



AviChina

AviChina Industry & Technology Company Limited
中国航空科技工业股份有限公司

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



INTERIM REPORT 2012

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Highlights of Interim Results

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 2012 prepared according to International Financial Reporting Standards.

Revenue	RMB7,311 million
Net profit attributable to the equity holders of the Company	RMB313 million
Profit per share, basic and diluted	
– Basic	RMB0.0589
– Diluted	RMB0.0587
Equity attributable to the equity holders of the Company	RMB8,586 million

INTERIM DIVIDEND

The Board proposes that no interim dividend be paid for the six months ended 30 June 2012.

BUSINESS REVIEW

In the first half of 2012, the world economy lacked recovery momentum and the domestic economy had seen increased downward pressure with slowing down in profit growth and high sustained costs of state-owned enterprises. Despite all the unfavorable external environment, the entire aircraft business and aviation parts and components business of the Group have achieved a stable increase. For the six months ended 30 June 2012, the Group recorded a revenue of RMB7,311 million, representing an increase of 22.46% over that of the continuing operations of the corresponding period in 2011. The net profit attributable to the equity holders of the Company for the first half of 2012 was RMB313 million, representing an increase of 13.82% as compared with RMB275 million of the continuing operations in the corresponding period in 2011.

During the first half of 2012, in the face of new situations and challenges and through developing strategic industry and improving both quality and efficiencies, Aviation Industry Corporation of China (“AVIC”), the Company’s controlling shareholder, was listed on the Fortune Global 500 for the fourth consecutive year with an advance in ranking each year. In June 2012, AVIC was awarded as one of the China’s 500 Most Valuable Brands for the first time. In the first half of 2012, the Company continued to push ahead the reorganization of its assets and explored new scope of aviation manufacturing business in accordance with the strategy set down by the Board. The acquisition of Tianjin Aviation Mechanical and Electrical Co., Ltd. (“Tianjin Aviation”) from the Company’s controlling shareholder had been completed and the operating results of Tianjin Aviation have been consolidated into the Company’s financial results for the period, which bring new profit contribution to the Company. The acquisition has also extended the business of the Company to include aviation mechanical and electrical business, enhanced the Company’s manufacturing capabilities in aviation products and assemblies, and further completed the system of aviation business of the Company. Hafei Aviation Industry Co., Ltd. (“Hafei Aviation”) launched a reorganization of its helicopter business, with AVIC Helicopter Limited (“AVIC Helicopter”), Harbin Aircraft Industry Group Limited (“AVIC Hafei”), and the Company injecting certain related helicopter business and assets as consideration for the new A shares of Hafei Aviation.

In the first half of the year, the Company also completed its H shares placing. In addition, China AVIC Avionics Equipment Co., Ltd. (“AVIC Avionics”) received the approval of the issuance examination committee of China Securities Regulatory Commission (“CSRC”) on the non-public placing of its A shares. China Aviation Optical-Electrical Technology Co., Ltd. (“JONHON Optronics”) also commenced work on a non-public placing of its A shares. Furthermore, the Company completed the establishment of the new session of the Board and Supervisory Committee.

During the first half of 2012, products of the Group participated in the Singapore Airshow, which expanded the market impact of the Group’s products and has established the foundation for opening up the international market. At the same time, the Group actively extended the domestic market, with its Z-8 helicopter and Y-12 aircraft expected to receive new market orders.

In March 2012, Y-12F aircraft successfully completed the icing wind tunnel test project, and as the first icing wind tunnel testing on China’s general-purpose aircraft, its successful completion has great milestone significance for China’s general-purpose aviation and general-purpose aircraft design. In May 2012, Y-12F also completed all risk adjustments for trial flights, thus laying the foundation for airworthy test flight.

Management Discussion and Analysis

In June 2012, the assembling and manufacturing project for Legacy 600/650 Executive Jets by Harbin Embraer Aircraft Industry Co., Ltd. (“**Harbin Embraer**”), an associated company of the Group, received the approval reply by the National Development and Reform Commission. In the meantime, Harbin Embraer and ICBC Financial Leasing Co. signed a sales agreement of 10 Legacy 650 Executive Jets in Rio de Janeiro, which included confirmed order for 5 jets and intended order for 5 jets. The first executive jet is expected to be delivered at the end of 2013. At the same time, Hafei Aviation signed a subcontracting agreement with Boeing Australia for the Boeing 737 aileron adjustment sheet project, which is the third project between Hafei Aviation and Boeing and an indication of the high recognition of the Group by the partners in international cooperation.

During the first half of 2012, the Group continued to improve its technology research and development capacity of avionics products. AVIC Avionics and JONHON Optronics, as supporting units for the Shenzhou series, provided a strong support for the successful launch of Shenzhou-9. JONHON Optronics has completed the appraisal evaluations for 14 scientific and technological achievements, which are representatives of the latest research achievements on new product development of JONHON Optronics in the recent two years.

FUTURE OUTLOOK

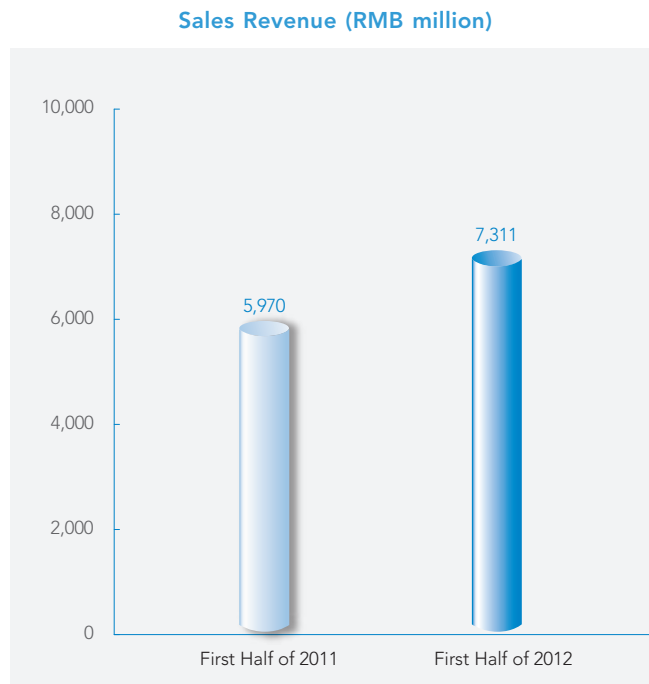
In the first half of 2012, the State Council promulgated the “12th-Five” National Strategic Emerging Industries’ Development Plan and the Ministry of Industry and Information Technology issued the Development Plan for High-end Equipment Manufacturing Industry in the “12th-Five” period, which serve to further confirm the high-end equipment manufacturing industry, including the aviation equipment, as the key development direction and main task during the “12th-Five” period. They also serve to provide a favorable policy support for the development of China’s aviation industry, which will bring benefits to the Group. In addition, the State will further implement the plans on new aviation emergency rescue system and comprehensive transportation system in the next five years, which will also promote the further development of the Group’s aviation business.

In the second half of 2012, the Group will focus on development strategy to fully promote the stable continuous growth of its various businesses, make full use of the supports provided by the various industry policies, and through research and manufacture of large passenger aircraft, promote the industry development and transformation upgrading of its related subsidiaries. The Group will continue to proceed with the reorganization of the helicopter business through placing of A shares to acquire relevant assets. It will also promote international cooperation and improve the economic benefit from international cooperation. The Group will endeavor to promote value management, deepen the implementation of strategic cost management, strengthen its internal control system, enhance the quality and efficiency of economic development, and promote management improvement and project innovation. At the same time, the Group will, in accordance with the investment direction of the raised proceeds, continue to negotiate with AVIC, the controlling shareholder of the Company, on matters relating to investment in new aviation business by the Group and acquisition of related aviation business, with a view to extending the Group’s aviation business chain and achieving its targets in steady development, enhanced quality and efficiency, promoted reform, controlled costs, strengthened management and stable progress.



FINANCIAL REVIEW

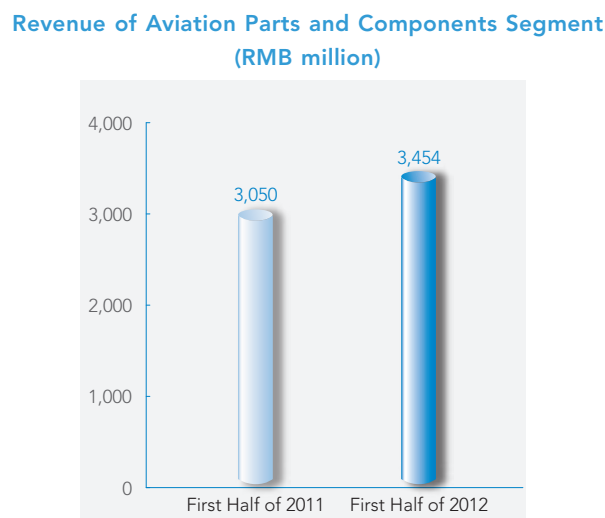
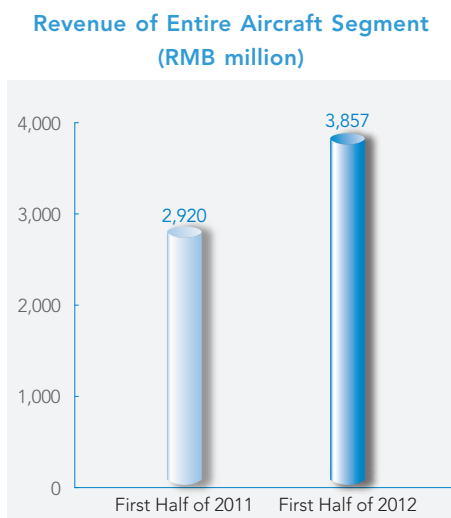
Revenue



For the six months ended 30 June 2012, the Group achieved a revenue of RMB7,311 million, representing an increase of RMB1,341 million, or 22.46%, as compared with RMB5,970 million of the continuing operations for the corresponding period in 2011, which was mainly attributable to the increase of the helicopters business during the period. Among that, the revenue from helicopter products amounted to RMB3,619 million, representing an increase of RMB1,112 million, or 44.36%, as compared with that of the corresponding period of last year.

Management Discussion and Analysis

Segment Information



For the six months ended 30 June 2012, the revenue of the entire aircraft segment of the Group amounted to RMB3,857 million, representing an increase of 32.09% as compared with that of the corresponding period in 2011 and accounting for 52.76% of the revenue of the Group. The revenue of the aviation parts and components segment amounted to RMB3,454 million, representing an increase of 13.25% as compared with that of the corresponding period in 2011 and accounting for 47.24% of the revenue of the Group.

Gross profit

For the six months ended 30 June 2012, the Group recorded a gross profit of RMB1,455 million, representing an increase of RMB203 million, or 16.21%, as compared with RMB1,252 million of the continuing operations for the corresponding period in 2011, mainly attributable to the increase in the sales revenue of helicopter products and the stable gross profit rate of aviation products.

Selling and distribution expenses

For the six months ended 30 June 2012, the selling and distribution expenses of the Group amounted to RMB147 million, representing an increase of RMB34 million or 30.09% over RMB113 million of the continuing operations for the corresponding period of last year, which is mainly attributable to the increase in the expenses of Three Guarantees and sales services. The selling and distribution expenses accounted for 2.01% of the revenue, representing an increase of 0.12 percentage points as compared with 1.89% of the continuing operations for the corresponding period of last year.

General and administrative expenses

For the six months ended 30 June 2012, the general and administrative expenses of the Group amounted to RMB811 million, representing an increase of RMB126 million, or 18.39%, as compared with RMB685 million of the continuing operations for the corresponding period of last year. Such increase was mainly attributable to the increase in the expenses for research and development and wages of the staff. The general and administrative expenses accounted for 11.09% of the revenue, representing a decrease of 0.38 percentage points compared with 11.47% of the continuing operations for the corresponding period of last year.

Finance income, net

For the six months ended 30 June 2012, the net finance income of the Group amounted to RMB32 million, representing an increase of RMB23 million compared with RMB9 million of the continuing operations of the Group of the corresponding period in 2011. This was mainly attributable to the increase in the interest income resulting from the growth of daily average deposit balance and the up-adjustment on the interest rate. Please refer to note 7 to the financial information for details.

Net profit attributable to the equity holders of the Company

For the six months ended 30 June 2012, the net profit attributable to the equity holders of the Company amounted to RMB313 million, representing an increase of RMB38 million, or 13.82% from RMB275 million of the continuing operations in the corresponding period of 2011. Such increase was mainly attributable to the steady growth in the sales revenue of the aviation products.

Liquidity and Financial Resources

As at 30 June 2012, cash and cash equivalents of the Group amounted to RMB3,109 million. Cash and cash equivalents were mainly derived from cash and bank deposits at the beginning of 2012 and proceeds generated from operations during this period.

As at 30 June 2012, the Group's total borrowings amounted to RMB3,131 million, out of which short term borrowings amounted to RMB1,708 million, current portion of long-term borrowings amounted to RMB171 million and non-current portion of long-term borrowings amounted to RMB1,252 million.

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

	RMB million
Within one year	171
In the second year	553
In the third to fifth year	262
After the fifth year	437
Total	1,423

As at 30 June 2012, the Group's bank borrowings amounted to RMB1,693 million (the average interest rate of which was 6% per annum), representing a decrease of RMB77 million as compared with that at the beginning of 2012; and other borrowings amounted to RMB1,438 million (the average interest rate of which was 5% per annum), representing an increase of RMB150 million as compared with that at the beginning of 2012.

Seasonal influence on the Group's borrowings was insignificant.

CAPITAL STRUCTURE

As at 30 June 2012, the Group's borrowings were mainly denominated in Renminbi whilst cash and cash equivalents were mainly denominated in Renminbi, Hong Kong Dollar and United States Dollar.

Management Discussion and Analysis

PLEDGE ON ASSETS

As at 30 June 2012, the Group's borrowings amounting to RMB241 million were secured by receivables with a net book value of RMB255 million.

GEARING RATIO

As at 30 June 2012, the Group's gearing ratio was 9.82% (31 December 2011: 9.87% as restated), which was derived of dividing the total borrowings by the total assets as at 30 June 2012.

EXCHANGE RATE RISKS

The Group mainly operates in the PRC with most of its transactions settled in Renminbi. The foreign currencies exchange risks mainly arise from transactions involving assets, liabilities and operating activities of the Group and are primarily associated with United States Dollar, Euro and Hong Kong Dollar. In addition, the Company has some deposits denominated in Hong Kong Dollar, being part of the proceeds raised from the previous fund raising activities. The directors of the Company are of the opinion that the exchange rate risks to the Group are low and will not have any material adverse impact on the Group's financial results.

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2012, the Group did not provide any guarantees for any third party and had no significant contingent liabilities.

MATERIAL ACQUISITIONS AND DISPOSALS

1. On 18 January 2012, the Company completed the issuance of 183,404,667 domestic shares to AVIC Electromechanical Systems Company Limited ("**AMES**"), a wholly-owned subsidiary of AVIC, in relation to the acquisition of Tianjin Aviation. Upon completion of the issuance, the total number of issued domestic shares of the Company increased from 2,934,590,598 to 3,117,995,265, and the total number of issued shares of the Company increased from 4,949,024,500 shares to 5,132,429,167 shares. Details of the transactions can be referred to the announcement of the Company dated 25 January 2011, the circular of the Company dated 21 February 2011 and the announcement of the Company dated 18 January 2012.
2. On 27 March 2012, Jiangxi Changhe Aviation Industry Co., Ltd. ("**Changhe Aviation**"), a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Changhe Aircraft Industries Group Co., Ltd. ("**CAIG**"), pursuant to which Changhe Aviation agreed to transfer, subject to certain conditions, 51% of the equity interest held by it in Jiujiang Changhe Automobile Co., Ltd. ("**JiuJiang Auto**") to CAIG, for a consideration of approximately RMB65,970,000 ("**Share Transfer**"). The consideration will be satisfied by CAIG by way of cash. Upon completion of the Share Transfer, Jiujiang Auto ceased to be a subsidiary of the Company.

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Share Transfer constituted a connected transaction of the Company and was subject to announcement and reporting requirements but exempt from the Company's independent shareholders' approval requirements. Details of the transactions can be referred to the announcement of the Company dated 27 March 2012.

3. On 2 May 2012, the board of directors of JONHON Optronics resolved to place not more than 68.5 million new JONHON Optronics A shares for subscription by not more than 10 target investors including the Company ("**JONHON Optronics Placing**"). The total proceeds of the JONHON Optronics Placing will not exceed RMB1 billion. All target investors will subscribe for the new JONHON Optronics A shares by cash. None of the target investors will be a connected person of the Company. On 2 May 2012, the Company entered into a subscription agreement with JONHON Optronics for subscription, subject to certain conditions and adjustment (if any), of the new JONHON Optronics A shares at the placing price by cash in an aggregate amount of RMB250 million. The placing price will be finally determined by the board of directors of JONHON Optronics pursuant to the authorisation of its shareholders at the general meeting and after being approved by the relevant PRC government authorities and having taken into account the bidding prices offered by the target investors. Upon completion of the JONHON Optronics Placing, such new JONHON Optronics A shares will be listed on the Shenzhen Stock Exchange. The JONHON Optronics Placing has been approved by the State-owned Assets Supervision and Administration Commission of the State Council on 27 July 2012 and passed by its shareholders at the general meeting of JONHON Optronics on 1 August 2012. The JONHON Optronics Placing is still subject to the approval by CSRC. Upon completion of the JONHON Optronics Placing, the equity interest held by the Company in JONHON Optronics will be diluted by approximately 2.68% from 43.34% to approximately 40.66% of the enlarged share capital of JONHON Optronics, but JONHON Optronics will remain as a subsidiary of the Company after the completion.

Pursuant to the Listing Rules, such dilution constitutes a deemed disposal by the Company of 2.68% equity interest in JONHON Optronics but is exempt from announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. Details of the transactions can be referred to the announcements of the Company dated 17 April 2012, 4 May 2012 and 30 July 2012 respectively.

4. On 25 May 2012, the Board and the board of directors of Hafei Aviation respectively resolved to issue approximately 252,894,000 new Hafei Aviation A shares for subscription by AVIC Helicopter, AVIC Hafei, the Company and not more than ten independent qualified investors respectively ("**Hafei Aviation Placing**"). Hafei Aviation entered into a subscription agreement with AVIC Helicopter, AVIC Hafei and the Company on 25 May 2012 and a supplemental agreement on 11 July 2012, according to which approximately 256,301,061 new Hafei Aviation A shares will be issued among which: (i) AVIC Helicopter will subscribe for approximately 107,510,979 new Hafei Aviation A shares for a consideration to be satisfied by the transfer of its equity interest in AVIC Helicopter to Hafei Aviation ("**AVIC Helicopter Subscription**"); (ii) AVIC Hafei will subscribe for approximately 47,341,165 new Hafei Aviation A shares for a consideration to be satisfied by the transfer of its equity interest in the helicopter business assets of AVIC Hafei to Hafei Aviation ("**AVIC Hafei Subscription**"); (iii) the Company will subscribe for approximately 37,409,221 new Hafei Aviation A shares for a consideration to be satisfied by the transfer of its equity interest in Changhe Aviation to Hafei Aviation ("**Company's Subscription**"); and (iv) to place an aggregate of approximately 64,039,696 new Hafei Aviation A shares to not more than 10 independent qualified investors for subscription in cash ("**Cash Subscription**"). The subscription price for the AVIC Helicopter Subscription, AVIC Hafei Subscription and Company's Subscription is RMB17.13 per new Hafei Aviation A share. The subscription price of the Cash Subscription is not less than RMB17.13 per new Hafei Aviation A share.

Pursuant to Chapter 14A of the Listing Rules, the AVIC Helicopter Subscription and AVIC Hafei Subscription constitute connected transactions of the Company and shall comply with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules and also constitute discloseable transactions of the Company. The Company will subscribe for the new Hafei Aviation A shares for a consideration to be satisfied by the transfer of its equity interest in Changhe Aviation to Hafei Aviation. Following completion of the Hafei Aviation

Management Discussion and Analysis

Placing, the Company will indirectly hold equity interest in Changhe Aviation through its subsidiary, Hafei Aviation, and Changhe Aviation will continue to be a subsidiary of the Company, where the Company's equity interest in Changhe Aviation will be diluted accordingly. Pursuant to Chapter 14 of the Listing Rules, the transfer of the Company's equity interest in Changhe Aviation to Hafei Aviation as the consideration for the Company's Subscription will constitute a discloseable transaction of the Company. Upon completion of the Hafei Aviation Placing, the equity interest to be held by the Company directly and indirectly in Hafei Aviation will be diluted by approximately 15.13% from 50.05% to approximately 34.92%. While Hafei Aviation will remain to be a subsidiary of the Company following completion of the Hafei Aviation Placing, such dilution will constitute a deemed disposal by the Company of approximately 15.13% equity interest in Hafei Aviation. Pursuant to Chapter 14 of the Listing Rules, such deemed disposal will constitute a discloseable transaction of the Company. Details of the transactions can be referred to the announcements of the Company dated 6 February 2012, 25 May 2012, 14 June 2012 and 11 July 2012 and the circular of the Company dated 19 July 2012 respectively.

5. On 19 June 2012, AVIC Avionics received the approval of the issuance examination committee of CSRC on the non-public issuance of A shares of AVIC Avionics. Details of the transactions can be referred to the announcements of the Company dated 27 October 2011, 2 November 2011, 10 November 2011, 12 December 2011, 11 April 2012, 20 April 2012 and 20 June 2012 respectively.

USE OF PROCEEDS

As at 30 June 2012, a total of RMB2,260 million (including the proceeds raised from the placing conducted by the Company in 2010 and 2012) had been invested in the manufacture and research and development of advanced trainer models, helicopters, aviation composite materials, acquisition of aviation assets and equity investment. The rest of the proceeds have been placed in short term deposits in banks in the PRC.

EMPLOYEES

As at 30 June 2012, the Group had approximately 35,935 employees. The Group's staff costs amounted to RMB1,268 million for the six months ended 30 June 2012, representing an increase of RMB191 million, or 17.73% as compared with RMB1,077 million of the continuing operations for the corresponding period of last year.

The remuneration policies and the training plans of the Company remain the same as those set out in the 2011 annual report of the Company.

Disclosure of Interests and Other Information



CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

At the annual general meeting convened on 25 May 2012, the respective terms of service of all directors of the third session of the Board and all supervisors of the third session of the Supervisory Committee expired, and the directors of the fourth session of the Board and supervisors representing the shareholders of the fourth session of the Supervisory Committee were elected. At the meeting of Board convened on 25 May 2012, Mr. Lin Zuoming was elected as the Chairman of the fourth session of the Board, and Mr. Tan Ruisong was elected as the Vice Chairman. After the annual general meeting and the meeting of the Board, the members of the fourth session of the Board are as follows: Mr. Lin Zuoming (Chairman, executive director), Mr. Tan Ruisong (Vice Chairman, executive director, President), Mr. Gu Huizhong (non-executive director), Mr. Gao Jianshe (non-executive director), Mr. Sheng Mingchuan (non-executive director), Mr. Maurice Savart (non-executive director), Mr. Guo Chongqing (independent non-executive director), Mr. Li Xianzong (independent non-executive director), Mr. Lau Chung Man, Louis (independent non-executive director).

At the meeting of the Supervisory Committee convened on 25 May 2012, Ms. Bai Ping was appointed as the chairman of the fourth session of Supervisory Committee. After the annual general meeting and the meeting of the supervisors, the members of the fourth session of Supervisory Committee are as follows: Ms. Bai Ping (Chairman, supervisor representing the shareholders), Mr. Yu Guanghai (supervisor representing the shareholders), Ms. Li Jing (supervisor representing the employees).

At the Board meeting convened on 25 May 2012, Mr. Tan Ruisong was appointed as President of the Company. Mr. Wang Jun, Mr. Ni Xianping, Mr. Zheng Qiang, Mr. Zhang Kunhui were appointed as Vice Presidents of the Company. Mr. Wang Jun was appointed as CFO of the Company. Mr. Yan Lingxi was appointed as Company Secretary 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 Listing Rules as its code for securities transactions by its directors and supervisors. The Board has also confirmed that, having made specific enquiries of all directors and supervisors, all the directors and supervisors of the Company had complied with the required standards set out in the Model Code for the six months ended 30 June 2012.

THE INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As at 30 June 2012, the interests and short positions of the directors, supervisors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required: (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO); or (ii) to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange are set out below:

Disclosure of Interests and Other Information

Name of Director	Class of shares	Capacity	Number of Restricted Shares granted	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of shares held
Lin Zuoming	H Share	Beneficial owner	708,590	0.03%	0.01%	Long position
Tan Ruisong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Gu Huizhong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Gao Jianshe	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position

Note: Mr. Wu Xiandong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Li Fangyong and Mr. Chen Yuanxian ceased to be directors of the Company from 25 May 2012. The numbers of restricted shares granted to them remain the same as those disclosed in the Company's 2011 annual report.

Save as disclosed above, as at 30 June 2012, none of the directors, supervisors or chief executive of the Company had any interests or short positions: (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) which were required to be notified to the Company and the Stock Exchange; or (ii) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code of the Listing Rules, required to be notified to the Company and the Stock Exchange.

SHAREHOLDING OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, 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	Capacity	Number of shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of shares held
AVIC (Note)	Domestic Shares	Beneficial owner; interest in controlled corporation	2,989,492,900	95.88%	51.26%	Long position
AMES (Note)	Domestic Shares	Beneficial owner	183,404,667	5.88%	3.35%	Long position
European Aeronautic Defence and Space Company – EADS N.V.	H Shares	Beneficial owner	274,909,827	11.66%	5.02%	Long position
FIL Limited	H Shares	Investment manager	118,608,000	5.03%	2.17%	Long position

Note: Out of 2,989,492,900 domestic shares held by AVIC, 2,806,088,233 domestic shares are held as beneficial owner, and 183,404,667 domestic shares are held through AMES, its controlled corporation.

Disclosure of Interests and Other Information



Save as disclosed above, as at 30 June 2012, the Company had not been notified of any interests and short positions in 5% or more than 5% of the shares and underlying shares of the Company which had been recorded in the register kept by the Company under 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 "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 statements for the six months ended 30 June 2012.

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 contained in Appendix 14 to the Listing Rules effective before 1 April 2012 for the three months from 1 January 2012 to 31 March 2012 and upon the Company making timely arrangements and adjustments on its corporate governance, complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules as amended and effective after 1 April 2012 during the three months from 1 April 2012 to 30 June 2012.

SIGNIFICANT EVENT

On 24 February 2012, the Company entered into a placing agreement with the BOCI Asia Limited in relation to the placing, on a fully underwritten basis, of an aggregate of 342,000,000 H Shares at a placing price of HK\$3.55 per H Share to not less than six but not more than 10 independent professional, institutional, and/or other investors ("H Share Placing"). The H Share Placing was completed on 2 March 2012. The net proceeds were approximately HK\$1,178 million. Details of the H Share Placing can be referred to the announcements of the Company dated 26 February 2012 and 2 March 2012, respectively.

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 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Lin Zuoming
Chairman

Beijing, 28 August 2012

As at the date of this report, the Board comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and non-executive directors Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Sheng Mingchuan, 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 30 June 2012

	Note	For the six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited) (Restated)
Continuing operations			
Revenue	3	7,311,495	5,969,945
Cost of sales		(5,856,492)	(4,717,835)
Gross profit		1,455,003	1,252,110
Other income	4	45,260	34,915
Other gains, net	5	8,257	6,875
Selling and distribution expenses		(146,723)	(113,356)
General and administrative expenses		(810,502)	(684,536)
Operating profit		551,295	496,008
Finance income	7	103,748	72,354
Finance costs	7	(71,920)	(62,917)
Finance income, net		31,828	9,437
Share of results of associates		37,066	64,488
Profit before income tax		620,189	569,933
Income tax expense	8	(76,781)	(78,902)
Profit for the period from continuing operations		543,408	491,031
Discontinued operations			
Profit for the period from discontinued operations	9	–	145,317
Profit for the period		543,408	636,348
Attributable to:			
Equity holders of the Company		312,513	329,554
Non-controlling interests		230,895	306,794
		543,408	636,348
Earnings per share for profit attributable to equity holders of the Company during the period:			
Basic		RMB	RMB
– continuing operations	11	0.0589	0.0557
– discontinued operations	11	–	0.0111
Diluted			
– continuing operations	11	0.0587	0.0557
– discontinued operations	11	–	0.0111

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited) (Restated)
Profit for the period	543,408	636,348
Other comprehensive expenses, net of tax		
Change in fair value of available-for-sale financial assets	(13,614)	(41,932)
Total comprehensive income for the period	529,794	594,416
Attributable to:		
Equity holders of the Company	306,814	311,686
Non-controlling interests	222,980	282,730
	529,794	594,416
Total comprehensive income attributable to equity holders of the Company from:		
Continuing operations	529,794	449,099
Discontinued operations	–	145,317
	529,794	594,416

Condensed Consolidated Balance Sheet

As at 30 June 2012

	Note	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Unaudited) (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	12	4,502,101	4,483,458
Investment properties	12	28,240	28,046
Land use rights	12	564,805	590,429
Intangible assets	12	55,588	52,694
Interests in associates		1,094,366	1,052,664
Available-for-sale financial assets		616,357	632,368
Deferred income tax assets		77,992	66,851
Total non-current assets		6,939,449	6,906,510
Current assets			
Accounts receivable	13	5,764,187	4,387,540
Advances to suppliers		869,156	840,211
Other receivables and prepayments	14	1,592,421	1,355,061
Inventories		9,729,904	8,196,727
Financial assets held for trading		14,418	530
Pledged deposits		550,979	635,252
Term deposits with initial term of over three months		3,325,575	2,347,969
Cash and cash equivalents		3,109,489	6,303,412
Total current assets		24,956,129	24,066,702
Total assets		31,895,578	30,973,212

Condensed Consolidated Balance Sheet

As at 30 June 2012

	Note	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Unaudited) (Restated)
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	5,474,429	4,949,025
Reserves		3,111,085	2,596,369
		8,585,514	7,545,394
Non-controlling interests		6,725,794	6,572,866
Total equity		15,311,308	14,118,260
LIABILITIES			
Non-current liabilities			
Long-term borrowings	17	1,252,080	1,171,080
Deferred income from government grants		258,436	252,632
Deferred income tax liabilities		16,163	10,221
Total non-current liabilities		1,526,679	1,433,933
Current liabilities			
Accounts payable	15	8,745,961	6,913,854
Advances from customers		1,743,755	3,964,371
Other payables and accruals	16	2,086,207	2,021,419
Amounts payable to ultimate holding company		466,379	466,379
Current portion of long-term borrowings	17	170,500	251,000
Short-term borrowings	17	1,708,249	1,636,304
Current income tax liabilities		136,540	167,692
Total current liabilities		15,057,591	15,421,019
Total liabilities		16,584,270	16,854,952
Total equity and liabilities		31,895,578	30,973,212
Net current assets		9,898,538	8,645,683
Total assets less current liabilities		16,837,987	15,552,193

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to equity holders of the Company									
	Shares held for restricted share capital		Capital reserve	Share-based compensation reserve	Available-for-sale financial assets reserve	Statutory surplus reserve	Accumulated losses	Subtotal	Non-controlling interests	Total
	Share capital	share scheme								
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
<i>For the six months ended 30 June 2012</i>										
Balance at 1 January 2012, as restated	4,949,025	(139,994)	3,697,382	20,390	177,731	43,048	(1,202,188)	7,545,394	6,572,866	14,118,260
Total comprehensive income for the period	-	-	-	-	(5,699)	-	312,513	306,814	222,980	529,794
<i>Transactions with owners</i>										
Issuance of new shares (Note 18)	525,404	-	625,643	-	-	-	-	1,151,047	-	1,151,047
Deemed distribution to holding company (Note 2(a))	-	-	(376,591)	-	-	-	-	(376,591)	-	(376,591)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	(45,064)	(45,064)
Value of employee services under share scheme (Note 19)	-	-	-	13,594	-	-	-	13,594	-	13,594
2011 final dividend	-	-	-	-	-	-	(54,744)	(54,744)	-	(54,744)
Contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	400	400
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(25,388)	(25,388)
	525,404	-	249,052	13,594	-	-	(54,744)	733,306	(70,052)	663,254
Balance at 30 June 2012	5,474,429	(139,994)	3,946,434	33,984	172,032	43,048	(944,419)	8,585,514	6,725,794	15,311,308

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to equity holders of the Company									
	Shares held for restricted share capital		Capital reserve	Share-based compensation reserve	Available-for-sale financial assets reserve	Statutory surplus reserve	Accumulated losses	Subtotal	Non-controlling interests	Total
	Share capital	share scheme								
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	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 30 June 2011										
Balance at 1 January 2011, as restated	4,949,025	-	5,512,496	-	240,007	37,581	(1,646,198)	9,092,911	8,506,789	17,599,700
Total comprehensive income for the period	-	-	-	-	(17,869)	-	329,555	311,686	282,730	594,416
<i>Transactions with owners</i>										
Distribution of net assets of Dongan Motor	-	-	(1,887,005)	-	-	-	-	(1,887,005)	(2,900,867)	(4,787,872)
Deemed contribution from holding company	-	-	599,417	-	-	-	-	599,417	-	599,417
Dilution of interests in subsidiaries	-	-	(518,520)	-	-	-	-	(518,520)	518,520	-
Purchase of restricted shares under share scheme	-	(139,994)	-	-	-	-	-	(139,994)	-	(139,994)
Value of employee services under share scheme	-	-	-	6,797	-	-	-	6,797	-	6,797
2010 final dividend	-	-	-	-	-	-	(49,490)	(49,490)	-	(49,490)
Contribution from non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	-	5,346	5,346
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(96,703)	(96,703)
	-	(139,994)	(1,806,108)	6,797	-	-	(49,490)	(1,988,795)	(2,473,704)	(4,462,499)
Balance at 30 June 2011, as restated	4,949,025	(139,994)	3,706,388	6,797	222,138	37,581	(1,366,133)	7,415,802	6,315,815	13,731,617

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012

	Note	For the six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited) (Restated)
Net cash used in operating activities			
– continuing operations		(2,801,970)	(988,197)
– discontinued operations	9	–	(136,176)
		(2,801,970)	(1,124,373)
Net cash (used in)/generated from investing activities			
– continuing operations		(1,403,269)	(937,944)
– discontinued operations	9	–	47,990
		(1,403,269)	(889,954)
Net cash generated from/(used in) financing activities			
– continuing operations		1,011,316	(293,605)
– discontinued operations	9	–	(50,480)
		1,011,316	(344,085)
Net decrease in cash and cash equivalents		(3,193,923)	(2,358,412)
Cash and cash equivalents at 1 January		6,303,412	6,983,396
Cash and cash equivalents at 30 June		3,109,489	4,624,984

Notes to the Condensed Consolidated Interim Financial Information

1 ORGANISATION AND PRINCIPAL ACTIVITIES

AviChina Industry & Technology Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on 30 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”). AVIC II merged with China Aviation Industry Corporation I (“AVIC I”) to form Aviation Industry Corporation of China (“AVIC”) on 6 November 2008. The Company’s H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”) on 30 October 2003. The address of its registered office is 8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing, the PRC.

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

The Company’s directors regard AVIC, a company established in the PRC, as being the ultimate holding company of the Company. AVIC, AVIC I and AVIC II are all state-owned enterprises under control of the State Council of the PRC government.

This condensed consolidated interim financial information (“Condensed Financial Information”) is presented in thousands of Renminbi (“RMB’000”), unless otherwise stated, and is approved for issue by the Board of Directors on 28 August 2012.

This Condensed Financial Information has not been audited.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This Condensed Financial Information has been prepared in accordance with International Accounting Standard (“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 2011 annual financial statements.

(a) Restatement of prior year’s financial statements due to business combination under common control

On 18 January 2012, the Company acquired from AVIC Mechanical & Electrical Systems Co., Ltd. (“AMES”, a subsidiary of AVIC) its entire 100% equity interests in Tianjin Aviation Mechanical and Electrical Co., Ltd. (“Tianjin Aviation”).

The consideration of RMB772,745,000 was satisfied by the Company by:

- (i) issuing 183,404,667 new shares with par value of RMB1 each to AMES; and
- (ii) settling the remaining RMB193,186,000 in cash.

Notes to the Condensed Consolidated Interim Financial Information

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(a) Restatement of prior year's financial statements due to business combination under common control (continued)

Accordingly deemed distribution of approximately RMB376,591,000 consisting of the above share issuance and cash settlement was recognized in the Group's equity during the period.

Given that Company and Tianjin Aviation are both under common control of AVIC immediately before and after the business combination, the Company applied the principles of merger accounting in preparing this Consolidated Financial Information of the Group.

By applying the principles of merger accounting, this Consolidated Financial Information of the Group also includes the financial positions, results and cash flows of Tianjin Aviation as if they had been combined with the Group throughout the six months ended 30 June 2012. Comparative figures as at 31 December 2011 and for the six months ended 30 June 2011 have been restated as a result of such.

The following are reconciliations of the effects arising from the above mentioned common control combinations on the condensed consolidated balance sheet as at 31 December 2011, condensed consolidated income statement and condensed consolidated cash flow statement for the six months ended 30 June 2011.

(i) The condensed consolidated balance sheet as at 31 December 2011:

	Balances as previously reported RMB'000 (Audited)	Merger of Tianjin Aviation RMB'000	Elimination of inter- company balances RMB'000	Balances as restated RMB'000 (Unaudited)
Total non-current assets	6,446,445	460,065	–	6,906,510
Total current assets	23,131,615	949,564	(14,477)	24,066,702
Total non-current liabilities	1,433,933	–	–	1,433,933
Total current liabilities	14,966,804	468,692	(14,477)	15,421,019
Total equity	13,177,323	940,937	–	14,118,260

Notes to the Condensed Consolidated Interim Financial Information

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(a) **Restatement of prior year's financial statements due to business combination under common control**
(continued)

(ii) The condensed consolidated income statement for the six months ended 30 June 2011:

	Balances as previously reported RMB'000 (Unaudited)	Merger of Tianjin Aviation RMB'000	Elimination of inter- company balances RMB'000	Balances as restated RMB'000 (Unaudited)
Continuing operations				
Revenues	5,796,673	189,387	(16,115)	5,969,945
Profit for the period from continuing operations	413,754	77,277	–	491,031
Discontinued operations				
Profit for the period from discontinued operations	145,317	–	–	145,317
Profit for the period	559,071	77,277	–	636,348

(iii) The condensed consolidated cash flow statement for the six months ended 30 June 2011:

	Balances as previously reported RMB'000 (Unaudited)	Merger of Tianjin Aviation RMB'000	Balances as restated RMB'000 (Unaudited)
Net cash (used in)/generated from operating activities	(1,137,913)	13,540	(1,124,373)
Net cash (used in)/generated from investing activities	(927,177)	37,223	(889,954)
Net cash used in financing activities	(329,085)	(15,000)	(344,085)

Notes to the Condensed Consolidated Interim Financial Information

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

- (b) Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2012:

IAS 12 (Amendment)	Deferred tax: Recovery of underlying assets
IFRS 1 (Amendment)	Severe hyperinflation and removal of fixed dates for first-time adopters
IFRS 7 (Amendment)	Disclosures – Transfers of financial assets

The adoption of the above does not have any significant impact to the results and financial position of the Group for the six months ended 30 June 2012.

The following new/revised standards, amendments to standards and interpretation have been issued but are not yet effective for the financial year beginning 1 January 2012 and have not been early adopted:

		Effective for accounting periods beginning on or after
IAS 1 (Amendment)	Presentation of financial statements	1 July 2012
IAS 19 (Amendment)	Employee benefits	1 January 2013
IAS 27 (revised 2011)	Separate financial statements	1 January 2013
IAS 28 (revised 2011)	Associates and joint ventures	1 January 2013
IAS 32 (Amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
IFRS 7 (Amendment)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
IFRS 7 and IFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015
IFRS 9	Financial instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurements	1 January 2013
IFRIC 20	Stripping costs in the production phase of a surface mine	1 January 2013

Management is in the process of assessing their related impacts to the Group.

Notes to the Condensed Consolidated Interim Financial Information

3 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 (“**entire aircrafts**”)
- Aviation – manufacturing and sales of aviation parts and components (“**aviation parts & components**”)
- Automobiles – manufacturing, assembly, sales and servicing of automobile engines

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.

Notes to the Condensed Consolidated Interim Financial Information

3 SEGMENT INFORMATION (continued)

	(Continuing operations)			(Discontinued operations)
	Aviation-entire aircraft RMB'000 (Unaudited)	Aviation-parts & components RMB'000 (Unaudited)	Total RMB'000 (Unaudited)	Automobiles RMB'000 (Unaudited)
For the six months ended 30 June 2012				
Total segment revenue	3,856,698	3,778,112	7,634,810	–
Inter-segment revenue	–	(323,315)	(323,315)	–
Revenue (from external customers)	3,856,698	3,454,797	7,311,495	–
Segment results	108,612	432,839	541,451	–
Depreciation and amortisation	86,247	137,622	223,869	–
Provision for impairments on receivables and inventories	12,967	33,741	46,708	–
Finance costs	34,178	37,742	71,920	–
Share of results of associates	(9,386)	46,452	37,066	–
Income tax expense	20,727	56,054	76,781	–
For the six months ended 30 June 2011 (restated)				
Total segment revenue	2,919,769	3,393,453	6,313,222	864,457
Inter-segment revenue	–	(343,277)	(343,277)	–
Revenue (from external customers)	2,919,769	3,050,176	5,969,945	864,457
Segment results	28,139	495,390	523,529	169,554
Depreciation and amortisation	59,762	133,014	192,776	–
(Reverse of provision)/provision for impairments on receivables and inventories	(17,757)	42,339	24,582	8,372
Finance costs	36,620	26,297	62,917	3,277
Share of results of associates	8,691	55,797	64,488	4,061
Income tax expense	4,813	74,089	78,902	25,529

Notes to the Condensed Consolidated Interim Financial Information

3 SEGMENT INFORMATION (continued)

Reconciliation of segment results to profit for the period:

	For the six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited) (Restated)
Segment result for entire aircrafts and aviation components & parts	541,451	523,529
Finance income	103,748	72,354
Corporate overheads	(25,010)	(25,950)
Profit before income tax for continuing operations	620,189	569,933
Income tax expense	(76,781)	(78,902)
Profit for the period from continuing operations	543,408	491,031
Segment result for automobiles	–	169,554
Finance income	–	1,292
Profit before income tax for discontinued operations	–	170,846
Income tax expense	–	(25,529)
Profit for the period from discontinued operations	–	145,317

Notes to the Condensed Consolidated Interim Financial Information

4 OTHER INCOME

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000 (Restated)
Rental income	6,428	5,571
Profit from sale of scrap materials	3,224	4,955
Income from rendering of maintenance and other services	11,809	1,053
Dividend income from available-for-sale financial assets	23,799	23,336
	<u>45,260</u>	<u>34,915</u>

5 OTHER GAINS, NET

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000 (Restated)
Fair value (loss)/gain on financial assets held for trading	(766)	548
Gain on disposal of:		
– property, plant and equipment	1,447	1,564
– a subsidiary	4,340	–
– financial assets held for trading	3,236	4,763
	<u>8,257</u>	<u>6,875</u>

Notes to the Condensed Consolidated Interim Financial Information

6 EXPENSES BY NATURE

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000 (Restated)
Advertising costs	5,306	6,675
Amortisation on:		
– Land use rights	5,474	6,696
– Intangible assets	2,081	2,462
Auditors' remuneration	6,086	5,195
Changes in inventories of finished goods and work-in-progress	(976,213)	(918,879)
Contract costs incurred	3,394,575	2,518,524
Depreciation on:		
– Investment properties	480	682
– Property, plant and equipment	215,834	182,936
Less: amortisation of deferred income from government grant	(9,361)	(11,459)
	206,953	172,159
Fuel	146,597	112,793
Insurance	7,099	18,060
Operating lease rentals	46,760	21,698
Provision for impairment:		
– Inventories	934	6,611
– Receivables	45,774	17,971
Raw materials and consumables used	1,841,291	1,795,266
Repairs and maintenance expense	63,756	52,713
Research expenditures and development costs	194,098	154,743
Staff costs	1,267,542	1,077,060
Sub-contracting charges	150,788	113,675
Sundries	322,536	276,288
Transportation expenses	33,903	33,119
Travelling	48,377	42,898
Total cost of sales, selling and distribution expenses, and general and administrative expenses	6,813,717	5,515,727

Notes to the Condensed Consolidated Interim Financial Information

7 FINANCE INCOME, NET

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000 (Restated)
Finance income:		
Interest income on bank balances and deposits	103,748	72,354
Finance costs:		
Interest expense on bank borrowings		
– Wholly repayable within 5 years	42,961	38,514
– Not wholly repayable within 5 years	–	3,200
	42,961	41,714
Interest expense on other borrowings		
– Wholly repayable within 5 years	24,193	14,862
– Not wholly repayable within 5 years	10,275	10,017
	77,429	66,593
Less: Amount capitalised in property, plant and equipment	(8,479)	(9,113)
	68,950	57,480
Other finance costs	2,970	5,437
	71,920	62,917
	31,828	9,437

Notes to the Condensed Consolidated Interim Financial Information

8 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000 (Restated)
Current income tax	79,579	108,125
Deferred income tax	(2,798)	(29,223)
	<u>76,781</u>	<u>78,902</u>

Except for certain subsidiaries which are taxed at a preferential rate of 15% (2011: 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% (2011: 25%) on the assessable income of the companies within the Group.

9 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The aggregate results and cash flows of the discontinued operations related to Harbin Dongan Auto Engine Co., Ltd. (the "Dongan Motor") were as follows:

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Revenue	–	864,457
Expenses	–	(693,611)
Profit before income tax	–	170,846
Income tax expense	–	(25,529)
Profit from discontinued operations	–	<u>145,317</u>
Net cash used in from operating activities	–	(136,176)
Net cash generated from investing activities	–	47,990
Net cash used in financing activities	–	(50,480)
Net cash outflows	–	<u>(138,666)</u>

Notes to the Condensed Consolidated Interim Financial Information

10 DIVIDENDS

The Board of Directors of the Company does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

11 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period excluding shares held for the restricted share incentive scheme (Note 19).

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares issued under the restricted share incentive scheme. A calculation is done to determine the number of shares that could have been converted at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding unvested awarded shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the conversion of the restricted shares, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per shares, of which details are as follows:

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000 (Restated)
Profit attributable to equity holders of the Company from		
– continuing operations	312,513	274,777
– discontinued operations	–	54,777
	<u>312,513</u>	<u>329,554</u>
Weighted average number of ordinary shares in issue less shares held for restricted share scheme for calculating basic earnings per share (thousands)	5,308,132	4,930,518
Potential dilutive effect arising from restricted shares (thousands)	14,473	1,639
Weighted average number of ordinary shares in issue for calculating diluted earnings per share (thousands)	<u>5,322,605</u>	<u>4,932,157</u>

Notes to the Condensed Consolidated Interim Financial Information

12 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LAND USE RIGHTS AND INTANGIBLE ASSETS

	Property, plant and equipment RMB'000	Investment properties RMB'000	Land use rights RMB'000	Intangible assets (note) RMB'000	Total RMB'000
Cost					
As at 1 January 2012, as restated	7,337,252	36,132	665,331	66,110	8,104,825
Additions	340,530	674	10,518	4,975	356,697
Disposals	(161,921)	–	(50,270)	–	(212,191)
As at 30 June 2012	7,515,861	36,806	625,579	71,085	8,249,331
Accumulated depreciation/amortisation and impairment					
As at 1 January 2012, as restated	2,853,794	8,086	74,902	13,416	2,950,198
Depreciation/amortisation	215,834	480	5,474	2,081	223,869
Disposals	(55,868)	–	(19,602)	–	(75,470)
As at 30 June 2012	3,013,760	8,566	60,774	15,497	3,098,597
Net book value					
As at 30 June 2012	4,502,101	28,240	564,805	55,588	5,150,734

Notes to the Condensed Consolidated Interim Financial Information

12 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LAND USE RIGHTS AND INTANGIBLE ASSETS (continued)

	Property, plant and equipment RMB'000	Investment properties RMB'000	Land use rights RMB'000	Intangible assets (note) RMB'000	Total RMB'000
Cost					
As at 1 January 2011, as restated	6,888,242	61,371	569,447	257,286	7,776,346
Additions	262,342	–	148	3,899	266,389
Disposals	(98,944)	–	–	–	(98,944)
As at 30 June 2011, as restated	7,051,640	61,371	569,595	261,185	7,943,791
Accumulated depreciation/amortisation and impairment					
As at 1 January 2011, as restated	2,559,073	9,224	64,178	9,582	2,642,057
Depreciation/amortisation	182,936	682	6,696	2,462	192,776
Disposals	(61,299)	–	–	–	(61,299)
As at 30 June 2011, as restated	2,680,710	9,906	70,874	12,044	2,773,534
Net book value					
As at 30 June 2011, as restated	4,370,930	51,465	498,721	249,141	5,170,257

Note:

Intangible assets principally represent development costs capitalised in accordance with the Group's accounting policies.

Notes to the Condensed Consolidated Interim Financial Information

13 ACCOUNTS RECEIVABLE

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Trade receivables, gross (note (a))		
– Fellow subsidiaries (note (b))	2,697,276	2,570,031
– Others	1,880,124	1,334,400
	4,577,400	3,904,431
Less: Provision for impairment of receivables	(209,119)	(182,393)
	4,368,281	3,722,038
Notes receivable (note (c))		
– Fellow subsidiaries (Note 21(b))	1,184,092	392,411
– Others	211,814	273,091
	1,395,906	665,502
	5,764,187	4,387,540

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:

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Current to 1 year	3,890,019	3,478,382
1 year to 2 years	492,648	256,779
Over 2 years	194,733	169,270
	4,577,400	3,904,431

- (b) Trade receivables from fellow subsidiaries are unsecured, non-interest bearing and are repayable in accordance with the relevant trading terms. Details of these balances are disclosed in Note 21(b).
- (c) Substantially all of the notes receivable are bank acceptance notes with average maturity period of within six months.
- (d) Substantially all of the accounts receivable are denominated in RMB and the carrying amounts of accounts receivable approximate their fair values.
- (e) Certain trade receivables were pledged as security for bank loans (Note 17(g)).

Notes to the Condensed Consolidated Interim Financial Information

14 OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Amounts due from customers for contract work	333,223	248,332
Other advances to		
– ultimate holding company	6,557	7,240
– fellow subsidiaries	442,302	351,784
Other receivables	487,695	508,284
Prepayments and deposits	95,236	68,490
Dividends receivable from associates	75,263	45,665
Other current assets	152,145	125,266
	<hr/> 1,592,421	<hr/> 1,355,061

15 ACCOUNTS PAYABLE

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Trade payables (note (a))		
– Fellow subsidiaries (note (b))	1,898,388	1,305,969
– Others	5,578,172	3,817,493
	<hr/> 7,476,560	<hr/> 5,123,462
Notes payable (note (c))		
– Fellow subsidiaries (Note 21(b))	603,298	880,474
– Others	666,103	909,918
	<hr/> 1,269,401	<hr/> 1,790,392
	<hr/> 8,745,961	<hr/> 6,913,854

Notes to the Condensed Consolidated Interim Financial Information

15 ACCOUNTS PAYABLE (continued)

Notes:

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

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Current to 1 year	6,396,124	4,345,657
1 year to 2 years	589,854	423,823
2 years to 3 years	217,911	91,082
Over 3 years	272,671	262,900
	7,476,560	5,123,462

- (b) Trade payables to fellow subsidiaries are unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms. Details of these balances are disclosed in Note 21(b).
- (c) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months being secured by pledged deposits to the extent of RMB550,979,000 (31 December 2011: RMB635,252,000 as restated).
- (d) The carrying amounts of accounts payable approximate their fair values.

16 OTHER PAYABLES AND ACCRUALS

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Payable for property, plant and equipment		
– Fellow subsidiaries (note (a))	14	–
– Others	62,257	60,652
Wages, salaries, bonuses and other employee benefits	908,207	1,018,691
Accrued expenses	734,990	590,364
Deferred income from government grants	18,723	25,398
Consumption tax, business tax and other taxes payable	19,923	34,024
Other advances from (note (b))		
– Ultimate holding company	10,205	4,013
– Fellow subsidiaries	38,960	48,682
Dividend payable to the Company's shareholders	52,592	–
Dividend payable to non-controlling shareholders of subsidiaries	97,836	99,468
Advances from participants of restricted share scheme (Note 19)	64,707	64,707
Other current liabilities	77,793	75,420
	2,086,207	2,021,419

Notes to the Condensed Consolidated Interim Financial Information

16 OTHER PAYABLES AND ACCRUALS (continued)

Notes:

- (a) Payable for property, plant and equipment is unsecured, non-interest bearing and will be settled in accordance with the relevant trading terms.
- (b) Other advances mainly represent current account balances with the respective related companies which are unsecured, non-interest bearing and are repayable on demand.

Details of these balances are disclosed in Note 21(b).

17 BORROWINGS

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Short-term borrowings		
Bank borrowings		
– Secured (note (g))	130,929	170,000
– Unsecured	813,000	840,705
	943,929	1,010,705
Other borrowings (note (c))		
– Secured (note (g))	110,320	80,599
– Unsecured	654,000	545,000
	764,320	625,599
	1,708,249	1,636,304
Current portion of long-term borrowings	170,500	251,000
	1,878,749	1,887,304

Notes to the Condensed Consolidated Interim Financial Information

17 BORROWINGS (continued)

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Long-term borrowings		
Bank borrowings		
– Secured (note (g))	748,580	759,080
Other borrowings (note (c))		
– Unsecured	674,000	663,000
	1,422,580	1,422,080
Less: Current portion of long-term borrowings	(170,500)	(251,000)
	1,252,080	1,171,080
Total borrowings	3,130,829	3,058,384

Notes:

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

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Wholly repayable within five years		
– Bank borrowings	748,580	759,080
– Other borrowings	236,750	279,750
	985,330	1,038,830
Not wholly repayable within five years		
– Other borrowings	437,250	383,250
	1,422,580	1,422,080

Notes to the Condensed Consolidated Interim Financial Information

17 BORROWINGS (continued)

Notes: (continued)

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

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Bank borrowings:		
– Within one year	135,500	191,000
– In the second year	553,000	553,000
– In the third to fifth years	60,080	15,080
	<u>748,580</u>	<u>759,080</u>
Other borrowings:		
– Within one year	35,000	60,000
– In the second year	–	20,000
– In the third to fifth year	201,750	199,750
– After the fifth years	437,250	383,250
	<u>674,000</u>	<u>663,000</u>
	<u>1,422,580</u>	<u>1,422,080</u>

(c) As at 30 June 2012 and 31 December 2011, other borrowings represent loans granted by a fellow subsidiary of the Group which bear interests at 4% to 5% per annum.

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

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Weighted average effective interest rates		
– Bank borrowings	6%	6%
– Other borrowings	5%	4%

(e) The carrying amounts of long-term and short-term borrowings are denominated in Renminbi.

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

	Carrying amount		Fair value	
	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Bank borrowings	613,080	568,080	603,874	549,163
Other borrowings	639,000	603,000	620,522	545,321
	<u>1,252,080</u>	<u>1,171,080</u>	<u>1,224,396</u>	<u>1,094,484</u>

Notes to the Condensed Consolidated Interim Financial Information

17 BORROWINGS (continued)

Notes: (continued)

(f) (continued)

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 characteristics as at the balance sheet dates. Such discount rates ranged from 6.40% to 6.80% as at 30 June 2012 (31 December 2011: 6.65% to 7.05%), depending on the type of the debt.

(g) The Group's long-term and short-term borrowings are secured as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Securities over the Group's assets, at carrying value:		
– Accounts receivable (Note 13(e))	254,872	319,830
Guarantees provided by:		
– Related parties (Note 21(c))	18,580	29,080
– Subsidiaries within the Group (cross guarantees)	730,000	750,000
	<u>748,580</u>	<u>779,080</u>

18 SHARE CAPITAL

	30 June 2012 RMB'000	31 December 2011 RMB'000
Registered:	<u>5,474,429</u>	<u>4,949,025</u>
Issued and fully paid:		
3,117,995,265 (2011: 2,934,590,598) Domestic Shares of RMB1 each	3,117,995	2,934,591
2,356,433,902 (2011: 2,014,433,902) H Shares of RMB1 each	2,356,434	2,014,434
	<u>5,474,429</u>	<u>4,949,025</u>

On 18 January 2012, the Company issued 183,404,667 Domestic shares with par value of RMB1 each to AMES (Note 2(a)).

On 2 March 2012, the Company issued 342,000,000 H shares with par value of RMB1 each at HK\$3.55 per share for placement to independent investors. The net proceeds of the placement amounted to approximately RMB967,643,000.

Notes to the Condensed Consolidated Interim Financial Information

19 SHARE-BASED COMPENSATION

On 29 March 2011, the Company adopted a restricted share incentive scheme (the “Scheme”) with a duration of 10 years.

Upon the grant of restricted shares to Scheme participants, 50% of the grant price was funded by the Scheme participants amounting to approximately RMB64,707,000. These restricted shares would vest gradually after the Scheme participants complete a period of service of 2 to 4 years from the date of grant.

During 2011, 37,013,900 of the Company's shares were acquired from the market. The total amount paid to acquire the shares was approximately RMB139,994,000 and deducted from reserves within equity. The shares have been held as restricted shares by a trustee before they are vested.

Movements in the number of restricted shares granted are as follows:

	Number of restricted shares granted (Thousands)
As at 30 June 2012 and 31 December 2011	37,014

The fair value of restricted shares charged to the consolidated income statement was RMB13,594,000 during the six months ended 30 June 2012.

Notes to the Condensed Consolidated Interim Financial Information

20 COMMITMENTS

(a) Capital commitments

The Group has the following capital commitments as at 30 June 2012:

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Acquisition of property, plant and equipment		
– Authorised but not contracted for	519,032	105,426
– Contracted but not provided for	20,165	65,864
	539,197	171,290
Construction commitments		
– Authorised but not contracted for	668,184	27,176
– Contracted but not provided for	491,664	75,044
	1,159,848	102,220
	1,699,045	273,510

(b) Operating lease commitments

The Group has commitments to make the following future minimum lease payments under non-cancellable operating leases as at 30 June 2012:

	Group	
	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Land and buildings		
– Not later than one year	2,905	8,275
– Later than one year and not later than five years	11,619	41,377
– Later than five years	46,475	–
	60,999	49,652

Generally, the Group's operating leases are for terms of 1 to 20 years.

Notes to the Condensed Consolidated Interim Financial Information

21 SIGNIFICANT RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions in addition to the related party information shown elsewhere in this Condensed Financial Information. Management of the Group are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

(a) Significant transactions with related parties:

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000 (Restated)
Income:		
Sale of goods and materials		
– Fellow subsidiaries	5,289,474	3,818,350
Rendering of services		
– Fellow subsidiaries	1,778	933
Expenses:		
Purchase of goods and raw materials		
– Fellow subsidiaries	2,817,653	1,351,471
Service fees payable		
– Fellow subsidiaries	6,162	45,030
Rental expenses		
– Fellow subsidiaries	18,120	6,066
Key management compensations		
– Salaries, bonuses and other welfares	3,319	3,590
– Employee share schemes for value of services provided	3,022	1,511

In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of the Group's business and were determined based on mutually agreed terms.

Notes to the Condensed Consolidated Interim Financial Information

21 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Significant balances with related parties:

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Assets:		
Trade receivables		
– Fellow subsidiaries	2,697,276	2,570,031
Notes receivable		
– Fellow subsidiaries	1,184,092	392,411
Advance to suppliers		
– Fellow subsidiaries	311,255	203,936
Other receivables and prepayments		
– Ultimate holding company	6,557	7,240
– Fellow subsidiaries	442,302	351,784
– Dividends receivable from associates	75,263	45,665
Liabilities:		
Trade payables		
– Fellow subsidiaries	1,898,388	1,305,969
Notes payable		
– Fellow subsidiaries	603,298	880,474
Advance from customers		
– Fellow subsidiaries	1,465,426	3,638,899
Other payables and accruals		
– Ultimate holding company	10,205	4,013
– Fellow subsidiaries	38,974	48,682

Notes to the Condensed Consolidated Interim Financial Information

21 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(c) Other items:

	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Guarantees on bank loans granted to the Group from – Ultimate holding company	18,580	29,080

In addition, certain of the Group's property, plant and equipment with carrying value of approximately RMB292,748,000 at 30 June 2012 (31 December 2011: RMB300,324,000) were situated on leasehold land in the PRC which are granted by AVIC for the Group's use at no cost or have been leased from certain fellow subsidiaries under long-term leases (Note 21(a): Rental expenses).

BOARD OF DIRECTORS

Executive Director (Chairman)	Lin Zuoming
Executive Director (Vice Chairman)	Tan Ruisong
Non-Executive Director	Gu Huizhong
Non-Executive Director	Gao Jianshe
Non-Executive Director	Sheng Mingchuan
Non-Executive Director	Maurice Savart
Independent Non-Executive Director	Guo Chongqing
Independent Non-Executive Director	Li Xianzong
Independent Non-Executive Director	Lau Chung Man, Louis

SUPERVISORY COMMITTEE

Chairman	Bai Ping
Supervisor	Yu Guanghai
Supervisor	Li Jing

SENIOR MANAGEMENT

President	Tan Ruisong
Vice Presidents	Wang Jun Ni Xianping Zheng Qiang Zhang Kunhui
Company Secretary	Yan Lingxi

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:	Lin Zuoming

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Tan Ruisong Yan Lingxi

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Main Board of the Stock Exchange of
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Stock name: AVICHINA
Stock code: 2357

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