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The board of directors (the "Board") of AviChina Industry & Technology Company Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005 (the "Reporting Period").

Turnover	RMB 6,737,661,000
Profit attributable to equity holders of the Company	RMB 30,157,000
Earnings per share, basic	RMB 0.01
Equity attributable to the Company's equity holders	RMB 5,125,880,000
Equity attributable to the Company's equity holders per share	RMB 1.10

INTERIM DIVIDEND

No interim dividend is proposed by the Board to be paid for the Reporting Period.

BUSINESS REVIEW

For the six months ended 30 June 2005, the Group achieved a turnover of RMB 6,738 million, representing a decrease of 1.25% when compared with RMB 6,823 million of the corresponding period in the previous year, mainly attributable to the drop in the sales of automobile products.

For the six months ended 30 June 2005, profit attributable to equity holders of the Company amounted to RMB 30 million, representing a decrease of 78.10% when compared with RMB 137 million of the corresponding period in the previous year, mainly attributable to the drop in the profit level of automobile products.

Automobile Business:

For the first six months of 2005, the growth of manufacturing and sales of the automobile industry in China flattened off due to the mounting competition, the rise in fuel cost and the influence of other unfavorable factors. During the first half of the year, the domestic manufacturing and sales of automobile accumulated to 2,815,200 units and 2,792,400 units respectively, representing an increase of 5.15% and 9.35% over those of the previous year respectively. The figures represented a considerable drop compared with the year-on-year growth of 27.10% and 24.15% respectively in 2004. (Source of information: China Automotive Industry Newsletter of Production and Sales)

For the six months ended 30 June 2005, the Group sold 177,600 units of vehicles, representing an increase of 7.90% compared with the corresponding period of the previous year. Among these sales, 41,700 units were economy sedans and 135,900 units were mini-vans and mini-trucks, representing an increase of 22.65% and 4.06% respectively when compared with the corresponding period in the previous year. Although there was certain increase in the volume of sales in the Reporting Period as compared to the same period last year, the turnover and gross profit recorded a decrease of 7.18% and 19.72% at RMB 5,563 million and RMB 749 million respectively in the six months ended 30 June 2005. This was attributable to the intense price competition in the automobile market, which dragged down the vehicle price, and the soaring raw material prices.

During the Reporting Period, the Group continued to push forward the integration of its automobile business, improved the development strategies for its automobile business, and further integrated the sales network and auxiliary systems. At present, the Group has in general achieved coordinated efforts in product development and sales.

The new sedan model "Hafei Saibao" was brought to the market in the first half of the year. Through well crafted advertising strategies and marketing schemes, this model steadily began its sales in selected cities in China according to plan. At the same time, projects such as the Shenzhen automobile production line, Jiujiang automobile and engine production lines were also progressing smoothly according to schedule.

Aviation Business:

More opportunities arise for the development of the aviation manufacturing industry in China due to its rapidly growing economy, the rising demand for civil aviation products, and the shift of global market share in the civil aviation manufacturing industry from developed countries to developing countries.

For the six months ended 30 June 2005, the turnover of the aviation products of the Group amounted to RMB 1,175 million, representing an increase of 41.57% when compared with the corresponding period in the previous year. The gross profit of aviation products reached RMB 215 million, representing an increase of 24.28% when compared with the corresponding period in the previous year. Meanwhile, the sales of entire aircraft amounted to RMB 747 million, representing an increase of 37.82% when compared with the corresponding period in the previous year.

In the Reporting Period, the Group spent much effort in the expansion of its production capacity of helicopters, the upgrading of existing models and the development of new models to increase sales of helicopters. The increase in sales revenue of helicopters in the first half year was 49.26%, when compared with that of the corresponding period last year.

Substantial progress has been achieved in exploring the international market for the Group's trainers. Following the signing of a sales contract of 40 K8 trainers at the beginning of 2005, the Group signed a contract on exporting 27 K8 trainers to Pakistan. The signing of a series of contracts has built up a stable market for the development of trainers of the Group.

During the Reporting Period, the Group signed agreements with Boeing and Airbus respectively on the subcontracting of aviation parts and components. These agreements further extend the Group's cooperation with international partners to participate in the global supply chain of aviation products.

FUTURE OUTLOOK

The Board estimates that the unfavorable factors which have influenced the automobile market in China will continue to exist. A significant challenge common to all automobile manufacturers is to improve gross margin and steadily increase sales volume under intense competition. However, the Board also sees the opportunities for the development of business in mini-sized vehicles and economy sedans. These opportunities emerge with the implementation of automobile industry policies promoting environmental friendly cars with low emission and the government's policy to "establish an energy saving society" advocating to abolish all unreasonable restrictions on the use of low fuel-consumption, low-displacement and low-emission vehicles.

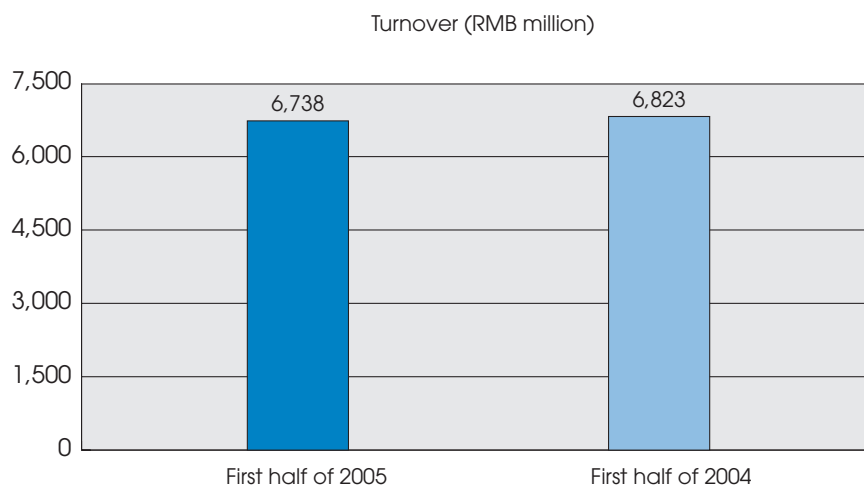
The Group will continue to manufacture automobile products that are "safe, environmental friendly, energy-saving, economical and practical". The Group has carefully outlined its marketing strategies for the second half of 2005, which include strengthening of its marketing efforts in selected regions, streamlining its marketing channels and improving after-sales service. Meanwhile, the Group has formulated and carried out the plans in "collective sourcing" which will cut down the purchasing cost of automobile components, improve the operational efficiency and the profitability of the Group.

The Group will actively and steadily promote internal integration and external cooperation based on the formulated strategic plan on automobile development so as to achieve its strategic goal of a steady growth in the automobile business.

Meanwhile, being the biggest helicopter manufacturer and a major aircraft manufacturer in China, the Group will maintain its steady and fast growth in the aviation business. The Group is currently trying to increase the share of the aviation business in the Group's overall business and to improve its contribution to profit of the Group.

FINANCIAL REVIEW

Turnover



For the six months ended 30 June 2005, the Group achieved a turnover of RMB 6,738 million, representing a decrease of RMB 85 million (1.25%) when compared with RMB 6,823 million of the corresponding period in the previous year. The decrease was mainly attributable to the reduced sales of automobile products.

Gross Profit

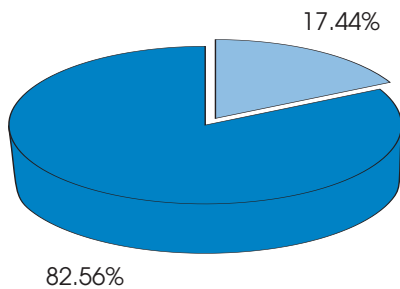
For the six months ended 30 June 2005, the Group achieved a gross profit of RMB 964 million, representing a decrease of RMB 142 million (12.84%) when compared with RMB 1,106 million of the corresponding period in the previous year. The gross profit of automobile segment amounted to RMB 749 million, representing a decrease of RMB 184 million (19.72%) when compared with that of the corresponding period in the previous year, whereas the gross profit of aviation segment amounted to RMB 215 million, representing an increase of RMB 42 million (24.28%) when compared with that of the corresponding period in the previous year.

Profit attributable to the equity holders of the Company

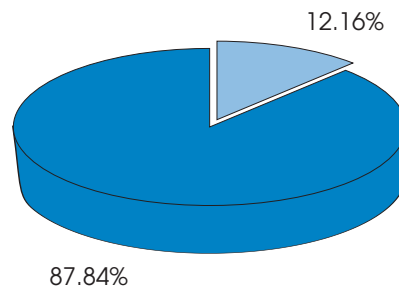
For the six months ended 30 June 2005, the Group achieved a profit attributable to the equity holders of the Company of RMB 30 million, representing a decrease of RMB 107 million (78.10%) when compared with RMB 137 million of the corresponding period in the previous year, mainly attributable to the drop in the profit level of automobile products. During the Reporting Period, the domestic automobile market suffered from severe price competition and soaring material costs. The lower sales price and higher costs have squeezed the profit margin of the Company's automobile products. Although profit of the Group's aviation business in the same period increased, such increase was not able to offset the plunge in profit from the automobile business.

Segment Information

Turnover composition in the first half of 2005

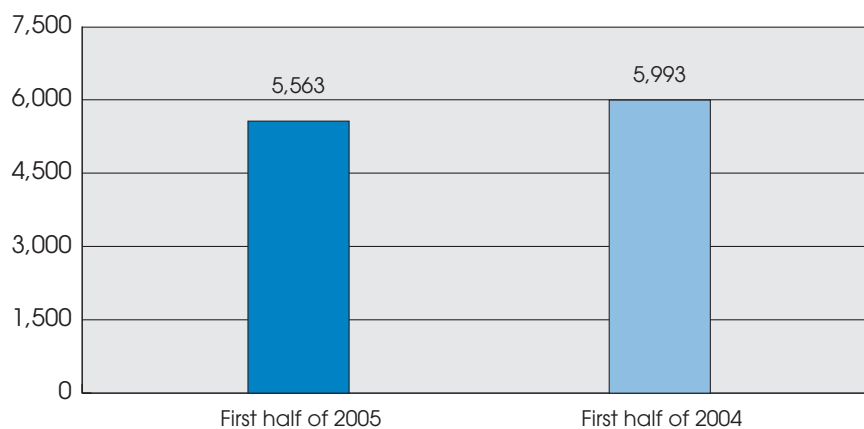


Turnover composition in the first half of 2004

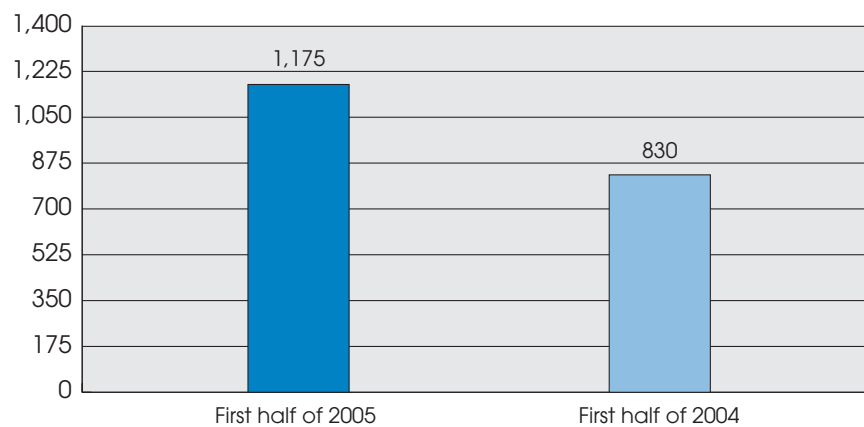


■ Automobile segment ■ Aviation segment

Turnover of Automobile Segment (RMB million)



Turnover of Aviation Segment (RMB million)



The turnover of the Group's automobile segment amounted to RMB 5,563 million for the first half of 2005, accounting for 82.56% of the total turnover and representing a decrease of 7.18% when compared with that of the corresponding period in the previous year. The turnover of the Group's aviation segment amounted to RMB 1,175 million, accounting for 17.44% of the total turnover and representing an increase of 41.57% when compared with that of the corresponding period in the previous year.

As shown in the charts above, for the first half of 2005, the proportion of aviation products in total turnover increased by 5.28 percentage points when compared with that of the corresponding period in the previous year.

Liquidity and Financial Resources

As at 30 June 2005, the Group's net cash and cash equivalents amounted to RMB 2,364 million, representing a decrease of RMB 194 million when compared with RMB 2,558 million at the beginning of the Reporting Period. Cash and cash equivalents were mainly derived from the cash and bank deposits at the beginning of the Reporting Period and funds generated from its operations during the Reporting Period.

As at 30 June 2005, the Group's total borrowings amounted to RMB 5,374 million. Of the Group's total borrowings, current bank borrowings amounted to RMB 3,996 million, current portion of non-current borrowings amounted to RMB 255 million and non-current borrowings due after 1 year amounted to RMB 1,123 million.

The Group's non-current borrowings are repayable as follows:

	RMB million
Within one year	255
In the second year	585
In the third to fifth years	376
After the fifth year	162
	<hr/>
Total	<u>1,378</u>

As at 30 June 2005, the Group's bank borrowings amounted to RMB 5,179 million with an average interest rate of 4.92% per annum, representing a decrease of RMB 132 million when compared with that at the beginning of the Reporting Period; and other borrowings amounted to RMB 195 million with an average interest rate of 0.06% per annum, representing an increase of RMB 150 million when compared with that at the beginning of the Reporting Period.

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

CAPITAL STRUCTURE

As at 30 June 2005, the Group's borrowings were mainly denominated in Renminbi whilst cash and cash equivalents were mainly denominated in Renminbi, Hong Kong dollars and US dollars. Among the total borrowings of RMB 5,374 million, borrowings of RMB 4,874 million were at a fixed interest rate, accounting for 90.69% of the total borrowings.

PLEDGE OF ASSETS

As at 30 June 2005, the loans secured by pledging of the Group's assets amounted to RMB 374 million, representing a decrease of RMB150 million when compared with RMB 524 million at the beginning of the Reporting Period. These loans were secured by such fixed assets as buildings, machinery and equipment with a net book value of RMB 391 million.

GEARING RATIO

As at 30 June 2005, the Group's gearing ratio was 25.06% (as at 31 December 2004: 27.03%), which was derived by dividing the total borrowings by total assets as at 30 June 2005.

EXCHANGE RISKS

The Group has arranged certain amounts of loans denominated in Japanese Yen, US dollars and Euros for business operational needs. Fluctuation in exchange rate has brought exchange risks to the Group.

CONTINGENT LIABILITIES AND GUARANTEES

As at 30 June 2005, the Group did not provide any guarantee for any third parties and had no significant contingent liabilities.

MAJOR ACQUISITIONS AND DISPOSALS

For the six months ended 30 June 2005, the Group did not have any major acquisition or disposal.

USE OF PROCEEDS

Pursuant to the plan of application of proceeds, as at 30 June 2005, an amount of RMB 832 million was invested, of which RMB 700 million was invested in the automobile products for the research and development of new vehicles and new engine models, and RMB 132 million was invested in aviation products for the research and development of new advanced trainer models. The rest of the proceeds were put in short-term deposits in banks in the PRC. The Company will apply the rest of the proceeds as planned.

EMPLOYEES

As at 30 June 2005, the Group had 30,456 employees and incurred total staff costs of RMB 408,859,000 during the Reporting Period.

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, pursuant to the register kept under Section 336 of the Securities and Futures Ordinance (the "SFO"), the following shareholders had more than 5% interests in the issued share capital of the Company and its associated corporations:

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
China Aviation Industry Corporation II	Domestic shares	2,835,305,636	95.66%	61.06%	Long position
European Aeronautic Defence and Space Company – EADS N.V.	H shares	232,180,425	13.82%	5%	Long position

Save as disclosed above, as at 30 June 2005, the Company had not been notified of any interests or short position of 5% or above in the shares and underlying shares of the Company which had been recorded in the register kept pursuant to Section 336 of the SFO.

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

As at 30 June 2005, 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 SFO), which are required to be recorded and kept in the register pursuant to section 352 of the SFO, or which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Name of the Company or its associated corporation	Name of director/supervisor/ chief executive	Name and class of securities held	Capacity in holding interest	Type of interests held	Approximate percentage of shareholding in the same securities
The Company	David Li Kwok-Po	2,000,000 H Shares	Beneficial owner	Long position	0.12%
Harbin Dongan Auto Engine Co., Ltd	Tan Ruisong	5,070 A Shares	Beneficial owner	Long position	0.0011%

Save as disclosed above, as at 30 June 2005, none of the directors, supervisors or chief executives of the Company had any other interests or short position in the shares, underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of the SFO and which were required to be recorded and kept in the register under section 352 of the SFO.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the six months ended 30 June 2005, there were changes of some directors but there was no change of supervisors and members of the senior management.

Former non-executive directors, Mr. Xu Tongxing, Mr. Cui Xuewen, Mr. Yang Jinhuai and Ms. Hu Jiarui, have resigned as directors of the Company due to changes of duties; whereas Mr. Tan Ruisong, Mr. Wang Bin and Mr. Wang Yong have been appointed as non-executive directors of the Company. The changes of directors were approved at the Company's annual general meeting on 16 June 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as its code for securities transactions by the directors and the supervisors. The Board has also confirmed that, having made specific enquiry 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 during the Reporting Period.

AUDIT COMMITTEE

The Company's audit committee has been established by the Board pursuant to the Listing Rules. The current terms of reference of the audit committee is modeled on "A Guide for Effective Audit Committee" issued by Hong Kong Institute of Certified Public Accountants and the code provisions of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules. The audit committee has reviewed the unaudited condensed consolidated interim financial information of the Company for the six months ended 30 June 2005.

CODE ON CORPORATE GOVERNANCE PRACTICES

Except for the following deviations, during the Reporting Period, the Company had been in compliance with all the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules.

Code Provision A.5.4

This code prescribes that directors should establish written guidelines on no less exacting terms than the Model Code for “relevant employees” (as defined in Appendix 14 to the Listing Rules) in respect of their dealings in the securities of the issuer. The Company is currently preparing the written guidelines for relevant employees in respect of their dealings in the securities of the Company and will submit the guidelines to the Board for approval in due course to comply with this code provision.

Code Provision B.1.3

This code prescribes the minimum duties of the remuneration committee. At present, the duties of the remuneration committee of the Company have not covered all the duties set out in this code. The Company will review the duties of the remuneration committee of the Company in due course to comply with this code.

The Stock Exchange has granted to the Company a conditional waiver from the strict compliance with Rule 3.24 of the Listing Rules. Mr. Barry Wong has been appointed to assist the chief financial officer of the Company in discharging his duty as a qualified accountant for a term of three years commencing on 13 May 2005.

PURCHASE, SALE AND REDEMPTION OF SECURITIES

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s securities.

By order of the Board

Zhang Hongbiao

Chairman

Beijing, 26 August 2005

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

Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

		For the six months ended 30th June	
	Note	2005 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited) (Restated)
Turnover	2	6,737,661	6,823,225
Cost of sales		(5,773,288)	(5,717,598)
Gross profit		964,373	1,105,627
Other revenues		42,308	54,401
Selling and distribution expenses		(362,382)	(376,368)
General and administrative expenses		(485,753)	(450,185)
Operating profit	3	158,546	333,475
Finance costs, net	4	(60,386)	(92,923)
Share of results of associates		6,176	(809)
Profit before income tax		104,336	239,743
Income tax expense	5	(26,013)	(42,691)
Profit for the period		78,323	197,052
Attributable to:			
Equity holders of the Company		30,157	136,585
Minority interests		48,166	60,467
		78,323	197,052
Earnings per share for profit attributable to the equity holders of the Company during the period			
- Basic	7	RMB0.01	RMB0.03

Condensed Consolidated Balance Sheet

AS AT 30TH JUNE 2005

	Note	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited) (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	8	8,156,138	7,386,637
Land use rights	8	106,779	90,398
Intangible assets	8	548,714	567,046
Investments in associates		230,330	224,192
Non-current investments		101,162	124,862
Deferred tax assets		40,117	38,713
		<u>9,183,240</u>	<u>8,431,848</u>
Current assets			
Accounts receivable	9	2,695,217	1,896,496
Other receivables, prepayments and other current assets	10	1,267,015	1,083,700
Inventories		3,839,632	3,780,463
Contracts in progress		379,937	169,109
Trading investments		225,886	246,801
Pledged deposits		535,988	434,795
Term deposits with initial term of over three months		956,559	1,214,750
Cash and cash equivalents		2,364,236	2,558,000
		<u>12,264,470</u>	<u>11,384,114</u>
Total assets		<u><u>21,447,710</u></u>	<u><u>19,815,962</u></u>
Financed by:			
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		4,643,609	4,643,609
Reserves		482,271	452,114
		<u>5,125,880</u>	<u>5,095,723</u>
Minority interests		<u>3,475,786</u>	<u>2,942,016</u>
Total equity		<u><u>8,601,666</u></u>	<u><u>8,037,739</u></u>

Condensed Consolidated Balance Sheet

AS AT 30TH JUNE 2005

	Note	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited) (Restated)
LIABILITIES			
Non-current liabilities			
Borrowings	14	1,123,150	941,937
Long-term payable to ultimate holding company	13	511,825	532,298
Non-current portion of provisions		56,226	56,226
Deferred income from government grants		42,232	45,240
Deferred tax liabilities		47,482	51,110
		<u>1,780,915</u>	<u>1,626,811</u>
Current liabilities			
Trade payables	11	4,978,122	3,964,059
Other payables, accruals and other current liabilities	12	1,717,782	1,655,452
Current tax liabilities		12,331	8,131
Current portion of long-term payable to ultimate holding company	13	40,946	40,946
Current portion of provisions		64,667	68,902
Short-term borrowings	14	3,996,293	3,898,425
Current portion of non-current borrowings	14	254,988	515,497
		<u>11,065,129</u>	<u>10,151,412</u>
Total liabilities		<u>12,846,044</u>	<u>11,778,223</u>
Total equity and liabilities		<u>21,447,710</u>	<u>19,815,962</u>
Net current assets		<u>1,199,341</u>	<u>1,232,702</u>
Total assets less current liabilities		<u>10,382,581</u>	<u>9,664,550</u>

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	(Unaudited)						
	Attributable to equity holders of the Company					Minority	Total
	Share capital	Capital reserve	Statutory	Statutory	Retained earnings	interests	
			public surplus reserve	welfare fund			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
For the six months ended 30th June 2005:							
Balance as at 1st January 2005, as previously reported as equity	4,643,609	74,898	72,897	57,074	247,245	—	5,095,723
Balance as at 1st January 2005, as previously reported as minority interests	—	—	—	—	—	2,942,016	2,942,016
Balance as at 1st January 2005, as restated	4,643,609	74,898	72,897	57,074	247,245	2,942,016	8,037,739
Profit for the period	—	—	—	—	30,157	48,166	78,323
Contributions from minority shareholders of subsidiaries	—	—	—	—	—	516,725	516,725
Profit distributions by subsidiaries	—	—	—	—	—	(31,121)	(31,121)
Balance as at 30th June 2005	<u>4,643,609</u>	<u>74,898</u>	<u>72,897</u>	<u>57,074</u>	<u>277,402</u>	<u>3,475,786</u>	<u>8,601,666</u>
For the six months ended 30th June 2004:							
Balance as at 1st January 2004, as previously reported as equity	4,643,609	74,898	51,584	39,350	263,601	—	5,073,042
Balance as at 1st January 2004, as previously reported as minority interests	—	—	—	—	—	2,946,124	2,946,124
Balance as at 1st January 2004, as restated	4,643,609	74,898	51,584	39,350	263,601	2,946,124	8,019,166
Profit for the period	—	—	—	—	136,585	60,467	197,052
Contributions from minority shareholders of subsidiaries	—	—	—	—	—	1,474	1,474
Profit distributions by subsidiaries	—	—	—	—	—	(36,478)	(36,478)
Disposal of subsidiaries	—	—	—	—	—	(19,052)	(19,052)
Final dividend for 2003 paid	—	—	—	—	(48,758)	—	(48,758)
Balance 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>2,952,535</u>	<u>8,113,404</u>

Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 30TH JUNE 2005

	For the six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	347,922	330,729
Net cash used in investing activities	(853,482)	(726,274)
Net cash generated from/(used in) financing activities	311,796	(275,929)
Net decrease in cash and cash equivalents	(193,764)	(671,474)
Cash and cash equivalents at 1st January	2,558,000	2,584,019
Cash and cash equivalents at 30th June	<u>2,364,236</u>	<u>1,912,545</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	2,254,236	1,881,545
Term deposits with initial term of less than three months	110,000	31,000
	<u>2,364,236</u>	<u>1,912,545</u>

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information (“condensed financial information”) has been prepared in accordance with International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” promulgated by the International Accounting Standards Board (“IASB”) and Appendix 16 of 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 2004 annual financial statements.

The principal accounting policies and methods of computation used in the preparation of this condensed financial information are consistent with those used in the preparation of the financial statements for the year ended 31st December 2004 except that the Group has adopted the revised and new IASs and International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Committee and International Financial Reporting Interpretations Committee Interpretation (“IFRIC Interpretation”) issued by International Financial Reporting Interpretations Committee which are effective for accounting periods commencing on or after 1 January 2005.

The list of the new/revised IASs, IFRSs and IFRIC Interpretation which are relevant to the Group’s operations is as follows. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 3	Business Combinations
IFRIC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The adoption of new/revised IASs 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 32, 33, 36, 38 and 39, IFRS 3 and IFRIC Interpretation 1 did not result in substantial changes to the Group's accounting policies. In summary:

- IAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.
- IASs 2, 8, 10, 16, 17, 21, 27, 28, 32, 33, 36, 38 and 39, IFRS 3 and IFRIC Interpretation 1 had no material effect on the Group's policies.
- IAS 24 has extended the identification of related parties and disclosure of related parties to include state-owned enterprises. Related parties included China Aviation Industry Corporation II ("AVIC II" or "Holding Company") and its related parties, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control, joint control or exercise significant influence and key management personnel of the Company and AVIC II as well as their close family members.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All of the new/revised standards adopted by the Group require retrospective application other than:

- IAS 16 – the exchange of property, plant and equipment is accounted at fair value prospectively; and
- IFRS 3 – prospectively after 31st March 2004.

The adoption of IAS 1 resulted in the changes in the following:

	For the six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Decrease in share of results of associates	(532)	(230)
Decrease in income tax expense	532	230
Increase in other revenues	22,970	26,144
Increase in finance costs	(22,970)	(26,144)

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 were located in the People's Republic of China ("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.

Primary reporting format - business segments

	For the six months ended 30th June 2005 (Unaudited)		
	Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Operating results			
Turnover	1,175,302	5,562,359	6,737,661
Segment results	88,704	41,499	130,203
Other revenues			42,308
Unallocated costs			(13,965)
Operating profit			158,546
Finance costs, net			(60,386)
Share of results of associates	3,685	2,491	6,176
Profit before income tax			104,336
Income tax expense			(26,013)
Profit for the period			78,323
Other segment items			
Depreciation	75,729	306,781	382,510
Amortisation	310	53,392	53,702
Other non-cash expenses/(income)	8,042	(1,285)	6,757

2 SEGMENT INFORMATION (continued)

Primary reporting format - business segments (continued)

	As at 30th June 2005 (Unaudited)		
	Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Assets			
Segment assets	<u>7,201,468</u>	<u>13,044,673</u>	20,246,141
Investments in associates	<u>135,454</u>	<u>94,876</u>	230,330
Unallocated assets			<u>971,239</u>
Total assets			<u>21,447,710</u>
Liabilities			
Segment liabilities	<u>3,162,581</u>	<u>9,059,600</u>	12,222,181
Unallocated liabilities			<u>623,863</u>
Total liabilities			<u>12,846,044</u>
Other segment item			
Capital expenditure	<u>186,805</u>	<u>1,041,414</u>	<u>1,228,219</u>

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

	For the six months ended 30th June 2004		
	(Unaudited)		
	(Restated)		
	Aviation	Automobiles	Total
	RMB'000	RMB'000	RMB'000
Operating results			
Turnover	829,802	5,993,423	6,823,225
Segment results	25,868	259,495	285,363
Other revenues			54,401
Unallocated costs			(6,289)
Operating profit			333,475
Finance costs, net			(92,923)
Share of results of associates	(211)	(598)	(809)
Profit before income tax			239,743
Income tax expense			(42,691)
Profit for the period			197,052
Other segment items			
Depreciation	40,251	292,357	332,608
Amortisation	78	48,435	48,513
Other non-cash income	(899)	(14,835)	(15,734)

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

	As at 31st December 2004		
	(Audited)		
	Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Assets			
Segment assets	5,109,652	12,618,794	17,728,446
Investments in associates	116,133	108,059	224,192
Unallocated assets			1,863,324
Total assets			19,815,962
Liabilities			
Segment liabilities	1,495,482	9,602,574	11,098,056
Unallocated liabilities			680,167
Total liabilities			11,778,223
Other segment item			
Capital expenditure	190,836	1,463,367	1,654,203

3 OPERATING PROFIT

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

	For the six months ended 30th June	
	2005 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)
Amortisation of land use rights (included in "Administrative expenses")	2,468	2,144
Amortisation of intangible assets		
- electricity use rights (included in "Administrative expenses")	550	629
- development costs (included in "Administrative expenses")	50,684	45,740
Costs of inventories recognised as expenses included in cost of sales	5,773,288	5,717,598
Depreciation and impairment on property, plant and equipment	382,510	332,608
Loss on disposal of property, plant and equipment	4,670	2,980
Operating lease rentals in respect of		
- land and buildings	17,988	25,474
- plant and machinery	667	—
Provision for impairment of investments (included in "Administrative expenses")	25,000	47,955
Provision for/(reversal of provision for) impairment of receivables	17,880	(15,493)
Rental income from plant and equipment	—	(419)
Repairs and maintenance expense on property, plant and equipment	7,337	5,114
Research and development expense	69,705	37,825
Staff costs	408,859	431,454
Warranty expense	49,405	24,572
Interest income on bank balances and deposits	(22,970)	(26,144)
Reversal of provision for inventories	(11,123)	(241)
	<u> </u>	<u> </u>

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	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
Interest expense on bank loans		
- wholly repayable within 5 years	122,548	114,014
- not wholly repayable within 5 years	7,831	8,816
Interest expense on other loans		
- wholly repayable within 5 years	334	363
- not wholly repayable within 5 years	61	61
Less: amount capitalised in property, plant and equipment	(17,987)	(17,154)
Less: government interest subsidies	(1,680)	(3,524)
	<hr/>	<hr/>
	111,107	102,576
Exchange gains, net	(51,904)	(12,673)
Bank charges	1,183	3,020
	<hr/>	<hr/>
	60,386	92,923
	<hr/> <hr/>	<hr/> <hr/>

5 INCOME TAX EXPENSE

	For the six months ended 30th June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
PRC current income tax	31,045	25,316
Deferred taxation	(5,032)	17,375
	<hr/>	<hr/>
	26,013	42,691
	<hr/> <hr/>	<hr/> <hr/>

5 INCOME TAX EXPENSE (continued)

The provision for PRC current income tax is calculated based on the statutory income tax rate of 33% of the assessable income of the companies within the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30th June 2005 (for the six months ended 30th June 2004: 33%), except for certain subsidiaries which are taxed at preferential rates ranging from 0% to 30% (for the six months ended 30th June 2004: 0% to 30%) based on the relevant PRC tax rules and regulations.

Share of taxation of associates amounting to approximately RMB532,000 (for the six months ended 30th June 2004: RMB230,000) was included in share of results of associates in the unaudited condensed consolidated income statement.

6 DIVIDENDS

The board of directors does not recommend the payment of an interim dividend for the period ended 30th June 2005 (period ended 30th June 2004: Nil).

7 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th June 2005 is based on the Group's profit attributable to equity holders of the Company of RMB30,157,000 for the period (for the six months ended 30th June 2004: RMB136,585,000) and the weighted average of 4,643,608,500 shares in issue during the period (for the six months ended 30th June 2004: 4,643,608,500 shares).

There was no dilution effect on the basic earnings per share for the six months ended 30th June 2004 and 2005 as there were no potential dilutive shares outstanding during the six months ended 30th June 2004 and 2005.

8 CAPITAL EXPENDITURE

	(Unaudited)			
	Property, plant and equipment RMB'000	Land use rights RMB'000	Intangible assets RMB'000	Total RMB'000
Cost				
As at 1st January 2005	10,509,100	111,466	726,584	11,347,150
Additions	1,176,468	18,849	32,902	1,228,219
Disposals	(64,132)	—	—	(64,132)
As at 30th June 2005	<u>11,621,436</u>	<u>130,315</u>	<u>759,486</u>	<u>12,511,237</u>
Accumulated depreciation / amortisation and impairment				
As at 1st January 2005	3,122,463	21,068	159,538	3,303,069
Charge/amortisation for the period	382,510	2,468	51,234	436,212
Disposals	(39,675)	—	—	(39,675)
As at 30th June 2005	<u>3,465,298</u>	<u>23,536</u>	<u>210,772</u>	<u>3,699,606</u>
Net book value				
As at 30th June 2005	<u>8,156,138</u>	<u>106,779</u>	<u>548,714</u>	<u>8,811,631</u>

8 CAPITAL EXPENDITURE (continued)

	(Unaudited)			
	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	9,841,034	107,897	663,734	10,612,665
Additions	771,445	3,569	62,850	837,864
Disposals	(103,379)	—	—	(103,379)
As at 31st December 2004	<u>10,509,100</u>	<u>111,466</u>	<u>726,584</u>	<u>11,347,150</u>
Accumulated depreciation/amortisation and impairment				
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	2,826,798	18,917	121,288	2,967,003
Charge/amortisation for the period	365,422	2,151	38,250	405,823
Disposals	(69,757)	—	—	(69,757)
As at 31st December 2004	<u>3,122,463</u>	<u>21,068</u>	<u>159,538</u>	<u>3,303,069</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>
As at 31st December 2004	<u>7,386,637</u>	<u>90,398</u>	<u>567,046</u>	<u>8,044,081</u>

9 ACCOUNTS RECEIVABLE

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Trade receivables, net (note (a))	945,712	457,206
Notes receivable (note (b))	854,024	582,457
Due from related parties (note (c))	895,481	856,833
	<u>2,695,217</u>	<u>1,896,496</u>

(a) Trade receivables, net

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Gross trade receivables	1,144,919	651,113
Less: provision for impairment of receivables	(199,207)	(193,907)
	<u>945,712</u>	<u>457,206</u>

The fair values of trade receivables, calculated based on cash flows discounted using a rate based on the average borrowing rate of 4.75% (at 31st December 2004: 4.69%), approximate the carrying values.

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 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Current to 6 months	850,915	286,760
6 months to 1 year	91,404	161,762
1 year to 2 years	13,344	22,510
2 years to 3 years	25,150	29,380
Over 3 years	164,106	150,701
	<u>1,144,919</u>	<u>651,113</u>

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

9 ACCOUNTS RECEIVABLE (continued)

(c) Due from related parties

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

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Trade receivables		
- Fellow subsidiaries (note (i))	609,094	545,568
- Other related parties (note (i))	171,954	210,380
	<hr/>	<hr/>
	781,048	755,948
Less: provision for impairment of receivables	(42,669)	(46,065)
	<hr/>	<hr/>
	738,379	709,883
Notes receivable		
- Fellow subsidiaries (note (ii))	157,102	146,950
	<hr/>	<hr/>
	895,481	856,833
	<hr/> <hr/>	<hr/> <hr/>

The fair values of amount due from related parties, calculated based on cash flows discounted using a rate based on the average borrowing rate of 4.75% (at 31st December 2004: 4.69%), approximate the carrying values.

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 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Current to 1 year	704,023	679,992
1 year to 2 years	53,420	52,340
2 years to 3 years	761	428
Over 3 years	22,844	23,188
	<hr/>	<hr/>
	781,048	755,948
	<hr/> <hr/>	<hr/> <hr/>

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

10 OTHER RECEIVABLES, PREPAYMENTS AND OTHER CURRENT ASSETS

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Due from related parties (note)	456,599	538,519
Other receivables, prepayments and other current assets	810,416	545,181
	<u>1,267,015</u>	<u>1,083,700</u>

Note:

The amounts due from related parties, which are unsecured and non-interest bearing, can be analysed as follows:

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Holding Company:		
- Other temporary advances (note (ii))	79,930	95,156
Fellow subsidiaries:		
- Advances for purchase of goods and raw materials (note (i))	345,414	288,454
- Other temporary advances (note (ii))	4,444	36,688
	<u>349,858</u>	<u>325,142</u>
Other related parties:		
- Advances for purchase of goods and raw materials (note (i))	24,832	118,221
- Other temporary advances (note (ii))	1,979	—
	<u>26,811</u>	<u>118,221</u>
	<u>456,599</u>	<u>538,519</u>

(i) Advances for purchase of goods and raw materials are recurrent in nature and have no fixed terms of repayment.

(ii) Other temporary advances mainly represent current account balances with certain fellow subsidiaries and related parties.

11 TRADE PAYABLES

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Trade payables (note (a))	3,300,513	2,681,222
Notes payable (note (b))	1,000,046	664,997
Due to related parties (note (c))	677,563	617,840
	4,978,122	3,964,059

(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 2005 is as follows:

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Current to 1 year	3,209,941	2,612,318
1 year to 2 years	44,906	34,123
2 years to 3 years	14,825	9,009
Over 3 years	30,841	25,772
	3,300,513	2,681,222

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

11 TRADE PAYABLES (continued)

(c) Due to related parties

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

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Trade payables:		
- Fellow subsidiaries (note (i))	392,018	327,552
- Other related parties (note (i))	236,373	93,957
	628,391	421,509
Notes payable:		
- Fellow subsidiaries (note (ii))	45,584	194,353
- Other related parties (note (ii))	3,588	1,978
	49,172	196,331
	677,563	617,840

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 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Current to 1 year	611,138	332,662
1 year to 2 years	15,633	44,725
2 years to 3 years	61	43,604
Over 3 years	1,559	518
	628,391	421,509

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

12 OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Other payables and accruals	1,147,445	1,117,164
Due to related parties (note)	570,337	538,288
	1,717,782	1,655,452

Note:

The amounts due to related parties, which are unsecured and non-interest bearing, can be analysed as follows:

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Holding Company:		
- Special dividend	7,125	7,125
- Other temporary advances (note (ii))	4,916	6,280
	12,041	13,405
Fellow subsidiaries:		
- Deposits for sales of aircraft and automobiles (note (i))	4,657	1,600
- Payable for property, plant and equipment (note (i))	50,227	385
- Other temporary advances (note (ii))	484,798	399,010
	539,682	400,995
Other related parties:		
- Deposits for sales of aircraft and automobiles (note (i))	7,869	—
- Other temporary advances (note (ii))	10,745	123,888
	18,614	123,888
	570,337	538,288

(i) 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.

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

13 LONG-TERM PAYABLE TO ULTIMATE HOLDING COMPANY

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
At 30th June 2005/31st December 2004	552,771	573,244
Less: current portion payable within one year	(40,946)	(40,946)
	511,825	532,298

14 BORROWINGS

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

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Current borrowings:		
Bank borrowings	3,996,293	3,898,425
Current portion of non-current borrowings	254,988	515,497
	4,251,281	4,413,922
Non-current borrowings:		
Bank borrowings	961,093	929,870
Other borrowings	162,057	12,067
	1,123,150	941,937
Total borrowings	5,374,431	5,355,859
Representing:		
Unsecured	1,261,903	1,068,855
Secured	4,112,528	4,287,004
	5,374,431	5,355,859

14 BORROWINGS (continued)

(b) At 30th June 2005, the Group's non-current bank borrowings and other borrowings are repayable as follows:

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Bank borrowings:		
Within one year	221,963	482,314
In the second year	584,972	419,200
In the third to fifth years	376,121	510,670
	<hr/>	<hr/>
	1,183,056	1,412,184
Less: current portion	(221,963)	(482,314)
	<hr/>	<hr/>
	961,093	929,870
	<hr/> <hr/>	<hr/> <hr/>
Other borrowings:		
Within one year	33,025	33,183
After the fifth year	162,057	12,067
	<hr/>	<hr/>
	195,082	45,250
Less: current portion	(33,025)	(33,183)
	<hr/>	<hr/>
	162,057	12,067
	<hr/> <hr/>	<hr/> <hr/>
Total:		
Within one year	254,988	515,497
In the second year	584,972	419,200
In the third to fifth years	376,121	510,670
After the fifth year	162,057	12,067
	<hr/>	<hr/>
	1,378,138	1,457,434
Less: current portion	(254,988)	(515,497)
	<hr/>	<hr/>
	1,123,150	941,937
	<hr/> <hr/>	<hr/> <hr/>

14 BORROWINGS (continued)

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

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Bank borrowings:		
Wholly repayable within five years	<u>1,183,056</u>	<u>1,412,184</u>
Other borrowings:		
Wholly repayable within five years	<u>33,025</u>	33,183
Not wholly repayable within five years	<u>162,057</u>	12,067
	<u>195,082</u>	<u>45,250</u>
	<u>1,378,138</u>	<u>1,457,434</u>

(d) The carrying amounts of the borrowings are denominated in the following currencies:

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Renminbi	<u>4,715,585</u>	4,607,075
US dollar	<u>183,324</u>	207,550
Euro dollar	<u>323,733</u>	366,038
Japanese Yen	<u>151,789</u>	175,196
	<u>5,374,431</u>	<u>5,355,859</u>

14 BORROWINGS (continued)

(e) Borrowings facilities

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

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Net book value of property, plant and equipment pledged	391,144	423,926
Guarantees provided by Holding Company and fellow subsidiaries of the Group	825,831	945,888
Cross guarantees among subsidiaries of the Group	2,745,947	2,650,366
Guarantees provided by third parties	167,000	167,000
	4,129,922	4,187,180
Corresponding borrowing facilities utilised	4,112,528	4,287,004

15 CAPITAL COMMITMENTS

The Group has the following capital commitments not provided for as at 30th June 2005:

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Acquisition of property, plant and equipment:		
- Authorised but not contracted for	719,872	517,856
- Contracted but not provided for	511,875	536,345
	<u>1,231,747</u>	<u>1,054,201</u>
Construction commitments:		
- Authorised but not contracted for	57,935	100,000
- Contracted but not provided for	91,985	80,238
	<u>149,920</u>	<u>180,238</u>
Investments in associates:		
- Contracted but not provided for	<u>—</u>	<u>32,997</u>
	<u>1,381,667</u>	<u>1,267,436</u>

16 SIGNIFICANT RELATED PARTY TRANSACTIONS

During the period, the Group entered into various transactions with related parties including AVIC II, certain fellow subsidiaries, and other entities, directly or indirectly, controlled or significantly influenced by AVIC II.

The related parties of the Company and its subsidiaries that had transactions with the Group during the Reporting Period are as follows:

Related parties

AVIC II
 Changhe Aircraft Industries (Group) Ltd.
 Hafei Industry Corporation
 Hafei Transportation Company
 Harbin Dongan Construction Engineering Company
 Harbin Dongan Engine (Group) Co., Ltd.
 Harbin Dongan Import & Export Co., Ltd.
 Harbin Dongan Industry Development Co., Ltd.
 Harbin Dongan Zhiyang Automobile Electric Company
 Hefei Changhe Automobile Co., Ltd.
 Jiangxi Hongdu Aviation Industrial Group Corporation
 Harbin Aircraft Industry (Group) Co., Ltd.
 CATIC International Industry and Trade Company
 China National Aero-Technology Import & Export Corporation
 Harbin Lingfei Company
 Shenzhen Shenhong Avionics Co., Ltd.
 Yunnan Changhe Automobile Sales Co., Ltd.
 Mitsubishi Motor Corporation
 Suzuki Motor Corporation
 Okaya & Co., Ltd.

Relationship with the Company

Holding Company
 a wholly-owned subsidiary of AVIC II
 a wholly-owned subsidiary of AVIC II
 a wholly-owned subsidiary of AVIC II
 a wholly-owned subsidiary of AVIC II
 a wholly-owned subsidiary of AVIC II
 a wholly-owned subsidiary of AVIC II
 a wholly-owned subsidiary of AVIC II
 a wholly-owned subsidiary of AVIC II
 a wholly-owned subsidiary of AVIC II
 a wholly-owned subsidiary of AVIC II
 a subsidiary of AVIC II
 an associate of AVIC II
 an associate of AVIC II

 an associate of AviChina
 an associate of AviChina
 an associate of AviChina
 a major shareholder of a subsidiary
 a major shareholder of a subsidiary.
 a shareholder of a subsidiary

The subsidiaries of AVIC II presented above are also regarded as fellow subsidiaries of the Company.

16 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Set out below is a summary of significant related party transactions during the six months ended 30th June 2005.

Income statement items:

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

	For the six months ended 30th June	
	2005 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)
Revenues:		
Sales of goods and materials		
- Fellow subsidiaries	<u>1,011,084</u>	<u>525,959</u>
- Other related parties		
China National Aero-Technology Import & Export Corporation	<u>226,783</u>	183,457
Others	<u>977</u>	6,965
	<u>227,760</u>	<u>190,422</u>
Rendering of service		
- Fellow subsidiaries	<u>55,718</u>	<u>23,564</u>

16 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)**Income statement items:** (continued)

	For the six months ended 30th June	
	2005 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)
Expenses:		
Purchase of goods and raw materials		
- Fellow subsidiaries	629,954	990,920
- Other related parties		
Harbin Lingfei Company	189,609	—
China National Aero-Technology Import & Export Corporation	21,428	39,290
CATIC International Industry and Trade Company	19,768	60,231
Okaya & Co., Ltd.	15,992	153,440
Mitsubishi Motor Corporation	11,000	226,017
Others	2,182	11,423
	259,979	491,401
Service fees payable		
- Fellow subsidiaries	190,246	212,983
- Other related parties		
Suzuki Motor Corporation	—	8,030
Rental expenses for property, plant and equipment		
- Fellow subsidiaries	19,054	24,946
Key management personnel compensation		
- Basic salaries, allowances and benefits in kind	1,046	1,086

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

16 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Balance sheet items:

The significant balances with related parties at 30th June 2005 are as follows:

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Balances with related parties included in:		
Accounts receivable		
- Fellow subsidiaries	<u>766,196</u>	<u>692,518</u>
- Other related parties		
China National Aero-Technology Import & Export Corporation	<u>168,187</u>	<u>210,338</u>
Others	<u>3,767</u>	<u>42</u>
	<u>171,954</u>	<u>210,380</u>
Other receivables, prepayments and other current assets		
- Holding Company	<u>79,930</u>	<u>95,156</u>
- Fellow subsidiaries	<u>349,858</u>	<u>325,142</u>
- Other related parties		
China National Aero-Technology Import & Export Corporation	<u>873</u>	<u>81,737</u>
Others	<u>25,938</u>	<u>36,384</u>
	<u>26,811</u>	<u>118,221</u>
Trade payables		
- Fellow subsidiaries	<u>437,602</u>	<u>521,905</u>
- Other related parties		
China National Aero-Technology Import & Export Corporation	<u>160,729</u>	<u>87,391</u>
Harbin Lingfei Company	<u>19,062</u>	<u>—</u>
Others	<u>60,170</u>	<u>8,544</u>
	<u>239,961</u>	<u>95,935</u>

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

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Other payables, accruals and other current liabilities		
- Holding Company	<u>12,041</u>	<u>13,405</u>
- Fellow subsidiaries	<u>539,682</u>	<u>400,995</u>
- Other related parties		
Mitsubishi Motor Corporation	5,283	—
Harbin Lingfei Company	3,335	—
Suzuki Motor Corporation	—	123,875
Others	<u>9,996</u>	<u>13</u>
	<u>18,614</u>	<u>123,888</u>
Long-term payable to ultimate holding company	<u>552,771</u>	<u>573,244</u>

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 10, Note 12 and Note 13 respectively.

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited)
Others:		
Guarantees obtained from		
- Holding Company	<u>120,252</u>	<u>230,000</u>
- Fellow subsidiaries	<u>705,579</u>	<u>715,888</u>

In addition, certain of the Group's property, plant and equipment with carrying value of approximately RMB 759,891,000 at 30th June 2005 (at 31st December 2004: RMB870,470,000) 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.

17 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.

BOARD OF DIRECTORS

Chairman	Zhang Hongbiao
Vice Chairman	Wu Xiandong
Directors	Liang Zhenhe
	Song Jingang
	Tan Ruisong
	Wang Bin
	Chen Huaiqiu
	Tian Min
	Wang Yong
	Maurice Savart
	Li Kwok-Po, David*
	Guo Chongqing*
	Li Xianzong*

* Independent Non-executive Directors

SENIOR MANAGEMENT

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

LEGAL NAME OF THE COMPANY

中國航空科技工業股份有限公司

ENGLISH NAME OF THE COMPANY

AviChina Industry & Technology Company Limited

ABBREVIATED NAMES OF THE COMPANY

Chinese: 中航科工
English: AVICHINA

LEGAL REPRESENTATIVE

Zhang Hongbiao

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 15th Floor, United Center, 95 Queensway, 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
25, Finance Street, Xicheng District, Beijing, the PRC

Shanghai Pudong Development Bank Ltd.
500, Pudong South Road, Pudong New District, Shanghai,
the PRC

PLACE OF LISTING, STOCK NAME AND STOCK CODE

Main Board of The Stock Exchange of Hong Kong Limited
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Auditors in the PRC

PricewaterhouseCoopers Zhong Tian

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