



# AviChina

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

( A joint stock limited company incorporated in the People's Republic of China with limited liability) (Stock Code: 2357)

**2007**

**Interim Report**





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The board of directors (the "Board") of AviChina Industry & Technology Company Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007 prepared under International Financial Reporting Standards.

Revenue	RMB8,031,971,000
Net loss attributable to the equity holders of the Company	RMB216,835,000
Loss per share, basic and diluted	RMB0.05
Equity attributable to the equity holders of the Company	RMB4,111,951,000

### **INTERIM DIVIDEND**

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



## BUSINESS REVIEW

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

### Automobile Business:

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

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

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

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

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



### **Aviation Business:**

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

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

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

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

## **FUTURE OUTLOOK**

### **Automobile Business:**

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

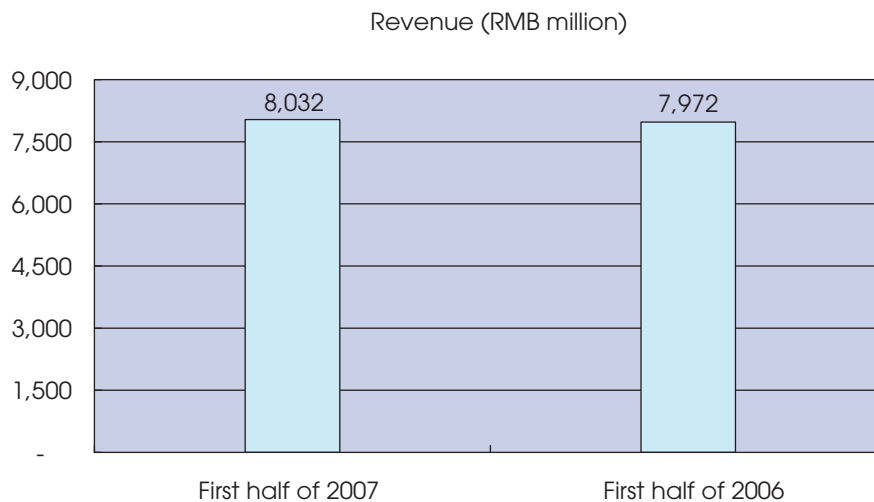


### Aviation Business:

The Board expects that the Group's aviation business will maintain its steady growth in the next few years, benefiting from the steady growth in the macro-economy of the PRC and the continued development of the civil aviation market. The Group's Z-8, Z-9 and Z-11 helicopter products have developed into series and won steadily-increasing orders from the PRC's government. CA109 and other new helicopter models being put into production recently will also become new highlights in the growth of the Group's helicopter business. The Group has been constantly pushing forward its subcontracting business with well-known aviation manufacturers, such as Eurocopter, Agusta S.p.A, Airbus and Boeing, and has gradually moved from the role as a pure subcontractor for parts and components to the role as a cooperation partner in manufacturing entire aeroplanes or helicopters. In the second half of 2007, the Group will further strengthen management and put more efforts on coordinating the out-sourcing from domestic and overseas suppliers so as to ensure timely delivery of aviation products. The Group is actively preparing for participation in the forthcoming Asian Aerospace International Expo and Congress to be held in Hong Kong, and will take this opportunity to enhance its reputation in the aviation industry and explore the international market.

## FINANCIAL REVIEW

### Revenue



For the six months ended 30 June 2007, the Group achieved a revenue of RMB8,032 million, which represented an increase of RMB60 million, or 0.75%, when compared with RMB7,972 million of the corresponding period in 2006.



### **Gross profit**

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

### **Selling and distribution expenses**

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

### **General and administrative expenses**

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

### **Finance costs, net**

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

### **Net loss attributable to equity holders of the Company**

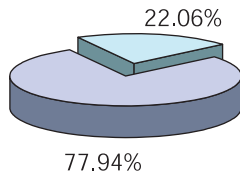
For the six months ended 30 June 2007, the Group suffered a loss of RMB217 million attributable to the equity holders of the Company, which was RMB159 million more than the loss of RMB58 million of the corresponding period in 2006. It was mainly attributable to the sharpened loss in the revenue from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



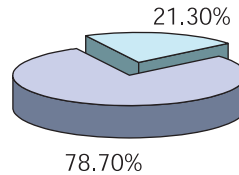


**Segment Information**

Revenue composition in the first half of 2007

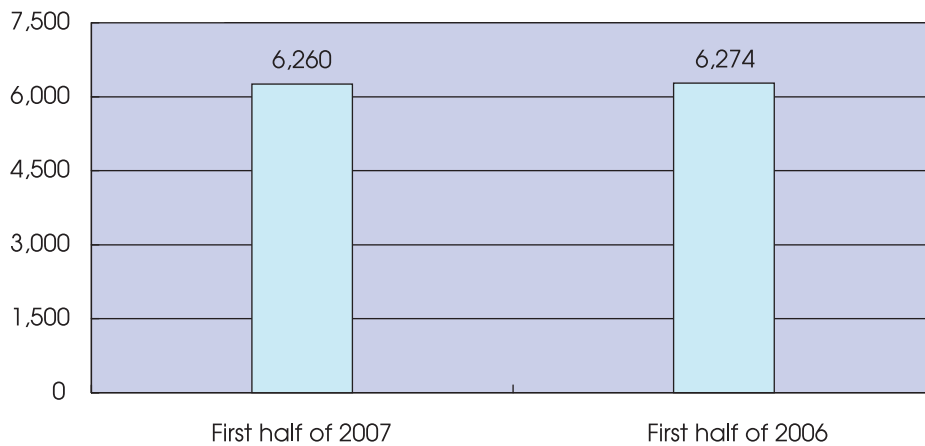


Revenue composition in the first half of 2006

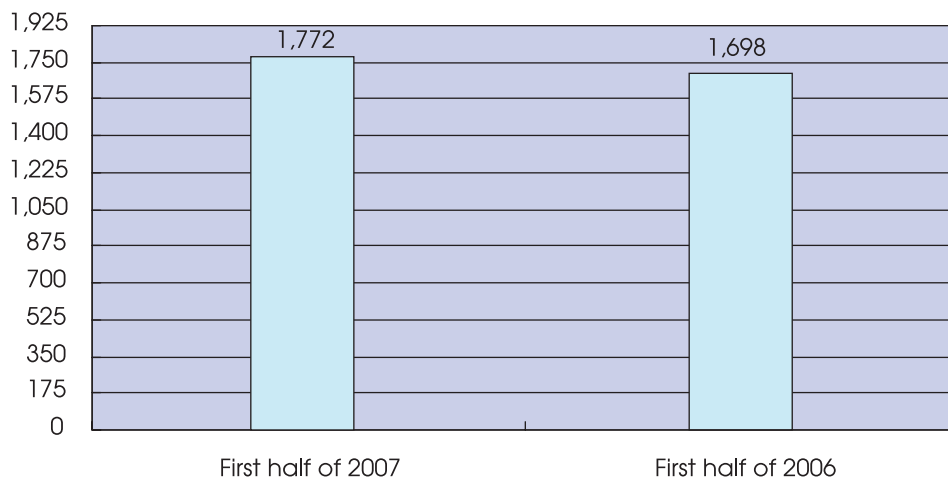


■ Automobile segment ■ Aviation segment

Revenue of Automobile Segment (RMB million)



Revenue of Aviation Segment (RMB million)



The revenue of the Group’s automobile segment amounted to RMB6,260 million for the first half of 2007, which represented a decrease of 0.22% when compared with that of the corresponding period in 2006 and accounted for 77.94% of the total revenue. The revenue of the Group’s aviation segment amounted to RMB1,772 million, which represented an increase of 4.36% when compared with that of the corresponding period in 2006 and accounted for 22.06% of the total revenue.

As shown in the charts above, for the first half of 2007, the proportion of aviation products in the total revenue has increased by 0.76 percentage points when compared with that of the corresponding period in 2006.





## Liquidity and Financial Resources

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

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

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

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

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

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

## CAPITAL STRUCTURE

As at 30 June 2007, the Group's borrowings were mainly denominated in Renminbi whilst cash and cash equivalents were mainly denominated in Renminbi, Hong Kong dollars, Euros and United States dollars.

## PLEDGE OF ASSETS

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



## GEARING RATIO

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

## EXCHANGE RISKS

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

## CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2007, the Group did not provide any guarantees for any third party and had no significant contingent liabilities.

## MATERIAL ACQUISITION AND DISPOSAL

For the six months ended 30 June 2007, the Group did not have any material acquisition or disposal.

## USE OF PROCEEDS

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

## EMPLOYEES

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



### **CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its code of securities transacted by 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 during the six months ended 30 June 2007.

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

As at 30 June 2007, none of the directors, supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which are required to be notified to the Company and the Stock Exchange pursuant to Part XV, Part 7 and Part 8 of the SFO, or required to be recorded and kept in the register by the Company pursuant to Section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.



## SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, pursuant to the register kept under Section 336 of the SFO, shareholders holding more than 5% equity interests in the Company and its associated corporations were as follows:

Name of Shareholders	Class of shares	Number of shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of share held
China Aviation Industry Corporation II	Domestic shares	2,835,305,636	95.66%	61.06%	Long position
European Aeronautic Defence and Space Company – EADS N.V.	H shares	232,180,425	13.82%	5%	Long position
The Hamon Investment Group Pte Limited	H shares	161,360,000	9.61%	3.47%	Long position

Save as disclosed above, as at 30 June 2007, the Company had not been notified of any interests or short position in 5% or more than 5% of shares and underlying shares of the Company which had been recorded in the register kept pursuant to Section 336 of the SFO.

## AUDIT COMMITTEE

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

## CORPORATE GOVERNANCE

The Company has strictly complied with and has operated according to the applicable laws, regulations and its Articles of Association. In its 2006 Annual Report, the Company disclosed that two continuing connected transactions of the Group had exceeded the relevant annual caps for the year 2006. The Company convened a general meeting on 15 June 2007 to approve the revised annual caps for the two continuing connected transactions. The Company has also established an Internal Audit Department to monitor the Group's continuing connected transactions more strictly. After reviewing the Company's arrangements on corporate governance, the Board is of the view that the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices, Appendix 14 to the Listing Rules, during the six months ended 30 June 2007.



### OTHER MAJOR EVENTS

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

### PUBLIC FLOAT

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

### PURCHASE, SALE AND REDEMPTION OF SECURITIES

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

By order of the Board

**Zhang Hongbiao**

Chairman

Beijing, 27 August 2007

*As at the date of this report, the Board of the Company comprises executive directors Mr. Zhang Hongbiao, Mr. Wu Xiandong and Mr. Tan Ruisong and non-executive directors Mr. Liang Zhenhe, Mr. Tian Min, Mr. Song Jingang, Mr. Wang Bin, Mr. Chen Huaiqiu, Mr. Wang Yong, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.*

# Condensed Consolidated Income Statement



FOR THE SIX MONTHS ENDED 30TH JUNE 2007

For the six months ended 30th June

	Note	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
<b>Revenue</b>	3	<b>8,031,971</b>	7,971,934
<b>Cost of sales</b>		<b>(7,083,323)</b>	(6,900,212)
<b>Gross profit</b>		<b>948,648</b>	1,071,722
Other income	4	<b>91,190</b>	60,588
Selling and distribution expenses		<b>(440,118)</b>	(470,944)
General and administrative expenses		<b>(534,871)</b>	(597,891)
<b>Operating profit</b>	5	<b>64,849</b>	63,475
Finance costs, net	6	<b>(144,788)</b>	(116,244)
Share of results of associates		<b>1,707</b>	6,242
<b>Loss before taxation</b>		<b>(78,232)</b>	(46,527)
Taxation credit	7	<b>2,959</b>	2,360
<b>Loss for the period</b>		<b>(75,273)</b>	(44,167)
<b>Attributable to:</b>			
Equity holders of the Company		<b>(216,835)</b>	(57,793)
Minority interests		<b>141,562</b>	13,626
		<b>(75,273)</b>	(44,167)
Loss per share for loss attributable to the equity holders of the Company during the period			
- Basic and diluted	9	<b>RMB(0.05)</b>	RMB(0.01)



# Condensed Consolidated Balance Sheet

AS AT 30TH JUNE 2007

	Note	30th June 2007 RMB'000 (Unaudited)	31st December 2006 RMB'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	7,769,430	9,049,538
Land use rights	10	86,963	96,331
Intangible assets	10	421,650	450,654
Interests in associates		210,087	247,967
Other non-current financial assets		131,167	131,247
Deferred income tax assets		121,516	75,305
		<u>8,740,813</u>	<u>10,051,042</u>
<b>Current assets</b>			
Accounts receivable	11	3,969,442	3,716,924
Advances to suppliers		684,552	628,383
Other receivables and prepayments	12	1,221,309	708,218
Inventories		5,718,396	4,804,913
Pledged deposits		371,726	694,391
Term deposits with initial term of over three months		1,231,878	1,051,128
Cash and cash equivalents		1,908,457	3,155,527
		<u>15,105,760</u>	<u>14,759,484</u>
<b>Total assets</b>		<u><u>23,846,573</u></u>	<u><u>24,810,526</u></u>



# Condensed Consolidated Balance Sheet



AS AT 30TH JUNE 2007

	Note	30th June 2007 RMB'000 (Unaudited)	31st December 2006 RMB'000 (Audited)
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		4,643,609	4,643,609
Reserves		(531,658)	(314,710)
		<b>4,111,951</b>	<b>4,328,899</b>
<b>Minority interests</b>		<b>2,982,851</b>	<b>3,793,213</b>
<b>Total equity</b>		<b>7,094,802</b>	<b>8,122,112</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Long-term borrowings	16	1,039,858	836,704
Deferred income from government grants		158,764	157,002
Deferred income tax liabilities		28,772	35,872
		<b>1,227,394</b>	<b>1,029,578</b>
<b>Current liabilities</b>			
Accounts payable	13	7,617,793	7,037,244
Advances from customers		933,779	460,470
Other payables and accruals	14	1,238,735	1,667,884
Amounts payable to ultimate holding company	15	520,524	520,524
Current portion of provisions		173,107	103,284
Current portion of long-term borrowings	16	280,025	433,695
Short-term borrowings	16	4,731,170	5,401,598
Current income tax liabilities		29,244	34,137
		<b>15,524,377</b>	<b>15,658,836</b>
<b>Total liabilities</b>		<b>16,751,771</b>	<b>16,688,414</b>
<b>Total equity and liabilities</b>		<b>23,846,573</b>	<b>24,810,526</b>
<b>Net current liabilities</b>		<b>(418,617)</b>	<b>(899,352)</b>
<b>Total assets less current liabilities</b>		<b>8,322,196</b>	<b>9,151,690</b>



# Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30TH JUNE 2007

	Attributable to equity holders of the Company					Minority interests	Total	
	Share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Accumulated losses			
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	
For the six months ended 30th June 2007								
As at 1st January 2007	4,643,609	77,585	188,493	—	(580,788)	4,328,899	3,793,213	8,122,112
(Loss)/profit for the period	—	—	—	—	(216,835)	(216,835)	141,562	(75,273)
Dividend to minority shareholders of subsidiaries	—	—	—	—	—	—	(26,349)	(26,349)
Purchase of remaining interests in a subsidiary	—	—	—	—	—	—	(2,909)	(2,909)
Additional contribution in an associate	—	218	—	—	—	218	—	218
Effect on proportionate consolidation of a jointly controlled entity (Note 2)	—	—	—	—	—	—	(918,702)	(918,702)
Others	—	—	—	—	(331)	(331)	(3,964)	(4,295)
As at 30th June 2007	<u>4,643,609</u>	<u>77,803</u>	<u>188,493</u>	<u>—</u>	<u>(797,954)</u>	<u>4,111,951</u>	<u>2,982,851</u>	<u>7,094,802</u>
For the six months ended 30th June 2006								
As at 1st January 2006	4,643,609	74,898	95,651	79,275	320,362	5,213,795	3,495,411	8,709,206
(Loss)/profit for the period	—	—	—	—	(57,793)	(57,793)	13,626	(44,167)
Contributions from minority shareholders of subsidiaries	—	—	—	—	—	—	5,795	5,795
Dividend to minority shareholders of subsidiaries	—	—	—	—	—	—	(11,650)	(11,650)
Final dividend for 2005	—	—	—	—	(17,670)	(17,670)	—	(17,670)
Disposal of a subsidiary	—	—	—	—	—	—	(1,424)	(1,424)
Additional contribution in an associate	—	3,093	—	—	—	3,093	1,325	4,418
As at 30th June 2006	<u>4,643,609</u>	<u>77,991</u>	<u>95,651</u>	<u>79,275</u>	<u>244,899</u>	<u>5,141,425</u>	<u>3,503,083</u>	<u>8,644,508</u>

# Condensed Consolidated Cash Flow Statement



FOR THE SIX MONTHS ENDED 30TH JUNE 2007

For the six months ended 30th June

	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Net cash used in operating activities	(630,152)	(503,694)
Net cash used in investing activities	(681,057)	(1,081,463)
Net cash generated from financing activities	64,139	543,662
Net decrease in cash and cash equivalents	(1,247,070)	(1,041,495)
Cash and cash equivalents at 1st January	3,155,527	2,942,362
Cash and cash equivalents at 30th June	1,908,457	1,900,867
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	1,908,457	1,900,867



## 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 of China Aviation Industry Corporation II (“AVIC II”). The Company’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 30th October 2003.

The Company and its subsidiaries are collectively referred to as the “Group”. The Group is principally engaged in the research, development, manufacture and sale of automobiles and aviation products.

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

These consolidated financial statements are presented in thousands of Renminbi (“RMB’000”), unless otherwise stated.

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

This Condensed Financial Information should be read in conjunction with the 2006 annual financial statements.

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

### Joint venture

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



## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The following new standard, amendment to standard and interpretations are mandatory for financial year ending 31st December 2007:

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

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

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



### 3 SEGMENT INFORMATION

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

#### **Primary reporting format – business segments**

The Group is organised into two main business segments:

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

All segment revenues were made to external parties.

#### **Secondary reporting format – geographical segments**

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

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



### 3 SEGMENT INFORMATION (continued)

#### Primary reporting format – business segments

For the six months ended 30th June 2007

	Aviation RMB'000 (Unaudited)	Automobiles RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Operating results</b>			
Segment revenue	1,772,168	6,259,803	8,031,971
Segment results	16,651	(32,768)	(16,117)
Other income			91,190
Unallocated costs			(10,224)
Operating profit			64,849
Finance costs, net			(144,788)
Share of results of associates	—	1,707	1,707
Loss before taxation			(78,232)
Taxation credit			2,959
Loss for the period			(75,273)
<b>Other segment information</b>			
Capital expenditures	91,507	323,340	414,847
Depreciation	45,801	442,548	488,349
Amortisation	1,138	40,919	42,057
(Reversal of provisions)/provisions for impairments	(1,660)	65,960	64,300





## 3 SEGMENT INFORMATION (continued)

### Primary reporting format – business segments (continued)

As at 30th June 2007

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



### 3 SEGMENT INFORMATION (continued)

#### Primary reporting format – business segments (continued)

For the six months ended 30th June 2006

	Aviation RMB'000 (Unaudited)	Automobiles RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Operating results</b>			
Segment revenue	1,698,163	6,273,771	7,971,934
Segment results	149,150	(129,651)	19,499
Other income			60,588
Unallocated costs			(16,612)
Operating profit			63,475
Finance costs, net			(116,244)
Share of results of associates	7,013	(771)	6,242
Loss before taxation			(46,527)
Taxation credit			2,360
Loss for the period			(44,167)
<b>Other segment information</b>			
Capital expenditures	100,479	403,964	504,443
Depreciation	36,450	398,993	435,443
Amortisation	844	67,449	68,293
Provision for impairment	29,290	89,940	119,230



## 3 SEGMENT INFORMATION (continued)

### Primary reporting format - business segments (continued)

As at 31st December 2006

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



#### 4 OTHER INCOME

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



## 5 OPERATING PROFIT

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

	For the six months ended 30th June	
	2007	2006
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amortisation		
- Land use rights * (Note 10)	2,423	3,846
- Intangible assets * (Note 10)	39,634	64,447
Costs of inventories recognised as expenses	7,083,323	6,900,212
Depreciation and impairment on property, plant and equipment (Note 10)	548,827	435,443
Loss/(gain) on disposal		
- Property, plant and equipment	3,373	(1,790)
- A subsidiary	—	(21)
Operating lease rentals		
- Land and buildings	18,090	19,451
- Property, plant and equipment	—	160
Provision/(reversal of provision) for impairment		
- Receivables *	1,963	52,536
- Inventories	1,859	(9,377)
- Other non-current financial assets*	—	7,481
- Intangible assets* (Note 10)	—	68,590
Repairs and maintenance expense on property, plant and equipment	12,983	7,883
Research and development costs charged to income statement directly*	81,218	36,588
Staff costs	455,348	476,893
Warranty expenses	71,231	57,358
	<b>71,231</b>	<b>57,358</b>

\* Included in general and administrative expenses



## 6 FINANCE COSTS, NET

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



## 7 TAXATION CREDIT

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

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

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

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

## 8 DIVIDENDS

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

## 9 LOSS PER SHARE

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

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





## 10 CAPITAL EXPENDITURE

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

**10 CAPITAL EXPENDITURE** (continued)

	Property, plant and equipment RMB'000 (Unaudited)	Land use rights RMB'000 (Unaudited)	Intangible assets (note (a)) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Cost</b>				
As at 1st January 2006	12,627,896	125,286	903,607	13,656,789
Additions	493,014	4,297	7,132	504,443
Disposals	(65,627)	—	—	(65,627)
	<u>13,055,283</u>	<u>129,583</u>	<u>910,739</u>	<u>14,095,605</u>
<b>Accumulated depreciation/amortisation and impairment</b>				
As at 1st January 2006	3,654,818	25,972	350,729	4,031,519
Depreciation/amortisation	435,443	3,846	64,447	503,736
Impairment	—	—	68,590	68,590
Disposals	(53,415)	—	—	(53,415)
	<u>4,036,846</u>	<u>29,818</u>	<u>483,766</u>	<u>4,550,430</u>
<b>Net book value</b>				
As at 30th June 2006	<u>9,018,437</u>	<u>99,765</u>	<u>426,973</u>	<u>9,545,175</u>

Notes:

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



## 11 ACCOUNTS RECEIVABLE

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

Notes:

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

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

**11 ACCOUNTS RECEIVABLE** (continued)

- (b) Trade receivables from fellow subsidiaries and other related parties are unsecured and non-interest bearing.
- (c) Notes receivable are bills of exchange with average maturity period of within six months.
- (d) The carrying amounts of accounts receivable approximate their fair values.
- (e) Certain notes receivable were pledged as security for a bank loan (Note 16(g)).

**12 OTHER RECEIVABLES AND PREPAYMENTS**

	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)
Advances for purchase of property, plant and equipment	<b>40,321</b>	30,386
Other advances (note)		
– Ultimate holding company	<b>58,315</b>	57,293
– Fellow subsidiaries	<b>116,834</b>	38,696
– Other related parties	<b>2,405</b>	16,058
Amount due from customers for contract work	<b>189,879</b>	—
Other receivables	<b>624,543</b>	390,526
Prepayments and deposits	<b>84,951</b>	101,652
Value-added tax recoverable	<b>77,138</b>	—
Other current assets	<b>26,923</b>	73,607
	<b>1,221,309</b>	708,218

Note:

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



### 13 ACCOUNTS PAYABLE

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

Notes:

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

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

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

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

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



## 14 OTHER PAYABLES AND ACCRUALS

	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)
Payable for property, plant and equipment		
– Fellow subsidiaries	<b>2,024</b>	55
– Others	<b>210,594</b>	212,886
Wages, salaries and bonuses payables	<b>172,532</b>	190,350
Welfare payables	<b>183,557</b>	192,510
Accrued expenses	<b>256,958</b>	385,901
Deferred income from government grants	<b>25,638</b>	43,441
Consumption tax, business tax and other taxes payable	<b>19,083</b>	60,212
Amount due to customers for contract work	<b>—</b>	40,409
Other advances (note)		
– Ultimate holding company	<b>10,714</b>	45,997
– Fellow subsidiaries	<b>103,903</b>	205,674
– Other related parties	<b>5,764</b>	22,362
Payable relating to share reform	<b>96,029</b>	96,029
Other current liabilities	<b>151,939</b>	172,058
	<b>1,238,735</b>	1,667,884

Note:

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



## 15 AMOUNTS PAYABLE TO ULTIMATE HOLDING COMPANY

	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)
Supplementary pension subsidies (note (a))	<b>464,298</b>	464,298
One-off housing benefit (note (b))	<b>56,226</b>	56,226
	<b>520,524</b>	520,524

Notes:

(a) Supplementary pension subsidies

Prior to the Reorganisation, the Group paid supplementary pension subsidies to its retired employees who retired prior to the Reorganisation. In addition, the Group was committed to make periodic benefits payments to certain former employees who retired early in accordance with various rationalisation programmes adopted by the Group prior to the Reorganisation. Pursuant to the Reorganisation, the Group and AVIC II agreed that, upon establishment of the Company, the Group's obligations to make these supplementary pension benefits and early retirement payments as at 30th June 2002 were assumed by AVIC II and the actual payments of these obligations will be made by AVIC II. The Group is not obliged to any further liabilities in respect of these supplementary pension benefits and early retirement payments to these former employees after 30th June 2002. The above obligations were actuarially determined by a PRC insurance company using the projected unit credit method and are repayable to AVIC II with no fixed repayment terms under the Reorganisation. The balance is unsecured and non-interest bearing.

(b) One-off housing subsidies

This represents provision made by a subsidiary in connection with one-off housing subsidies for its eligible employees as at 31st December 2000. AVIC II has undertaken to bear any final actual cash settlement to those eligible employees in excess of RMB56,226,000.



**16 BORROWINGS**

	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)
<b>Short-term borrowings</b>		
Bank borrowings		
– Secured (note (g))	<b>2,858,164</b>	3,608,111
– Unsecured	<b>1,873,006</b>	1,398,689
	<b>4,731,170</b>	5,006,800
Other short-term borrowings, unsecured	<b>—</b>	394,798
	<b>4,731,170</b>	5,401,598
Current portion of long-term borrowings	<b>280,025</b>	433,695
	<b>5,011,195</b>	5,835,293
<b>Long-term borrowings</b>		
Bank borrowings		
– Secured (note (g))	<b>1,138,890</b>	1,032,760
– Unsecured	<b>—</b>	59,800
	<b>1,138,890</b>	1,092,560
Other long-term borrowings		
– Secured (note (g))	<b>11,103</b>	12,067
– Unsecured (note (c))	<b>169,890</b>	165,772
	<b>180,993</b>	177,839
	<b>1,319,883</b>	1,270,399
Less: Current portion of long-term borrowings	<b>(280,025)</b>	(433,695)
	<b>1,039,858</b>	836,704
<b>Total borrowings</b>	<b>6,051,053</b>	6,671,997



## 16 BORROWINGS (continued)

Notes:

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

	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)
Wholly repayable within five years		
– Bank borrowings	924,103	820,670
– Other borrowings	169,890	165,772
	<u>1,093,993</u>	<u>986,442</u>
Not wholly repayable within five years		
– Bank borrowings	214,787	271,890
– Other borrowings	11,103	12,067
	<u>225,890</u>	<u>283,957</u>
	<u><b>1,319,883</b></u>	<u><b>1,270,399</b></u>

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

	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)
Bank borrowings:		
– Within one year	247,000	400,670
– In the second year	300,740	100,000
– In the third to fifth years	376,363	366,000
– After the fifth years	214,787	225,890
	<u>1,138,890</u>	<u>1,092,560</u>
Other borrowings:		
– Within one year	33,025	33,025
– In the third to fifth years	136,865	132,747
– After the fifth year	11,103	12,067
	<u>180,993</u>	<u>177,839</u>
	<u><b>1,319,883</b></u>	<u><b>1,270,399</b></u>



## 16 BORROWINGS (continued)

(c) Other long-term borrowings

Included in unsecured other long-term borrowings was a loan granted by Shenzhen Finance Bureau of RMB150,000,000 to a subsidiary of the Group. The loan is unsecured, non-interest bearing and repayable in full in 2009.

(d) The range of interest rates per annum of long-term and short-term borrowings at balance sheet date were as follows:

	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)
Bank borrowings	<b>3.60%~7.23%</b>	3.60%~6.12%
Other borrowings	<b>0~1.00%</b>	0~3.43%

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

	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)
Renminbi	<b>5,989,630</b>	5,867,581
United States Dollar	<b>24,178</b>	470,755
Euro	<b>37,245</b>	333,661
	<b>6,051,053</b>	6,671,997

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

	Carrying amount		Fair value	
	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)
Bank borrowings	<b>891,890</b>	691,890	<b>826,894</b>	661,237
Other borrowings	<b>147,968</b>	144,814	<b>145,526</b>	137,656
	<b>1,039,858</b>	836,704	<b>972,420</b>	798,893

The fair values are based on discounted cash flows using applicable discount rates based upon the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristic as at the balance sheet dates. Such discount rates ranged from 6.75% to 7.20% as at 30th June 2007 (31st December 2006: 6.30% to 6.84%), depending on the type of the debt. The carrying amounts of current borrowings approximate their fair values.



## 16 BORROWINGS (continued)

(g) The Group's long-term and short-term borrowings are secured by the following:

	30th June 2007 RMB'000 (Unaudited)	31st December 2006 RMB'000 (Audited)
Securities over the Group's assets, at carrying value:		
– Property, plant and equipment, at net book value	—	209,539
– Notes receivable (Note 11(e))	69,780	33,561
– Pledged deposits	371,726	694,391
	<u>          </u>	<u>          </u>
Guarantees provided by:		
– Ultimate holding company	289,890	289,890
– Fellow subsidiaries	210,858	540,729
– Subsidiaries within the Group (cross guarantees)	3,318,039	3,567,320
– Third parties	145,000	145,000
	<u>          </u>	<u>          </u>

## 17 CAPITAL COMMITMENTS

The Group had the following capital commitments not provided for as at 30th June 2007:

	30th June 2007 RMB'000 (Unaudited)	31st December 2006 RMB'000 (Audited)
Acquisition of property, plant and equipment:		
– Authorised but not contracted for	43,200	161,012
– Contracted but not provided for	208,605	148,446
	<u>          </u>	<u>          </u>
	251,805	309,458
	<u>          </u>	<u>          </u>
Construction commitments:		
– Authorised but not contracted for	48,324	—
– Contracted but not provided for	214,140	6,050
	<u>          </u>	<u>          </u>
	262,464	6,050
	<u>          </u>	<u>          </u>
Investment in a jointly controlled asset:		
– Contracted but not provided for	58,364	66,292
	<u>          </u>	<u>          </u>
Investment in an associate:		
– Contracted but not provided for	48,000	48,000
	<u>          </u>	<u>          </u>
	620,633	429,800
	<u>          </u>	<u>          </u>



## 18 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

### Principal related parties

### Relationship with the Group

#### Ultimate holding company

- AVIC II

Ultimate holding company of the Group

#### Fellow subsidiaries

- Jiangxi Hongdu Aviation Industrial Group Corporation
- Changhe Aircraft Industries (Group) Ltd.
- Harbin Dongan Engine (Group) Co., Ltd.
- Harbin Aircraft Industry (Group) Co., Ltd.
- Hefei Changhe Industry Co, Ltd.

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

#### Other related parties

- China National Aero-Technology Import & Export Corporation
- CATIC International Industry and Trade Company
- Shenzhen Shenhong Avionics Co., Ltd.
- Mitsubishi Motor Corporation

An associate of AVIC II  
An associate of AVIC II  
An associate of the Group  
A shareholder of Harbin Dongan Automotive Engine Manufacturing Co., Ltd.

#### Other state-owned enterprises

Other state-owned enterprises represent the entities and their subsidiaries, directly or indirectly, controlled by the PRC government, other than those, directly or indirectly, controlled or significantly influenced by AVIC II.



## 18 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Set out below is a summary of significant related party transactions during the six months ended 30th June 2007.

### Income statement items:

The aggregate income and expenses arising from those significant related party transactions are summarised as follows:

	2007 RMB'000 (Unaudited)	For the six months ended 30th June 2006 RMB'000 (Unaudited)
<b>Revenues:</b>		
Sale of goods and materials		
– Fellow subsidiaries	1,613,315	1,473,285
– Other related parties	103,855	102,188
– Other state-owned enterprises	712,634	747,476
Rendering of service		
– Fellow subsidiaries	<u>21,996</u>	<u>36,166</u>
<b>Expenses:</b>		
Purchase of goods and raw materials		
– Fellow subsidiaries	655,784	1,106,380
– Other related parties	568,317	138,385
– Other state-owned enterprises	1,101,246	1,160,555
Service fees payable		
– Fellow subsidiaries	70,684	101,716
– Other related parties	27,544	14,756
– Other state-owned enterprises	21,924	—
Rental expenses		
– Fellow subsidiaries	18,090	20,849
Key management compensation		
– Basic salaries, allowances and benefits in kind	<u>1,010</u>	<u>1,057</u>

These transactions are entered into at terms agreed with these related parties in the ordinary course of business and are continuing in nature.

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

The significant balances with related parties at 30th June 2007 are as follows:

	<b>30th June 2007 RMB'000 (Unaudited)</b>	31st December 2006 RMB'000 (Audited)
<b>Assets:</b>		
Trade receivables		
– Fellow subsidiaries	<b>1,635,928</b>	1,701,901
– Other related parties	<b>69,615</b>	152,778
– Other state-owned enterprises	<b>97,542</b>	86,849
Notes receivable		
– Fellow Subsidiaries	<b>200,400</b>	37,263
Advance to suppliers		
– Fellow subsidiaries	<b>19,513</b>	38,824
– Other related parties	<b>152,754</b>	2,254
– Other state-owned enterprises	<b>134,329</b>	134,045
Other receivables and prepayments		
– Ultimate holding company	<b>58,315</b>	57,293
– Fellow subsidiaries	<b>116,834</b>	38,696
– Other related parties	<b>2,405</b>	16,058
– Other state-owned enterprises	<b>58,690</b>	69,902
Pledged deposits		
– Other state-owned enterprises	<b>371,726</b>	656,643
Term deposits with initial term of over three months		
– Other state-owned enterprises	<b>1,231,878</b>	1,051,128
Cash and cash equivalents deposited with		
– Other state-owned enterprises	<b>1,908,457</b>	3,005,885



## 18 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

### Balance sheet items: (continued)

	30th June 2007 RMB'000 (Unaudited)	31st December 2006 RMB'000 (Audited)
<b>Liabilities:</b>		
Trade payable		
– Ultimate holding company	—	6,487
– Fellow subsidiaries	336,923	336,891
– Other related parties	295,410	300,957
– Other state-owned enterprises	1,243,740	1,035,050
Notes payable		
– Fellow subsidiaries	178,149	176,131
– Other related parties	6,238	756
Advance from customers		
– Ultimate holding company	—	—
– Fellow subsidiaries	377,348	21,381
– Other related parties	28,874	43,664
– Other state-owned enterprises	21,279	77,468
Other payables and accruals		
– Ultimate holding company	10,714	45,997
– Fellow subsidiaries	105,927	205,729
– Other related parties	5,764	22,362
– Other state-owned enterprises	25,275	19,104
Amounts payable to ultimate holding company	520,524	520,524
Bank borrowings		
– Other state-owned enterprises	5,617,405	6,099,360
<b>Other matters:</b>		
Guarantees on bank loans granted to the Group from		
– Ultimate holding company	289,890	289,890
– Fellow subsidiaries	210,858	540,729





## 18 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

### Balance sheet items: (continued)

In addition, certain of the Group's property, plant and equipment with carrying value of approximately RMB886,335,000 at 30th June 2007 (31st December 2006: RMB900,034,000) were situated on leasehold land in the PRC which are granted by AVIC II for the Group's use at no cost or have been leased from certain fellow subsidiaries under long-term leases.

Whilst other state-owned enterprises are related parties of the Group as defined under IAS 24, the directors are of the opinion that each party is operating independently; and such balances are arising in the ordinary course of the Group's businesses.

## 19 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 6th July 2007, Harbin Dongan Auto Engine Co., Ltd. ("Dongan Motor"), a 59.51% owned subsidiary of the Company, proposed to issue 138,624,000 new shares on a basis of three rights shares to every ten existing shares, which is subject to the approval by at least two thirds of votes at the general meeting of Dongan Motor to be convened for such purpose and the approval of the relevant of PRC authorities. Subject to the above approvals, the rights issue is expected to take place on or before 30th June 2008, and the subscription price will be determined at a certain discount to the average closing price of Dongan Motor's shares listed on the Shanghai Stock Exchange for the last twenty trading days prior to the publication of the rights issue documents. Up to the date of this report, the directors are not able to estimate the effects of the proposed rights issue of Dongan Motor to the Group.



## BOARD OF DIRECTORS

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

\* Independent Non-executive Directors

## SUPERVISORY COMMITTEE

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

## SENIOR MANAGEMENT

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

## THE LEGAL NAME OF THE COMPANY

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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## AUTHORISED REPRESENTATIVE

Wu Xiandong  
Yan Lingxi

## PRINCIPAL BANKERS

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Beijing, the PRC

Bank of China Limited  
No.1 Fuxingmen nei Street, Xicheng District,  
Beijing, the PRC

China Construction Bank Corporation  
No.25, Finance Street, Xicheng District,  
Beijing, the PRC

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

## PLACE OF LISTING, STOCK NAME AND STOCK CODE

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



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#### Auditors in the PRC

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