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)

2008 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 2008 prepared according to International Financial Reporting Standards as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	For the six months ended 30th June 2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Revenue	2	8,078,733	8,031,971
Cost of sales		(7,224,209)	(7,083,323)
Gross profit		854,524	948,648
Other income	3	14,183	53,906
Other gains, net	4	182,247	14,348
Selling and distribution expenses		(392,437)	(440,118)
General and administrative expenses		(427,227)	(477,726)
Other operating expenses, net	5	(36,313)	(64,300)
Operating profit	6	194,977	34,758
Finance income	7	42,527	30,091
Finance costs	7	(233,602)	(144,788)
Finance costs, net	7	(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	8	(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	10	*RMB*(0.08)	*RMB*(0.05)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30th June 2008 *RMB'000* *(Unaudited)*	31st December 2007 *RMB'000* *(Audited)*
ASSETS			
Non-current assets			
Property, plant and equipment		7,241,416	7,325,989
Land use rights		156,309	81,375
Intangible assets		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
		8,361,620	8,750,557
Current assets			
Accounts receivable	11	3,146,161	3,237,673
Advances to suppliers		702,485	519,014
Other receivables and prepayments		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
		14,402,286	14,028,041
Total assets		22,763,906	22,778,598

	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		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	12	7,071,356	6,761,213
Advances from customers		785,355	884,568
Other payables and accruals		1,226,322	1,324,343
Amounts payable to ultimate holding company		520,524	520,524
Provisions		183,383	174,431
Current portion of long-term borrowings		834,729	650,457
Short-term borrowings		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

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 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 to the Group.

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

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:

- 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.

Primary reporting format - business segments

	For the six months ended 30th June 2008		
	Aviation	**Automobiles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(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

	As at 30th June 2008		
	Aviation	**Automobiles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	*(Unaudited)*	*(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			22,763,906
Liabilities			
Segment liabilities	6,452,467	9,553,694	16,006,161
Unallocated liabilities			501,022
Total liabilities			16,507,183

Primary reporting format - business segments

	For the six months ended 30th 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	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

	As at 30th 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

3 Other income

	For the six months ended 30th June 2008 *RMB'000* *(Unaudited)*	2007 *RMB'000* *(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	—
	14,183	53,906

4 Other gains, net

	For the six months ended 30th June 2008 *RMB'000* *(Unaudited)*	2007 *RMB'000* *(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
	182,247	14,348

Note: In January 2008, the Group disposed 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.

5 **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	25,500	60,478
- Receivables	(153)	1,963
- Inventories	10,966	1,859
	36,313	64,300

6 **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 *	4,093	2,423
- Intangible assets *	28,750	39,634
Costs of inventories recognised as expenses	7,224,209	7,083,323
Depreciation on property, plant and equipment	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

** Included in general and administrative expenses*

7 **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	42,527	30,091
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	48	56
	239,986	171,107
Less: Amount capitalised in property, plant and equipment	(13,126)	(20,038)
Government interest subsidies	(5,873)	(13,873)
	220,987	137,196
Exchange losses	3,804	1,642
Others	8,811	5,950
	233,602	144,788
	191,075	114,697

8 **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)
	168,041	(2,959)

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.

9 **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).

10 **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 RMB353,323,000 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.

11 **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

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
	2,561,740	2,431,905

(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.

12 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.

Management Discussion and Analysis

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.

The Board proposes that no interim dividend be paid for the six months ended 30 June 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 RMB1,573million in its aviation products, representing a drop by 11.23% as compared to that of the corresponding period in 2007.

For the six months ended 30 June 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 decrease of 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-12IV ocean surveillance aircrafts and one H410 ocean surveillance helicopter to the State Oceanic Administration of 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 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 by1.85% 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 business had made active progress. The preparatory work for batch production of HF9 was completed, and the certification announcement of 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 engine model DA468QB was accomplished. The development of 4G15MIVEC engine 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 market, 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 of 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 with 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 7 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 in the corresponding period in 2007. This was mainly attributable to the widened loss in the revenue generated from the entire vehicle automobile products.

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
Total	2,058

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 of Assets

As at 30 June 2008, the Group's borrowings secured by assets amounted to RMB401 million, representing a decrease of 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.

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 the applicable laws, regulations and 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"), 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 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 the organizing unit of China Aviation Industry Group Corporation ("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 Aviation Electrical Engineering Co., Ltd. as consideration. Details are set out in the announcement published by the Company on 18 July 2008.

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.

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 2008, 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, 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 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 purpose only*