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)

2009 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 2009 prepared according to International Financial Reporting Standards as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	For the six months ended 30th June 2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited) (Restated)
Continuing operations			
Revenue	2	7,883,883	7,053,637
Cost of sales		(6,572,723)	(6,068,747)
Gross profit		1,311,160	984,890
Other income	3	19,265	20,998
Other gains, net	4	26,749	32,094
Selling and distribution expenses		(401,391)	(306,570)
General and administrative expenses		(525,208)	(405,736)
Operating profit		430,575	325,676
Finance income	6	45,022	39,113
Finance costs	6	(124,072)	(182,602)
Finance costs, net		(79,050)	(143,489)
Share of results of associates		9,900	30,422
Profit before income tax		361,425	212,609
Income tax expense	7	(90,554)	(179,148)
Profit for the period from continuing operations		270,871	33,461

	Note		
Discontinued operations			
Loss for the period from discontinued operations	8	(46,231)	(241,173)
Profit/(loss) for the period		224,640	(207,712)
Attributable to:			
Equity holders of the Company		(20,443)	(454,528)
Non-controlling interests		245,083	246,816
		224,640	(207,712)
Basic and diluted earnings/(loss) per share for profit/(loss) attributable to equity holders of the Company during the period from:			
- continuing operations	10	RMB 0.001	RMB (0.065)
- discontinued operations	10	RMB (0.006)	RMB (0.033)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30th June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
Profit/(loss) for the period	224,640	(207,712)
Other comprehensive income/(expenses), net of tax		
Gain on partial disposal of interests in a subsidiary	-	152,948
Change in fair value of available-for-sale financial assets	108,719	(194,628)
Realisation of gain on available-for-sale financial assets in income statement upon disposal	(4,673)	(27,085)
Others	(1,122)	3,958
	102,924	(64,807)
Total comprehensive income/(loss) for the period	327,564	(272,519)
Attributable to:		
Equity holders of the Company	36,479	(433,997)
Non-controlling interests	291,085	161,478
	327,564	(272,519)

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30th June 2009 RMB'000 (Unaudited)	31st December 2008 RMB'000 (Unaudited) (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		5,645,815	7,065,810
Investment properties		48,720	49,535
Land use rights		260,440	283,928
Intangible assets		222,516	240,814
Interests in associates		332,779	330,968
Available-for-sale financial assets		433,628	232,136
Deferred income tax assets		86,332	98,464
		7,030,230	8,301,655
Current assets			
Accounts receivable	11	3,268,455	3,910,196
Advances to suppliers		552,392	332,568
Other receivables and prepayments		1,500,251	1,196,042
Inventories		4,633,119	5,264,624
Financial assets held for trading		3,183	11,488
Pledged deposits		407,408	536,605
Term deposits with initial term of over three months		1,903,891	1,317,062
Cash and cash equivalents		2,281,492	2,418,654
		14,550,191	14,987,239
Total assets		21,580,421	23,288,894

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

	Note	30th June 2009 RMB'000 (Unaudited)	31st December 2008 RMB'000 (Unaudited) (Restated)
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		4,643,609	4,643,609
Reserves		(1,843,351)	(1,983,936)
		2,800,258	2,659,673
Non-controlling interests		3,748,423	3,471,203
Total equity		6,548,681	6,130,876
LIABILITIES			
Non-current liabilities			
Long-term borrowings		1,397,855	948,691
Deferred income from government grants		176,734	188,038
Deferred income tax liabilities		44,339	36,949
		1,618,928	1,173,678
Current liabilities			
Accounts payable	12	5,989,427	7,262,075
Advances from customers		904,673	695,445
Other payables and accruals		1,511,692	1,471,526
Amounts payable to ultimate holding company		370,524	520,524
Provisions		178,279	205,645
Current portion of long-term borrowings		303,000	728,000
Short-term borrowings		4,072,810	4,953,404
Current income tax liabilities		82,407	147,721
		13,412,812	15,984,340
Total liabilities		15,031,740	17,158,018
Total equity and liabilities		21,580,421	23,288,894
Net current assets/(liabilities)		1,137,379	(997,101)
Total assets less current liabilities		8,167,609	7,304,554

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 2008 annual financial statements.

(a) On 30th April 2009, Jiangxi Changhe Automobile Co., Ltd. ("Changhe Automobile"), a subsidiary of the Company, acquired from Aviation Industry Corporation of China("AVIC") the entire equity interests in Shanghai Aviation Electric Co., Ltd. ("Shanghai Aviation") and Lanzhou Wanli Aviation Electrical Co., Ltd. ("Lanzhou Aviation") which had been valued at an aggregated sum of approximately RMB 793,177,000 (the "consideration").

The consideration was satisfied by Changhe Automobile:

- distributing its entire assets and liabilities being valued at approximately RMB 406,619,000 to AVIC; and

- issuing 74,625,174 shares (equivalent to approximately RMB 386,558,000) to AVIC, whereby diluting the equity interests held by the Company in Changhe Automobile from 59.02% to 49.93% (collectively the "Swap Transaction").

On the same day, the Company and AVIC entered into an agreement that upon the abovementioned share issuance, AVIC undertakes to exercise its then entire 15.40% voting rights in Changhe Automobile in accordance with the instructions of the Company. Accordingly Changhe Automobile remains as a subsidiary of the Company.

The principal activities of Shanghai Aviation and Lanzhou Aviation are manufacturing and sale of aviation electrical engineering products and accessories. Changhe Automobile was engaged in the research, development, manufacture and sale of automobiles before the Swap Transaction.

Given that Changhe Automobile, Shanghai Aviation and Lanzhou Aviation are all under common control of AVIC before and after the business combinations, the Company applied the principles of merger accounting in preparing this Condensed Financial Information of the Group.

1 Basis of preparation and accounting policies (Continued)

By applying the principles of merger accounting, this Condensed Financial Information of the Group also includes the financial positions, results and cash flows of Shanghai Aviation and Lanzhou Aviation as if they had been combined with the Group throughout the six months ended 30th June 2009. Comparative figures as at 31st December 2008 and for the six months ended 30th June 2008 have been re-presented on the same basis.

This Condensed Financial Information of the Group includes the results of the previous automobile business of Changhe Automobile up to 30th April 2009 when Changhe Automobile distributed its entire then existing assets and liabilities to AVIC. Changhe Automotive was in a net liability position upon distribution and therefore it was recognised as a credit amounting to RMB 169,010,000 to the equity of the Group during the six months period.

In accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", the results and cash flows of the previous automobile business of Changhe Automobile have been presented as discontinued operations upon completion of the distribution.

The following are reconciliations of the effects arising from the common control combination and the distribution of the entire automobile business of Changhe Automobile on the condensed consolidated balance sheet as at 31st December 2008, condensed consolidated income statement and condensed consolidated cash flow statement for the six months ended 30th June 2008.

(i) The condensed consolidated balance sheet as at 31st December 2008:

	Balances as previously reported RMB'000 (Audited)	Merger of Shanghai Aviation and Lanzhou Aviation RMB'000	Elimination of inter-company balances RMB'000	Balances as restated RMB'000 (Unaudited)
Total non-current assts	7,946,626	355,029	-	8,301,655
Total current assets	14,498,005	510,474	(21,240)	14,987,239
Total non-current liabilities	1,106,498	67,180	-	1,173,678
Total current liabilities	15,764,595	240,985	(21,240)	15,984,340
Total equity	5,573,538	557,338	-	6,130,876

1 Basis of preparation and accounting policies (Continued)

(ii) The condensed consolidated income statement for the six months ended 30th June 2008:

	Balances as previously reported RMB'000 (Unaudited)	Merger of Shanghai Aviation and Lanzhou Aviation RMB'000	Elimination of inter-company balances RMB'000	Disposal of automobile business of Changhe Automobile RMB'000	Balances as restated RMB'000 (Unaudited)
Continuing operations					
Revenues	8,078,733	242,038	(50,339)	(1,216,795)	7,053,637
(Loss)/profit for the period from continuing operations	(285,786)	78,074	-	241,173	33,461
Discontinued operations					
Loss for the period from discontinued operations	-	-	-	(241,173)	(241,173)
(Loss)/profit for the period	(285,786)	78,074	-	-	(207,712)

(b) Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31st December 2008, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new/revised standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1st January 2009:

IAS 1 (Revised)	Presentation of financial statements
IAS 23 (Revised)	Borrowing Costs
IAS 32 (Amendment)	Financial Instruments: Presentation
IAS 39 (Amendment)	Financial Instruments: Recognition and measurement
IFRS 2 (Amendment)	Share-based Payment
IFRS 7 (Amendment)	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC 9 (Amendment)	Reassessment of Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

1 Basis of preparation and accounting policies (Continued)

Except for certain presentational changes as described below, the adoption of the above new/revised standards, amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group.

- IAS 1 (revised), ‘Presentation of financial statements’. The revised standard prohibits the presentation of items of income and expenses (that is ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All ‘non-owner changes in equity’ are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

  The Group has elected to present two statements: an income statement and a statement of comprehensive income. The Condensed Financial Information has been prepared under the revised disclosure requirements.

- IFRS 8, ‘Operating segments’. IFRS 8 replaces IAS 14, ‘Segment reporting’. It requires a ‘management approach’ under which segment information is presented on the same basis as that used for internal reporting purposes.

  Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors that makes strategic decisions.

In addition, the IASB also published a number of amendments for existing standards effective 1st January 2009 under its annual improvement project. These amendments do not have any significant impact to the results and financial position of the Group.

In 2009, the Group early adopts IAS 27 (revised), ‘Consolidated and Separate Financial Statements’ and IFRS 3 (revised) ‘Business Combinations’ which are effective for annual periods beginning on or after 1st July 2009.

Under these revised standards, total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

There are no other impacts to the results and financial position of the Group on the adoption of IAS 27 (revised) and IFRS 3 (revised) as there are no non-common control business combinations during the six months ended 30th June 2009 and it is the Group’s existing policy to record the effects of all transactions with non-controlling interests in equity if there is no change in control.

2 Segment information

The chief operating decision-maker has been identified as the Board of Directors which reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board of Directors considers the business from a product perspective:

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

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

Turnover consists of sales from aviation and automobile segments, which are RMB 2,030,075,000 and RMB 5,853,808,000 for the six months ended 30th June 2009 and RMB 1,764,961,000 and RMB 5,288,676,000 for the six months ended 30th June 2008 respectively.

There are no material sales between segments. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the condensed consolidated income statement.

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

2 Segment information (Continued)

	Aviation RMB'000 (Unaudited)	Automobiles RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
For the six months ended 30th June 2009			
Segment revenue	2,030,075	5,853,808	7,883,883
Segment result	146,550	205,402	351,952
Depreciation and amortisation	70,551	366,227	436,778
Provision for impairments	5,581	9,051	14,632
Finance costs	52,457	71,615	124,072
Share of results of associates	8,682	1,218	9,900
Income tax expense	8,427	82,127	90,554
For the six months ended 30th June 2008			
Segment revenue	1,764,961	5,288,676	7,053,637
Segment result	91,097	105,218	196,315
Depreciation and amortisation	65,264	375,832	441,096
(Reversal of provision)/provision for impairments	(2,769)	32,165	29,396
Finance costs	56,567	126,035	182,602
Share of results of associates	29,582	840	30,422
Income tax expense	24,994	154,154	179,148

2 Segment information (Continued)

Reconciliation of segment result to profit before income tax and discontinued operations:

	For the six months ended 30th June 2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Segment result for reportable segments	351,952	196,315
Finance income	45,022	39,113
Corporate overheads	(35,549)	(22,819)
Profit before income tax and discontinued operations	361,425	212,609

3 Other income

	For the six months ended 30th June 2009 RMB'000	2008 RMB'000 (Restated)
Rental income	5,025	6,810
Income from government grants	3,737	150
Amortisation of deferred income relating to government grants	7,942	7,741
Profit from sale of scrap materials	1,253	4,018
Income from rendering of other services	593	1,976
Dividend income from available-for-sale financial assets	715	303
	19,265	20,998

4 Other gains, net

	For the six months ended 30th June 2009 RMB'000	2008 RMB'000 (Restated)
Fair value loss on financial assets at fair value through profit or loss	(141)	(3,244)
Gain/(loss) on disposal of:		
- Property, plant and equipment	2,450	(2,007)
- Associates	-	(3)
- Available-for-sale financial assets	12,753	42,775
- Financial assets held for trading	11,687	(5,427)
	26,749	32,094

5 Expenses by nature

	For the six months ended 30th June	
	2009	2008
	RMB'000	RMB'000
		(Restated)
Advertising costs	64,295	54,572
Amortisation:		
- Land use rights	6,643	5,675
- Intangible assets	3,262	26,785
Auditors' remuneration	3,145	3,261
Changes in inventories of finished goods and work-in-progress	(97,069)	(71,569)
Contract costs incurred	934,169	561,474
Depreciation:		
- Property, plant and equipment	426,058	407,739
- Investment properties	815	897
Fuel	222,301	205,893
Insurance	5,859	6,137
Operating lease rentals	9,386	18,928
Provision/(reversal of provision) for impairment:		
- Available-for-sale financial assets	9,075	-
- Inventories	(859)	9,969
- Receivables	6,416	19,427
Raw materials and consumables used	4,505,595	4,354,914
Repairs and maintenance expense	80,908	92,632
Research expenditures and development costs	148,369	78,111
Staff costs	565,980	509,272
Sub-contracting charges	68,512	82,232
Sundries	230,847	146,596
Transportation expenses	158,273	159,672
Travelling	20,633	20,951
Warranty expenses	126,709	87,485
Total cost of sales, selling and distribution expenses, and general and administrative expenses	7,499,322	6,781,053

6 Finance costs, net

	For the six months ended 30th June	
	2009	2008
	RMB'000	RMB'000 (Restated)
Finance income:		
Interest income on bank balances and deposits	45,022	39,113
Finance costs:		
Interest expense on bank borrowings		
- Wholly repayable within 5 years	138,986	179,242
- Not wholly repayable within 5 years	7,702	11,898
Interest expense on other borrowings		
- Not wholly repayable within 5 years	-	48
	146,688	191,188
Less: Amount capitalised in property, plant and equipment	(8,806)	(13,126)
Government interest subsidies	(12,193)	(5,873)
	125,689	172,189
Exchange (gains)/losses	(5,000)	3,124
Other finance costs	3,383	7,289
	124,072	182,602
	79,050	143,489

7 Income tax expense

	For the six months ended 30th June	
	2009	2008
	RMB'000	RMB'000 (Restated)
PRC enterprise income tax	89,794	125,223
Deferred income taxes	760	53,925
	90,554	179,148

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2008: 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% (2008: 25%) on the assessable income of the companies within the Group.

8 Discontinued operations

On 30th April 2009, the Group distributed its entire automobile business of Changhe Automobile to AVIC (Note 1(a)). The losses of the disposed business for the six months ended 30th June 2008 and for the four months ended 30th April 2009 amounted to approximately RMB 241,173,000 and RMB 46,231,000, respectively, have been presented as loss from discontinued operations of the Group.

The results of the discontinued operations were as follows:

	For the four months ended 30th April 2009 RMB'000	For the six months ended 30th June 2008 RMB'000
Revenue	1,111,651	1,216,795
Expenses	(1,157,734)	(1,458,835)
Loss before income tax	(46,083)	(242,040)
Income tax (expense)/credit	(148)	867
Loss from discontinued operations	(46,231)	(241,173)

9 Dividends

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30th June 2009(six months ended 30th June 2008:Nil).

10 Earnings/(loss) per share

Earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended 30th June	
	2009 RMB'000	2008 RMB'000 (Restated)
Profit/(loss) attributable to equity holders of the Company from		
- continuing operations	6,796	(300,698)
- discontinued operations	(27,239)	(153,830)
	(20,443)	(454,528)
Weighted average number of ordinary shares in issue (thousands)	4,643,609	4,643,609

There was no dilution effect on the basic earnings/(loss) per share for the six months ended 30th June 2008 and 2009 as there were no potential dilutive shares outstanding during the six months ended 30th June 2008 and 2009.

11 Accounts receivable

	30th June 2009 RMB'000	31st December 2008 RMB'000 (Restated)
Trade receivables, gross (note (a))		
- Related parties (note (b))	1,653,276	1,824,538
- Third parties	884,839	1,081,871
	2,538,115	2,906,409
Less: Provision for impairment of receivables	(187,501)	(217,284)
	2,350,614	2,689,125
Notes receivable (note (c))		
- Related parties	234,099	548,415
- Third parties	683,742	672,656
	917,841	1,221,071
	3,268,455	3,910,196

Notes:

(a) Certain of the Group's sales were on advance 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 2009 RMB'000	31st December 2008 RMB'000 (Restated)
Current to 1 year	2,283,530	2,649,567
1 year to 2 years	68,520	48,750
2 years to 3 years	12,521	11,643
Over 3 years	173,544	196,449
	2,538,115	2,906,409

(b) Trade receivables from 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.

12 Accounts payable

	30th June 2009 RMB'000	31st December 2008 RMB'000 (Restated)
Trade payables (note (a))		
- Related parties (note (b))	998,545	1,324,370
- Third parties	3,669,951	4,124,405
	4,668,496	5,448,775
Notes payable (note (c))		
- Related parties	349,290	739,883
- Third parties	971,641	1,073,417
	1,320,931	1,813,300
	5,989,427	7,262,075

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 2009 RMB'000	31st December 2008 RMB'000 (Restated)
Current to 1 year	3,966,256	4,937,086
1 year to 2 years	617,584	452,813
2 years to 3 years	33,552	6,281
Over 3 years	51,104	52,595
	4,668,496	5,448,775

(b) Trade payables to 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. As at 30th June 2009, notes payable of RMB 968,606,000 (31st December 2008: RMB 1,460,105,000) were secured by pledged deposits to the extent of RMB 407,408,000 (31st December 2008: RMB 536,605,000).

(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. During the first half of 2009, the domestic economy was still at the depressing stage. Most of the state-owned enterprises did not perform well and presented a drop as compared to the corresponding period of last year. The operation of the Group sailed against the stream and the continuing operations business showed a turn from loss into profit during the period under review. Upon the reorganization of the PRC aviation industry in November 2008, based on the development strategy formulated by the new session of the Board, the Company will concentrate on becoming a flagship manufacturer in China aviation industry for civil aviation products with a completed value chain and a platform for overseas financing, merger and acquisition. The Group made remarkable performance during the first half of the year. As the disposal of the entire vehicle business of Jiangxi Changhe Automobile Co., Ltd. which suffered a loss by the end of April and the performance of aviation business had a steady increase due to the gradually improved profitabilities during the first half of 2009, the result of the Company made a sharp increase.

For the six months ended 30 June 2009, the comprehensive business (Continuing operations and Discontinued operations) of the Group recorded a revenue of RMB 8,996 million, representing an increase of 8.78% over that of the corresponding period in 2008. The comprehensive business resulted in a net loss of RMB 20 million attributable to equity holders of the Company for the first half of 2009 representing a decrease of RMB 435 million, or 95.6% compared with the loss in the corresponding period of last year.

The continuing operations business of the Group recorded revenue of RMB 7,884 million, representing an increase of 11.77% over that of the corresponding period in 2008. The continuing operations business resulted in a net profit of RMB 7 million attributable to equity holders of the Company for the first half of 2009 showing a turn from loss to profit during the period under review compared with the loss of RMB 301 million in the corresponding period of last year(Note 10).

The Board proposes that no interim dividend be paid for the six months ended 30 June 2009.

Aviation Business:

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

For the first half of 2009, the Group recorded a sales revenue of RMB 2,030 million in its aviation products, representing an increase by 15.02% as compared to that of the corresponding period in 2008, out of that, the Group's helicopter business recorded a sales revenue of RMB 1,144million, representing an increase by 56.75% as compared to that of the corresponding period in 2008.

Upon the reorganization of automobile business, aviation electrical business was injected. The Group delivered products for various models of aircraft and satisfied the demands of the customers. The striving for research and manufacture of aircraft model project also made great achievement.

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

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

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

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

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

Automobile Business:

During the six months ended at 30 June 2009, the total sales volume of the entire vehicle automobile products of the Group's comprehensive business (Continuing operations and Discontinued operations) amounted to 174,000 units, an increase of 4.87% as compared to the corresponding period of last year, out of which, the sales volume of sedans was 51,600 units; and the sales volume of mini-vans and trucks reached 122,400 units. The sales revenue of the Group's automobile products (Continuing operations and Discontinued operations) amounted to RMB 6,966 million in the first half of 2009, representing an increase of 7.09% compared to the corresponding period last year; out of which, the sales revenue of the Group's entire vehicle automobile products amounted to RMB 4,364 million, an increase of 3.99% as compared to the corresponding period of last year. The sales revenue of engines and automobile parts and components sold to external parties of the Group was RMB 2,602 million, representing an increase of 12.68% as compared to the corresponding period of last year.

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

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

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

FUTURE OUTLOOK

Aviation Business:

The government puts great emphasis on the aviation industry in respect of defence and economy. The strategy of rapid promotion of the development of aviation industry was set up, strict air control began to be released and the low altitude airspace will be gradually opened. The government invested RMB 4,000 billion to promote the civil aviation airport construction and further improved the basic facilities for helicopter general aviation service. The development of general aviation industry and special subsidy policies are under research. The pace of developing helicopter applicable to the China market is also speeding up. All these provide AviChina with opportunities of continuous development.

The Company entered into the aviation electrical area through swapping assets. As an important subsystem of aviation manufacture, the aviation electrical engineering manufacturing will benefit from the development of the entire aviation manufacturing industry. The launching of the large scale aircraft program will promote the aviation electrical business.

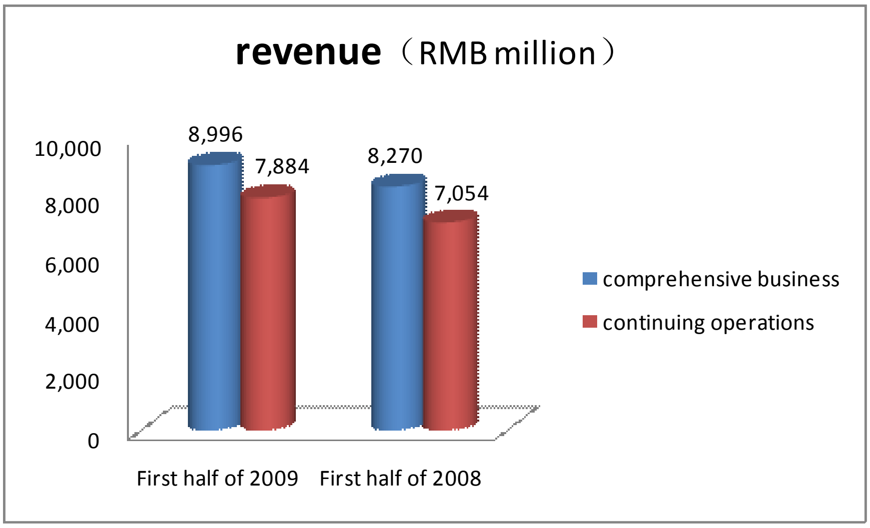
In the second half of 2009 the Group will grasp the opportunities to promote the research and development of products, enhance the training of employees and ensure the completion on the order for products. With the advantage of technology, equipment, talents and capital to explore the market, being familiar with the market and accurately positioned. The Group will also perfect the supervision system, strengthen the management, regulate the operation, improve the efficiency and give reward to the shareholders. At the same time the technology and management will also be continuously enhanced through international cooperation, the capital strength will be extended and the market value scale will be enlarged through international capital operation. These will further consolidate the market leading position of the Company in helicopter, regional jet, trainers and general purpose aircraft industry and finally create the Company as a flagship manufacturer in China aviation industry for civil aviation products with a completed value chain.

Automobile Business:

In the second half of 2009, the Group will put cost cutting as the emphasis and set the goal of enhancing the customers' satisfaction to improve the efficiency. The Company will also reform the marketing strategy and enlarge the market share. According to the strategy arrangement, the reorganization of automobile business will be continuously promoted including the completion of the disposal of automobile assets which is suffering a loss such as Hafei auto business, and the consideration of further reorganization of the automobile business of the Group.

FINANCIAL REVIEW

Revenue



Comprehensive business (Continuing operations and Discontinued operations)

For the six months ended 30 June 2009, the comprehensive business (Continuing operations and Discontinued operations) of the Group achieved a revenue of RMB 8,996 million, representing an increase of RMB 726 million, or 8.78%, as compared to RMB 8,270 million for the corresponding period in 2008.

Continuing operations

For the six months ended 30 June 2009, the continuing operations of the Group achieved a revenue of RMB 7,884 million, representing an increase of RMB 830 million, or 11.77%, as compared to RMB 7,054 million for the corresponding period in 2008. This is mainly contributed by the comprehensive impact of the balance product mix of aviation business and the supportive policy of the government on the automobile industry.

Gross profit

Comprehensive business

For the six months ended 30 June 2009, the comprehensive business of the Group achieved a gross profit of RMB 1,382 million, representing an increase by RMB 453 million, or 48.79%, as compared to RMB 929 million for the corresponding period in 2008, out of which the gross profit of aviation segment of the Group amounted to RMB 379 million, representing an increase of 15.68% as compared to that of the corresponding period in 2008. The increase was mainly attributable to the growth in the gross profit of helicopter. The gross profit of automobile segment amounted to RMB 1,003 million, representing an increase by 66.86% as compared to that of the corresponding period in 2008. This is mainly attributable to the positive progress of the results of the entire automobile industry and the continuous increase of the gross profit of automobile engines sold to external parties of the Group.

Continuing operations

For the six months ended 30 June 2009, the continuing operations of the Group achieved a gross profit of RMB 1,311 million, representing an increase of RMB 326 million, or 33.13%, as compared to RMB985 million for the corresponding period in 2008. Out of which, the gross profit of aviation segment of the Group amounted to RMB 379 million, representing an increase of 15.68% as compared to that of the corresponding period in 2008. The gross profit of automobile segment amounted to RMB 932 million, representing an increase of 41.84% as compared to that of the corresponding period in 2008.

SELLING AND DISTRIBUTION EXPENSES（CONTINUING OPERATIONS）

For the six months ended 30 June 2009, the continuing operations of the Group’s selling and distribution expenses amounted to RMB 401 million, representing an increase of RMB 94 million, or 30.62%, as compared to RMB 307 million for the corresponding period in 2008. The increase was mainly attributable to the increase of the sales volume of the automobile products.

GENERAL AND ADMINISTRATIVE EXPENSES（CONTINUING OPERATIONS）

For the six months ended 30 June 2009, the continuing operations of the Group’s general and administrative expenses amounted to RMB 525 million, representing an increase of RMB 119 million, or 29.31%, as compared to RMB 406 million of the corresponding period in 2008. The rise was mainly attributable to the increase in the research and development fee of automobile engines.

FINANCE COSTS, NET（CONTINUING OPERATIONS）

For the six months ended 30 June 2009, the Group's net finance costs of the continuing operations amounted to RMB 79 million, representing a decrease of RMB 64 million, or 44.76%, as compared to that of the corresponding period in 2008. The decrease was attributable to the drop of the interest rate of the borrowing.

NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Comprehensive business

For the six months ended 30 June 2009, the comprehensive business of the Group suffered a net loss of RMB 20 million attributable to the equity holders of the Company, which was RMB 435 million or 95.6% less than the loss of RMB 455 million for the corresponding period in 2008.

Continuing operations

For the six months ended 30 June 2009, the continuing operations of the Group made a profit of RMB 7 million attributable to the equity holders of the Company, which showed a turn from loss to profit compared with the loss of RMB 301 million for the corresponding period in 2008. This is mainly because of the gradual increase of the profitability of the aviation product and the result of aviation industry in this period. The reorganization of part of the automobile assets was completed and aviation assets were injected. Further, the loss of the entire vehicles results comparing to that of the corresponding period last year was greatly reduced due to the support of the government to the automobile industry and the cost-controlling measures adopted by the management of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2009, the Group's net cash and cash equivalents amounted to RMB 2,281 million. Cash and cash equivalents were mainly derived from cash and bank deposits at the beginning of 2009 and funds generated from its operations during this period.

As at 30 June 2009, the Group's total borrowings amounted to RMB 5,774 million, out of which short-term borrowings amounted to RMB 4,073 million, current portion of long-term borrowings amounted to RMB 303 million and non-current portion of long-term borrowings amounted to RMB 1,398 million.

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

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

As at 30 June 2009, the Group's bank borrowings amounted to RMB 5,496 million with an average interest rate of 4.93% per annum, representing a decrease of RMB 536 million as compared to that at the beginning of 2009; and other borrowings amounted to RMB 278 million with an average interest rate of 2.23% per annum, representing an increase of RMB 319 million as compared to that at the beginning of 2009.

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

CAPITAL STRUCTURE

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

PLEDGE ON ASSETS

As at 30 June 2009, the Group's borrowings secured by assets amounted to RMB 200 million, representing a decrease by RMB 1 million as compared to RMB 201 million at the beginning of 2009. These borrowings were secured by real estate properties with a book value of RMB 265 million.

GEARING RATIO

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

EXCHANGE RISKS

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

CONTINGENT LIABILITIES AND GUARANTEES

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

MATERIAL ACQUISITION AND DISPOSAL

On 16 April 2009, the Company and AVIC Automobile Industry Co., Ltd ("AVIC Automobile") entered into the Share Transfer Agreements, pursuant to which the Company conditionally agreed to sell and AVIC Automobile conditionally agreed to purchase from the Company 100% equity interest in Harbin Hafei Automobile Industry Group Co., Ltd. ("Harbin Automobile Group") and 10% equity interest in Jiangxi Changhe Suzuki Automobile Co., Ltd. ("Changhe Suzuki") for an aggregate consideration of RMB 110.4 million, which would be satisfied by AVIC Automobile in cash. The transactions have not yet been completed up to this moment. Upon completion, Harbin Automobile Group will no longer be a subsidiary of the Company and the Company will no longer have any equity interest in Changhe Suzuki. The transactions contemplated under the Share Transfer Agreements constitute a major transaction pursuant to Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and connected transactions pursuant to Chapter 14A of the Listing Rules. The transactions were approved by the independent shareholders of the Company at the annual general meeting of the Company held on 9 June 2009. Details of the transactions can be referred to in the announcement and circular of the Company dated 16 April 2009 and 6 May 2009 respectively.

USE OF PROCEEDS

Pursuant to the plan on use of proceeds, as at 30 June 2009, a total of RMB 955 million had been invested, of which RMB 700 million had been invested in automobile products for research, development and technical upgrade of new vehicle models and new engine models, while RMB 255 million had been invested in aviation products mainly for research and development of new advanced trainer models and helicopters. The rest of the proceeds has been placed in short term deposits in banks in the PRC. The Company will utilize the rest of the proceeds in accordance with the specific plan of use of proceeds.

EMPLOYEES

As at 30 June 2009, the Group had 23,033 employees. The Group's staff costs amounted to RMB 566 million for the six months ended 30 June 2009 representing an increase of RMB 57 million compared with RMB 509 million of the corresponding period of last year.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At the Board meeting convened on 9 June 2009, Mr. Lin Zuoming was appointed as the chairman of the third session of the Board and Mr. Tan Ruisong was appointed as the vice chairman of the third session of the Board. After the conclusion of the AGM and the Board meeting, the third session of the Board comprises the following members:

Mr. Lin Zuoming (chairman and executive director), Mr. Tan Ruisong (vice chairman, executive director and general manager), Mr. Wu Xiandong (executive director), Mr. Gu Huizhong (non-executive director), Mr. Xu Zhanbin (non-executive director), Mr. Geng Ruguang (non-executive director), Mr. Zhang Xinguo (non-executive director), Mr. Gao Jianshe (non-executive director), Mr. Li Fangyong (non-executive director), Mr. Chen Yuanxian (non-executive director), Mr. Wang Yong (non-executive director), Mr. Maurice Savart (non-executive director), Mr. Guo Chongqing (independent non-executive director), Mr. Li Xianzong (independent non-executive director) and Mr. Lau Chung Man, Louis (independent non-executive director).

At the Supervisory Committee meeting convened on 9 June 2009 following the AGM, Mr. Li Yuhai was appointed as the chairman of the third session of the Supervisory Committee. After the conclusion of the AGM and the Supervisory Committee meeting, the third session of the Supervisory Committee comprises the following members:

Mr. Li Yuhai (chairman of the Supervisory Committee and supervisor representing the employees of the Company), Mr. Tang Jianguo (supervisor representing the employees of the Company), Ms. Bai Ping (supervisor representing Shareholders), Mr. Wang Yuming (supervisor representing Shareholders) and Mr. Yu Guanghai (supervisor representing Shareholders).

At the Board meeting convened on 9 June 2009, Mr. Tan Ruisong was appointed as the general manager of the Company. Mr. Li Yao, Mr. Ni Xianping, Mr. Liu Chunhui, Mr. Zheng Qiang and Mr. Tian Xueying were appointed as the vice general managers of the Company.Mr. Li Yao was appointed as the chief financial officer of the Company. Mr. Yan Lingxi was appointed as the Board secretary of the third session of the Board. The Board further announces that Mr. Ip Kun Wan, Kiril resigned from the office of joint company secretary of the Company with effect from 9 June 2009 due to his personal work arrangements.

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 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 2009.

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 2009.

CORPORATE GOVERNANCE

The Company has strictly complied with and has operated according to applicable laws, and regulations as well as its Articles of Association. The Company has also established an Internal Audit Department to enhance the monitoring of the Group's continuing connected transactions. After reviewing the Company's arrangements on corporate governance, the Board is of the view that the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules for the six months ended 30 June 2009.

OTHER MAJOR EVENTS

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

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

PURCHASE, SALE AND REDEMPTION OF SECURITIES

For the six months ended 30 June 2009, 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 2009, 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

Lin Zuoming

Chairman

Beijing, 24 August 2009

As at the date of this report, the board of the Company comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and Mr. Wu Xiandong and non-executive directors Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Gao Jianshe, Mr. Li Fangyong, Mr. Chen Yuanxian, Mr. Wang Yong, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.

* *For identification purpose only*