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

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)

Annual Results Announcement for the year ended 31st December 2008
Proposed Amendments to the Articles of Association; and
Proposed Re-election and New Appointment of Directors and Supervisors

Financial Highlight

- Turnover of the Group for 2008 amounted to RMB16,385 million, which is close to the turnover in 2007.
- Operating loss of the Group for 2008 amounted to RMB394 million, about RMB130 million less than that of RMB524 million in 2007.
- The Board did not recommend distribution of final dividend for the year ended 31st December 2008 (2007: Nil).

ANNUAL RESULTS

The board of directors (the "Board") of AviChina Industry & Technology Company Limited (the "Company") announces the audited consolidated annual results of the Company and its subsidiaries (collectively the "Group") prepared in accordance with the International Financial Reporting Standards for the year ended 31st December 2008, together with the comparative figures for the year 2007, as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2008

		Group	
		2008	**2007**
	Note	*RMB'000*	*RMB'000*
Revenue	3	16,384,884	16,540,645
Cost of sales		(14,818,736)	(14,780,935)
Gross profit		1,566,148	1,759,710
Other income	4	105,915	113,796
Other gains, net	5	22,498	99,082
Selling and distribution expenses		(872,292)	(980,648)
General and administrative expenses		(1,216,235)	(1,049,823)
Other operating expenses		—	(466,112)
Operating loss	6	(393,966)	(523,995)
Finance income	7	79,280	57,966
Finance costs	7	(447,281)	(387,391)
Finance costs, net		(368,001)	(329,425)
Share of results of associates		40,068	56,711
Loss before income tax		(721,899)	(796,709)
Income tax expense	8	(188,596)	(51,635)
Loss for the year		(910,495)	(848,344)
Attributable to:			
Equity holders of the Company	9	(1,156,611)	(1,026,226)
Minority interests		246,116	177,882
		(910,495)	(848,344)
		RMB	*RMB*
Loss per share for loss attributable to equity holders of the Company during the year			
- Basic and diluted	10	(0.249)	(0.221)

CONSOLIDATED BALANCE SHEETS
AS AT 31ST DECEMBER 2008

		Group	
		2008	**2007**
	Note	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		6,897,248	7,325,989
Land use rights		151,307	81,375
Intangible assets		240,120	331,614
Interests in associates		329,969	297,921
Available-for-sale financial assets		230,379	587,417
Deferred income tax assets		97,603	126,241
		7,946,626	8,750,557
Current assets			
Accounts receivable	11	3,759,684	3,237,673
Advances to suppliers		314,736	519,014
Other receivables and prepayments		1,170,638	1,203,537
Inventories		5,120,762	5,277,527
Financial assets at fair value through profit or loss		11,488	7,414
Pledged deposits		536,605	638,350
Term deposits with initial term of over three months		1,259,962	691,820
Cash and cash equivalents		2,324,130	2,452,706
		14,498,005	14,028,041
Total assets		22,444,631	22,778,598

		Group	
		2008	**2007**
	Note	*RMB'000*	*RMB'000*
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		4,643,609	4,643,609
Reserves		(2,310,956)	(1,155,536)
		2,332,653	3,488,073
Minority interests		3,240,885	3,170,322
Total equity		5,573,538	6,658,395
LIABILITIES			
Non-current liabilities			
Long-term borrowings		934,191	1,111,540
Deferred income from government grants		135,491	149,886
Deferred income tax liabilities		36,816	156,332
		1,106,498	1,417,758
Current liabilities			
Accounts payable	12	7,218,591	6,761,213
Advances from customers		688,750	884,568
Other payables and accruals		1,364,177	1,324,343
Amounts payable to ultimate holding company		520,524	520,524
Provisions		205,128	174,431
Current portion of long-term borrowings		728,000	650,457
Short-term borrowings		4,910,404	4,312,163
Current income tax liabilities		129,021	74,746
		15,764,595	14,702,445
Total liabilities		16,871,093	16,120,203
Total equity and liabilities		22,444,631	22,778,598
Net current (liabilities)/ assets		(1,266,590)	(674,404)
Total assets less current liabilities		6,680,036	8,076,153

NOTES TO THE FINANCIAL STATEMENTS

1 **Organisation and principal activities**

AviChina Industry & Technology Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 30th April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation (the "Reorganisation") of China Aviation Industry Corporation II ("AVIC II"). The Company's H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30th October 2003.The Company and its subsidiaries are collectively referred to as the "Group". The Group is principally engaged in the research, development, manufacture and sale of aviation and automobile products.

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

2 **Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets at fair value through profit or loss, as appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgements in the process of applying the Group's accounting policies.

3 **Segment information**

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

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

The Group is organised into two main business segments:

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

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

All segment revenues were made to external parties.

Primary reporting format - business segments

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

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

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

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

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

4 Other income

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

5 Other gains, net

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

6 **Expenses by nature**

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

7 **Finance costs, net**

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

8 **Income tax expense**

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

Notes:

Except for certain subsidiaries which are taxed at a transitional preferential rate of 18% (2007: preferential rates from 7.5% to 15%), in accordance with the relevant PRC enterprise income tax rules and regulations, provision for PRC enterprise income tax is calculated based on the statutory income tax rate of 25% on the assessable income of the Group (2007: 33%).

9 **Loss attributable to equity holders of the Company**

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a profit of RMB119,047,000. (2007: a loss of RMB 462,588,000).

10 **Loss per share**

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the Company of RMB1,156,611,000 (2007: RMB 1,026,226,000) and based on the weighted average number of 4,643,608,500 (2007: 4,643,608,500) shares in issue during the year.

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

11 **Accounts receivable**

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

Notes:

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

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

The credit quality of accounts receivable that are neither past due nor impaired can be assessed by reference to the historical information about counter parties default rates. The existing counter parties do not have significant default in the past.

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

12 **Accounts payable**

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

Notes:

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

The principal business of the Group includes aviation business and automobile business.

For the year ended 31st December 2008, the Group recorded a turnover of RMB16,385 million, which is close to the turnover of RMB16,541 million in 2007. Among the turnover for 2008, the turnover derived from aviation products decreased by 13.72% from that of 2007, as affected by the declined revenue from aviation parts and components; and the turnover derived from automobile products presented a growth of 5.13% over that of 2007, as the sales volume of automobile products increased in 2008. As the entire vehicle business, which accounted for a significant part in the whole business of the Group, suffered a continuous loss, the Group commenced the disposal of its automobile business in June 2008 which has not been completed yet as at 31st December 2008. As a result, the Shares of loss by the equity holders of the Company amounted to RMB1,157 million in 2008, representing an increase as compared to that of 2007.

CONSOLIDATED OPERATING RESULTS

1. Turnover

The Group's turnover for 2008 was RMB16,385 million, which is close to the turnover of RMB16,541 million in 2007.

The turnover of the Group's aviation products in 2008 was RMB4,596 million, representing a decrease of 13.72% as compared to that in 2007. The turnover of the Group's aviation segment accounted for 28.05% of the total turnover of the Group, representing a decrease of 4.16 percentage points from 2007 when it had been 32.21%.

The turnover of the Group's automobile products in 2008 was RMB 11,789 million, representing an increase of 5.13% as compared to that in 2007. The turnover of the Group's automobile segment accounted for 71.95% of the total turnover of the Group, representing an increase of 4.16 percentage points from 2007 when it had been 67.79%.

The Group operates mainly in the mainland China where a majority of the turnover is generated.

2. **Selling and distribution expenses**

The Group's selling and distribution expenses for 2008 amounted to RMB872 million, representing a decrease of RMB109 million, or a reduction of 11.11% as compared with that in 2007. The decrease was mainly attributable to a decrease in transportation expenses and after-sales service expenses of automobile products caused by the enhanced expenses control during the year.

3. **General and administrative expenses and other operating expenses**

The Group's general and administrative expenses and other operating expenses for 2008 amounted to RMB1,216 million, representing a decrease of RMB300 million, or a 19.79% decrease as compared with that in 2007. The main reason is that the Group strengthened inventory control for the year resulting in the decrease in the provision for inventory impairment allowances.

4. **Operating loss**

The Group suffered an operating loss of RMB394 million for 2008, representing a decrease of RMB130 million as compared to the operating loss of RMB524 million in 2007. The main reason is that the Group strengthened the cost control of aviation products resulting in the increase of the gross profit of aviation products on a year-on-year basis and took active measures to reduce the expenses of automobile products causing the decrease in operating loss of automobile products as compared with that in last year.

5 **Finance costs, net**

The Group's net finance costs in 2008 amounted to RMB368 million, representing an increase of RMB39 million over that of 2007 which was RMB329 million. This was mainly attributable to an increase in bank borrowings.

6 **Income tax expense**

The Group's income tax in 2008 was RMB189 million, representing an increase of RMB138 million over that of 2007 which was RMB51 million.

7 **Minority interests**

The profit attributable to the Group's minority interests for 2008 was RMB246 million, representing an increase of RMB68 million as compared to that in 2007. Certain non-wholly owned subsidiaries of the Group recorded profits steadily.

SEGMENT INFORMATION

The Group's principal operations comprise two segments: the aviation segment and the automobile segment.

AVIATION SEGMENT

Sales Revenue

The Group's sales revenue derived from aviation products in 2008 was RMB4,596 million, representing a decrease of RMB731 million, or a 13.72% decrease from that of 2007. The decrease was mainly attributable to a decrease in revenue from aviation parts and components as compared to that in 2007. According to customers' requirements in 2008, some aviation parts were de-equipped, which caused the decrease in revenue from aviation parts and components.

Cost of Sales

Cost of sales of the Group's aviation products for 2008 was RMB3,878 million, representing a decrease of RMB766 million (in percentage terms, 16.49%) as compared to that in 2007. The rate of decrease in cost of sales was greater than the rate of decrease of 13.72% in sales revenue. This reflected strengthened cost control for aviation products.

Gross Margin

Gross margin of the Group's aviation products for 2008 was 15.62%, representing an increase of 2.79 percentage points as compared to that in 2007. In 2008, the Group undertook several measures to improve its gross margin, such as adjustmenting the products structure and cost control, as a result of which the gross margins of the Group's products such as helicopters, trainers and general-purpose aircraft and the profitability of the overall aviation products were all improved.

Review and Outlook

In 2008, as affected by the global financial crisis and the earthquake disaster occurred in China, there were significant changes in the economic environment in China, leading to a downturn of economic growth and stepping to an economic adjustment period. Under the challenging external economic environment, the Group continued to strengthen the efforts in expanding the markets for its aviation products. Through the participation in the 7th Session of the China International Aviation & Aerospace Exhibition held in 2008, the reputation of the Group's aviation products has been further enhanced.

During the reporting period, the Group sold 117 helicopters in total, which was three units less than that of 2007. Z-9 helicopters and CA109 helicopters successfully completed a number of aerial photography missions and other missions during the Beijing Olympic Games, demonstrating their safety and reliability. Z-9 helicopters and Z-8 helicopters also successfully fulfilled emergency rescue missions during the earthquake disaster. In addition, the research and development of a new helicopter model progressed smoothly, which had entered into the testing and manufacturing phase.

In 2008, the Group reached agreements with China National Aero-Technology Import & Export Corporation ("CATIC") on sale of 18 units of K-8 trainer, which were expected to be delivered in 2010 and 2011. Meanwhile, two units of K-8 trainer to be exported to Pakistan had been delivered to the flight testing station and the Group had also successfully delivered the first batch comprising eight units of K-8 trainer pursuant to the relevant contracts. At the same time, four units of K-8 trainer were successfully delivered and exported to Ghana, which was the first entry of K-8 trainers to the West African market. Currently, several African countries have imported K-8 trainers. The first flight of 03 prototype of L15 advanced trainer, which was primarily researched and manufactured by the Group, had also completed successfully.

During the reporting period, sales of the Group's civilian aircraft had made new progress, and the research and development of civilian aircraft had also been strengthened. N-5B had fulfilled "first flight of two aircraft". The development and research of the Group's Y-12F aircraft progressed swiftly. Hafei Aviation Industry Co., Ltd. ("Hafei Aviation") had signed framework agreements with CATIC for the sale of twenty units of Y-12F aircraft. Two units of Y-12IV aircraft were formally delivered to Fiji National Aviation Company, which was the first time export of this model. Another Y-12IV ocean surveillance aircraft ordered by the State Oceanic Administration of the PRC were also delivered. Eight units of N-5A aircraft had been delivered to the Ministry of Agriculture of the PRC. The Group anticipated that the international market for N-5A aircraft could be further expanded and could satisfy the demand of large-area agricultural and forestry industry in the northeast and western regions of the PRC. The market prospect for N-5A aircraft is therefore very positive.

During the reporting period, pursuant to the strategies adopted for development of aviation business, the Group had been continuously strengthening its cooperation with international partners and expanding its subcontracting business on aviation parts and components production. The Group's international cooperation had made remarkable achievements. The localization of parts and components of ERJ145 proceeded steadily. Certain co-operative programs with Airbus and other partners had also progressed smoothly. The cooperation of Jiangxi Changhe Aviation Industry Co., Ltd. with Agusta S.p.A, an Italian company and the sub-contracting manufacture of aviation parts and components for USA Boeing Company had also made achievements respectively. In addition, Hafei Aviation formally signed sub-contracting agreement on the supply of aviation parts and components to USA Honeywell and Britain GKN. The Company, Harbin Aircraft Industry Group Co., Ltd., Airbus China Limited, Hafei Aviation and Harbin Development Zone Heli Infrastructure Development Co., Ltd. had also signed a joint venture agreement, pursuant to which the parties will establish a joint venture in the PRC to manufacture composite parts and components of Airbus A350XWB and Airbus A320 series. The Group will invest a total of USD30 million to the joint venture.

As the national economy of the PRC grows rapidly, it is anticipated that the demands for helicopters and general-purpose aircraft will also increase progressively. Helicopters had played a prominent role in rescuing Sichuan Wenchuan earthquake survivors, and are irreplaceable in economy development and emergencies treatment. These imply a tremendous and wide market for helicopters in the future. Amid the current financial crisis, the development of general-purpose aviation will drive the development of the whole industry chain, play a crucial role "to propel domestic demands and stimulate consumption" for the macro-economy; and provide more opportunities to the aviation industry of the PRC. In respect of the global market, as the pace of internationalization of the global aviation industry has been speeded up, competition among aviation manufacturers is escalating and the capability of the PRC aviation industry is rising rapidly. All these factors create a desirable developing environment and favorable opportunities for the PRC aviation manufacturers to collaborate with international partners. In 2008, the Group made remarkable progress in exploring markets for its aviation products, although the profitability of its aviation business still needs to be improved. In 2009, the Group will adopt the following strategies to improve its aviation business:

1. Grasp the opportunities brought about by the reorganization of the PRC aviation industry. Increase its capital and enlarge the proportion taken up by the aviation business segment within the Group;

2. Negotiate with the strong controlling shareholder to inject or acquire aviation business assets to improve the profitability of the Group;

3. Take active measures to explore markets for the Group's products and expand international cooperation through domestic and overseas markets and resources so as to be a part of the global aviation manufacturing system;

4. Further enhance quality management, improve quality assurance system, continue to implement lean production and put emphasis on cost control measures;

5. Adopt the idea of human capitalization, enhance human resources, provide more trainings to employees, strengthen the training and management on employees and train up an excellent team for aviation industry; and

6. Continuously improve the Group's administration and supervision system and accelerate the growth in management efficiency.

AUTOMOBILE SEGMENT

Sales Revenue

The Group's turnover of automobile products for 2008 amounted to RMB11,789 million, representing an increase of RMB575 million as compared to that in 2007. This is mainly due to the increase in the turnover of mini-vans, trucks and engines. Included in the 2008 turnover was a sales revenue of vehicle-manufacturing business which was RMB7,541 million, representing an increase of RMB236 million, or a 3.23% increase, as compared to that in 2007. This presents a return to an increasing trend. Sales of automobile engine products and auto parts and components to parties outside the Group amounted to RMB4,248 million, representing an increase of 8.67% compared to that in 2007.

Cost of Sales

Cost of sales of the Group's automobile products for 2008 amounted to RMB10,941 million, representing an increase of RMB804 million or 7.93% as compared to that in 2007. The main reasons for that include the increase in price of raw materials and the depreciation of production lines due to the inability of sales volume of certain products to reach the designed capacity level.

Gross Margin

Gross margin of the Group's automobile products for 2008 was 7.19%, representing a decrease of approximately 2.41 percentage points as compared to that in 2007. The drop of the gross margin of the automobile products was caused by the increase in the price of raw materials and the depreciation of production lines due to the inability of sales volume of certain products to reach the designed capacity level.

Review and Outlook

In 2008, due to the great changes arose in the overseas and domestic economic situations, the PRC automobile industry ceased its rapid growth, which had continued for a number of years, and presented an evident slowdown. According to the statistics published by China Automobile Industry Association, a total of approximately 9,345,100 and 9,380,500 vehicles were produced and sold, respectively in the PRC in 2008, representing an increase of 5.21% and 6.70%, respectively over that of 2007. As compared with that of 2007, the rise had dropped by 16.81 and 15.14 percentage points, respectively.

In 2008, despite the depression of the macro-economy, the sales volume of vehicles and engines all achieved a growth through the efforts made by the Group. The Group sold 296,965 vehicles in 2008, representing an increase of 1.8% as compared to that in 2007. Among which the sales volume of mini-vans and trucks was 164,519 units, representing an increase of 5.73% as compared to that in 2007; and the sales volume of sedans was 101,808 units, representing an increase of 6.45% as compared to that in 2007. The number of auto engines sold to third parties outside the Group was 329,771 units, representing an increase of 16.12% as compared to that in 2007.

In 2008, the growth rate in sales volumes of sedans "Beidouxing", mini-van "Furuida" and automobile engines "4G1" were all higher than the average level of the industry. The sales volumes of "Beidouxing" , "Furuida" and "4G1" amounted to 51,512 units, 29,121 units and 319,010 units, respectively, representing an increase of 22.82%, 67.43% and 19.28%, respectively over that of 2007.

In 2008, the Group continued to restructure its automobile products. The development of new models of HF9 and HF10 had been completed and both models are ready for production. The development of Hafei Lobo Fuel-Saving π model equipped with AMT gearbox had been completed. The structural design and CAE analysis on Hafei electric vehicle model were also finished. In respect of engine products, the first phase of development of engine model DA468QB had been completed and the related performance development tests had also been conducted. The Group also completed the development of 4G15MIVEC engines and launched the development of new engine models and gearboxes. K14B was awarded as the "Top ten engines in 2008".

In 2009, the Group will adopt the following strategies to improve its automobile business:

1. Focus on the improvement of operation efficiency and profitability. With emphasis on reducing losses, the Group will continue to put forward the cost controlling work;

2. Strengthen marketing strategies and brand building through the expansion to the second tier and the third tier sales service network building and refine the after-sale system;

3. Actively drive forward adjustments in products structure, such as the upgrading of Beidouxing and Lobo models, extending the development of Furuida model, introducing auto gearbox and actively conducting the research on new fuel automobile;

4. Further promote self-owned development and the cooperation between the domestic and overseas manufacturers in order to better integrate with the mainstream automobile industry and improve the brand image and market competitiveness; and

5. Consider the reorganization of the remaining automobile business of the Group, based on the reorganization of Jiangxi Changhe Automobile Co., Ltd. ("Changhe Auto").

CASH FLOW

1. Liquidity and capital resources

As at 31st December 2008, the Group's net cash and cash equivalents amounted to RMB2,324 million, which was mainly derived from the followings:

- cash and bank deposits at the beginning of the year;
- funds generated from its operations; and
- new bank borrowings.

The Group's cash flows for each of the year 2008 and 2007 were as follows:

Unit: RMB million (except percentage)

Main items of cash flow	2008	2007	Change (amount)	Change (percentage)
Net cash flows generated from operating activities	564	97	467	481.44%
Net cash flows used in investing activities	(1,100)	(556)	(544)	97.84%
Net cash flows generated from/(used in) financing activities	407	(244)	651	(266.80%)
Net decrease in cash and cash equivalents	(129)	(703)	574	(81.65%)

2 **Operating activities**

Net cash flows generated from operating activities for the year was RMB564 million, representing an increase of RMB467 million as compared to that in 2007.

3 **Investing activities**

Net cash flows used in investing activities for the year was RMB1,100 million, representing an increase of RMB544 million as compared to that in 2007, which was mainly attributable to an increase in term deposits with an initial term of over three months as compared to that in 2007.

4 **Financing activities**

Net cash flows generated from financing activities for the year was RMB407 million, while the financing activities in 2007 generated a net outflow of RMB244 million. The increase was mainly attributable to an increase of RMB498 million in total borrowings as at the end of 2008 when compared to that as at the end of 2007.

As at 31st December 2008, the Group's total borrowings amounted to RMB6,573 million, of which the current borrowings, current portion of long-term borrowings and non-current portion of long-term borrowings amounted to RMB4,911 million, RMB728 million and RMB934 million, respectively.

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

Maturity	*RMB million*
Within one year	728
In the second year	370
In the third to fifth year	269
After the fifth year	295
Total	1,662

As at 31st December 2008, the Group's bank borrowings amounted to RMB5,993 million with an average interest rate of 6.13% per annum, representing 91.18% of the total borrowings. Other borrowings amounted to RMB580 million with an average interest rate of 3.24%, accounting for 8.82% of the total borrowings.

As at 31st December 2008, the Group's borrowings denominated in foreign currencies amounted to RMB287 million, representing 4.37% of the total borrowings. The borrowings denominated in United States Dollar, Euro and Japanese Yen amounted to US$20 million, Euro 5 million and Yen 1,308 million, respectively.

GEARING RATIO

As at 31st December 2008, the Group's gearing ratio was 29.28% (31st December 2007: 26.67%), which was arrived at by dividing the total borrowings by total assets as at 31st December 2008.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31st December 2008, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31st December 2008, there was no designated deposit or overdue fixed deposit placed by the Group that could not be collected by the Group upon maturity.

GUARANTEED AND SECURED LOANS

As at 31st December 2008, the Group's total borrowings amounted to RMB6,573 million, of which RMB201 million was secured by properties and buildings, with a net book value of RMB507 million.

Guaranteed borrowings amounted to RMB4,775 million, of which RMB2,774 million was cross guaranteed amongst the subsidiaries of the Group, RMB239 million was guaranteed by other related parties and RMB 1,762 million was guaranteed by Aviation Industry Corporation of China ("AVIC") and its subsidiaries.

EXCHANGE RISKS

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. The Group's assets and liabilities, and transactions arising from its operations subject to foreign exchange risk are primarily associated with United States Dollar, Euro, Hong Kong Dollar and Japanese Yen.

Due to its operational needs, the Group had taken out loans denominated in Euro, United States Dollar and Japanese Yen. In addition, the Company has some deposits in Hong Kong Dollar, being part of the proceeds raised from the initial public offering in October 2003. The directors are of the opinion that the exchange risks to the Group are low and will not have any material adverse impact on the Group's financial results.

USE OF PROCEEDS

According to the plan for use of proceeds, the proceeds used up to 31st December 2008 amounted to RMB 955 million in total, out of which RMB700 million was used for the research and development of new vehicle models and new automobile engines; RMB255 million was used for the research and development of new advanced trainers and helicopters; and the remaining balance was deposited with banks in the PRC as short term deposits which would also be used by the Company as planned.

EMPLOYEES AND REMUNERATION

As of 31st December 2008, the Group had 27,801 employees. The Group has provided appropriate emoluments, benefits and training to its employees.

The Group's remuneration scheme is determined based on fair and reasonable principles which are similar to those available in the market. Remuneration of employees comprises basic salary, contribution to a housing fund, and contributions to pension plans. The Group will also, in its discretion, pay year-end bonus to employees according to their respective performance. The Group also provides training relating to all kinds of professional skills and management techniques to all professional departments of the Group's headquarters and the business departments of its subsidiaries. On-the-job training covering corporate culture, management concept and management standardization are also provided to new employees.

Employees breakdown by functions

	Number of employees	**Percentage to total employees** *(%)*
Vehicles and engines	16,609	59.74%
Aviation	11,170	40.18%
Other activities	22	0.08%
Total	27,801	100%

For the year ended 31st December 2008, total staff costs of RMB1,090 million were incurred by the Group in connection with its employees, representing an increase of RMB145 million as compared to RMB945 million in 2007.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares for the year ended 31st December 2008.

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

On 9th October 2008, Changhe Auto, a non wholly-owned subsidiary of the Company, and the organizing unit of AVIC ("AVIC Organizing Unit") (now known as AVIC) entered into the Acquisition Agreement. Pursuant to the Acquisition Agreement, Changhe Auto conditionally agreed to purchase and AVIC Organizing Unit on behalf of China Aviation Industry Corporation I ("AVIC I") and China Aviation Industry Corporation II ("AVIC II") (and AVIC, upon its establishment after completion of the merger and reorganization of AVIC I and AVIC II) conditionally agreed to sell the aviation assets to Changhe Auto. Such aviation assets included Shanghai Aviation Electric Co., Ltd. and Lanzhou Wanli Aviation Electrical Co., Ltd., which were wholly-owned by AVIC, with a total net value of RMB793,177,100. Changhe Auto agreed to transfer all of its automobile assets (including liabilities) valued at RMB406,618,700 to AVIC and issued not more than 74,625,174 new shares to AVIC at an issue price of not less than RMB5.18 per share with a total value of not lower than RMB386,558,400. Details of the transaction can be referred to in the announcement and circular of the Company dated 13th October 2008 and 3rd November 2008, respectively.

SIGNIFICANT EVENT DURING THE REPORTING YEAR

On 6th November 2008, AVIC was officially established after the merger and reorganization of AVIC I and AVIC II. AVIC became the controlling shareholder of the Company holding 61.06% equity interest in the Company.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At an extraordinary general meeting and board meeting of the Company held on 16th October 2008, Mr. Lin Zuoming was appointed as the chairman of the Board of the Company. Mr. Tan Ruisong was appointed as the president of the Company and continued to be the vice chairman of the Board and the executive director of the Company. Mr. Wu Xiandong was no longer assumed as the vice-chairman of the Board and the president of the Company but continued to be the executive director of the Company.

Mr. Zhang Hongbiao resigned as the executive director and the chairman of the Board of the Company. Mr. Liang Zhenhe, Mr. Tian Min, Mr. Song Jingang, Mr. Chen Huaiqiu and Mr. Wang Bin resigned as the non-executive directors of the Company. Mr. Lin Zuoming was appointed as the executive director of the Company. Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo and Mr. Li Fangyong were appointed as the non-executive directors of the Company.

Mr. Wang Shouxin, Mr. Li Shentian, Mr. Han Xiaoyang and Mr. Li Deqing resigned as the supervisors of the Company due to work reallocation. Mr. Hu Wenming and Mr. Wang Yuming were appointed as supervisors of the Company, and Mr. Gao Jianshe and Mr. Li Yuhai were appointed as the supervisors of the Company representing the employees of the Company.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

1. Pursuant to the requirements of the relevant PRC authorities, the Board proposes to amend the following articles in the Articles of Association of the Company (the "Articles of Association"):

   Article 1

   The name of Promoter One is proposed to be changed from "Aviation Industry Corporation of China" to "China Aviation Industry Corporation II (Upon the establishment of Aviation Industry Corporation of China, all the interests held by China Aviation Industry Corporation II will be held by Aviation Industry Corporation of China.)"; and the body corporate business licence number is proposed to be changed from "10000001003786" to "100000000037869".

   Article 3

   The address of the Company is proposed to be changed from "Longsheng Building, No.7 Rongchang East Street, Beijing Economic-Technological Development Area, Beijing" to "8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic-Technological Development Area, Beijing.".

2. Pursuant to the Company Law of PRC and the relevant laws and regulations, the Board proposes to amend the following articles in the Articles of Association:

   Article 113

   The paragraph "The Supervisory Committee shall convene a meeting at least twice a year. The meetings shall be convened by the chairman of the Supervisory Committee." is proposed to be changed to "The Supervisory Committee shall convene a meeting at least twice a year. The meetings shall be convened by the chairman of the Supervisory Committee. In the event that the chairman is unable to perform or does not perform his duty, a supervisor shall be elected by more than half of the supervisors to convene and chair the meeting.".

Article 150

The paragraph "Profits after payment of the relevant taxation shall be distributed in the following order: (i) making up of losses; (ii) transfer to statutory common reserve; (iii) transfer to statutory public welfare fund; (iv) transfer to discretionary reserve fund; (v) payment of dividends to ordinary shares. The proportion for actual distributions of items (iv) and (v) of this Article in any year shall be decided by the Board based on the situation of operations and development needs, subject to the approval by the shareholders in general meeting." is proposed to be changed to "Profits after payment of the relevant taxation shall be distributed in the following order: (i) making up of losses; (ii) transfer to statutory common reserve; (iii) transfer to discretionary reserve fund; (iv) payment of dividends to ordinary shares. The proportion for actual distributions of items (iii) and (iv) of this Article in any year shall be decided by the Board based on the situation of operations and development needs, subject to the approval by the shareholders in general meeting.".

Article 153

Delete Article 153 which reads as follows: "The Company shall transfer 5-10% of profit after tax to statutory public welfare fund.".

3. According to the practical operations of the Company, the Board proposes to amend the following articles in the Articles of Association:

Article 87

The paragraph "The Company shall have a Board comprising thirteen Directors. The Board shall include a chairman of the Board and two vice-chairmen. Of these, more than half of the Board (including half of the Board) shall be external Directors (refer to Directors who do not hold any positions in the Company) and three shall be independent Directors." is proposed to be changed to "The Company shall have a Board comprising fifteen Directors. The Board shall include a chairman of the Board and one or two vice-chairmen. Of these, more than half of the Board (including half of the Board) shall be external Directors (refer to Directors who do not hold any positions in the Company) and three shall be independent Directors.".

Article 110

The paragraph "The Supervisory Committee shall comprise nine Supervisors, including four shareholder representative Supervisors, two independent Supervisors and three employee representative Supervisors, to serve a term of office of three years and may be elected to serve consecutive terms." is proposed to be changed to "The Supervisory Committee shall comprise five Supervisors, including three shareholder representative Supervisors, and two employee representative Supervisors, to serve a term of office of three years and may be elected to serve consecutive terms.".

Article 111

The paragraph "The shareholder representative Supervisors and the independent Supervisors are appointed or removed by the shareholders' general meetings; employee representative Supervisors of the Company shall be elected or removed by the employees of the Company in a democratic election." is proposed to be changed to "The shareholder representative Supervisors are appointed or removed by the shareholders' general meetings; employee representative Supervisors of the Company shall be elected or removed by the employees of the Company in a democratic election.".

4. Subject to the approval of the above proposed amendments by the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting of the Company (the "AGM"), the chairman of the Board is authorized to make amendments to the Articles of Association according to the requirements of the relevant PRC authorities and the applicable PRC laws and regulations.

PROPOSED RE-ELECTION AND NEW APPOINTMENT OF DIRECTORS AND SUPERVISORS

Pursuant to the Articles of Association of the Company, directors and supervisors representing the Shareholders should be elected at the general meeting of the Company for a term of three years. These directors and supervisors may offer themselves for re-election when their respective terms of office expire. The directors and supervisors representing the Shareholders will be elected by resolutions passed by more than half of the votes casted by the Shareholders or their proxies who are entitled to vote and in attendance at the relevant general meeting. The supervisors representing the employees of the Company will be elected democratically by the employees of the Company.

According to the proposed amendments to the Articles of Association in relation to the proposed changes to the composition of the Board and the Supervisory Committee, the composition of the Board will be changed from 13 directors to 15 directors, of which three directors are independent non-executive directors. In addition, the composition of the Supervisory Committee will be changed from nine supervisors to five supervisors, of which three supervisors are supervisors representing the Shareholders, and the remaining two supervisors are supervisors representing the employees of the Company. The proposed amendments to the Articles of Association are subject to approval by the Shareholders at a general meeting by way of a special resolution.

All the directors of the second session of the Board and the supervisors of the second session of the Supervisory Committee will retire from their respective offices at the AGM. Accordingly, the directors of the third session of the Board and the supervisors of the third session of the Supervisory Committee representing the Shareholders will be elected at the AGM to be convened on 9 June 2009. The respective terms of office of the directors of the third session of the Board and the supervisors of the third session of the Supervisory Committee will be three years, commencing from the date on which the third session of the Board and the third session of the Supervisory Committee are established respectively.

Directors

The second session of the Board comprises 13 members including three independent non-executive directors. The 13 members are Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Wu Xiandong, Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Li Fangyong, Mr. Wang Yong, Mr. Maurice Savart, Mr. Guo Chonqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, who have been nominated as candidates for re-election as directors of the third session of the Board. In addition, Mr. Gao Jianshe and Mr. Chen Yuanxian have been nominated as candidates for non-executive directors of the third session of the Board.

Supervisors

The second session of the Supervisory Committee comprises nine members, of which two supervisors representing the Shareholders, namely, Ms. Bai Ping and Mr. Wang Yuming, have been nominated by the Shareholders as candidates for re-election as supervisors of the third session of the Supervisory Committee.

Mr. Hu Wenming, Mr. Yu Yan, Ms. Zheng Li and Mr. Xie Zhihua have confirmed that they will not stand for re-election as supervisors of the third session of the Supervisory Committee due to job-reallocation and other matters. Each of Mr. Hu Wenming, Mr. Yu Yan, Ms. Zheng Li and Mr. Xie Zhihua has confirmed in writing that there is no disagreement with the Supervisory Committee and that there is no matter that needs to be brought to the attention of the Shareholders in respect of their respective cessation of office.

Mr. Yu Guanghai has been nominated as a candidate for election as a supervisor of the third session of the Supervisory Committee representing the Shareholders.

Mr. Gao Jianshe has confirmed that he will not stand for re-election as supervisor of the third session of the Supervisory Committee due to job-reallocation. Mr. Gao Jianshe has confirmed in writing that there is no disagreement with the Supervisory Committee and that there is no matter that needs to be brought to the attention of the Shareholders in respect of his cessation of office. In addition, Mr. Li Yuhai and Mr. Tang Jianguo have been nominated as candidates for election as supervisors representing the employees of the Company for a term of three years, commencing from the date on which the third session of the Supervisory Committee is established.

Biographical Details of Mr. Gao Jianshe, Mr. Chen Yuanxian and Mr. Yu Guanghai are set out as follows:

Mr. Gao Jianshe (高建設), aged 45, a master degree holder and class one senior economist. Mr. Gao is a candidate for non-executive director of the third session of the Board and he currently serves as a supervisor of the second session of the Supervisory Committee representing the employees of the Company. Mr. Gao is also a vice president of AVIC. He graduated from Xiamen University with a bachelor degree in 1985 majoring in philosophy, and completed courses for master degree candidates majoring in educational economy and administration conducted by Beijing University of Aeronautics and Astronautics in 2001. Mr. Gao commenced his career in aviation industry in 1985, and used to be a staff, senior staff, deputy director, director of Enterprise Cadre Division of Human Resource and Labor Department of Aviation Industry Ministry, Aviation and Space Industry Ministry and Aviation Industry of China Corporation; deputy director-general and director-general of Human Resource Department of China Aviation Industry Corporation I since July 1999; and vice president of AVIC I since August 2006. Mr. Gao also serves as chairman of supervisory committees of AVIC I Consultant Co., Ltd. and AVIC I Investment Co., Ltd..

Mr. Chen Yuanxian (陳元先), aged 49, a doctorate degree holder and researcher. Mr. Chen is a candidate for non-executive director of the third session of the Board. He is also the vice general economist and director of the strategy and planning department of AVIC. Mr. Chen graduated from Nanjing University of Aeronautics and Atronautics with a bachelor degree majoring in human engineering in 1982 and graduated from Beijing University of Aeronautics and Astronautics with a master degree and a doctorate degree majoring in human engineering in 1988 and 1998 respectively. He commenced his career in aviation industry from 1982 and used to be a technician, vice department director, vice general engineer and general engineer of China Research Institute of Aero-Accessories. He has become the director of China Research Institute of Aero-Accessories since February 2000 and as the director of airborne equipment department of AVIC I in February 2003. He was appointed as the vice general engineer of AVIC I in June 2007.

Mr. Yu Guanghai (于廣海先生), aged 39, a bachelor degree holder and a senior economist. Mr. Yu is a candidate for supervisor of the third session of the Supervisory Committee representing the Shareholders. He is also a manager of business department I of China Orient Asset Management Corporation, Harbin Office, responsible for assets and stock management. Mr. Yu graduated from Heilongjiang University with a bachelor degree majoring in economy. From 1992, he worked in Bank of China, the international business department, operation department and corporate department of Heilongjiang branch, engaging in research, investment management, investment fund and credit and loan operations. He joined China Orient Asset Management Corporation, Harbin Office since 2000.

As far as the directors are aware and save as disclosed above, each of Mr. Gao Jianshe, Mr. Chen Yuanxian and Mr. Yu Guanghai did not have any major appointment in other public listed companies in the last three years. Save as disclosed above, each of them does not have any relationship with any other directors, supervisors, senior management, substantial shareholders or controlling shareholders of the Company, nor does each of them have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Subject to the Shareholders' approval for their respective new appointments, each of Mr. Gao Jianshe, Mr. Chen Yuanxian and Mr. Yu Guanghai will have a term of office of three years, which will commence upon the establishment of the third session of the Board and the third session of the Supervisory Committee respectively.

The AGM is expected to be held on 9 June 2009. In order to enable the Shareholders to make an informed decision on the proposed re-election and new appointment of directors and supervisors, a circular providing, among other matters, further details of the proposed re-election and new appointment of directors and supervisors will be despatched to the Shareholders as soon as practicable.

AUDIT COMMITTEE

The Board has established an 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 Group's annual results and consolidated financial statements for the year ended 31st December 2008.

CORPORATE GOVERNANCE

The Company has strictly complied with the applicable laws and regulations in the jurisdiction in which it is listed and the Articles of Association of the Company to standardize its operations. The Board had reviewed the corporate governance practices adopted by the Company and is of the view that the Company had complied with the principles and code provisions set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules for the year ended 31 December 2008.

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 Listing Rules as its own guidelines for securities transactions by directors and supervisors of the Company. Upon specific enquiries with the directors and supervisors, the Board confirms that all directors and supervisors of the Company had complied with the Model Code under the Listing Rules for the year ended 31st December 2008.

THE ANNUAL REPORT

The annual report of the Company for the year ended 31st December 2008 will be despatched to the Shareholders and published on the websites of The Stock Exchange of Hong Kong Limited and the Company (http://www. avichina.com) in due course.

By order of the Board
AviChina Industry & Technology Company Limited*
Lin Zuoming
Chairman

Beijing, 9 April 2009

As at the date of this announcement, the Board comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and Mr. Wu Xiandong and non-executive directors Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Li Fangyong, 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.*