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)

2007 Interim Results Announcement

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 2007 prepared under International Financial Reporting Standards as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
	Note	**2007** *RMB'000* (Unaudited)	**2006** *RMB'000* (Unaudited)
Revenue	2	8,031,971	7,971,934
Cost of sales		(7,083,323)	(6,900,212)
Gross profit		948,648	1,071,722
Other income	3	91,190	60,588
Selling and distribution expenses		(440,118)	(470,944)
General and administrative expenses		(534,871)	(597,891)
Operating profit	4	64,849	63,475
Finance costs, net	5	(144,788)	(116,244)
Share of results of associates		1,707	6,242
Loss before taxation		(78,232)	(46,527)
Taxation credit	6	2,959	2,360
Loss for the period		(75,273)	(44,167)
Attributable to:			
Equity holders of the Company		(216,835)	(57,793)
Minority interests		141,562	13,626
		(75,273)	(44,167)
Loss per share for loss attributable to the equity holders of the Company during the period			
- Basic and diluted	8	RMB (0.05)	RMB (0.01)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		7,769,430	9,049,538
Land use rights		86,963	96,331
Intangible assets		421,650	450,654
Interests in associates		210,087	247,967
Other non-current financial assets		131,167	131,247
Deferred income tax assets		121,516	75,305
		8,740,813	10,051,042
Current assets			
Accounts receivable	9	3,969,442	3,716,924
Advances to suppliers		684,552	628,383
Other receivables and prepayments		1,221,309	708,218
Inventories		5,718,396	4,804,913
Pledged deposits		371,726	694,391
Term deposits with initial term of over three months		1,231,878	1,051,128
Cash and cash equivalents		1,908,457	3,155,527
		15,105,760	14,759,484
Total assets		23,846,573	24,810,526

	Note	**30 June 2007**	**31 December 2006**
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		4,643,609	4,643,609
Reserves		(531,658)	(314,710)
		4,111,951	4,328,899
Minority interests		2,982,851	3,793,213
Total equity		7,094,802	8,122,112
LIABILITIES			
Non-current liabilities			
Long-term borrowings		1,039,858	836,704
Deferred income from government grants		158,764	157,002
Deferred income tax liabilities		28,772	35,872
		1,227,394	1,029,578
Current liabilities			
Accounts payable	10	7,617,793	7,037,244
Advances from customers		933,779	460,470
Other payables and accruals		1,238,735	1,667,884
Amounts payable to ultimate holding company		520,524	520,524
Current portion of provisions		173,107	103,284
Current portion of long-term borrowings		280,025	433,695
Short-term borrowings		4,731,170	5,401,598
Current income tax liabilities		29,244	34,137
		15,524,377	15,658,836
Total liabilities		16,751,771	16,688,414
Total equity and liabilities		23,846,573	24,810,526
Net current liabilities		(418,617)	(899,352)
Total assets less current liabilities		8,322,196	9,151,690

Notes:

1 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 2006 annual financial statements.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, in addition to the following related to consolidation:

Joint venture

The Group's interest in a jointly controlled entity is accounted for by proportionate consolidation. The Group combines its share of the joint venture's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The directors of the Company classified Jiangxi Changhe Suzuki Automobile Co., Ltd (〝Changhe Suzuki〞) as a jointly controlled entity of the Group during the period and accounted for Changhe Suzuki using proportionate consolidation.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007:

IAS 1 (Amendment)	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC-Int 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC-Int 8	Scope of IFRS 2
IFRIC-Int 9	Reassessment of Embedded Derivatives
IFRIC-Int 10	Interim Financial Reporting and Impairment

The following standards, amendments to standards and interpretations have been issued but are not effective for 2007. Management is currently assessing the impact on the Group's operations.

IAS 23 (Revised)	Borrowing Costs
IFRS 8	Operating Segments
IFRIC-Int 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC-Int 12	Service Concession Arrangements
IFRIC-Int 13	Customer Loyalty Programmes
IFRIC-Int 14-IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

2 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:

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

All segment revenues were made to external parties.

Secondary reporting format - geographical segments

All assets and operations of the Group were located in the People's Republic of China (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.

Primary reporting format - business segments

	For the six months ended 30 June 2007		
	Aviation	**Automobiles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Operating results			
Segment revenue	1,772,168	6,259,803	8,031,971
Segment results	16,651	(32,768)	(16,117)
Other income			91,190
Unallocated costs			(10,224)
Operating profit			64,849
Finance costs, net			(144,788)
Share of results of associates	-	1,707	1,707
Loss before taxation			(78,232)
Taxation 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

		As at 30 June 2007	
	Aviation	**Automobiles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(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			23,846,573
Liabilities			
Segment liabilities	6,925,942	9,335,317	16,261,259
Unallocated liabilities			490,512
Total liabilities			16,751,771

Primary reporting format - business segments

		For the six months ended 30 June 2006	
	Aviation	**Automobiles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Operating results			
Segment revenue	1,698,163	6,273,771	7,971,934
Segment results	149,150	(129,651)	19,499
Other income			60,588
Unallocated costs			(16,612)
Operating profit			63,475
Finance costs, net			(116,244)
Share of results of associates	7,013	(771)	6,242
Loss before taxation			(46,527)
Taxation credit			2,360
Loss for the period			(44,167)

Other segment information			
Capital expenditures	100,479	403,964	504,443
Depreciation	36,450	398,993	435,443
Amortisation	844	67,449	68,293
Provision for impairment	29,290	89,940	119,230

	As at 31 December 2006		
	Aviation	**Automobiles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	(Audited)	(Audited)
Assets			
Segment assets	7,720,276	15,976,945	23,697,221
Interests in associates	192,339	55,628	247,967
Unallocated assets			865,338
Total assets			24,810,526
Liabilities			
Segment liabilities	5,119,222	11,051,521	16,170,743
Unallocated liabilities			517,671
Total liabilities			16,688,414

3 Other income

	For the six months ended 30 June	
	2007	**2006**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest income on bank balances and deposits	30,091	26,424
Profit from sale of scrap materials	13,947	11,982
Gain/(loss) on disposal of other financial assets at fair value through profit or loss	7,193	(507)
Income from government grants	30,000	11,263
Rental income from plant and equipment	5,250	391
Income from rendering of other services, net	4,709	11,035
	91,190	60,588

4 Operating profit

Operating profit is stated after charging/(crediting) the following:

	For the six months ended 30 June	
	2007	**2006**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Amortisation		
- Land use rights *	2,423	3,846
- Intangible assets *	39,634	64,447
Costs of inventories recognised as expenses	7,083,323	6,900,212
Depreciation and impairment on property, plant and equipment	548,827	435,443
Loss/(gain) on disposal		
- Property, plant and equipment	3,373	(1,790)
- A subsidiary	-	(21)
Operating lease rentals		
- Land and buildings	18,090	19,451
- Property, plant and equipment	-	160
Provision/(reversal of provision) for impairment		
- Receivables *	1,963	52,536
- Inventories	1,859	(9,377)
- Other non-current financial assets*	-	7,481
- Intangible assets	-	68,590
Repairs and maintenance expense on property, plant and equipment	12,983	7,883
Research and development costs charged to income statement directly*	81,218	36,588
Staff costs	455,348	476,893
Warranty expenses	71,231	57,358

* Included in general and administrative expenses

5 Finance costs, net

	For the six months ended 30 June	
	2007	**2006**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expense on bank borrowings		
- Wholly repayable within 5 years	167,361	148,291
- Not wholly repayable within 5 years	7,808	7,549
Interest expense on other borrowings		
- Not wholly repayable within 5 years	56	60
Less: Amount capitalised in property, plant and equipment	(20,038)	(14,669)
Government interest subsidies	(13,873)	(41,680)
	141,314	99,551
Exchange losses	1,642	11,430
Others	1,832	5,263
	144,788	116,244

6 Taxation credit

	For the six months ended 30 June	
	2007	**2006**
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC current income tax	50,352	30,248
Deferred taxation	(53,311)	(32,608)
	(2,959)	(2,360)

The provision for PRC current income tax is calculated based on the statutory income tax rate of 33% 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 30 June 2007 (six months ended 30 June 2006: 33%), except for certain subsidiaries which are taxed at preferential rates ranging from 7.5% to 33% (six months ended 30 June 2006: 7.5% to 33%) based on the relevant PRC tax rules and regulations.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "new CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008.

The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Company will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

7 Dividends

The Board of the Company does not recommend the payment of an interim dividend for the period ended 30 June 2007 (six months ended 30 June 2006: Nil).

8 Loss per share

The calculation of basic loss per share for the six months ended 30 June 2007 is based on the Group's loss attributable to equity holders of the Company of RMB216,835,000 for the period (six months ended 30 June 2006: RMB57,793,000) and the weighted average of 4,643,608,500 shares in issue during the period (six months ended 30 June 2006: 4,643,608,500 shares).

There was no dilution effect on the basic loss per share for the six months ended 30 June 2006 and 2007 as there were no potential dilutive shares outstanding during the six months ended 30 June 2006 and 2007.

9 Accounts receivable

	30 June 2007 *RMB'000* (Unaudited)	**31 December 2006** *RMB'000* (Audited)
Trade receivables, gross (note (a))		
- Fellow subsidiaries (note (b))	1,635,928	1,701,901
- Other related parties (note (b))	69,615	152,778
- Others	1,929,734	1,206,085
	3,635,277	3,060,764
Less: Provision for impairment	(226,721)	(222,108)
	3,408,556	2,838,656
Notes receivable (note (c))		
- Fellow subsidiaries	200,400	37,263
- Others	360,486	841,005
	560,886	878,268
	3,969,442	3,716,924

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:

	30 June 2007 *RMB'000* (Unaudited)	**31 December 2006** *RMB'000* (Audited)
Current to 1 year	3,332,752	2,820,466
1 year to 2 years	100,228	63,532
2 years to 3 years	44,518	5,449
Over 3 years	157,779	171,317
	3,635,277	3,060,764

(b) Trade receivables from fellow subsidiaries and other related parties are unsecured and non-interest bearing.

(c) Notes receivable are bills of exchange with average maturity period of within six months.

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

(e) Certain notes receivable were pledged as security for a bank loan.

10 Accounts payable

	30 June 2007 *RMB'000* (Unaudited)	**31 December 2006** *RMB'000* (Audited)
Trade payables (note (a))		
- Ultimate holding company (note (b))	-	6,487
- Fellow subsidiaries (note (b))	336,923	336,891
- Other related parties (note (b))	295,410	300,957
- Others	5,414,057	4,587,023
	6,046,390	5,231,358
Notes payable (note (c))		
- Fellow subsidiaries	178,149	176,131
- Other related parties	6,238	756
- Others	1,387,016	1,628,999
	1,571,403	1,805,886
	7,617,793	7,037,244

Notes:

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

	30 June 2007 *RMB'000* (Unaudited)	**31 December 2006** *RMB'000* (Audited)
Current to 1 year	5,809,402	4,953,475
1 year to 2 years	169,788	215,827
2 years to 3 years	15,400	46,806
Over 3 years	51,800	15,250
	6,046,390	5,231,358

(b) Trade payables to ultimate holding company, fellow subsidiaries and other related parties are unsecured and non-interest bearing.

(c) Notes payable are bills of exchange with average maturity period of within six months.

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

Management Discussion and Analysis

BUSINESS REVIEW

The Group is mainly engaged in the automobile business and aviation business. For the six months ended 30 June 2007, the Group recorded a revenue of RMB8,032 million, which represented a small increase when compared with that of the corresponding period in 2006. However, the increased loss in entire vehicle automobile products and the decrease in profit contribution from aviation products as affected by delivery led to a loss of RMB217 million attributable to equity holders of the Company in the first half of year 2007.

No interim dividend is proposed by the Board to be paid for the six months ended 30 June 2007.

Automobile Business:

In the first half of year 2007, the production and sales volumes of Chinese automobile industry maintained in strong growth. According to the statistics published by the China Association of Automobile Manufacturers, the production and sales volumes of automobiles in China during the first half of 2007 reached 4,456,700 and 4,373,800 respectively, representing increases of 22.36% and 23.31% respectively when compared with those of the corresponding period in 2006.

During the first half of 2007, there was a drop in the sales volume of the Group's entire vehicle automobile products. For the six months ended 30 June 2007, the total sales volume of the Group's automobile products amounted to 163,500, representing a decrease of 3.37% when compared with that of the corresponding period in 2006. The sales volume of sedans was 59,000, representing a decrease of 8.95% when compared with that of the corresponding period in 2006, and the sales volume of mini-vans and trucks reached 104,500, almost the same as that of the corresponding period in 2006. The export volume of the entire vehicle automobile products of the Group increased. The sales revenue from the Group's automobile products amounted to RMB6,260 million in the first half of 2007, representing a decrease of 0.22% from that of the corresponding period in 2006. The sales revenue of entire vehicle automobile products amounted to RMB4,275 million, representing a decrease of 15.95% from that of the corresponding period in 2006. The decrease was mainly caused by the price cutting, the decrease in the sales volume and the proportional consolidation of the revenue from Changhe Suzuki. The sales revenue of engines sold to external parties of the Group and automobile parts and components was RMB1,985 million, representing an increase of 67.09% over that of the corresponding period in 2006. The increase was mainly attributable to the significant growth in the sales volume of the Group's engine products.

In the first half of 2007, the Group launched a new model Changhe Landy and two upgraded models Hafei Lobo (1.3L) and Ideal II (K14B). Changhe Landy is a new generation of MPV global strategic model introduced from Suzuki Motor Corporation and manufactured by Changhe Suzuki. This model has gradually gained recognition by customers since its launching in May 2007.

The international cooperation on the Group's automobile business has made positive progress. On 29 June 2007, Hafei Auto Co., Ltd. (〝Hafei Auto〞) and PSA Peugeot Citroën (〝PSA Group〞) signed a Memorandum of Understanding for feasibility study on establishing a joint venture. Based on the facilities of Hafei Auto in Shenzhen, the two parties will set up a joint venture held as to 50% by Hafei Auto and 50% by PSA Group to manufacture and sell commercial vehicles under 10 passengers.

To gain more support from the local government and to speed up the development of its automobile products with own brands, the Group has reorganized Jiangxi Changhe Automobile Co., Ltd., Hefei branch into its wholly owned subsidiary, renamed as Hefei Changhe Automobile Co., Ltd. (〝Hefei Changhe〞), and upgraded the old production lines of Hefei Changhe to establish a platform for attracting investments and domestic and overseas partners.

Aviation Business:

Benefiting from the steady growth in the macro-economy of China during the first half of 2007, the revenue of the Group's aviation products kept growing. However, the unsteady supply of parts and components caused delay in the delivery of some aviation products and, as a result, hampered the growth in the revenue of the Group's aviation products. The Group recorded a sales revenue of RMB1,772 million in aviation products for the first half of 2007, which represented an increase of 4.36% when compared with that of the corresponding period in 2006.

In the first half of 2007, the Group's helicopter business recorded a sales revenue of RMB957 million, which represented an increase of 29.32% when compared with that of the corresponding period in 2006. On the basis of maintaining orders from the Chinese Government and strengthening the relationship with the existing customers, the Group has been actively developing new customer base for helicopters. In May 2007, Jiangxi Changhe-Agusta Helicopter Co., Ltd, entered into a sales contract with China Central Television for one CA109 helicopter, which will be used for aerial photographing in the forthcoming Olympic Games. The delivery of the helicopter is expected to take place in May 2008.

In the first half of 2007, the Group's sales revenue in aviation parts and components amounted to RMB740 million, which represented an increase of 6.78% when compared with that of the corresponding period in 2006. Tianjin Zhongtian Aviation Industry Investment Co., Ltd., in which Hafei Aviation Industry Co., Ltd. and Jiangxi Hongdu Aviation Industry Co., Ltd. have taken 10% interests respectively, entered into a joint venture contract with Airbus China Limited in June 2007 on establishing a joint venture for A320 series final assembly line in Tianjin.

The N-5A agricultural aeroplane manufactured by the Group has been granted type certificate by the United States Federal Aviation Administration (〝FAA〞), which provides a permit for entering into the international market. The application of Y-12F multi-purpose aeroplane for type certificate was accepted by FAA in April 2007, and the aeroplane is expected to make its first flight next year.

FUTURE OUTLOOK

Automobile Business:

With the development of China's macro-economy and the improvement of the residents' income, the potential consumption for automobile products in China is optimistic, and the automobile industry will remain in the well-developing phase for a long period. However, the automobile business of the Group is facing keen competition and the low utilization rate of some production lines will aggravate the situation faced by the entire vehicle automobile products. During the second half of 2007, the Group will leverage on the Chinese Government's support for Chinese automobile manufacturers on developing their own–brand products, continue to manufacture vehicles featuring 〝safe, environmental-friendly, energy-saving, economical and practical〞 and speed up the paces of developing new models and adjusting the product mix. In the meantime, the Group will promote the cooperation with international partners and the modification of organization structure to push forward the joint venture project between Hafei Auto and PSA Group to progress smoothly. The Group has also started to adjust the top management of its subsidiaries engaging in automobile business, recruited senior marketing personnel and endeavoured to improve the sales of automobile products and optimize and integrate the sales networks. The Group hopes these measures could reverse the present adverse position of its automobile marketing function.

Aviation Business:

The Board expects that the Group's aviation business will maintain its steady growth in the next few years, benefiting from the steady growth in the macro-economy of China and the continued development of the civil aviation market. The Group's Z-8, Z-9 and Z-11 helicopter products have developed into series and win steadily-increasing orders from the Chinese Government. CA109 and other new helicopter models being put into production recently will also become new highlights in the growth of the Group's helicopter business. The Group has been constantly pushed forward subcontracting programs for well-known aviation manufacturers, such as Eurocopter, Agusta S.p.A, Airbus and Boeing, and has gradually developed from the pure subcontractor for parts and components to the cooperation partner in manufacturing entire aeroplanes or helicopters. In the second half of 2007, the Group will further strengthen management 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 preparing to participate in the forthcoming Asian Aerospace International Expo and Congress to be held in Hong Kong, and will take this opportunity to enhance its reputation in the aviation industry and explore the international market.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2007, the Group achieved a revenue of RMB8,032 million, which represented an increase of RMB60 million, or 0.75%, when compared with RMB7,972 million of the corresponding period in 2006. The revenue of the Group's automobile segment amounted to RMB6,260 million for the first half of 2007, which represented a decrease of 0.22% when compared with that of the corresponding period in 2006 and accounted for 77.94% of the total revenue. The revenue of the Group's aviation segment amounted to RMB1,772 million, which represented an increase of 4.36% when compared with that of the corresponding period in 2006 and accounted for 22.06% of the total revenue.

Gross profit

For the six months ended 30 June 2007, the Group achieved a gross profit of RMB949 million, which represented a decrease of RMB123 million, or 11.47%, when compared with RMB1,072 million of the corresponding period in 2006. The gross profit of automobile segment amounted to RMB758 million, which represented an increase of 0.13% when compared with that of the corresponding period in 2006. The increase in automobile engines sold to external parties of the Group led to the growth in the gross profit of automobile business, although the gross profit of entire vehicle automobile products suffered a sharp decrease. The gross profit of the aviation segment of the Group amounted to RMB191 million, which represented a decrease of 39.37% when compared with that of the corresponding period in 2006. The drop was mostly caused by the fall in the gross profit of aviation parts and components caused by the change in the kinds of parts and components delivered in the first half of 2007 and the decline in sales revenue from trainers, which was affected by the unstable supply of aviation parts and components and, consequently, the delay in delivery.

Selling and distribution expenses

For the six months ended 30 June 2007, the Group's selling and distribution expenses amounted to RMB440 million, which represented a decrease of RMB31 million, or 6.58%, when compared with that of the corresponding period in 2006. The decrease was mainly caused by the drop of RMB28 million in advertising expenses.

General and administrative expenses

For the six months ended 30 June 2007, the Group's general and administrative expenses amounted to RMB535 million, which represented a decrease of RMB63 million, or 10.54%, when compared with that of the corresponding period in 2006. The decrease was mainly attributable to the decrease of RMB50 million in bad debts.

Financial costs, net

For the six months ended 30 June 2007, the Group's net financial costs amounted to RMB145 million, which represented an increase of RMB29 million, or 25.00%, when compared with that of the corresponding period in 2006. The decrease of RMB28 million in the recognized government interest subsidies caused the increase in the net financial costs.

Net loss attributable to equity holders of the Company

For the six months ended 30 June 2007, the Group suffered a loss of RMB217 million attributable to the equity holders of the Company, which was RMB159 million more than the loss of RMB58 million of the corresponding period in 2006. It was mainly attributable to the sharpened loss in the revenue from entire vehicle automobile products, which could not be offset by the increase in profit contribution from engine products. The decrease in the gross profit of aviation products caused by the delay in delivery had further aggravated the situation.

Liquidity and Financial Resources

As at 30 June 2007, the Group's net cash and cash equivalents amounted to RMB1,908 million, which represented a decrease of RMB1,248 million when compared with RMB3,156 million at the beginning of 2007. Cash and cash equivalents were mainly derived from cash and bank deposits at the beginning of 2007 and funds generated from its operations during this period.

As at 30 June 2007, the Group's total borrowings amounted to RMB6,051 million, of which short-term borrowings amounted to RMB4,731 million, current portion of long-term borrowings amounted to RMB280 million and non-current portion of long-term borrowings amounted to RMB1,040 million.

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

	RMB million
Within one year	280
In the second year	301
In the third to fifth year	513
After the fifth year	226
Total	1,320

As at 30 June 2007, the Group's bank borrowings amounted to RMB5,870 million with the interest rates ranged from 3.60% to 7.23% per annum, which represented a decrease of RMB229 million when compared with that at the beginning of 2007; and other borrowings amounted to RMB181 million, which represented a decrease of RMB392 million when compared with that at the beginning of 2007.

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

Capital Structure

As at 30 June 2007, 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 of Assets

As at 30 June 2007, the Group's borrowings secured by assets amounted to RMB44 million, which represented a decrease of RMB66 million when compared with RMB110 million at the beginning of 2007. These borrowings were secured by notes receivable with a book value of RMB70 million.

Gearing Ratio

As at 30 June 2007, the Group's gearing ratio was 25.37% (as at 31 December 2006: 26.89%), which was derived by dividing the total borrowings by total assets as at 30 June 2007.

Exchange Risks

The Group has arranged some loans denominated in United States dollars and Euros for business operational needs. In addition, the Company has 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 2007, 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 2007, the Group did not have any material acquisition or disposal.

Use of Proceeds

Pursuant to the plan of application of proceeds, as at 30 June 2007, an amount of RMB895 million had been invested, of which RMB700 million had been invested in the automobile products for the research, development and technical upgrade of new vehicle and new engine models, and RMB195 million had been invested in aviation products for the research and development of new advanced trainer models. The rest of the proceeds had been placed in short term deposits in banks in the PRC. The Company will utilize the rest of the proceeds pursuant to the plan of use of proceeds.

EMPLOYEES

As at 30 June 2007, the Group had 26,977 employees and staff costs totaled RMB455 million during the six months ended 30 June 2007.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There was no change of directors, supervisors and senior management of the Company for the six months ended 30 June 2007. At the board meeting of the Company held on 27 August 2007, Mr. Liu Tao and Mr. Liu Hongde were appointed as vice general managers 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 of securities transacted by the directors and the 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 during the six month ended 30 June 2007.

AUDIT COMMITTEE

The Board has established the audit committee and set out the Terms of Reference of the Audit Committee in accordance with the 〃Guide for the Effective Audit Committee〃 issued by the Hong Kong Institute of Certified Public Accountants. The audit committee had reviewed the Company's unaudited condensed consolidated interim financial information for the six months ended 30 June 2007.

CORPORATE GOVERNANCE

The Company has strictly complied with the applicable laws, regulations and its Articles of Association to standardize actions. The Company disclosed the portions in excess of the annual caps for the year 2006 by the Group's two continuing connected transactions in its 2006 Annual Report. The Company convened a general meeting on 15 June 2007 to approve the revised annual caps for the two continuing connected transactions. The Company has also established an Internal Audit Department to monitor the Group's continuing connected transactions more strictly. 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 under the Code on Corporate Governance Practices (the 〝Code〞) set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2007.

OTHER MAJOR EVENTS

On 6 July 2007, the board of Harbin Dongan Auto Engine Co., Ltd. (〝Dongan Motor〞), a 59.51% owned subsidiary of the Company, proposed a rights issue on a basis of three rights shares to every ten existing shares. Proceeds from this rights issue will be mainly used in products research and development and improving the production lines of Dongan Motor. The Board decided to subscribe with its own resources the whole or part of the rights shares to be issued to the Company by Dongan Motor pursuant to the proposed rights issue. Details are set out in the announcement of the Company published on 6 August 2007.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

Within the six months ended 30 June 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INFORMATION DISCOSURE ON THE WEBSITE OF THE STOCK EXCHANGE

The electronic version of this announcement will be published on both the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.avichina.com). The interim report of the Company for the six months ended 30 June 2007, which contains all information as required by Appendix 16 to the Listing Rules, will be dispatched to the shareholders of the Company and published on the website of the Stock Exchange in due course.

By order of the Board
Zhang Hongbiao
Chairman

Beijing, 27 August 2007

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 Huaiqiu, Mr. Wang Yong, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.

* For identification purposes only