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BOARD OF DIRECTORS

Chairman	Zhang Hongbiao
Vice Chairman	Wu Xiandong
Directors	Liang Zhenhe
	Song Jingang
	Chen Huaiqiu
	Xu Tongxing
	Cui Xuewen
	Tian Min
	Yang Jinhuai
	Hu Jiarui
	Maurice Savart
	Li Kwok-Po, David*
	Guo Chongqing*

* Independent Non-executive Directors

SENIOR MANAGEMENT

President	Wu Xiandong
Vice President	Liu Cheng
	Li Hui
	Li Yao
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

THE ENGLISH NAME OF THE COMPANY

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

19/F CATIC Plaza, 8 Causeway Road, Causeway Bay, Hong Kong

AUTHORISED REPRESENTATIVE

Wu Xiandong, Yan Lingxi

PRINCIPAL BANKERS

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

Shanghai Pudong Development Bank Ltd.
No.500, Pudong South Road, Pudong New District, Shanghai

PLACE OF LISTING, STOCK NAME AND STOCK CODE

Main Board of the Stock Exchange of Hong Kong Limited
(H Shares), AVICHINA, 2357

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158 Fuxingmennei Street
Xicheng District
Beijing, the PRC

Condensed Consolidated Profit and Loss Account

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

The board of directors of AviChina Industry & Technology Company Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 (the "Reporting period"), together with the comparative figures of the corresponding period in 2003 as follows:

	Note	For the six months ended 30th June	
		2004 RMB'000 (Unaudited)	2003 RMB'000 (Audited)
Turnover	2	6,823,225	6,502,920
Cost of sales		(5,717,598)	(5,276,096)
Gross profit		1,105,627	1,226,824
Other revenues		28,257	43,638
Selling and distribution expenses		(376,368)	(386,364)
General and administrative expenses		(450,185)	(395,293)
Operating profit	3	307,331	488,805
Finance costs, net	4	(66,779)	(84,969)
Share of results of associates before taxation		(579)	(2,458)
Profit before taxation		239,973	401,378
Taxation	5	(42,921)	(51,367)
Minority interests		197,052	350,011
Profit for the period		(60,467)	(148,413)
		136,585	201,598
Earnings per share, basic	7	RMB0.03	RMB0.06

Condensed Consolidated Balance Sheet

AS AT 30TH JUNE 2004

	Note	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	8	7,014,236	6,644,431
Land use rights	8	88,980	91,084
Intangible assets	8	542,446	516,781
Investments in associates		214,148	166,059
Non-current investments	9	108,748	132,868
Deferred tax assets		88,833	99,918
		<u>8,057,391</u>	<u>7,651,141</u>
Current assets			
Accounts receivable	10	2,478,487	2,806,282
Other receivables, prepayments and other current assets	11	1,230,353	1,060,941
Inventories		4,157,336	3,808,830
Contracts in progress		202,333	21,994
Designated deposits	9	64,000	80,000
Trading investments	9	228,105	219,012
Pledged deposits		376,480	153,763
Term deposits with initial term of over three months		2,411,268	2,415,255
Cash and cash equivalents		1,912,545	2,584,019
		<u>13,060,907</u>	<u>13,150,096</u>
Total assets		<u>21,118,298</u>	<u>20,801,237</u>
Current liabilities			
Trade payables	12	4,603,863	4,586,909
Other payables, accruals and other current liabilities	13	2,145,529	1,943,314
Current tax liabilities		2,964	12,039
Current portion of long-term payable to ultimate holding company	14	61,419	40,946
Current portion of provisions		95,041	90,536
Short-term borrowings	15	3,753,337	3,784,091
Current portion of non-current borrowings	15	548,078	199,725
		<u>11,210,231</u>	<u>10,657,560</u>
Net current assets		<u>1,850,676</u>	<u>2,492,536</u>
Total assets less current liabilities		<u>9,908,067</u>	<u>10,143,677</u>

Condensed Consolidated Balance Sheet

AS AT 30TH JUNE 2004

	Note	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Financed by:			
Share capital		4,643,609	4,643,609
Reserves		517,260	380,675
Proposed interim/final dividend	6(a)	—	48,758
Shareholders' equity		<u>5,160,869</u>	<u>5,073,042</u>
Non-current liabilities			
Borrowings	15	1,070,276	1,385,942
Long-term payable to ultimate holding company	14	552,771	573,244
Non-current portion of provisions		56,226	56,226
Deferred income from government grants		45,138	45,138
Deferred tax liabilities		70,252	63,961
		<u>1,794,663</u>	<u>2,124,511</u>
Minority interests		<u>2,952,535</u>	<u>2,946,124</u>
Total shareholders' equity, non-current liabilities and minority interests		<u><u>9,908,067</u></u>	<u><u>10,143,677</u></u>

Condensed Consolidated Statement of Changes in Shareholders' Equity

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Share capital RMB'000	Capital reserve RMB'000	Statutory public surplus reserve RMB'000	Statutory welfare fund RMB'000	Retained earnings RMB'000	Total RMB'000
For the six months ended 30th June 2004 (Unaudited):						
As at 1st January 2004	4,643,609	74,898	51,584	39,350	263,601	5,073,042
Profit for the period	—	—	—	—	136,585	136,585
Final dividend for 2003 paid	—	—	—	—	(48,758)	(48,758)
As at 30th June 2004	<u>4,643,609</u>	<u>74,898</u>	<u>51,584</u>	<u>39,350</u>	<u>351,428</u>	<u>5,160,869</u>
For the six months ended 30th June 2003 (Audited):						
As at 1st January 2003	3,116,519	(496,052)	—	—	—	2,620,467
Contribution from owners	—	127,610	—	—	—	127,610
Share issuance costs	—	(23,013)	—	—	—	(23,013)
Profit for the period	—	—	—	—	201,598	201,598
Profit distributions	—	—	—	—	(67,697)	(67,697)
Capitalisation upon establishment of the Company	—	22,717	—	—	(22,717)	—
Special dividend	—	—	—	—	(7,125)	(7,125)
As at 30th June 2003	<u>3,116,519</u>	<u>(368,738)</u>	<u>—</u>	<u>—</u>	<u>104,059</u>	<u>2,851,840</u>

Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	For the six months ended 30th June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Audited)
Net cash generated from operating activities	330,729	258,753
Net cash used in investing activities	(726,274)	(774,576)
Net cash (used in)/generated from financing activities	(275,929)	199,110
Net decrease in cash and cash equivalents	(671,474)	(316,713)
Cash and cash equivalents at 1st January	2,584,019	2,472,910
Cash and cash equivalents at 30th June	<u>1,912,545</u>	<u>2,156,197</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	1,881,545	2,087,197
Term deposits with initial term of less than three months	31,000	69,000
	<u>1,912,545</u>	<u>2,156,197</u>

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements (“condensed financial statements”) have been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” promulgated by the International Accounting Standards Board (“IASB”) and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

These condensed financial statements should be read in conjunction with the 2003 annual financial statements.

The principal accounting policies adopted for the preparation of the condensed consolidated financial statements are consistent with those adopted for the preparation of the financial statements for the year ended 31st December 2003.

2 SEGMENT INFORMATION

The Group is principally engaged in the manufacture, assembly, sales and service of automobiles and civilian aircraft.

Primary Reporting format — business segments

The Group is organised into two main business segments:

- Automobiles — manufacture, assembly, sales and service of automobiles.
- Aviation — manufacture, assembly, sales and service of helicopters, trainers, aircraft and aircraft parts.

Secondary Reporting format — geographical segments

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

No geographical segments analysis is presented as less than 10% of the Group’s turnover and contribution to operating profit is attributable to markets outside the PRC.

2 SEGMENT INFORMATION (continued)**Primary Reporting format - business segments**

For the six months ended 30th June 2004

(Unaudited)

	Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Operating results			
Turnover	<u>829,802</u>	<u>5,993,423</u>	<u>6,823,225</u>
Segment results	<u>25,868</u>	<u>259,495</u>	285,363
Other revenues			28,257
Unallocated costs			<u>(6,289)</u>
Operating profit			307,331
Finance costs, net			(66,779)
Share of results of associates before taxation	(211)	(368)	<u>(579)</u>
Profit before taxation			239,973
Taxation			<u>(42,921)</u>
			197,052
Minority interests			<u>(60,467)</u>
Profit for the period			<u>136,585</u>

2 SEGMENT INFORMATION (continued)**Primary Reporting format - business segments** (continued)

For the six months ended 30th June 2003

	(Audited)		Total RMB'000
	Aviation RMB'000	Automobiles RMB'000	
Operating results			
Turnover	732,254	5,770,666	6,502,920
Segment results	93,073	355,090	448,163
Other revenues			43,638
Unallocated costs			(2,996)
Operating profit			488,805
Finance costs, net			(84,969)
Share of results of associates before taxation	(2,952)	494	(2,458)
Profit before taxation			401,378
Taxation			(51,367)
Minority interests			350,011
Profit for the period			(148,413)
			201,598

3 OPERATING PROFIT

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

	For the six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Amortisation of land use rights (included in "Administrative expenses")	2,144	2,154
Amortisation of intangible assets		
— electricity use rights (included in "Administrative expenses")	629	629
— development costs (included in "Administrative expenses")	45,740	8,279
Costs of inventories recognised as expenses included in cost of sales	5,717,598	5,276,096
Depreciation on property, plant and equipment	332,608	299,746
Loss on disposal of property, plant and equipment	2,980	419
Operating lease rentals in respect of		
— land and buildings	25,474	27,529
— plant and machinery	—	12
Provision for impairment of investments (included in "Administrative expenses")	47,955	—
Reversal of provision for impairment of property, plant and equipment (included in "Administrative expenses")	—	(154)
(Reversal of)/provision for impairment of receivables	(15,493)	30,984
Rental Income from plant and equipment	(419)	(3,199)
Repairs and maintenance expense on property, plant and equipment	5,114	6,903
Research and development expense	37,825	25,382
Staff costs	431,454	376,164
Warranty expense	24,572	43,801
Reversal of provision for inventories	(241)	(4,990)
	=====	=====

Note:

Costs of inventories recognised as expenses include purchases, direct employee compensation costs and the relevant depreciation.

4 FINANCE COSTS, NET

	For the six months ended 30th June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Audited)
Interest expense on bank loans and overdrafts		
— wholly repayable within 5 years	114,014	117,254
— not wholly repayable within 5 years	8,816	—
Interest expense on other loans		
— wholly repayable within 5 years	363	419
— not wholly repayable within 5 years	61	61
Less: amount capitalised in property, plant and equipment	(17,154)	(18,572)
Less: government interest subsidies	(3,524)	(1,809)
	<u>102,576</u>	<u>97,353</u>
Interest income on bank balances and deposits	(26,144)	(21,570)
Exchange (gains)/losses, net	(12,673)	5,435
Bank charges	3,020	3,751
	<u>66,779</u>	<u>84,969</u>

5 TAXATION

	For the six months ended 30th June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Audited)
PRC current income tax	25,316	42,648
Deferred taxation	17,375	8,719
Share of taxation attributable to associates	230	—
	<u>42,921</u>	<u>51,367</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 Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30th June 2004 (for the six months ended 30th June 2003: 33%), except for certain subsidiaries or associates which are taxed at preferential rates ranging from 0% to 30% (for the six months ended 30th June 2003: 0% to 30%) based on the relevant PRC tax rules and regulations.

6 PROFIT APPROPRIATIONS

(a) Dividends proposed

The board of directors does not recommend the payment of an interim dividend for the period ended 30th June 2004.

At a meeting held on 5th April 2004, the board of directors proposed a final dividend of RMB0.0105 per share for year 2003. This proposed dividend is not reflected as a dividend payable in the financial statements for the year ended 31st December 2003, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

(b) In accordance with the relevant PRC regulations and Articles of Association of the Company, retained earnings available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with the PRC GAAP and the amount determined in accordance with IFRS. As at 30th June 2004, the amount of retained earnings available for distribution was approximately RMB176,380,000, being the amount determined in accordance with the PRC GAAP.

(c) Statutory surplus reserve and statutory public welfare fund

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation prepared in accordance PRC accounting standards to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation prepared in accordance with PRC accounting standards to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital.

No appropriation to the statutory surplus reserve and statutory public welfare fund was made by the Group for the six months ended 30th June 2004.

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June 2004 is based on the Group's profit attributable to shareholders of RMB136,585,000 for the period and the weighted average of 4,643,608,500 shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30th June 2003 is based on the Group's profit attributable to shareholders of RMB201,598,000 for the period and 3,116,518,500 shares, being the number of shares issued and outstanding upon the legal formation of the Company on 30th April 2003 as if such shares had been outstanding prior to 30th April 2003.

There was no dilution effect on the basic earnings per share for the six months ended 30th June 2003 and 2004 as there were no potential dilutive shares outstanding during the six months ended 30th June 2003 and 2004.

8 CAPITAL EXPENDITURE

	Property, plant and equipment RMB'000	Land use rights RMB'000	Intangible assets RMB'000	Total RMB'000
Cost				
As at 1st January 2004	9,175,843	107,857	591,700	9,875,400
Additions	744,265	40	72,034	816,339
Disposals	(79,074)	—	—	(79,074)
As at 30th June 2004	<u>9,841,034</u>	<u>107,897</u>	<u>663,734</u>	<u>10,612,665</u>
Accumulated depreciation/amortisation				
As at 1st January 2004	2,531,412	16,773	74,919	2,623,104
Charge/amortisation for the period	332,608	2,144	46,369	381,121
Disposals	(37,222)	—	—	(37,222)
As at 30th June 2004	<u>2,826,798</u>	<u>18,917</u>	<u>121,288</u>	<u>2,967,003</u>
Net book value				
As at 30th June 2004	<u>7,014,236</u>	<u>88,980</u>	<u>542,446</u>	<u>7,645,662</u>

9 INVESTMENTS

	Non-current investments		Designated deposits		Trading investments	
	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Cost	133,748	132,868	80,000	80,000	235,060	219,012
Less: provision for impairment	(25,000)	—	(16,000)	—	(6,955)	—
	<u>108,748</u>	<u>132,868</u>	<u>64,000</u>	<u>80,000</u>	<u>228,105</u>	<u>219,012</u>

10 ACCOUNTS RECEIVABLE

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Trade receivables, net (note (a))	361,605	332,077
Notes receivable (note (b))	1,194,355	1,579,706
Due from related parties (note (c))	922,527	894,499
	<u>2,478,487</u>	<u>2,806,282</u>

(a) Trade receivables, net

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Gross trade receivables	503,266	477,309
Less: provision for impairment of receivables	(141,661)	(145,232)
	<u>361,605</u>	<u>332,077</u>

10 ACCOUNTS RECEIVABLE (continued)

(a) Trade receivables, net (continued)

No specific credit period is granted by the Group to its customers. Certain of the Group's sales were on advance payment or documents against payment, and sales to small, new or short-term customers are normally expected to be settled shortly after delivery. A credit period, which may be extended for up to six months, may be granted, subject to negotiation, in respect of sales to large or long-established customers. Ageing analysis of trade receivables is as follows:

	30th June	31st December
	2004	2003
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current to 6 months	249,570	162,802
6 months to 1 year	40,148	124,788
1 year to 2 years	44,498	30,803
2 years to 3 years	89,533	73,363
Over 3 years	79,517	85,553
	503,266	477,309

(b) Notes receivable are bills of exchange with average maturity dates of within six months.

10 ACCOUNTS RECEIVABLE (continued)

(c) Due from related parties

The amounts due from related parties, which are trade in nature, can be analysed as follow:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Trade receivables		
— Fellow subsidiaries (note (i))	610,487	776,566
— Other related parties (note (i))	162,124	97,279
	772,611	873,845
Less: provision for impairment of receivables	(34,418)	(41,922)
	738,193	831,923
Notes receivable		
— Fellow subsidiaries (note (ii))	184,334	62,576
	922,527	894,499

Trade and notes receivable from related parties are unsecured and non-interest bearing. The credit period granted to related parties are similar to that of the period granted by the Group to its third-party customers.

Note:

(i) The ageing of the amounts due from related parties, which are trade in nature, is summarised as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Current to 1 year	660,416	762,766
1 year to 2 years	65,678	85,495
2 years to 3 years	22,678	1,846
Over 3 years	23,839	23,738
	772,611	873,845

(ii) Notes receivable are bills of exchange with average maturity dates of within six months.

11 OTHER RECEIVABLES, PREPAYMENTS AND OTHER CURRENT ASSETS

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Due from related parties (note)	576,787	525,489
Other receivables, prepayments and other current assets	653,566	535,452
	<u>1,230,353</u>	<u>1,060,941</u>

Note:

The amounts due from related parties can be analysed as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Fellow subsidiaries:		
— Advances for purchase of goods and raw materials (note (ii))	440,489	340,181
— Loan to a fellow subsidiary (note (iii))	—	60,000
— Other temporary advances (note (iv))	14,962	13,803
	<u>455,451</u>	<u>413,984</u>
Other related parties:		
— Advances for purchase of goods and raw materials (note (ii))	121,336	111,505
	<u>576,787</u>	<u>525,489</u>

- (i) Amounts due from related parties are unsecured and non-interest bearing.
- (ii) Advances for purchase of goods and raw materials are recurrent in nature and have no fixed terms of repayment.
- (iii) The loan to a fellow subsidiary had no fixed terms of repayment and was repaid in March 2004.
- (iv) Other temporary advances mainly represent current account balances with certain fellow subsidiaries.

12 TRADE PAYABLES

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Trade payables (note (a))	2,956,272	3,019,916
Notes payable (note (b))	1,038,034	719,758
Due to related parties (note (c))	609,557	847,235
	<u>4,603,863</u>	<u>4,586,909</u>

(a) Trade payables

The normal credit period for trade payables generally ranges from 0 to 6 months. Ageing analysis of trade payables at 30th June 2004 is as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Current to 1 year	2,836,943	2,947,455
1 year to 2 years	77,147	29,806
2 years to 3 years	14,872	17,964
Over 3 years	27,310	24,691
	<u>2,956,272</u>	<u>3,019,916</u>

(b) Notes payable are bills of exchange with maturity dates of within six months.

12 TRADE PAYABLES (continued)

(c) Due to related parties

The amounts due to related parties, which are trading in nature, can be analysed as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Trade payables:		
— Fellows subsidiaries (note (i))	468,710	667,737
— Other related parties (note (i))	98,230	61,070
	566,940	728,807
Notes payable:		
— Fellows subsidiaries (note (ii))	37,803	89,484
— Other related parties (note (ii))	4,814	28,944
	42,617	118,428
	609,557	847,235

Note:

- (i) Trade payables to related parties are unsecured and non-interest bearing. The credit period granted by related parties are similar to that of the period granted to the Group by its third-party suppliers. The ageing of the amounts due to related parties, which are trade in nature, is summarised as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Current to 1 year	490,680	656,824
1 year to 2 years	73,920	70,862
2 years to 3 years	1,757	1,029
Over 3 years	583	92
	566,940	728,807

- (ii) Notes payable are bills of exchange with maturity dates of within six months.

13 OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Other payables and accruals	1,346,373	1,447,711
Due to related parties (note)	799,156	495,603
	2,145,529	1,943,314

Note:

The amounts due to related parties can be analysed as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Holding company:		
— Special dividend	7,125	7,125
— Other temporary advances (note (iii))	301,353	260,636
	308,478	267,761
Fellow subsidiaries:		
— Deposits for sales of aircraft and automobiles (note (ii))	24,420	20,504
— Payable for property, plant and equipment (note (ii))	376	13,776
— Other temporary advances (note (ii))	461,841	177,190
	486,637	211,470
Other related parties:		
— Deposits for sales of aircraft and automobiles (note (ii))	—	2,508
— Other temporary advances (note (iii))	4,041	13,864
	4,041	16,372
	799,156	495,603

(i) Amounts due to related parties are unsecured and non-interest bearing.

(ii) Deposits for sales of aircraft and automobiles, and payable for property, plant and equipment are recurrent in nature and have no fixed terms of repayment.

(iii) Other temporary advances mainly represent current account balances with the relevant related parties.

14 LONG-TERM PAYABLE TO ULTIMATE HOLDING COMPANY

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
At 1st January 2004 and 2003	614,190	—
Transfer from provisions	—	614,190
	614,190	614,190
At 30th June 2004 and 31st December 2003	(61,419)	(40,946)
Less: current portion repayable within one year	552,771	573,244

15 BORROWINGS

(a) Borrowings including bank borrowings and other borrowings are analysed as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Current borrowings:		
Bank borrowings	3,753,337	3,784,091
Current portion of non-current borrowings	548,078	199,725
	4,301,415	3,983,816
Non-current borrowings:		
Bank borrowings	1,058,209	1,373,875
Other borrowings	12,067	12,067
	1,070,276	1,385,942
Total borrowings	5,371,691	5,369,758
Representing:		
Unsecured	1,187,955	684,555
Secured	4,183,736	4,685,203
	5,371,691	5,369,758

15 BORROWINGS (continued)

(b) At 30th June 2004, the Group's non-current bank borrowings and other borrowings are repayable as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Bank borrowings:		
Within one year	513,866	163,084
In the second year	211,787	713,916
In the third to fifth years	846,422	659,959
	<hr/>	<hr/>
	1,572,075	1,536,959
Less: current portion	(513,866)	(163,084)
	<hr/>	<hr/>
	1,058,209	1,373,875
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Other borrowings:		
Within one year	34,212	36,641
In the third to fifth years	804	—
After the fifth year	11,263	12,067
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	46,279	48,708
Less: current portion	(34,212)	(36,641)
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	12,067	12,067
	<hr/> <hr/>	<hr/> <hr/>
Total:		
Within one year	548,078	199,725
In the second year	211,787	713,916
In the third to fifth years	847,226	659,959
After the fifth year	11,263	12,067
	<hr/>	<hr/>
	1,618,354	1,585,667
Less: current portion	(548,078)	(199,725)
	<hr/>	<hr/>
	1,070,276	1,385,942
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15 BORROWINGS (continued)

(c) The repayment terms of the non-current borrowings are analysed as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Bank borrowings:		
Wholly repayable within five years	1,268,810	1,486,959
Not wholly repayable within five years	303,265	50,000
	1,572,075	1,536,959
Other borrowings:		
Wholly repayable within five years	34,212	36,641
Not wholly repayable within five years	12,067	12,067
	46,279	48,708
	1,618,354	1,585,667

(d) Borrowings facilities

The securities of the Group's borrowings are analysed as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Net book value of property, plant and equipment pledged	406,392	401,246
Guarantees provided by holding company and fellow subsidiaries of the Group	801,246	1,369,146
Cross guarantees among subsidiaries of the Group	2,659,290	2,679,057
Guarantees provided by third parties	253,200	227,000
Corresponding borrowing facilities utilised	4,183,736	4,685,203

16 CAPITAL COMMITMENTS

The Group has the following capital commitments not provided for at 30th June 2004:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Acquisition of property, plant and equipment:		
— Authorised but not contracted for	208,270	138,501
— Contracted but not provided for	98,829	300,860
	307,099	439,361
Construction commitments:		
— Authorised but not contracted for	—	159,675
— Contracted but not provided for	30,515	2,789
	30,515	162,464
Investments in associates:		
— Contracted but not provided for	66,015	12,008
	403,629	613,833

17 SIGNIFICANT RELATED PARTY TRANSACTIONS

During the period, the Group entered into various transactions with related parties including China Aviation Industry Corporation II (“AVIC II” or “holding company”), certain fellow subsidiaries, and other entities, directly or indirectly, controlled or significantly influenced by the holding company.

Set out below is a summary of significant related party transactions during the six months period ended 30th June 2004.

Profit and loss items:

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

	For the six months ended 30th June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Audited)
Revenues:		
Sales of goods and materials		
— Fellow subsidiaries	525,959	655,908
— Other related parties	190,422	176,583
Rendering of service		
— Fellow subsidiaries	23,564	20,904
Expenses:		
Purchase of goods and raw materials		
— Fellow subsidiaries	990,920	1,035,052
— Other related parties	491,401	474,020
Service fees payable		
— Fellow subsidiaries	212,983	166,247
— Other related parties	8,030	2,190
Rental expenses for property, plant and equipment		
— Fellow subsidiaries	24,946	31,032

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

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

The significant balances with related parties at 30th June 2004 are as follows:

	30th June 2004 RMB'000 (Unaudited)	31st December 2003 RMB'000 (Audited)
Balances with related parties included in:		
Accounts receivable		
— Fellow subsidiaries	794,821	839,142
— Other related parties	162,124	97,279
Other receivables, prepayments and other current assets		
— Fellow subsidiaries	455,451	413,984
— Other related parties	121,336	111,505
Trade payables		
— Fellow subsidiaries	506,513	757,221
— Other related parties	103,044	90,014
Other payables, accruals and other current liabilities		
— Holding company	308,478	267,761
— Fellow subsidiaries	486,637	211,470
— Other related parties	4,041	16,372
Long-term payable to ultimate holding company	614,190	614,190

Other receivables from related parties, other payables to related parties and long-term payable to ultimate holding company have repayment terms as disclosed in Note 11, Note 13 and Note 14 respectively.

Others:

Guarantees obtained from		
— Holding company	280,400	280,400
— Fellow subsidiaries	520,846	1,088,746

17 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

In addition, certain of the Group's property, plant and equipment carrying value of approximately RMB 858,345,000 as at 30th June 2004 (as at 31st December 2003: RMB740,617,000) were situated on leasehold land in the PRC which are granted by the holding company for the Group's use at no cost or have been leased from certain fellow subsidiaries under long-term leases.

18 ULTIMATE HOLDING COMPANY

The Company's directors regard AVIC II, a company established in the PRC, as being the ultimate holding company of the Company.

INDUSTRY REVIEW

During the first half of 2004, being affected by the macro-economic control measures implemented by the Central Government of the People's Republic of China (the "PRC"), as well as the periodic factors pertinent to the automobile industry, the growth trend of the automobile industry in the PRC, particularly the sedan sector, experienced a significant slowdown from the extremely rapid growth in 2002 and 2003. During the first half of 2004, total production and sales of automobiles throughout the PRC amounted to 2,677,100 units and 2,553,600 units respectively, representing an increase of 27.10% and 24.15% respectively when compared with that of the corresponding period in the previous year. Production and sales volume of sedans amounted to 1,246,100 units and 1,132,000 units respectively, representing an increase of 36.37% and 31.59% respectively when compared with that of the corresponding period in the previous year. Total production and sales of mini-vans amounted to 400,700 units and 392,300 units respectively, representing an increase of 27.79% and 11.59% when compared with that of the corresponding period in the previous year. Total production and sales of mini-trucks amounted to 79,300 units and 86,900 units respectively, representing a decrease of 7.70 % and an increase of 31.33% respectively when compared with that of the corresponding period in the previous year. Although the increase in production and sales was lower when compared with that of the corresponding period in the previous year, the automobile industry in the PRC as a whole still grew at a relatively rapid pace. (Source of the relevant information: China Automotive Industry Newsletter of Production and Sales)

The automobile industry in the PRC during the first half of 2004 was full of challenges, featured by intensive competition in the market, new vehicle models in the pipeline and continuous price adjustment adopted by large manufacturers so as to maintain their market share. Meanwhile, increase in prices of major raw materials for automobile production during the first half of the year has severely impaired the profitability of manufacturers in the automobile industry.

Whilst the national economy of the PRC maintains its rapid growth pace, the demand for civil aviation products increases substantially. The shift of global civil aviation manufacturing industry from developed countries to developing countries has provided the aviation manufacturing industry in the PRC with opportunities.

BUSINESS REVIEW

During the first half of 2004, the two principal businesses of the Group, being automobile business and aviation business, achieved considerable growth when compared with the corresponding period in the previous year. For the six months ended 30 June 2004, the Group achieved turnover of RMB6,823 million, representing an increase of 4.92% when compared with that of the corresponding period in the previous year. Turnover of the automobile segment increased by 3.85% whereas that of the aviation segment increased by 13.39%.

For the six months ended 30 June 2004, the Group's profit attributable to shareholders amounted to RMB137 million, representing a decrease of 32.18% when compared with that of the corresponding period in the previous year. The decrease was mainly attributable to the drop of gross profit margin of automobile products resulting from intense market competition and increase in raw material prices.

Automobile Products:

For the six months ended 30 June 2004, turnover of the Group's automobile products amounted to RMB5,993 million, representing an increase of 3.85% when compared with that of the corresponding period in the previous year whereas gross profit of automobile products amounted to RMB933 million, representing a decrease of 11.56% when compared with that of the corresponding period in the previous year. The decrease of gross profit of automobile products was mainly attributable to the drop in vehicle sales prices and increase in raw material prices.

While facing intensive competition in the market during the Reporting period, the Group proactively adjusted its marketing strategies, and at the same time accelerated the development of new models of vehicles and engines in order to fulfil the target of consolidating its market share of mini-sized vehicles and expanding that of economy sedans so as to achieve stable growth in production and sales. The Group has also been adjusting its product structure and promoting international cooperation to further consolidate the Group's product models for economy sedans, mini-vans and mini-trucks.

For the six months ended 30 June 2004, the Group produced and sold 180,000 units and 164,600 units of vehicles respectively, representing an increase of 14.49% and 6.61% when compared with that of the corresponding period in the previous year.

Of the total units of vehicles sold, sales volume of economy sedans amounted to 34,000 units, representing a decrease of 10.53% when compared with that of the corresponding period in the previous year. Sales of economy sedans were unsatisfactory, which was mainly due to the increasingly intensive competition in the market whilst the Group's economy sedan marketing system still required consolidation. Sales volume of mini-vans amounted to 115,700 units, representing an increase of 14.55% when compared with that of the corresponding period in the previous year whereas that of mini-trucks amounted to 14,900 units, representing a decrease of 2.61% when compared with that of the corresponding period in the previous year. After the impact of SARS and new safety regulations issued by the PRC government, the Group's sales of mini-vans has been on an upward trend.

The Group's vehicle engines maintained its momentum of rapid growth. During the Reporting Period, production of vehicle engines amounted to 215,400 units in total, representing an increase of 10.10% when compared with that of the corresponding period in the previous year; while external sales of engines amounted to 67,600 units, representing an increase of 80.75% when compared with that of the corresponding period in the previous year.

Aviation Products:

For the six months ended 30 June 2004, turnover of the Group's aviation products amounted to RMB830 million, representing an increase of 13.39% when compared with that of the corresponding period in the previous year whereas gross profit of aviation products amounted to RMB173 million, representing a slight increase when compared with that of the corresponding period in the previous year.

Of the Group's turnover of aviation products, sales revenue of entire aircrafts amounted to RMB542 million, representing an increase of 17.83% when compared with that of the corresponding period in the previous year.

During the Reporting Period, the Group devoted efforts to enhancing the productivity of helicopters, upgrading existing models and developing new models to increase sales of helicopters. The Group also placed a lot of emphasis on exploring the international market and soliciting more aircraft orders. The Group has been able to identify opportunities for its production of aviation parts and components to participate in the global supply chain of aviation products.

During the Reporting period, Hafei Aviation Industry Co., Ltd. ("Hafei Aviation", a subsidiary of the Company whose shares are listed on the Shanghai Stock Exchange) entered into the "International Co-operation Agreement in respect of HC120 (EC120) Helicopters between China and France" with China National Aero-Technology Import and Export Corporation and Eurocopter. Pursuant to the agreement, it is expected that the general assembly for that model of helicopters will be conducted by our Group and ready for delivery by the end of the year.

During the Reporting period, the first two ERJ145 turbofan regional jets jointly produced by the Group and Embraer — Empresa Brasileira de Aeronáutica S.A. ("Embraer") were duly delivered to China Southern Airlines Company Limited. This was a breakthrough in the development of the aviation manufacturing industry in the PRC, marking the operation of China-made turbofan regional jets in domestic routes.

The Group researched and manufactured new models of aeroplanes designed and used for pilot training purposes ("trainers") and proactively explored the international market. During the Reporting Period, a lot of efforts were devoted by the Group to upgrading its K8 aircraft, which was subsequently approved by the relevant authorities in the PRC. This laid a solid foundation for securing more orders for trainers. During the first half of the year, sales revenue of the Group's trainers increased by 42.91% when compared with that of the corresponding period in the previous year.

FUTURE OUTLOOK AND STRATEGIES

The Group will utilise its proceeds from the initial public offering as stated in the investment plan, continue to use its best endeavours to develop its core businesses and increase its profitability so as to bring higher returns to its shareholders in future.

Automobile Products:

The prevailing favourable trend for the automobile market of the PRC is expected to continue during 2004. However, the growth rate is expected to slow down significantly. It is forecasted that the total production of vehicles of PRC will reach 5 million units, representing an increase of approximately 13% from that of last year. Of the five million units, 2.40 million units are sedans, representing an increase of approximately 16%. Although the sales of vehicles in the PRC has been decreasing in recent months, in view of the development of national economy and increase in household income, demand for vehicles is expected to maintain at a relatively high level for a long period of time. The newly promulgated automobile industrial policies encourage the development of energy saving and environmental friendly vehicles with little emission. In addition, the international oil price keeps rising recently. All these factors have favourable effects on the Group's development of mini-sized vehicles.

In light of the unsatisfactory sales performance of the Group's automobile products and the decrease in gross profit margin during the first half of the year, the Group has implemented certain proactive measures and will focus on the following tasks:

1. More efforts will be devoted to the sales activities. The Group will strengthen its sales team and optimise its sales network based on the existing sales network. It will also implement new sales strategies to cope with changes in market situation;
2. The Group will develop new products and upgrade the existing products. Following the successful launch of three sedan models including "Hafei Saibao" and "Changhe Liyana" in the international motor show held in Beijing during the Reporting period, the Group will research and develop new products pursuant to the requirements equivalent to Euro-III emission standards implemented by the PRC Government;
3. The Group will strengthen its co-operation with international players of the automobile industry to fully capitalise on their resources so as to upgrade our products, strengthen our brand recognition, expand the sales of the Group's automobile products and improve our economic efficiency;
4. The Group will proceed with the expansion projects and establish new vehicle and engine production bases;
5. The Group will accelerate the establishment of research and development center of vehicles and engines.

Aviation Products:

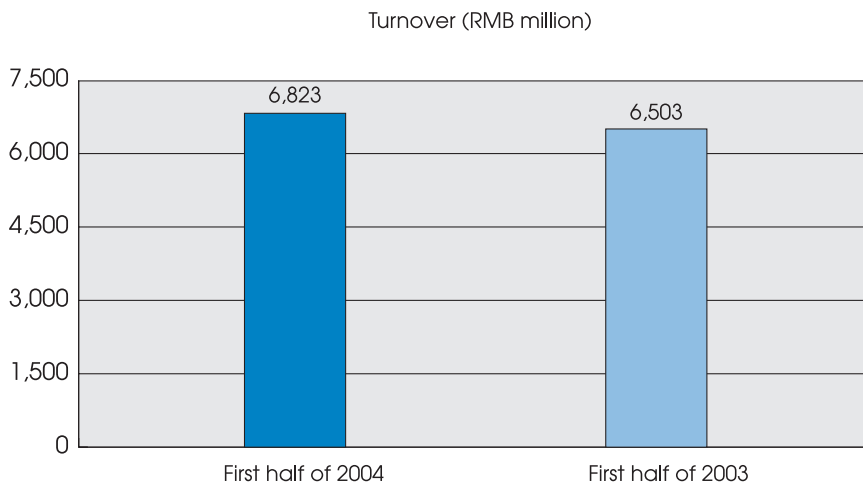
The aviation product market of the PRC is growing steadily. The Group, being the largest helicopter manufacturer and a major aircraft manufacturer in the PRC, possesses substantial strength in scientific research and advanced manufacturing technology. The Group will benefit from the rapid growth of the aviation market.

During the first half of the year, production of the Group's aviation products was steady. The Group will focus on the following tasks during the second half of the year:

1. to improve the procurement and supply of aviation parts and components and implement stringent quality control over production and techniques and ensure that aviation products are delivered in time;
2. to use its best endeavours to reduce product costs as to increase the gross profit margin of aviation products;
3. to strengthen its co-operation with international players in respect of aviation products. The Group will upgrade the existing models of helicopters and speed up the research and development of new models of helicopters and advanced trainers for export purposes;
4. to reinforce the Company's sales capabilities in respect of aviation products, strengthen its business development in major markets and with key customers, and focus on business development with domestic and overseas customers for its regional jets, helicopters and trainers.

Looking forward, although market competition becomes intense, the directors believe that by leveraging on the Group's established foundation, positive attitude towards challenges, and willingness to reform and innovate, the Group will capitalize on its strong competitive edges and improve its profitability through focusing on the development of its core businesses, and bring maximum value to its shareholders.

TURNOVER



For the six months ended 30 June 2004, the Group achieved a turnover of RMB6,823 million, representing an increase of RMB320 million (4.92%) when compared with RMB6,503 million of the corresponding period in the previous year. The increase was mainly attributable to the increase in sales of automobile products.

GROSS PROFIT

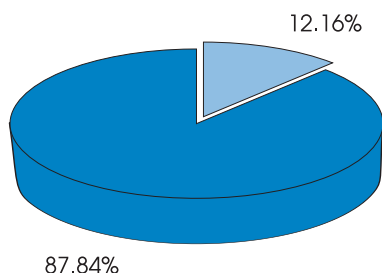
For the six months ended 30 June 2004, the Group achieved a gross profit of RMB1,106 million, representing a decrease of RMB121 million (9.86%) when compared with RMB1,227 million of the corresponding period in the previous year. Gross profit of the automobile segment amounted to RMB933 million, representing a decrease of RMB122 million (11.56%) when compared with that of the corresponding period in the previous year whereas that of the aviation segment amounted to RMB173 million which was similar to that of the corresponding period in the previous year.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

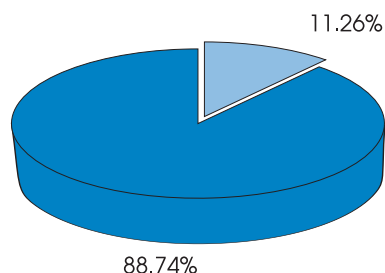
For the six months ended 30 June 2004, the Group achieved a profit of RMB137 million in total, representing a decrease of RMB65 million (32.18%) when compared with RMB202 million of the corresponding period in the previous year. The decrease was mainly attributable to the decrease in gross profit of automobile products.

SEGMENT INFORMATION

Turnover composition in the first half of 2004

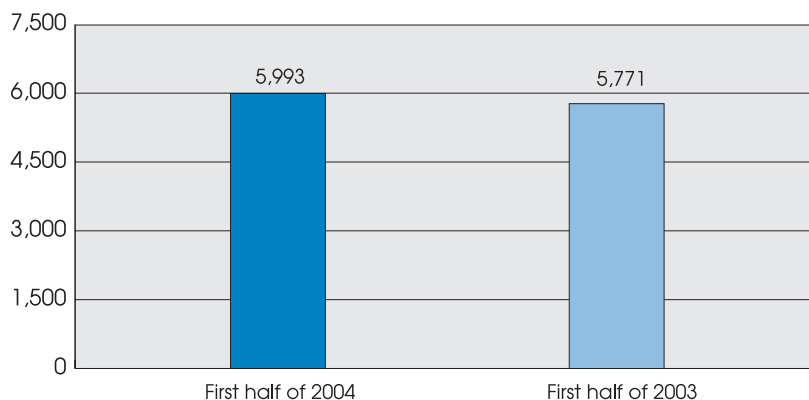


Turnover composition in the first half of 2003

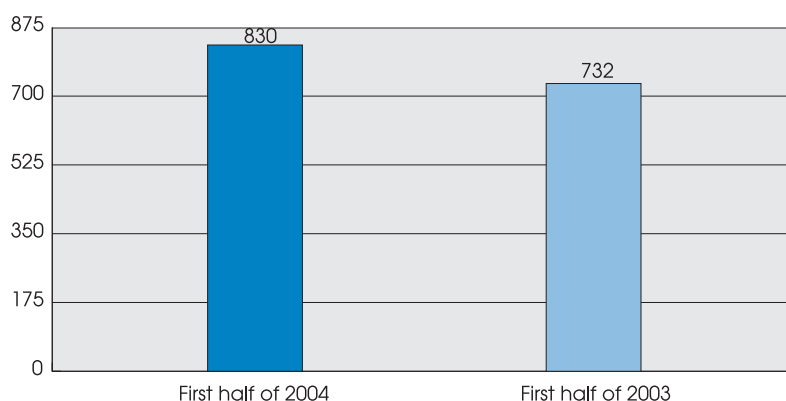


■ Automobile segment ■ Aviation segment

Income of Automobile segment (RMB million)



Income of Aviation segment (RMB million)



The turnover of the Group's automobile segment amounted to RMB5,993 million for the first half of 2004, accounting for 87.84% of the total turnover and representing an increase of 3.85% when compared with that of the corresponding period in the previous year. The turnover of the aviation segment amounted to RMB830 million, accounting for 12.16% of the total turnover and representing an increase of 13.39% when compared with that of the corresponding period in the previous year.

As shown in the charts above, for the first half of 2004, the proportion of aviation products in total turnover has increased by 0.9 percent when compared with that of the corresponding period in 2003.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group's net cash and cash equivalents amounted to RMB1,913 million, representing a decrease of RMB671 million when compared with RMB2,584 million at the beginning of the period. Cash and cash equivalents were mainly derived from cash and bank deposits at the beginning of the period as well as turnover generated during the period.

As at 30 June 2004, the Group's total borrowings amounted to RMB5,372 million. Of the Group's total borrowings, current borrowings amounted to RMB 3,754 million, non-current borrowings due within one year amounted to RMB548 million, and non-current borrowings amounted to RMB1,070 million. Non-current borrowings are repayable as follows:

	RMB million
Within one year	548
In the first to second years	212
In the second to fifth years	847
After the fifth years	11
	<hr/>
Total	1,618
	<hr/> <hr/>

As at 30 June 2004, the Group's bank borrowings amounted to RMB5,326 million with an average interest rate of 4.75%, representing an increase of RMB5 million when compared with that at the beginning of the period. Other borrowings amounted to RMB46 million with an average interest rate of 1.83%, representing a decrease of RMB3 million when compared with that at the beginning of the period.

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

CAPITAL STRUCTURE

As at 30 June 2004, the Group's borrowings were mainly denominated in Renminbi whilst cash and cash equivalents were mainly denominated in Renminbi and Hong Kong dollars. Among the total borrowings of RMB5,372 million, borrowings of RMB5,197 million bear a fixed interest rate, accounting for 96.74% of the total borrowings.

PLEDGE OF ASSETS

As at 30 June 2004, the Group's secured loans amounted to RMB470 million, representing an increase of RMB60 million when compared with RMB410 million at the beginning of the period. These loans were secured by such fixed assets as buildings, machinery and equipment with a book value of RMB406 million.



GEARING RATIO

As at 30 June 2004, the Group's gearing ratio was 25% (as at 31 December 2003: 26%), which was derived by dividing the total borrowings by total assets as at 30 June 2004.

EXCHANGE RISKS

As at 30 June 2004, the Group still had a certain amount of Hong Kong dollars raised from the public offering. Fluctuation of exchange rate between Hong Kong dollars and Renminbi has brought about exchange risks to the Group.

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2004, the Group had not provided any guarantees for any third party and had no significant contingent liabilities.

MAJOR INVESTMENT PLANS

Pursuant to the relevant resolutions at the board meeting held on 5 April 2004, during the second half of 2004, the Company will invest approximately RMB195 million in research and development of a new model of advanced trainer for aviation business; approximately RMB170 million in research and development of new vehicle models and approximately RMB180 million in research and development of new models of engines.

MAJOR ACQUISITIONS AND DISPOSALS

For the six months ended 30 June 2004, the Group did not have any major acquisition and disposal.

USE OF PROCEEDS

Pursuant to the plan of application of proceeds and relevant resolutions at the board meeting held on 5 April 2004, as at 30 June 2004, an amount of RMB220 million was invested in automobile products for the research and development of new vehicle models whilst no investment was made in aviation business during the first half of the year.

EMPLOYEES

As at 30 June 2004, the Group had 31,972 employees. During the Reporting Period, there was no significant in respect of the Group's remuneration policies. For the six months ended 30 June 2004, the Group's staff costs amounted to RMB431 million.

INTERIM DIVIDEND

The board of directors does not recommend the distribution of an interim dividend for the six months ended 30 June 2004.

MAJOR LITIGATION

As at 30 June 2004, the Company was not involved in any material litigation or dispute.

OTHER EVENTS

1. On 30 January 2004, Harbin Embraer Aircraft Industry Co., Ltd., a joint venture established by Harbin Aircraft Industry (Group) Co., Ltd ("Hafei Industry Company", a subsidiary of the Company), Hafei Aviation (a subsidiary of the Company whose shares are listed on the Shanghai Stock Exchange) and Embraer, entered into an agreement with China Southern Airlines Company Limited in respect of the sales of six 145 series regional jets.
2. On 11 June 2004, Hafei Aviation, China National Aero-Technology Import and Export Corporation and Eurocopter entered into the "International Co-operation Agreement in respect of HC120 (EC120) Helicopters between China and France", Hafei Aviation expects that the delivery of helicopters will commence at the end of December 2004. EC120 helicopters assembled and produced in the PRC will be named as HC120 helicopters.
3. On 28 June 2004, the first two ERJ145 aircrafts produced by Harbin Embraer Aircraft Industry Co., Ltd., a joint venture established by Hafei Industry Company (a subsidiary of the Company) and Hafei Aviation and Embraer were duly delivered to China Southern Airlines Company Limited.
4. On 14 July 2004, Jiangxi Changhe Aviation Industry Company Limited, a subsidiary of the Company, entered into a subcontract in respect of the production of fuselages and tails of A109 helicopters with Agusta Westland of Italy.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhang Yanzhong, Mr. Chi Yaozong, Mr. Ni Xianping and Mr. Jiang Liang, being directors of the Company, have resigned as directors of the Company due to changes of duties whereas Mr. Zhang Hongbiao, Mr. Liang Zhenhe, Mr. Tian Min and Mr. Maurice Savart have been appointed as directors of the Company. The changes of directors were approved at the Company's annual general meeting on 16 June 2004.

Election of Mr. Zhang Hongbiao as an executive director and the Chairman of the Company was approved at the Company's board meeting on 16 June 2004.

Save as aforesaid, there was no other change of directors, supervisors and senior management during the Reporting period.



SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, pursuant to the register kept under Section 336 of the Securities and Futures Ordinance (the "SFO"), the following shareholders had notified the Company in respect of their interests in the Company and its associated corporations' share capital in issue:

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 shares held
AVIC II	Domestic shares	2,842,260,596 (Note 1)	95.66%	61.21%	Long positions
European Aeronautic Defence and Space Company - EADS N.V.	H Shares	232,180,425	13.82%	5%	Long positions
Morgan Stanley	H Shares	119,514,470 28,388,000	7.11% 1.69%	2.57% 0.61%	Long positions Short positions
J.P. Morgan Chase & Co.	H Shares	84,265,000	5.02%	1.81%	Long positions

Note 1: As at 30 June 2004, AVIC II held 2,835,305,636 of Domestic shares pursuant to the register of members of the Company, which amounted to approximately 61.06% of the shareholdings to the share capital in issue and 95.66% of the shareholdings to the same class of shares.

Save as disclosed above, as at 30 June 2004, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register to be kept under Section 336 of the Securities and Futures Ordinance.

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

As at 30 June 2004, interests of the directors, supervisors and chief executives of the Company in the Shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO")), which are required pursuant to Section 352 of the SFO, to be registered and required to be kept therein, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of Company or its associated corporation	Name of Director/ Supervisor/ chief executive	Number and class of securities held	Capacity in holding interest	Type of interests held	Approximate
					percentage of shareholding in the same securities
AviChina	David Li Kwok-Po	2,000,000 H Shares	Beneficial owner	Long position	0.12%
Dongan Motor	Xu Tongxing	5,070 A Shares	Beneficial owner	Long position	0.0011%

As at 30 June 2004, no option in the securities or debentures of the Company’s share capital had been granted to its Directors, supervisors and senior management or their spouse or children under 18.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares for the six months ended 30 June 2004.

AUDIT COMMITTEE

The Company’s audit committee was reorganised on 23 July 2004. It is currently composed of Mr Liang Zhenhe, Mr Li, Kwok-Po, David, Mr Guo Chongqing and Ms Hu Jiarui. The interim results for the six months ended 30 June 2004 has not been audited by the auditor. The audit committee convened a meeting on 23 August 2004, reviewed the accounting principles and standards adopted by the Group and discussed issues relating to internal control and financial Reporting matters (including review of the unaudited interim report for the six months ended 30 June 2004).

CODE OF BEST PRACTICE

The board of directors of the Company is of the opinion that the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rule Governing the Listing of Securities on the Hong Kong Stock Exchange for the six months ended 30 June 2004 except that the number of independent non-executive directors in the audit committee has not formed the majority. Currently, the board of directors of the Company has passed the resolution to nominate Mr. Li Xianzong to be appointed as the Company's independent non-executive directors. Mr. Li's appointment is subject to approval of the resolution at the next shareholders' meeting, the date of which has yet to be determined. After the formal appointment of Mr. Li, the number of independent non-executive directors and the composition of the audit committee will be in compliance with the requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

For the six months ended 30 June 2004, the Company has adopted the model code as required under the "Model Code for Securities Transactions by Directors of Listed Companies" pursuant to Appendix X of the Listing Rules in respect of the securities transactions of the Directors and Supervisors. The Company has made specific inquiries to all the Directors and Supervisors, who confirm that they have complied with the requirements under the "Model Code for Securities Transactions by Directors of Listed Companies".

By order of the board

Zhang Hongbiao

Chairman

Beijing, 29 August 2004

As at the date of this report, the board of the Company comprises executive directors Mr. Zhang Hongbiao and Mr. Wu Xiangdong, and non-executive directors Mr. Liang Zhenhe, Mr. Song Jingang, Mr. Chen Huaiqiu, Mr. Xu Tongxing, Mr. Cui Xuewen, Mr. Tian Min, Mr. Yang Jinhuai, Ms. Hu Jiarui, Mr. Maurice Savart as well as independent non-executive directors Dr. The Hon. Li Kwok-Po, David and Mr. Guo Chongqing.