principally engaged in the manufacturing, assembly, sales and servicing of automobiles and civilian aircrafts.

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.

Secondary reporting format – geographical segments

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

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



3 SEGMENT INFORMATION (continued)

Primary reporting format – business segments

	For the six months ended 30th June 2008		
	Aviation RMB'000 (Unaudited)	Automobiles RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Operating results			
Segment revenue	1,573,262	6,505,471	8,078,733
Segment results	34,468	(1,468)	33,000
Unallocated income			184,796
Unallocated costs			(22,819)
Operating profit			194,977
Finance costs, net	(27,394)	(163,681)	(191,075)
Share of results of associates	29,421	1,880	31,301
Profit before taxation			35,203
Income tax expense			(168,041)
Loss for the period			(132,838)
Other segment information			
Capital expenditures	58,637	481,305	539,942
Depreciation	49,109	455,275	504,384
Amortisation	1,099	31,744	32,843
(Reversal of provisions)/provisions for impairments	(3,253)	39,566	36,313



3 SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

As at 30th June 2008

	Aviation RMB'000 (Unaudited)	Automobiles RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Assets			
Segment assets	9,015,785	12,560,859	21,576,644
Interests in associates	228,566	55,607	284,173
Unallocated assets			903,089
Total assets			<u>22,763,906</u>
Liabilities			
Segment liabilities	6,452,467	9,553,694	16,006,161
Unallocated liabilities			501,022
Total liabilities			<u>16,507,183</u>



3 SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

For the six months ended 30th June 2007

	Aviation RMB'000 (Unaudited)	Automobiles RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Operating results			
Segment revenue	1,772,168	6,259,803	8,031,971
Segment results	18,714	19,075	37,789
Unallocated income			7,193
Unallocated costs			(10,224)
Operating profit			34,758
Finance costs, net	(26,644)	(88,053)	(114,697)
Share of results of associates	—	1,707	1,707
Loss before taxation			(78,232)
Income tax credit			2,959
Loss for the period			(75,273)
Other segment information			
Capital expenditures	91,507	323,340	414,847
Depreciation	45,801	442,548	488,349
Amortisation	1,138	40,919	42,057
(Reversal of provisions)/provisions for impairments	(1,660)	65,960	64,300



3 SEGMENT INFORMATION (continued)

Primary reporting format – business segments (continued)

As at 30th June 2007

	Aviation RMB'000 (Unaudited)	Automobiles RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Assets			
Segment assets	9,020,098	13,789,955	22,810,053
Interests in associates	186,614	23,473	210,087
Unallocated assets			826,433
Total assets			<u>23,846,573</u>
Liabilities			
Segment liabilities	6,925,942	9,335,317	16,261,259
Unallocated liabilities			490,512
Total liabilities			<u>16,751,771</u>



4 OTHER INCOME

	For the six months ended 30th June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit from sale of scrap materials	11,869	13,947
Income from government grants	300	30,000
Rental income from plant and equipment	587	5,250
Income from rendering of other services, net	1,125	4,709
Dividend income from available-for-sale financial assets	302	—
	<u>14,183</u>	<u>53,906</u>

5 OTHER GAINS, NET

	For the six months ended 30th June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amortisation of deferred income relating to government grants	3,005	10,528
Fair value loss on financial assets at fair value through profit or loss	(3,244)	—
(Loss)/gain on disposal of:		
– Property, plant and equipment	(2,005)	(3,373)
– Certain interests in a subsidiary (note)	152,948	—
– An associate	(3)	—
– Available-for-sale financial assets	36,973	—
– Financial assets at fair value through profit or loss	(5,427)	7,193
	<u>182,247</u>	<u>14,348</u>

Note:

In January 2008, the Group disposed of an aggregate of 16,140,000 A shares of Jiangxi Changhe Automobile Co., Ltd. representing 3.94% of its total share capital, at market price.



6 OTHER OPERATING EXPENSES, NET

	For the six months ended 30th June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Provision/(reversal of provision) for impairment:		
– Property, plant and equipment (Note 12)	25,500	60,478
– Receivables	(153)	1,963
– Inventories	10,966	1,859
	<u>36,313</u>	<u>64,300</u>

7 OPERATING PROFIT

Operating profit is stated after charging the following:

	For the six months ended 30th June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amortisation		
– Land use rights * (Note 12)	4,093	2,423
– Intangible assets * (Note 12)	28,750	39,634
Costs of inventories recognised as expenses	7,224,209	7,083,323
Depreciation on property, plant and equipment (Note 12)	504,384	488,349
Operating lease rentals on land and buildings	12,496	18,090
Repairs and maintenance expense on property, plant and equipment	39,129	12,983
Research and development costs charged to income statement directly *	79,534	81,218
Staff costs	496,302	455,348
Warranty expenses	64,661	71,231
	<u>64,661</u>	<u>71,231</u>

* Included in general and administrative expenses



8 FINANCE COSTS, NET

	For the six months ended 30th June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income:		
Interest income on bank balances and deposits	<u>42,527</u>	<u>30,091</u>
Finance costs:		
Interest expense on bank borrowings		
– Wholly repayable within 5 years	228,162	163,243
– Not wholly repayable within 5 years	11,776	7,808
Interest expense on other borrowings		
– Not wholly repayable within 5 years	<u>48</u>	<u>56</u>
	239,986	171,107
Less: Amount capitalised in property, plant and equipment	(13,126)	(20,038)
Government interest subsidies	<u>(5,873)</u>	<u>(13,873)</u>
	220,987	137,196
Exchange losses	3,804	1,642
Others	<u>8,811</u>	<u>5,950</u>
	<u>233,602</u>	<u>144,788</u>
	<u>191,075</u>	<u>114,697</u>

**9 INCOME TAX EXPENSE/(CREDIT)**

	For the six months ended 30th June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC current income tax	113,814	50,352
Deferred income taxes	54,227	(53,311)
	<u>168,041</u>	<u>(2,959)</u>

The provision for PRC current income tax is calculated based on the statutory income tax rate of 25% of the assessable income of the companies within the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30th June 2008 (six months ended 30th June 2007: 33%), except for certain subsidiaries which are taxed at a transitional preferential rate of 18% (six months ended 30th June 2007: preferential rates from 7.5% to 15%) based on the relevant PRC tax rules and regulations.

10 DIVIDENDS

The board of directors of the Company does not recommend the payment of an interim dividend for the period ended 30th June 2008 (six months ended 30th June 2007: Nil).

11 LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30th June 2008 is based on the Group's loss attributable to equity holders of the Company of RMB 353,323,000 for the period (six months ended 30th June 2007: RMB 216,835,000) and the weighted average of 4,643,608,500 shares in issue during the period (six months ended 30th June 2007: 4,643,608,500 shares).

There was no dilution effect on the basic loss per share for the six months ended 30th June 2007 and 2008 as there were no potential dilutive shares outstanding during the six months ended 30th June 2007 and 2008.



12 CAPITAL EXPENDITURE

	Property, plant and equipment RMB'000 (Unaudited)	Land use rights RMB'000 (Unaudited)	Intangible assets (note (a)) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Cost				
As at 1st January 2008	12,585,551	115,871	814,612	13,516,034
Additions	458,432	79,027	2,483	539,942
Disposals	(30,480)	—	—	(30,480)
As at 30th June 2008	<u>13,013,503</u>	<u>194,898</u>	<u>817,095</u>	<u>14,025,496</u>
Accumulated depreciation/amortisation and impairment				
As at 1st January 2008	5,259,562	34,496	482,998	5,777,056
Depreciation/amortisation	504,384	4,093	28,750	537,227
Impairment (note (b))	25,500	—	—	25,500
Disposals	(17,359)	—	—	(17,359)
As at 30th June 2008	<u>5,772,087</u>	<u>38,589</u>	<u>511,748</u>	<u>6,322,424</u>
Net book value				
As at 30th June 2008	<u>7,241,416</u>	<u>156,309</u>	<u>305,347</u>	<u>7,703,072</u>

**12 CAPITAL EXPENDITURE** (continued)

	Property, plant and equipment RMB'000 (Unaudited)	Land use rights RMB'000 (Unaudited)	Intangible assets (note (a)) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Cost				
As at 1st January 2007	13,490,175	125,286	890,661	14,506,122
Additions	384,842	—	30,005	414,847
Disposals	(91,491)	—	—	(91,491)
Effect on proportionate consolidation of a jointly controlled entity	(1,243,554)	(7,322)	(20,438)	(1,271,314)
As at 30th June 2007	<u>12,539,972</u>	<u>117,964</u>	<u>900,228</u>	<u>13,558,164</u>
Accumulated depreciation/amortisation and impairment				
As at 1st January 2007	4,440,637	28,955	440,007	4,909,599
Depreciation/amortisation	488,349	2,423	39,634	530,406
Impairment (note (b))	60,478	—	—	60,478
Disposals	(40,532)	—	—	(40,532)
Effect on proportionate consolidation of a jointly controlled entity	(178,390)	(377)	(1,063)	(179,830)
As at 30th June 2007	<u>4,770,542</u>	<u>31,001</u>	<u>478,578</u>	<u>5,280,121</u>
Net book value				
As at 30th June 2007	<u>7,769,430</u>	<u>86,963</u>	<u>421,650</u>	<u>8,278,043</u>

Notes:

- (a) Intangible assets principally represent development costs capitalised in accordance with the Group's accounting policies.
- (b) During the period, the Group carried out a review of the recoverable amount of its manufacturing plant and equipment in relation to its automobile products, taking into account the current market conditions. Consequently, the recoverable amount of the relevant assets has been reassessed based on their value-in-use and, accordingly, an impairment loss of RMB25,500,000 (six months ended 30th June 2007: RMB60,478,000) has been recognised in the income statement.



13 ACCOUNTS RECEIVABLE

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Trade receivables, gross (note (a))		
– Fellow subsidiaries (note (b))	1,344,897	992,205
– A jointly controlled entity (note (b))	177,511	109,007
– Other related parties (note (b))	—	949
– Others	1,039,332	1,329,744
	2,561,740	2,431,905
Less: Provision for impairment	(213,621)	(234,264)
	2,348,119	2,197,641
Notes receivable (note (c))		
– Fellow subsidiaries	123,500	209,000
– Others	674,542	831,032
	798,042	1,040,032
	3,146,161	3,237,673

**13 ACCOUNTS RECEIVABLE** (continued)

Notes:

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

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Current to 1 year	2,276,376	2,109,716
1 year to 2 years	32,312	87,174
2 years to 3 years	70,736	58,255
Over 3 years	182,316	176,760
	<u>2,561,740</u>	<u>2,431,905</u>

- (b) Trade receivables from fellow subsidiaries, a jointly controlled entity and other related parties are unsecured, non-interest bearing and are repayable in accordance with the relevant trading terms.
- (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 18(h)).



14 OTHER RECEIVABLES AND PREPAYMENTS

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Advances for purchase of property, plant and equipment	15,702	4,788
Amounts due from customers for contract work	465,110	422,596
Other advances (note)		
– Ultimate holding company	4,346	6,011
– Fellow subsidiaries	254,534	181,181
– A jointly controlled entity	45,039	43,051
– Other related parties	23,120	20,258
Other receivables	370,846	379,869
Prepayments and deposits	61,486	56,000
Other current assets	114,036	89,783
	<u>1,354,219</u>	<u>1,203,537</u>

Note:

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

**15 ACCOUNTS PAYABLE**

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Trade payables (note (a))		
– Fellow subsidiaries (note (b))	712,525	529,067
– A jointly controlled entity (note (b))	—	2,774
– Other related parties (note (b))	25,093	8,372
– Others	4,997,566	4,389,974
	5,735,184	4,930,187
Notes payable (note (c))		
– Fellow subsidiaries	161,210	366,881
– Others	1,174,962	1,464,145
	1,336,172	1,831,026
	7,071,356	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:

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Current to 1 year	5,281,507	4,287,572
1 year to 2 years	248,640	489,816
2 years to 3 years	59,866	116,883
Over 3 years	145,171	35,916
	5,735,184	4,930,187

(b) Trade payables to fellow subsidiaries, a jointly controlled entity and other related parties are unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms.

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

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



16 OTHER PAYABLES AND ACCRUALS

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Payable for property, plant and equipment		
– Fellow subsidiaries (note (a))	6,999	6,767
– Others	161,085	130,583
Wages, salaries and bonuses payables	285,602	308,234
Accrued expenses	339,926	356,613
Deferred income from government grants	30,075	17,755
Consumption tax, business tax and other taxes payable	22,233	31,253
Other advances (note (b))		
– Ultimate holding company	3	13,680
– Fellow subsidiaries	140,855	161,971
– A jointly controlled entity	—	192
– Other related parties	21,603	—
Payable relating to share reform	—	96,029
Other current liabilities	217,941	201,266
	1,226,322	1,324,343

Notes:

- (a) Payable for property, plant and equipment is unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms.
- (b) Other advances mainly represent current account balances with the respective related parties which are unsecured, non-interest bearing and are repayable on demand.

**17 AMOUNTS PAYABLE TO ULTIMATE HOLDING COMPANY**

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Supplementary pension subsidies (note (a))	464,298	464,298
One-off housing benefit (note (b))	56,226	56,226
	520,524	520,524

Notes:

(a) Supplementary pension subsidies

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) One-off housing subsidies

This represents provision made by a subsidiary in connection with one-off housing subsidies for its eligible employees as at 31st December 2000. 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.



18 BORROWINGS

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Short-term borrowings		
Bank borrowings		
– Secured (note (h))	2,649,220	2,664,794
– Unsecured	1,672,115	1,637,369
	<u>4,321,335</u>	<u>4,302,163</u>
Other short-term borrowings, unsecured (note (c))	10,000	10,000
	<u>4,331,335</u>	<u>4,312,163</u>
Current portion of long-term borrowings	834,729	650,457
	<u>5,166,064</u>	<u>4,962,620</u>
Long-term borrowings		
Bank borrowings		
– Secured (note (h))	1,842,890	1,611,890
– Unsecured	60,000	—
	<u>1,902,890</u>	<u>1,611,890</u>
Other long-term borrowings		
– Secured (note (h))	9,667	10,650
– Unsecured (note (d))	144,729	139,457
	<u>154,396</u>	<u>150,107</u>
	<u>2,057,286</u>	<u>1,761,997</u>
Less: Current portion of long-term borrowings	<u>(834,729)</u>	<u>(650,457)</u>
	<u>1,222,557</u>	<u>1,111,540</u>
Total borrowings	<u>6,388,621</u>	<u>6,074,160</u>

**18 BORROWINGS** (continued)

Notes:

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

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Wholly repayable within five years		
– Bank borrowings	1,610,000	1,340,000
– Other borrowings	144,729	139,457
	<u>1,754,729</u>	<u>1,479,457</u>
Not wholly repayable within five years		
– Bank borrowings	292,890	271,890
– Other borrowings	9,667	10,650
	<u>302,557</u>	<u>282,540</u>
	<u>2,057,286</u>	<u>1,761,997</u>

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

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Bank borrowings:		
– Within one year	690,000	511,000
– In the second year	371,000	319,000
– In the third to fifth years	549,000	510,000
– After the fifth years	292,890	271,890
	<u>1,902,890</u>	<u>1,611,890</u>
Other borrowings:		
– Within one year	144,729	139,457
– After the fifth year	9,667	10,650
	<u>154,396</u>	<u>150,107</u>
	<u>2,057,286</u>	<u>1,761,997</u>

(c) Other short-term borrowings represented a loan granted by Shenzhen Finance Bureau to a subsidiary of the Group. The loan is unsecured, non-interest bearing and is repayable in full in 2008.



18 BORROWINGS (continued)

(d) Other long-term borrowings

Included in unsecured other long-term borrowings was a loan granted by Shenzhen Finance Bureau to a subsidiary of the Group with a face value of RMB 150,000,000. The loan is unsecured, non-interest bearing and is repayable in full in 2008.

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

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Weighted average effective interest rates		
– Bank borrowings	7.00%	6.39%
– Other borrowings	0.06%	0.07%

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

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Currency		
– Renminbi	5,948,971	5,536,316
– United States Dollar	91,200	10,650
– Euro	322,147	455,500
– Others	26,303	71,694
	6,388,621	6,074,160

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

	Carrying amount		Fair value	
	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Bank borrowings	1,212,890	1,100,890	1,126,054	1,027,450
Other borrowings	9,667	10,650	3,759	4,359
	1,222,557	1,111,540	1,129,813	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 characteristics as at the balance sheet dates. Such discount rates ranged from 7.56% to 7.83% as at 30th June 2008 (31st December 2007: 7.56% to 7.83%), depending on the type of the debt. The carrying amounts of current borrowings approximate their fair values.



18 BORROWINGS (continued)

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

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Securities over the Group's assets, at carrying value:		
- Property, plant and equipment, at net book value	524,115	542,303
- Notes receivable (Note 13(e))	—	59,866
- Pledged deposits	318,833	638,350
Guarantees provided by:		
- Ultimate holding company (Note 20)	629,890	389,890
- Fellow subsidiaries (Note 20)	339,667	90,650
- Subsidiaries within the Group (cross guarantees)	3,331,220	3,702,094
- Third parties	—	50,000



19 CAPITAL COMMITMENTS

The Group had the following capital commitments not provided for as at 30th June 2008:

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Acquisition of property, plant and equipment:		
– Authorised but not contracted for	48,910	48,557
– Contracted but not provided for	139,375	228,001
	188,285	276,558
Construction commitments:		
– Authorised but not contracted for	23,890	14,070
– Contracted but not provided for	42,579	57,846
	66,469	71,916
Investment in a jointly controlled asset:		
– Contracted but not provided for	40,764	40,764
Investment in an associate:		
– Contracted but not provided for	80,450	88,175
	375,968	477,413



20 SIGNIFICANT RELATED PARTY TRANSACTIONS

The directors of the Company have identified the following principal related parties, which had significant related party transactions or balances with the Group:

Principal related parties

Relationship with the Group

Ultimate holding company

- AVIC II

Ultimate holding company of the Company

Fellow subsidiaries

- Jiangxi Hongdu Aviation Industrial Group Corporation
- Changhe Aircraft Industries (Group) Ltd.
- Harbin Dongan Engine (Group) Co., Ltd.
- Harbin Aircraft Industry (Group) Co., Ltd.
- Hefei Changhe Industry Co, Ltd.
- China National Aero-Technology Import & Export Corporation
- CATIC International Industry and Trade Company

A wholly-owned subsidiary of AVIC II
A wholly-owned subsidiary of AVIC II
A wholly-owned subsidiary of AVIC II
A wholly-owned subsidiary of AVIC II
A wholly-owned subsidiary of AVIC II
A subsidiary of AVIC II
A subsidiary of AVIC II

Other related parties

- Shenzhen Shenhong Avionics Co., Ltd.
- Mitsubishi Motor Corporation

- Jiangxi Changhe Suzuki Automobile Co., Ltd.

An associate of the Group
A shareholder of Harbin Dongan Automotive Engine Manufacturing Co., Ltd., a subsidiary of the Group
A jointly controlled entity

Other state-owned enterprises

Related parties as defined under IAS 24



20 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Income statement items:

The aggregate income and expenses arising from those significant related party transactions during the six months ended 30th June 2008 are summarised as follows:

	For the six months ended 30th June	
	2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Revenues:		
Sale of goods and materials		
– Fellow subsidiaries	1,567,665	1,613,315
– A jointly controlled entity	62,513	68,851
– Other related parties	78,248	103,855
– Other state-owned enterprises	617,042	712,634
Rendering of service		
– Fellow subsidiaries	10,812	21,996
– A jointly controlled entity	2,527	—
Expenses:		
Purchase of goods and raw materials		
– Fellow subsidiaries	891,197	655,784
– A jointly controlled entity	30,878	39,447
– Other related parties	126,092	568,317
– Other state-owned enterprises	911,036	1,101,246
Service fees payable		
– Fellow subsidiaries	78,484	70,684
– Other related parties	11,257	27,544
– Other state-owned enterprises	29,027	21,924
Rental expenses for property, plant and equipment		
– Fellow subsidiaries	10,641	18,090
Interest expense		
– Other state-owned enterprises	203,792	146,571
Key management compensation		
– Salaries, bonuses and other welfares	1,315	1,010

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.

**20 SIGNIFICANT RELATED PARTY TRANSACTIONS** (continued)**Balance sheet items:**

The significant balances with related parties at 30th June 2008 are as follows:

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Assets:		
Trade receivables		
– Fellow subsidiaries	1,344,897	992,205
– A jointly controlled entity	177,511	109,007
– Other related parties	—	949
– Other state-owned enterprises	52,274	63,330
Notes receivable		
– Fellow subsidiaries	123,500	209,000
Advance to suppliers		
– Ultimate holding company	29	—
– Fellow subsidiaries	262,126	76,718
– Other related parties	9,111	6,242
– Other state-owned enterprises	155,840	93,591
Other receivables and prepayments		
– Ultimate holding company	4,346	6,011
– Fellow subsidiaries	254,534	181,181
– A jointly controlled entity	45,039	43,051
– Other related parties	23,120	20,258
Pledged deposits		
– Other state-owned enterprises	318,833	638,350
Term deposits with initial term of over three months		
– Other state-owned enterprises	1,236,673	691,820
Cash and cash equivalents deposited with		
– Other state-owned enterprises	1,970,600	2,126,852



20 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Balance sheet items: (continued)

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Liabilities:		
Trade payable		
– Fellow subsidiaries	712,525	529,067
– A jointly controlled entity	—	2,774
– Other related parties	25,093	8,372
– Other state-owned enterprises	151,414	267,643
Notes payable		
– Fellow subsidiaries	161,210	366,881
– Other state-owned enterprises	507,964	479,413
Advance from customers		
– Fellow subsidiaries	405,661	405,917
– Other state-owned enterprises	22,003	60,540
Other payables and accruals		
– Ultimate holding company	3	13,680
– Fellow subsidiaries	147,854	168,738
– A jointly controlled entity	—	192
– Other related parties	21,603	—
– Other state-owned enterprises	1,288	1,603
Amounts payable to ultimate holding company	520,524	520,524
Bank borrowings		
– Other state-owned enterprises	5,649,986	5,161,985

**20 SIGNIFICANT RELATED PARTY TRANSACTIONS** (continued)**Other matters:**

	30th June 2008 RMB'000 (Unaudited)	31st December 2007 RMB'000 (Audited)
Guarantees on bank loans granted to the Group from		
– Ultimate holding company	629,890	389,890
– Fellow subsidiaries	339,667	90,650
	<u>969,557</u>	<u>480,540</u>

In addition, certain of the Group's property, plant and equipment with carrying value of approximately RMB 657,185,000 at 30th June 2008 (31st December 2007: RMB 700,993,000) were situated on leasehold land in the PRC which are granted by AVIC II for the Group's use at no cost or have been leased from certain fellow subsidiaries under long-term leases.

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.

21 SUBSEQUENT EVENTS

On 16th July 2008, Jiangxi Changhe Automobile Co., Ltd. ("Changhe Auto"), a 59.02% owned subsidiary of the Company, entered into a framework agreement (the "Agreement") with the organising unit of China Aviation Industry Group Corporation ("China Aviation Group Organising Unit * ") subject to certain terms and conditions. According to the Agreement, Changhe Auto proposes to sell all its assets and liabilities to China Aviation Group Organising Unit and to issue no more than 90,000,000 shares to China Aviation Group Organising Unit. China Aviation Group Organising Unit will transfer to Changhe Auto as consideration its 100% equity interests in Shanghai Aviation Electric Co., Ltd. and its 100% equity interests in Lanzhou WanLi Aero Electro-Mechanism Limited Corporation.

The details of the Agreement have not been finalised and the relevant conditions of the transactions are yet to be satisfied. In addition, the actual number of shares to be issued by Changhe Auto will be determined based on certain asset valuation results. Therefore, up to the date of this report, the directors are not able to estimate the effects of these proposed transactions of Changhe Auto to the Group.

* China Aviation Group Organising Unit was established in accordance with the requirements of the State Council of the PRC for the purposes of the proposed merger and re-organisation of AVIC II and China Aviation Industry Corporation I.



BOARD OF DIRECTORS

Chairman	Zhang Hongbiao
Vice Chairmen	Wu Xiandong
	Tan Ruisong
Directors	Liang Zhenhe
	Tian Min
	Song Jingang
	Wang Bin
	Chen Huaiqiu
	Wang Yong
	Maurice Savart
	Guo Chongqing*
	Li Xianzong*
	Lau Chung Man, Louis*

* Independent Non-executive Directors

SUPERVISORY COMMITTEE

Chairman	Tang Jianguo
Supervisors	Wang Shouxin
	Li Shentian
	Bai Ping
	Han Xiaoyang
	Yu Yan
	Li Deqing
	Zheng Li
	Xie Zhihua

SENIOR MANAGEMENT

President	Wu Xiandong
Vice Presidents	Li Hui
	Li Yao
	Liu Tao
Company Secretaries	Yan Lingxi
	Ip Kun Wan, Kiril

THE LEGAL NAME OF THE COMPANY

中國航空科技工業股份有限公司
AviChina Industry & Technology Company Limited
Abbreviation name in Chinese: 中航科工
Abbreviation name in English: AviChina
Legal representative: Zhang Hongbiao

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUTHORISED REPRESENTATIVE

Wu Xiandong
Yan Lingxi

PRINCIPAL BANKERS

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

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

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

Shanghai Pudong Development Bank Limited
No.500, Pudong South Road, Pudong New District,
Shanghai, the PRC

PLACE OF LISTING, STOCK NAME AND STOCK CODE

Main Board of the Stock Exchange of
Hong Kong Limited (H Shares)
Stock name: AVICHINA
Stock code: 2357



REGISTERED ADDRESS

No.16, Hong Da Bei Lu, Beijing Economic-Technological Development Area, Beijing, the PRC

WEBSITE

www.avichina.com

CORRESPONDENCE ADDRESS

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

Telephone: 86-10-64094842
Facsimile: 86-10-64094826/36
E-mail: avichina@avichina.com

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Room 1806-1807, 18th Floor, Hopewell Centre,
183 Queen's Road East, Hong Kong

AUDITORS

International Auditors

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

Auditors in the PRC

PricewaterhouseCoopers Zhong Tian CPAs
Limited Company
11/F, PricewaterhouseCoopers Center,
No.202 Hu Bin Lu,
Shanghai 200021, the PRC

LEGAL ADVISERS

As to Hong Kong law

Baker & McKenzie
14th Floor, Hutchison House,
10 Harcourt Road, Central,
Hong Kong

As to PRC law

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