



# AviChina

AviChina Industry & Technology Company Limited

中國航空科技工業股份有限公司

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 2357)



**INTERIM REPORT 2006**



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The board of directors (the "Board") of AviChina Industry & Technology Company Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th June 2006 prepared under International Financial Reporting Standards.

Turnover	RMB7,971,934,000
Net loss attributable to the equity holders of the Company	RMB57,793,000
Loss per share, basic	RMB0.01
Equity attributable to the equity holders of the Company	RMB5,141,425,000

### INTERIM DIVIDEND

No interim dividend is proposed by the Board to be paid for the six months ended 30th June 2006.

## BUSINESS REVIEW

The interim results of the Group for the six months ended 30th June 2006 were not as good as expected. Despite the fact that the Group achieved a turnover of RMB7,972 million, which represented an increase of 18.31% when compared with that of the corresponding period in 2005, the drop in the automobile segment's results led to a loss of RMB58 million attributable to equity holders of the Company for the six months ended 30th June 2006.

### Automobile Business:

During the first half of 2006, benefiting from a series of favorable policies at the beginning of the year, the China automobile market saw rapid growth in the production and sales volume. According to the statistics published by the China Association of Automobile Manufacturers, the production and sales volume of automobiles in China during the first half of 2006 reached 3,630,300 and 3,535,200 respectively, which represented increases of 28.94% and 26.71% respectively when compared with the corresponding period of the previous year. In particular, the increases in the production and sales of sedans were remarkable, being 50.26% and 46.90% respectively.

For the six months ended 30th June 2006, the Group sold 169,200 automobiles which represented a decrease of 4.73% when compared with the corresponding period of the previous year. Such a decrease was mainly attributable to the reduced sales volume of mini-sized vans and trucks caused by upgrading. Under such circumstances, the old models were being withdrawn from the market while the new models are still at the introductory stage. Out of the total sales, sedans accounted for 64,800 units, which have increased by 55.40% over that of the corresponding period of the previous year; mini-vans and mini-trucks accounted for 104,400 units, which have decreased by 23.18% from that of the corresponding period of the previous year. Although the sales volume of mini-vans and mini-trucks dropped, the increased sales of the sedans with a relatively higher unit price and the increased sales of sedan engines to third parties had resulted in an increase in turnover to RMB6,274 million, which represented an increase of 12.78% over that of the corresponding period of last year.

During the first half of 2006, three new car models, namely Liana (a two-compartment sedan), Ideal II sedan and Furuida were launched into the market. The development of other new automobile models and engines is underway as planned.

The export volume of the automobiles of the Group in the first half of 2006 was 15,300 units, which has increased by 47.12% over that of the corresponding period of the previous year. The number of regions and the number of models being exported have continuously increased. The Hafei Lobo of which parts and components are provided by the Group has been assembled in Malaysia and is well received by the customers there.

The Group is committed to the integration of its automobile businesses. In response to the intense competition within the domestic market, the Company has clearly defined the business interface and management relationship so as to realize the specialized operation between automobile business and aviation business. The equity interests in Jiangxi Changhe Automobile Co., Ltd. ("Changhe Auto") originally held by Jiangxi Changhe Aviation Industry Company Limited ("Changhe Aviation") and the equity interests in Hafei Motor Co., Ltd. ("Hafei Auto") originally held by Harbin Aviation Industry (Group) Co., Ltd. ("Harbin Aviation Group") were transferred to being under direct control of the Company. At the same time, Harbin Hafei Automobile Industry Group Co., Ltd. was established to centralize the management of automobile and engine businesses in Harbin.

### **Aviation Business:**

Benefiting from the steady growth in the macro-economy of China, the Group's aviation business has kept on developing rapidly. The Group recorded a sales revenue of RMB1,698 million in aviation products for the first half of 2006, which represented an increase of 44.51% when compared with that of the corresponding period in 2005. The results of the aviation segment amounted to RMB149 million, which represented an increase of 67.42% when compared with that of the corresponding period in 2005.

The helicopter business of the Group was strongly boosted by the steadily-growing orders from the Chinese government. For the first half of 2006, the Group's helicopter business recorded a sales revenue of RMB740 million, which represented an increase of 47.70% when compared with that of the corresponding period in 2005. On the basis of maintaining the orders from the Chinese government and strengthening the relationship with the existing customers, the Group has been actively developing new customer base for helicopters. Two units of CA109 helicopter, manufactured by Jiangxi Changhe-Agusta Helicopter Co., Ltd., have been sold to Beijing Police Bureau pursuant to a sales agreement entered in June 2006. Delivery is expected to take place in 2007.

The Group's aviation parts and components business has also experienced rapid development. For the first half of 2006, the Group's sales revenue in aviation parts and components amounted to RMB693 million, which represented an increase of 93.58% when compared with that of the corresponding period in 2005. The Group's subcontracting production of aviation parts and components for international aviation manufacturers has progressed smoothly. Hafei Aviation Industry Co., Ltd. ("Hafei Aviation"), as a subcontractor of Bell Helicopter, delivered its first M430 helicopter fuselage in the beginning of 2006. The cooperation between Changhe Aviation and Sikorsky Aircraft Corporation on S-92 helicopter has also stepped into a stable batch-production stage.

As to the research and development of the Group, the Group has participated in the research and development of a new advanced trainer which had successfully performed its maiden flight in the beginning of 2006. The application for the airworthiness certificate of N-5A agricultural aeroplane from the US Federal Aviation Administration ("FAA") is close to completion, pending the reply from FAA after its review. The research and development of N-5B agricultural aeroplane and other serial models has been carried out as planned.

## **FUTURE OUTLOOK**

### **Automobile Business:**

Although the production and sales showed rapid increase during the first half of 2006, the general view of the market players is that such rapid growth was mainly due to the launch of new car models and price cuts, and such momentum is unlikely to be sustained throughout the second half of the year. With rising oil price and customers keeping cash for future purchases, the sales volume of automobile will also be adversely affected. Since the sales volume of automobile showed a downward trend from May 2006, the rapid growth in the first half of 2006 is unlikely to be sustained in the second half of 2006. In light of the above, given the intense competition and price pressure, the Board takes a cautious view on the results of the Group's automobile business, although the sales volume is expected to rise due to the general acceptance by the market of the three new models launched during the first half of 2006 and the possible launching of other new car models.

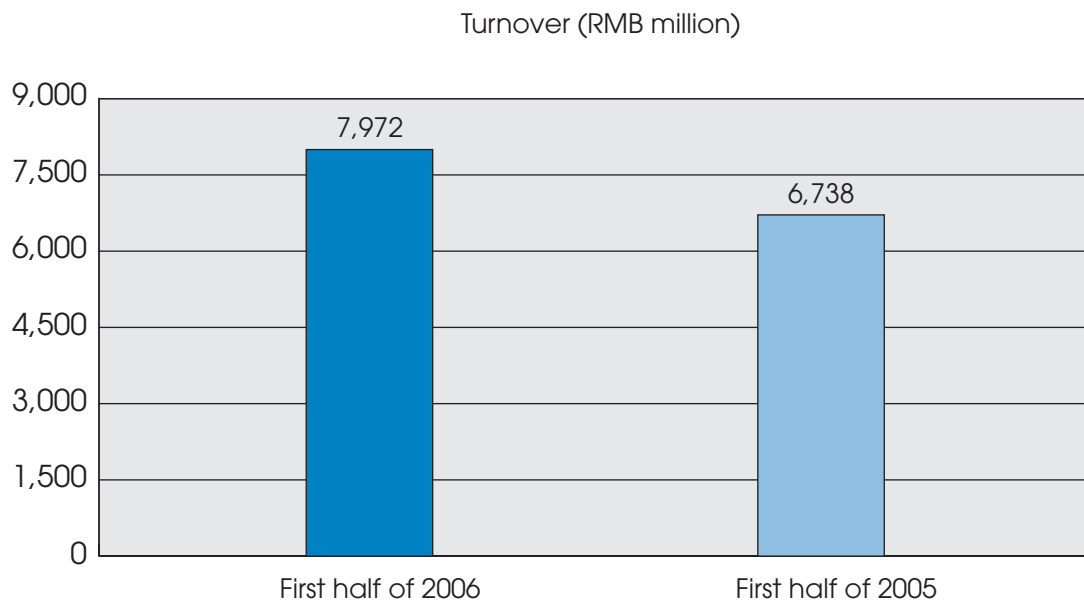
The Group will maintain the salient features of “safe, environmental-friendly, energy saving, economical and practical” in its automobile products. During the second half of the year, the Group will focus on sales and will concentrate its effort on promoting the sales of its flagship models such as Minyi, Zhongyi, Furuida, Lobo and Beidouxing. The Group will undertake marketing work in preparation for the launching of other new models. The Group will also continue to optimize the sales network and further control its cost to improve the operational efficiency and its profitability.

#### Aviation Business:

The Board expects that the Group, as the largest helicopter manufacturer and a major aircraft manufacturer in China, will maintain its steady and fast growth in its aviation business in the next few years. Benefiting from the steady growth in purchase orders from the Chinese government, the production and sales volume of aviation products of the Group, particularly helicopters, will increase substantially. The aviation parts and components business will also maintain its stable growth. The Group is currently seeking to enlarge the share of the aviation business in the Group’s overall business and improve its contribution to the profit of the Group. In the second half of 2006, the Group will put more efforts on ensuring a balanced production and timely delivery, while making progress in obtaining certificates for new aircraft models and reinforcing the relationship with the Group’s major customers of aviation products.

## FINANCIAL REVIEW

### Turnover



For the six months ended 30th June 2006, the Group achieved a turnover of RMB7,972 million, which represented an increase of RMB1,234 million, or 18.31%, when compared with RMB6,738 million of the corresponding period in the previous year.

### Gross profit

For the six months ended 30th June 2006, the Group achieved a gross profit of RMB1,072 million, which represented an increase of RMB108 million, or 11.20%, when compared with RMB964 million of the corresponding period in the previous year. The gross profit of automobile segment amounted to RMB757 million, which represented an increase of 1.07% when compared with that of the corresponding period in the previous year. The smaller growth in the gross profit of the automobile segment compared with that in the sales revenue was mainly attributable to the drop in sales prices and the increase in depreciation as new automobile production lines were introduced by the Company during this period. The gross profit of the aviation segment of the Group amounted to RMB315 million, which represented an increase of 46.51% when compared with that of the corresponding period in the previous year.

### Selling and distribution expenses

For the six months ended 30th June 2006, the Group's selling and distribution expenses amounted to RMB471 million, which represented an increase of RMB109 million, or 30.11%, when compared with that of the corresponding period in the previous year. The increase was mainly attributable to the increase in advertising expenses, transportation expenses, provision for after-sales service expenses and recall in automobile products, among which:

1. Advertising expenses increased by RMB13 million as the Company has launched several new vehicle models in the first half of 2006, and transportation expenses increased by RMB20 million due to the increase in oil price;
2. Provision for after-sales service expenses and recall in engine products increased by around RMB73 million when compared with that of the corresponding period in the previous year due to the large increase in sales volume of sedan engine products sold to third parties.

### General and administrative expenses

For the six months ended 30th June 2006, the Group's general and administrative expenses amounted to RMB598 million, which represented an increase of RMB112 million, or 23.05%, when compared with that of the corresponding period in the previous year, among which royalty fee increased by RMB26 million as the sales volume of new vehicle models has increased during this period and the impairment provision for certain intangible assets was RMB69 million under applicable accounting policies.

### Finance costs, net

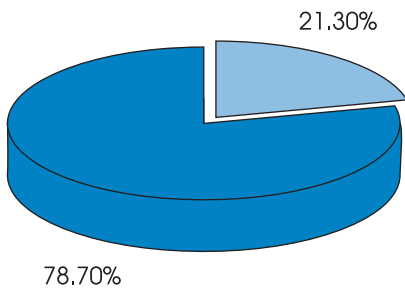
For the six months ended 30th June 2006, the Group's net finance costs amounted to RMB116 million, which represented an increase of RMB56 million, or 93.33%, when compared with that of the corresponding period in the previous year. The increase was mainly attributable to the exchange loss of RMB11 million caused by the fluctuation in exchange rates, while the Group had an exchange gain of RMB52 million during the corresponding period in the previous year.

**Net (loss)/profit attributable to equity holders of the Company**

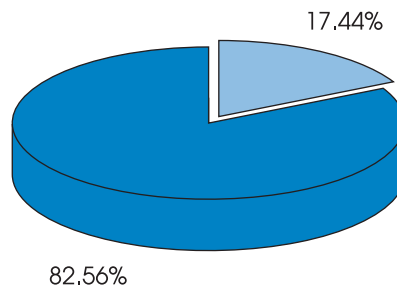
For the six months ended 30th June 2006, the Group suffered a loss of RMB58 million attributable to the equity holders of the Company, which represented a decrease of RMB88 million when compared with a profit of RMB30 million of the corresponding period in the previous year. Such decrease was mainly attributable to the drop in the results of the automobile segment. During this period, despite the growth in the sales revenue of automobile products, the severe price competition caused a decrease in gross margin and an increase in periodical expenses of the automobile segment, therefore, the automobile segment suffered a loss of RMB130 million for this period, which represented a decrease when compared with a profit of RMB41 million of the corresponding period in the previous year.

**Segment Information**

Turnover composition in the first half of 2006

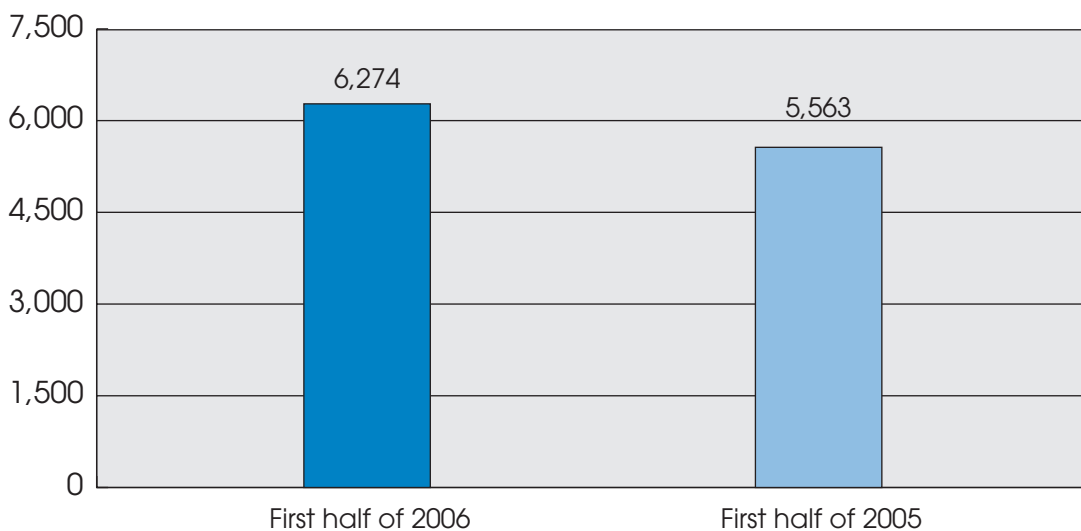


Turnover composition in the first half of 2005



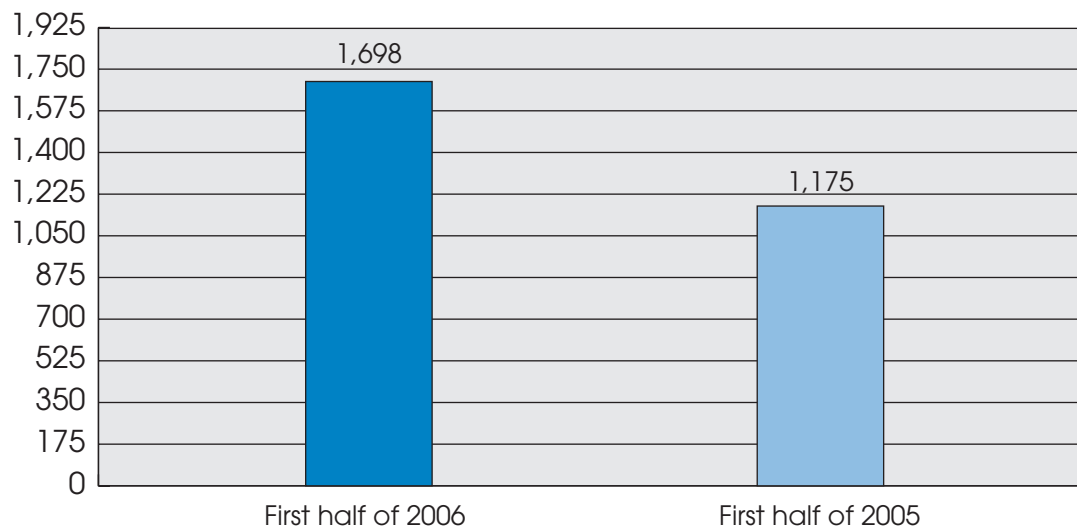
■ Automobile segment ■ Aviation segment

Turnover of Automobile Segment (RMB million)





Turnover of Aviation Segment (RMB million)



The turnover of the Group's automobile segment amounted to RMB6,274 million for the first half of 2006, which represented an increase of 12.78% when compared with that of the corresponding period in the previous year and accounted for 78.70% of the total turnover. The turnover of the Group's aviation segment amounted to RMB1,698 million, which represented an increase of 44.51% when compared with that of the corresponding period in the previous year and accounted for 21.30% of the total turnover.

As shown in the charts above, for the first half of 2006, the proportion of aviation products in the total turnover has increased by 3.86 percentage points when compared with that of the corresponding period in 2005.

### Liquidity and Financial Resources

As at 30th June 2006, the Group's net cash and cash equivalents amounted to RMB1,901 million, which represented a decrease of RMB1,041 million when compared with RMB2,942 million at the beginning of the year. Cash and cash equivalents were mainly derived from cash and bank deposits at the beginning of 2006 and funds generated from its operations during this period.

As at 30th June 2006, the Group's total borrowings amounted to RMB6,044 million, of which short-term debts amounted to RMB4,480 million, long-term borrowings due within one year amounted to RMB309 million and long-term borrowings amounted to RMB1,255 million.

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

	RMB million
Within one year	309
In the second year	456
In the third to fifth year	415
After the fifth year	384
	<hr/>
Total	1,564
	<hr/> <hr/>

As at 30th June 2006, the Group's bank borrowings amounted to RMB5,465 million with an average interest rate of 5.27% per annum, which represented an increase of RMB124 million when compared with that at the beginning of 2006; other borrowings amounted to RMB191 million with an average interest rate of 0.06% per annum, which represented an increase of RMB3 million when compared with that at the beginning of 2006; and the short-term debenture amounted to RMB388 million.

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

## CAPITAL STRUCTURE

As at 30th June 2006, the Group's borrowings were mainly denominated in Renminbi whilst cash and cash equivalents were mainly denominated in Renminbi, Hong Kong dollars, Euros and United States dollars. All the borrowings of RMB6,044 million bore a fixed interest rate.

## PLEDGE OF ASSETS

As at 30th June 2006, the Group's borrowings secured by assets amounted to RMB160 million, which represented a decrease of RMB71 million when compared with RMB231 million at the beginning of 2006. These borrowings were secured by fixed assets, such as buildings, machinery and equipment, with a book value of RMB261 million.

## GEARING RATIO

As at 30th June 2006, the Group's gearing ratio was 25.65% (as at 31st December 2005: 24.35%), which was derived by dividing the total borrowings by total assets as at 30th June 2006.

## EXCHANGE RISKS

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

### CONTINGENT LIABILITIES AND GUARANTEES

As at 30th June 2006, the Group did not provide any guarantees for any third party and had no significant contingent liabilities.

### MATERIAL ACQUISITION AND DISPOSAL

For the six months ended 30th June 2006, the Group did not have any material acquisition or disposal of subsidiaries and associated companies.

### USE OF PROCEEDS

Pursuant to the plan of application of proceeds, from the Company's date of listing to 30th June 2006, an amount of RMB895 million was invested, of which RMB700 million was invested in the research and development of new vehicle and new engine models in the automobile segment, and RMB195 million was invested in the research and development of new advanced trainer models in the aviation segment. The rest of the proceeds were put in short term deposits in banks in the People's Republic of China (the "PRC"). The Company will utilize the rest of the proceeds pursuant to the plan of use of proceeds.

### EMPLOYEES

As at 30th June 2006, the Group had 28,546 employees and staff costs totaled RMB477 million during the six months ended 30th June 2006.

Save as disclosed in this report, information relating to remuneration policies, bonuses and training plans of the Group has no significant differences with the information set out in the 2005 Annual Report of the Company.

## CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Pursuant to the Articles of Association of the Company, the term of the first Board and Supervisory Committee expired on the date when the annual general meeting of the Company for the year 2005 (the "AGM") was held, and the retired directors and supervisors of the Company may offer themselves for re-election. The directors and supervisors of the Company for the new term were re-elected/elected in the AGM held on 16th June 2006. Mr. Zhang Hongbiao, Mr. Wu Xiandong, Mr. Tan Ruisong, Mr. Liang Zhenhe, Mr. Song Jingang, Mr. Wang Bin, Mr. Chen Huaiqiu, Mr. Tian Min, Mr. Wang Yong, Mr. Maurice Savart, Mr. Guo Chongqing and Mr. Li Xianzong were re-appointed as directors for the second session of the Board. Mr. Tang Jianguo, Mr. Wang Shouxin, Mr. Li Shentian, Ms. Bai Ping, Mr. Han Xiaoyang, Mr. Li Deqing, Mr. Yu Yan, Ms. Zheng Li and Mr. Xie Zhihua were re-appointed/appointed as supervisors of the Company for the second session of the Supervisory Committee of the Company. The terms of these re-appointed/appointed directors and supervisors, as mentioned above, will be three years, commencing from the date of the AGM and terminating on the date of the annual general meeting of the Company for the year 2008.

Dr. The Hon. Li Kwok-Po, David resigned as independent non-executive director of the Company for personal reasons and the resignation had become effective since the end of the AGM.

Ms. Liu Xianping and Ms. Lu Liubao resigned as supervisors of the Company for personal reasons and their resignations had become effective since the end of the AGM.

At the Board meeting held on 16th June 2006, Mr. Zhang Hongbiao has been appointed as chairman and executive director of the Company, both of Mr. Wu Xiandong and Mr. Tan Ruisong have been appointed as vice chairmen and executive directors of the Company, Mr. Wu Xiandong has also been appointed as the general manager of the Company, Mr. Li Hui has been appointed as vice general manager of the Company, Mr. Li Yao has been appointed as vice general manager and chief financial officer of the Company, and Mr. Yan Lingxi and Mr. Ip Kun Wan, Kiril have been appointed as secretaries of the Company. All appointments mentioned above have become effective since 16th June 2006.

At the extraordinary general meeting of the Company held on 28th August 2006, Mr. Lau Chung Man, Louis has been appointed as an independent non-executive director of the Company for a term of three years, commencing from the date of such extraordinary general meeting.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as its code of securities transacted by 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 have complied with the required standards set out in the Model Code during the six months ended 30th June 2006.

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

As at 30th June 2006, interests or short positions of the directors, supervisors and chief executives of the Company in the shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which are (a) required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO; or (b) required to be recorded and kept in the register by the Company pursuant to section 352 of the SFO; or (c) required to be notified to the Company and the Stock Exchange pursuant to the Model Code (which for this purpose shall be deemed to apply to the Company's supervisors to the same extent as it applies to the directors) were as follows:

<b>Name of Company or its associated corporation</b>	<b>Name of director/ supervisor/ chief executive of the Company</b>	<b>Number and class of securities held</b>	<b>Capacity in holding interest</b>	<b>Type of interests held</b>	<b>Approximate percentage of shareholding in the same securities</b>
Harbin Dongan Auto Engine Co., Ltd.	Tan Ruisong	5,070 A Shares	Beneficial owner	Long position	0.0011%

Save as disclosed above, as at 30th June 2006, 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 by the Company under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code (which for this purpose shall be deemed to apply to the Company's supervisors to the same extent as it applies to the directors).

## SHAREHOLDING OF SUBSTANTIAL SHAREHOLDER

So far as the directors of the Company are aware, as of 30th June 2006, the persons other than a director, chief executive or supervisor of the Company who have interest or short positions in the shares or underlying shares of the Company which are discloseable under Divisions 2 and 3 of Part XV of the SFO are as follows (the interests in shares and short positions disclosed therein are in addition to those disclosed in respect of the directors, the chief executive and the supervisors of the Company):

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

## OTHER MAJOR EVENTS

The Company entered into an agreement with China Aviation Industry Corporation II (“AVIC II”) on 28th April 2006 to transfer the 51% equity interests in Beijing Wisewell Avionics Technology Co., Ltd. (“Wisewell”) to AVIC II. As each of the percentage ratios (as defined in the Listing Rules, other than the profits ratio) for the disposal was below 0.1%, the transaction was exempted from complying with the requirements under Chapter 14A of the Listing Rules relating to reporting, announcement and independent shareholders’ approval. The Company no longer holds any equity interest in Wisewell as at 30th June 2006.

Harbin Dongan Auto Engine Co., Ltd. (“Dongan Motor”), a subsidiary of the Company, entered into an agreement with Harbin Dongan Engine (Group) Co., Ltd. (“Dongan Group”) on 16th June 2006 to transfer the 27% equity interests in Beijing Fangzheng Dongan Lanthanide New Material Co., Ltd. to Dongan Group. As each of the percentage ratios (as defined in the Listing Rules, other than the profits ratio) for the disposal was more than 0.1% but below 2.5%, the transaction is only subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules. Details of this transaction have been set out in the Connected Transaction Announcement issued by the Company on 21st June 2006.

Pursuant to the rules and regulations promulgated by the relevant authorities in China, the Company has commenced the share reform on its A share subsidiaries, namely Dongan Motor, Changhe Auto, Hafei Aviation and Jiangxi Hongdu Aviation Industry Co., Ltd. (“Hongdu Aviation”) at the beginning of 2006. Please refer to the circulars of the Company dated 26th April 2006 and 12th July 2006 about the details of the share reform on the above four A share companies. As at the date of the report, Dongan Motor, Changhe Auto and Hafei Aviation have completed the share reform procedures. The share reform plan of Hongdu Aviation has been approved by the related shareholders’ meeting and the consideration offering procedure is under way which is expected to be finished in the second half of 2006. Upon completion of the share reform, the Company will hold equity interests of 59.51%, 63.22% (among which 0.83% equity interests (after the share reform) is held by Dongan Motor directly), 50.05% and 55.29% in Dongan Motor, Changhe Auto, Hafei Aviation and Hongdu Aviation respectively.

### AUDIT COMMITTEE

The Company's audit committee has been established by the Board pursuant to the Listing Rules. The terms of reference of the audit committee has also been formulated based on the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules and "A Guide for Effective Audit Committees" issued by Hong Kong Institute of Certified Public Accountants and was approved at the Board meeting held on 4th April 2006. The audit committee of the Company has reviewed the unaudited financial results for the six months ended 30th June 2006.

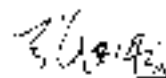
### CORPORATE GOVERNANCE

The Company has strictly complied with the applicable laws and regulations in the jurisdiction in which it is listed and its Articles of Association to standardize actions. For the six months ended 30th June 2006, the Company was in compliance with all the code provisions set out in the Code on Corporate Governance Practices set out under Appendix 14 to the Listing Rules, except the following deviation: Rule 3.10(1) of the Listing Rules prescribes that at least three independent non-executive directors should be appointed. Since Dr. The Hon. Li Kwok-Po, David had resigned from his position as an independent non-executive director of the Company with effect from 16th June 2006, the Company has temporarily failed to comply with such requirement from 16th June 2006 to 28th August 2006.

Pursuant to Rule 3.11 of the Listing Rules, the Company had convened an extraordinary general meeting on 28th August 2006 within three months since the non-compliance with Rule 3.10(1) to approve the appointment of Mr. Lau Chung Man, Louis as an independent non-executive director of the Company with effect from 28th August 2006. Thereafter, the members of the Board comprise three independent non-executive directors and the constitution of the Board is in compliance with the applicable requirement of the Listing Rules. The Board has also appointed the members and chairmen of the Audit Committee, Remuneration Committee, Aviation Business Strategic Development Committee, Automobile Business Strategic Development Committee of the Board for the second session and defined their terms of reference to fully comply with the requirements of the Code on Corporate Governance and the development of the Group.

### PURCHASE, SALE AND REDEMPTION OF SECURITIES

For the six months ended 30th June 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.



**Zhang Hongbiao**

Chairman

Beijing China, 28th August 2006

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

# Condensed Consolidated Income Statement

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

	Note	For the six months ended 30th June	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
<b>Turnover</b>	3	<b>7,971,934</b>	6,737,661
Cost of sales		<b>(6,900,212)</b>	(5,773,288)
<b>Gross profit</b>		<b>1,071,722</b>	964,373
Other income		<b>60,588</b>	42,308
Selling and distribution expenses		<b>(470,944)</b>	(362,382)
General and administrative expenses		<b>(597,891)</b>	(485,753)
<b>Operating profit</b>	4	<b>63,475</b>	158,546
Finance costs, net	5	<b>(116,244)</b>	(60,386)
Share of results of associates		<b>6,242</b>	6,176
<b>(Loss)/profit before taxation</b>		<b>(46,527)</b>	104,336
Taxation	6	<b>2,360</b>	(26,013)
<b>(Loss)/profit for the period</b>		<b>(44,167)</b>	78,323
<b>Attributable to:</b>			
Equity holders of the Company		<b>(57,793)</b>	30,157
Minority interests		<b>13,626</b>	48,166
		<b>(44,167)</b>	78,323
		<b>RMB</b>	RMB
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the period			
- Basic and diluted	8	<b>(0.01)</b>	0.01



# Condensed Consolidated Balance Sheet

AS AT 30TH JUNE 2006

	Note	30th June 2006 RMB'000 (Unaudited)	31st December 2005 RMB'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	9,018,437	8,973,078
Land use rights	9	99,765	99,314
Intangible assets	9	426,973	552,878
Interests in associates		239,131	252,863
Other non-current financial assets		115,247	115,886
Deferred tax assets		60,242	49,489
		<u>9,959,795</u>	<u>10,043,508</u>
<b>Current assets</b>			
Accounts receivable	10	2,729,345	2,929,099
Other receivables, prepayments and other current assets	11	1,807,597	1,281,930
Inventories		5,291,321	4,126,618
Contracts in progress		274,894	136,167
Other financial assets at fair value through profit or loss		39,836	41,027
Pledged deposits		327,209	405,574
Term deposits with initial term of over three months		1,232,995	805,217
Cash and cash equivalents		1,900,867	2,942,362
		<u>13,604,064</u>	<u>12,667,994</u>
<b>Total assets</b>		<u><b>23,563,859</b></u>	<u><b>22,711,502</b></u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital		4,643,609	4,643,609
Reserves		497,816	521,428
Proposed dividend		—	48,758
		<u>5,141,425</u>	<u>5,213,795</u>
<b>Minority interests</b>		<u><b>3,503,083</b></u>	<u><b>3,495,411</b></u>
<b>Total equity</b>		<u><b>8,644,508</b></u>	<u><b>8,709,206</b></u>

# Condensed Consolidated Balance Sheet

AS AT 30TH JUNE 2006

	Note	30th June 2006 RMB'000 (Unaudited)	31st December 2005 RMB'000 (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	15	1,255,500	1,032,013
Non-current portion of provisions		56,226	56,226
Deferred income from government grants		134,338	105,437
Deferred tax liabilities		27,487	49,343
		<u>1,473,551</u>	<u>1,243,019</u>
<b>Current liabilities</b>			
Trade payables	12	6,101,514	5,814,561
Other payables, accruals and other current liabilities	13	1,956,789	1,824,909
Current income tax liabilities		21,819	8,592
Payable to ultimate holding company	14	464,298	532,298
Current portion of provisions		112,420	81,636
Short-term debts	15	4,480,160	4,097,287
Current portion of long-term borrowings	15	308,800	399,994
		<u>13,445,800</u>	<u>12,759,277</u>
<b>Total liabilities</b>		<u>14,919,351</u>	<u>14,002,296</u>
<b>Total equity and liabilities</b>		<u>23,563,859</u>	<u>22,711,502</u>
<b>Net current assets/(liabilities)</b>		<u>158,264</u>	<u>(91,283)</u>
<b>Total assets less current liabilities</b>		<u>10,118,059</u>	<u>9,952,225</u>

# Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

	Attributable to equity holders of the Company					Minority	Total
	Share capital	Capital reserve	Statutory public surplus reserve	Statutory welfare fund	Retained earnings	interests	
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
For the six months ended 30th June 2006:							
As at 1st January 2006	4,643,609	74,898	95,651	79,275	320,362	3,495,411	8,709,206
(Loss)/profit for the period	—	—	—	—	(57,793)	13,626	(44,167)
Contributions from minority shareholders of subsidiaries	—	—	—	—	—	5,795	5,795
Dividend to minority shareholders of subsidiaries	—	—	—	—	—	(11,650)	(11,650)
Final dividend for 2005	—	—	—	—	(17,670)	—	(17,670)
Disposal of a subsidiary	—	—	—	—	—	(1,424)	(1,424)
Additional contribution in an associate	—	3,093	—	—	—	1,325	4,418
As at 30th June 2006	<u>4,643,609</u>	<u>77,991</u>	<u>95,651</u>	<u>79,275</u>	<u>244,899</u>	<u>3,503,083</u>	<u>8,644,508</u>
For the six months ended 30th June 2005:							
As at 1st January 2005	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
Dividend to minority shareholders of subsidiaries	—	—	—	—	—	(31,121)	(31,121)
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>

# Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

	For the six months ended 30th June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Net cash (used in)/generated from operating activities	(503,694)	347,922
Net cash used in investing activities	(1,081,463)	(853,482)
Net cash generated from financing activities	543,662	311,796
Net decrease in cash and cash equivalents	(1,041,495)	(193,764)
Cash and cash equivalents at 1st January	2,942,362	2,558,000
Cash and cash equivalents at 30th June	1,900,867	2,364,236
<b>Analysis of balances of cash and cash equivalents:</b>		
Cash and bank balances	1,900,867	2,254,236
Term deposits with initial term of less than three months	—	110,000
	1,900,867	2,364,236

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES

AviChina Industry & Technology Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on 30th April 2003 as a joint stock company with limited liability under the PRC laws as a result of a group reorganisation (the “Reorganisation”) of China Aviation Industry Corporation II (“AVIC II” or “Holding Company”) in the preparation for the listing of the Company’s shares (“H Shares”) on the Main Board of The Stock Exchange of Hong Kong Limited. The Company and its subsidiaries are collectively referred to as the “Group”. The Group is principally engaged in the research, development, manufacture and sale of automobile and aviation products.

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

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

This Condensed Financial Information should be read in conjunction with the 2005 annual financial statements.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2005, as described in the annual financial statements for the year ended 31st December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st December 2006.

IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 21 (Amendment)	Net Investment in a Foreign Operation
IAS 39 (Amendment)	The Fair Value Option
IAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 and IFRS 4 (Amendments)	Financial Guarantee Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRIC 4	Determining Whether an Arrangement Contains a Lease
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

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

The adoption of the above new standards, amendments to standards and interpretations did not have any significant financial impact to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for 2006 and have not been early adopted:

IAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC 7	Applying the Restatement Approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives

## 3 SEGMENT INFORMATION

The Group is principally engaged in the manufacture, assembly, sale and provision of maintenance services of/to automobiles and civil aviation products.

### Primary reporting format - business segments

The Group is organised into two main business segments:

- Automobiles - manufacture, assembly, sale and provision of maintenance services of/to automobiles.
- Aviation - manufacture, assembly, sale and provision of maintenance services of/to helicopters, trainers and other aviation products.

### Secondary reporting format - geographical segments

All assets and operations of the Group were located in the People's Republic of China (the "PRC"), which is considered as one geographical location in an economic environment with similar risk and returns.

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

**3 SEGMENT INFORMATION** (continued)

## Primary reporting format - business segments

	For the six months ended 30th June 2006		
	Aviation RMB'000 (Unaudited)	Automobiles RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Operating results</b>			
Turnover	1,698,163	6,273,771	7,971,934
Segment results	149,150	(129,651)	19,499
Other income			60,588
Unallocated costs			(16,612)
Operating profit			63,475
Finance costs, net			(116,244)
Share of results of associates	7,013	(771)	6,242
Loss before taxation			(46,527)
Taxation			2,360
Loss for the period			(44,167)
<b>Other segment items</b>			
Capital expenditures	100,479	403,964	504,443
Depreciation	36,450	398,993	435,443
Amortisation	844	67,449	68,293
Provisions for impairment of receivables, inventories, investments and development costs	29,290	89,940	119,230
<b>Assets</b>			
Segment assets	7,482,363	14,940,819	22,423,182
Interests in associates	157,287	81,844	239,131
Unallocated assets			901,546
Total assets			23,563,859
<b>Liabilities</b>			
Segment liabilities	4,188,984	10,215,144	14,404,128
Unallocated liabilities			515,223
Total liabilities			14,919,351

**3 SEGMENT INFORMATION** (continued)

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

	For the six months ended 30th June 2005		
	Aviation	Automobiles	Total
	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)
<b>Operating results</b>			
Turnover	1,175,302	5,562,359	6,737,661
Segment results	88,704	41,499	130,203
Other income			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 taxation			104,336
Taxation			(26,013)
Profit for the period			78,323
<b>Other segment items</b>			
Capital expenditures	186,805	1,041,414	1,228,219
Depreciation	75,729	306,781	382,510
Amortisation	310	53,392	53,702
Provisions/(reversal of provisions) for impairment of receivables and inventories	8,042	(1,285)	6,757
<b>Assets</b>			
Segment assets	7,114,388	14,400,585	21,514,973
Interests in associates	182,184	70,679	252,863
Unallocated assets			943,666
Total assets			22,711,502
<b>Liabilities</b>			
Segment liabilities	3,715,239	9,653,737	13,368,976
Unallocated liabilities			633,320
Total liabilities			14,002,296



#### 4 OPERATING PROFIT

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

	For the six months ended 30th June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amortisation		
- Intangible assets * (Note 9)	64,447	51,234
- land use rights * (Note 9)	3,846	2,468
Costs of inventories recognised as expenses	6,900,212	5,773,288
Depreciation and impairment on property, plant and equipment (Note 9)	435,443	382,510
(Gain)/loss on disposal of property, plant and equipment	(1,790)	4,670
Operating lease rentals		
- land and buildings	19,451	17,988
- plant and machinery	160	667
Provision for impairment of investments *	7,481	25,000
Provision for impairment of receivables *	52,536	17,880
Provision for impairment of development costs* (Note 9)	68,590	—
Rental income from plant and equipment	(391)	—
Repairs and maintenance expense on property, plant and equipment	7,883	7,337
Research and development expenses *	36,588	69,705
Staff costs	476,893	408,859
Warranty expenses	57,358	49,405
Interest income on bank balances and deposits	(26,424)	(22,970)
Reversal of provision for inventories	(9,377)	(11,123)
Profit on disposal of a subsidiary (note)	(21)	—
	<u>                    </u>	<u>                    </u>

\* Included in general and administrative expenses

Note:

Pursuant to an agreement entered into between AVIC II and the Company on 28th April 2006, the Company agreed to dispose of its entire 51% interest in Beijing Wisewell Avionics Technology Co., Ltd. for a consideration of RMB1,479,000 and resulting in a profit of RMB21,000.

## 5 FINANCE COSTS, NET

	For the six months ended 30th June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Interest expenses on bank loans		
- wholly repayable within 5 years	148,291	122,548
- not wholly repayable within 5 years	7,549	7,831
Interest expenses on other loans		
- wholly repayable within 5 years	—	334
- not wholly repayable within 5 years	60	61
Less: Amount capitalised in property, plant and equipment	(14,669)	(17,987)
Government interest subsidies	(41,680)	(1,680)
	<u>99,551</u>	<u>111,107</u>
Exchange loss/(gains), net	11,430	(51,904)
Bank charges	5,263	1,183
	<u>116,244</u>	<u>60,386</u>

## 6 TAXATION

	For the six months ended 30th June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
PRC current income tax	30,248	31,045
Deferred taxation	(32,608)	(5,032)
	<u>(2,360)</u>	<u>26,013</u>

The provision for PRC current income tax is calculated based on the statutory income tax rate of 33% of the assessable income of the companies within the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30th June 2006 (six months ended 30.6.2005: 33%), except for certain subsidiaries which are taxed at preferential rates ranging from 7.5% to 33% (six months ended 30.6.2005: 0% to 30%) based on the relevant PRC tax rules and regulations.

Share of taxation of associates amounting to approximately RMB1,393,000 (six months ended 30.6.2005: RMB532,000) was included in share of results of associates in the unaudited condensed consolidated income statement.

## 7 DIVIDENDS

The board of directors of the Company does not recommend the payment of an interim dividend for the period ended 30th June 2006 (six months ended 30.6.2005: Nil).

## 8 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the six months ended 30th June 2006 is based on the Group's loss attributable to equity holders of the Company of RMB(57,793,000) for the period (six months ended 30.6.2005: profit of RMB30,157,000) and the weighted average of 4,643,608,500 shares in issue during the period (six months ended 30.6.2005: 4,643,608,500 shares).

There was no dilution effect on the basic earnings per share for the six months ended 30th June 2005 and 2006 as there were no potential dilutive shares outstanding during the six months ended 30th June 2005 and 2006.

## 9 CAPITAL EXPENDITURE

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

**9 CAPITAL EXPENDITURE** (continued)

	Property, plant and equipment RMB'000 (Unaudited)	Land use rights RMB'000 (Unaudited)	Intangible assets (Note) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
<b>Cost</b>				
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)
	<u>11,621,436</u>	<u>130,315</u>	<u>759,486</u>	<u>12,511,237</u>
<b>Accumulated depreciation/amortisation and impairment</b>				
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)
	<u>3,465,298</u>	<u>23,536</u>	<u>210,772</u>	<u>3,699,606</u>
	<u>8,156,138</u>	<u>106,779</u>	<u>548,714</u>	<u>8,811,631</u>
<b>Net book value</b>				
As at 30th June 2005	<u>8,156,138</u>	<u>106,779</u>	<u>548,714</u>	<u>8,811,631</u>

Note:

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

## 10 ACCOUNTS RECEIVABLE

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Trade receivables, net (note (a))	<b>930,432</b>	792,096
Notes receivable (note (b))	<b>569,134</b>	834,979
Due from related parties (note (c))	<b>1,229,779</b>	1,302,024
	<b><u>2,729,345</u></b>	<u>2,929,099</u>

The carrying amounts of accounts receivable approximate their fair value.

(a) Trade receivables, net

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Trade receivables, gross	<b>1,112,778</b>	994,502
Less: provision for impairment of receivables	<b>(182,346)</b>	(202,406)
	<b><u>930,432</u></b>	<u>792,096</u>

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 of up to six months may be granted in respect of sales to customers with good credit history and good business relationship with the Group. Ageing analysis of trade receivables is as follows:

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Current to 6 months	<b>844,246</b>	653,924
6 months to 1 year	<b>77,131</b>	118,331
1 year to 2 years	<b>11,567</b>	48,709
2 years to 3 years	<b>40,489</b>	22,849
Over 3 years	<b>139,345</b>	150,689
	<b><u>1,112,778</u></b>	<u>994,502</u>

(b) Notes receivable represents bills of exchange with maximum maturity period of up to 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 follows:

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Trade receivables		
- Fellow subsidiaries (note (i))	1,142,032	1,116,620
- Other related parties (note (i))	182,911	165,317
	<u>1,324,943</u>	<u>1,281,937</u>
Less: provision for impairment of receivables	(98,364)	(50,313)
	<u>1,226,579</u>	1,231,624
Notes receivable		
- Fellow subsidiaries (note (ii))	3,200	70,400
	<u>1,229,779</u>	<u>1,302,024</u>

Trade and notes receivable from related parties are unsecured and non-interest bearing. The credit period granted to related parties are within six months.

Note:

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

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Current to 1 year	1,195,738	1,214,944
1 year to 2 years	111,847	39,472
2 years to 3 years	556	6,019
Over 3 years	16,802	21,502
	<u>1,324,943</u>	<u>1,281,937</u>

(ii) Notes receivable represents bills of exchange with maximum maturity period of up to six months.

## 11 OTHER RECEIVABLES, PREPAYMENTS AND OTHER CURRENT ASSETS

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Due from related parties (note)	<b>650,771</b>	698,726
Other receivables, prepayments and other current assets	<b>1,156,826</b>	583,204
	<b>1,807,597</b>	1,281,930

Note:

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

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Holding company:		
- Other advance payments (note (ii))	<b>58,832</b>	58,090
Fellow subsidiaries:		
- Advance payments for purchase of goods and raw materials (note (i))	<b>523,236</b>	368,401
- Other advance payments (note (ii))	<b>59,201</b>	35,788
	<b>582,437</b>	404,189
Other related parties:		
- Advance payments for purchase of goods and raw materials (note (i))	<b>9,417</b>	236,447
- Other advance payments (note (ii))	<b>85</b>	—
	<b>9,502</b>	236,447
	<b>650,771</b>	698,726

(i) Advance payments for purchase of goods and raw materials are trading in nature and payable in accordance with relevant agreements.

(ii) Other advance payments mainly represent current account balances with and the relevant related parties.

## 12 TRADE PAYABLES

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Trade payables (note (a))	<b>4,011,245</b>	3,476,023
Notes payable (note (b))	<b>1,199,786</b>	1,320,873
Due to related parties (note (c))	<b>890,483</b>	1,017,665
	<b><u>6,101,514</u></b>	<u>5,814,561</u>

(a) Trade payables

The credit period granted by suppliers for trade payables generally ranges from 0 to 6 months. Ageing analysis of trade payables at 30th June 2006 is as follows:

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Current to 1 year	<b>3,824,374</b>	3,270,329
1 year to 2 years	<b>110,353</b>	186,751
2 years to 3 years	<b>65,072</b>	13,544
Over 3 years	<b>11,446</b>	5,399
	<b><u>4,011,245</u></b>	<u>3,476,023</u>

(b) Notes payable represents bills of exchange with maximum maturity period of up to six months.



**12 TRADE PAYABLES** (continued)

## (c) Due to related parties

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

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Trade payables:		
- Fellow subsidiaries (note (i))	434,878	277,370
- Other related parties (note (i))	301,821	529,391
	<u>736,699</u>	<u>806,761</u>
Notes payable:		
- Fellow subsidiaries (note (ii))	152,082	210,904
- Other related parties (note (ii))	1,702	—
	<u>153,784</u>	<u>210,904</u>
	<u>890,483</u>	<u>1,017,665</u>

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:

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Current to 1 year	654,337	801,863
1 year to 2 years	82,362	4,861
2 years to 3 years	—	37
	<u>736,699</u>	<u>806,761</u>

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

## 13 OTHER PAYABLES, ACCRUALS AND OTHER CURRENT LIABILITIES

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Other payables and accruals	<b>1,485,536</b>	1,587,948
Due to related parties (note)	<b>471,253</b>	236,961
	<b><u>1,956,789</u></b>	<u>1,824,909</u>

Note:

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

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Holding company:		
- Other advance receipts (note (ii))	<b>21,027</b>	24,082
Fellow subsidiaries:		
- Deposits for sale of civil aviation products and automobiles (note (i))	<b>17,262</b>	37,777
- Payable for purchase of property, plant and equipment (note (i))	<b>40,846</b>	3,621
- Other advance receipts (note (ii))	<b>284,416</b>	130,800
	<b><u>342,524</u></b>	<u>172,198</u>
Other related parties:		
- Deposits for sale of civil aviation products and automobiles (note (i))	<b>97,796</b>	14,467
- Other advance receipts (note (ii))	<b>9,906</b>	26,214
	<b><u>107,702</u></b>	<u>40,681</u>
	<b><u>471,253</u></b>	<u>236,961</u>

(i) Deposits for sale of civil aviation products and automobiles, and payable for purchase of property, plant and equipment are incurred in ordinary course of business and settle in accordance with the relevant agreements.

(ii) Other advance receipts mainly represent current account balances with the relevant related parties.

## 14 PAYABLE TO ULTIMATE HOLDING COMPANY

Prior to the Reorganisation, the Group paid supplementary pension subsidies to its retired employees who retired prior to the Reorganisation. In addition, the Group was committed to make periodic benefits payments to certain former employees who were asked to retire early in accordance with various rationalisation programmes adopted by the Group prior to the Reorganisation. Pursuant to the Reorganisation, the Group and AVIC II agreed that, upon establishment of the Company, the Group's obligations to make these supplementary pension benefits and early retirement payments as at 30th June 2002 were assumed by AVIC II and the actual payments of these obligations will be made by AVIC II. The Group is not obliged to any further liabilities in respect of these supplementary pension benefits and early retirement payments to these former employees after 30th June 2002. The above obligations were actuarially determined by a PRC insurance company using the projected unit credit method and are repayable to AVIC II with no fixed repayment terms under the Reorganisation. In prior years, the Group settled these employee benefits obligations by installments as agreed by AVIC II. As of 31st December 2005, the directors classified the balance under current liabilities as they intended to settle these obligations fully in the next twelve months. The balance of payable to ultimate holding company is RMB464,298,000 at 30th June 2006 (31.12.2005: RMB 532,298,000).

## 15 BORROWINGS

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

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
<b>Short-term debts:</b>		
- Bank borrowings	<b>4,058,976</b>	4,097,287
- Other borrowings	<b>33,025</b>	—
- Debenture (note)	<b>388,159</b>	—
	<b>4,480,160</b>	4,097,287
<b>Current portion of long-term borrowings</b>		
- Bank borrowings	<b>308,800</b>	366,969
- Other borrowings	<b>—</b>	33,025
	<b>308,800</b>	399,994

## 15 BORROWINGS (continued)

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

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
<b>Non current portion of long-term borrowings:</b>		
- Bank borrowings	1,097,760	877,670
- Other borrowings	157,740	154,343
	<u>1,255,500</u>	<u>1,032,013</u>
<b>Total borrowings</b>	<u><u>6,044,460</u></u>	<u><u>5,529,294</u></u>
<b>Representing:</b>		
Unsecured	<u>1,847,689</u>	<u>1,382,917</u>
Secured		
- Secured over property, plant and equipment pledged	160,000	231,000
- Guarantees provided by holding company and fellow subsidiaries of the Group	763,101	643,408
- Cross guarantees among subsidiaries of the Group	3,120,670	3,118,969
- Guarantees provided by third parties	153,000	153,000
	<u>4,196,771</u>	<u>4,146,377</u>
	<u><u>6,044,460</u></u>	<u><u>5,529,294</u></u>

**15 BORROWINGS** (continued)

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

Movements in borrowings is analysed as follows:

	RMB'000 (Unaudited)
Six months ended 30th June 2006	
As at 1st January 2006	<b>5,529,294</b>
Additions of borrowings	<b>3,474,805</b>
Repayments of borrowings	<b>(2,959,639)</b>
	<hr/>
As at 30th June 2006	<b>6,044,460</b>
	<hr/> <hr/>
Six months ended 30th June 2005	
As at 1st January 2005	5,355,859
Additions of borrowings	2,664,262
Repayments of borrowings	(2,645,690)
	<hr/>
As at 30th June 2005	5,374,431
	<hr/> <hr/>

Note:

Amount represents zero-coupon debenture issued by Harbin Aviation Group on 22nd May 2006. The debenture was issued at RMB 96.68 for par value of RMB 100 (per subscription unit), unsecured and wholly repayable at par 22nd May 2007.

## 15 BORROWINGS (continued)

(b) At 30th June 2006, the Group's long-term bank borrowings and other borrowings are repayable as follows:

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Bank borrowings:		
Within one year	<b>308,800</b>	366,969
In the second year	<b>455,870</b>	535,670
In the third to fifth year	<b>270,000</b>	280,000
After the fifth year	<b>371,890</b>	62,000
	<hr/> <b>1,406,560</b>	<hr/> 1,244,639
Less: current portion	<b>(308,800)</b>	(366,969)
	<hr/> <b>1,097,760</b> <hr/>	<hr/> 877,670 <hr/>
Other borrowings:		
Within one year	—	33,025
In the third to fifth year	<b>145,673</b>	142,276
After the fifth year	<b>12,067</b>	12,067
	<hr/> <b>157,740</b>	<hr/> 187,368
Less: current portion	—	(33,025)
	<hr/> <b>157,740</b> <hr/>	<hr/> 154,343 <hr/>

**15 BORROWINGS** (continued)

- (b) At 30th June 2006, the Group's long-term bank borrowings and other borrowings are repayable as follows:  
(continued)

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Total:		
Within one year	<b>308,800</b>	399,994
In the second year	<b>455,870</b>	535,670
In the third to fifth year	<b>415,673</b>	422,276
After the fifth year	<b>383,957</b>	74,067
	<hr/> <b>1,564,300</b>	<hr/> 1,432,007
Less: current portion	<b>(308,800)</b>	(399,994)
	<hr/> <b>1,255,500</b> <hr/>	<hr/> 1,032,013 <hr/>

- (c) The repayment terms of the long-term borrowings are analysed as follows:

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Bank borrowings:		
- Wholly repayable within five years	<b>1,034,670</b>	1,182,639
- Not wholly repayable within five years	<b>371,890</b>	62,000
	<hr/> <b>1,406,560</b> <hr/>	<hr/> 1,244,639 <hr/>
Other borrowings:		
- Wholly repayable within five years	<b>145,673</b>	175,301
- Not wholly repayable within five years	<b>12,067</b>	12,067
	<hr/> <b>157,740</b> <hr/>	<hr/> 187,368 <hr/>
	<hr/> <b>1,564,300</b> <hr/>	<hr/> 1,432,007 <hr/>

## 15 BORROWINGS (continued)

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

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Renminbi	<b>5,255,284</b>	4,887,068
United States dollars	<b>463,032</b>	330,886
Euro	<b>326,144</b>	311,340
	<hr/> <b>6,044,460</b> <hr/>	<hr/> 5,529,294 <hr/>

## 16 CAPITAL COMMITMENTS

The Group has the following capital commitments not provided for as at 30th June 2006:

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Acquisition of property, plant and equipment:		
- Authorised but not contracted for	<b>117,390</b>	296,700
- Contracted but not provided for	<b>761,132</b>	521,904
	<hr/> <b>878,522</b> <hr/>	<hr/> 818,604 <hr/>
Construction commitments:		
- Authorised but not contracted for	<b>80</b>	60,000
- Contracted but not provided for	<b>38,016</b>	33,234
	<hr/> <b>38,096</b> <hr/>	<hr/> 93,234 <hr/>
Investment in jointly controlled asset:		
- Contracted but not provided for	<b>104,986</b>	107,261
	<hr/> <b>6,990</b> <hr/>	<hr/> 14,600 <hr/>
Investments in associates:		
- Contracted but not provided for	<b>6,990</b>	14,600
	<hr/> <b>1,028,594</b> <hr/>	<hr/> 1,033,699 <hr/>



## 17 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 significant related party transactions with the Group are as follows:

Related parties	Relationship with the Company
<b>Ultimate holding company</b>	
AVIC II	Ultimate holding company
<b>Fellow subsidiaries</b>	
Jiangxi Hongdu Aviation Industrial Group Corporation	a wholly-owned subsidiary of AVIC II
Changhe Aircraft Industries (Group) Ltd.	a wholly-owned subsidiary of AVIC II
Harbin DongAn Engine (Group) Co., Ltd.	a wholly-owned subsidiary of AVIC II
Harbin Aircraft Industry (Group) Co., Ltd.	a subsidiary of AVIC II
Hefei Changhe Automobile Co., Ltd.	a subsidiary of AVIC II
<b>Other related parties</b>	
China National Aero-Technology Import & Export Corporation	an associate of AVIC II
CATIC International Industry and Trade Company	an associate of AVIC II
Shenzhen Shenhong Avionics Co., Ltd.	an associate of the Group
Mitsubishi Motor Corporation	a major shareholder of Harbin Dongan Automotive Engine Manufacturing Co., Ltd.
Suzuki Motor Corporation	a major shareholder of Jiangxi Changhe Suzuki Automobile Co., Ltd.

## 17 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

Set out below is a summary of significant related party transactions during the six months ended 30th June 2006.

### 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	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
<b>Revenues:</b>		
Sale of goods and materials		
- Fellow subsidiaries	1,473,285	1,011,084
- Other related parties	102,188	227,760
- Other state-owned enterprises	747,476	667,502
Rendering of service		
- Fellow subsidiaries	36,166	55,718
	<u>          </u>	<u>          </u>

**17 SIGNIFICANT RELATED PARTY TRANSACTIONS** (continued)

Income statement items: (continued)

	<b>For the six months ended 30th June</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Expenses:</b>		
Purchase of goods and raw materials		
- Fellow subsidiaries	<b>1,106,380</b>	629,954
- Other related parties	<b>138,385</b>	259,979
- Other state-owned enterprises	<b>1,160,555</b>	736,989
Service fees payable		
- Fellow subsidiaries	<b>101,716</b>	190,246
- Other related parties	<b>14,756</b>	—
Rental expense for property, plant and equipment		
- Fellow subsidiaries	<b>20,849</b>	19,054
Key management compensation		
- Basic salaries, allowances and benefits in kind	<b>1,057</b>	1,046
	<b><u>1,057</u></b>	<u>1,046</u>

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 2006 are as follows:

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Balances with related parties included in:		
Pledged deposits		
- Other state-owned enterprises	<b>327,209</b>	405,574
Term deposits with initial term of over three months		
- Other state-owned enterprises	<b>1,137,995</b>	805,217
Cash and cash equivalents		
- Other state-owned enterprises	<b>1,871,357</b>	2,728,331
Accounts receivable		
- Fellow subsidiaries	<b>1,145,232</b>	1,187,020
- Other related parties	<b>182,911</b>	165,317
- Other state-owned enterprises	<b>107,090</b>	127,636
Other receivables, prepayments and other current assets		
- Holding company	<b>58,832</b>	58,090
- Fellow subsidiaries	<b>603,123</b>	404,189
- Other related parties	<b>9,502</b>	236,447
- Other state-owned enterprises	<b>124,512</b>	144,176
Bank borrowings		
- Other state-owned enterprises	<b>4,493,704</b>	3,844,319
Trade payables		
- Fellow subsidiaries	<b>586,960</b>	488,274
- Other related parties	<b>303,523</b>	529,391
- Other state-owned enterprises	<b>493,355</b>	1,040,048
Other payables, accruals and other current liabilities		
- Holding company	<b>21,027</b>	24,082
- Fellow subsidiaries	<b>342,524</b>	172,198
- Other related parties	<b>107,702</b>	40,681
- Other state-owned enterprises	<b>508,221</b>	169,554
Payable to ultimate holding company	<b>464,298</b>	532,298

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

Other receivables from related parties, other payables to related parties and payable to ultimate holding company have repayment terms as disclosed in Note 10, Note 12 and Note 13 respectively.

	<b>30th June 2006 RMB'000 (Unaudited)</b>	31st December 2005 RMB'000 (Audited)
Others:		
Guarantees obtained from		
- Holding company	<b>289,890</b>	80,000
- Fellow subsidiaries	<b>473,211</b>	563,408
	<u><u>          </u></u>	<u><u>          </u></u>

In addition, certain of the Group's property, plant and equipment with carrying value of approximately RMB1,105,312,000 at 30th June 2006 (31.12.2005: RMB1,036,780,000) 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.

**19 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

The share reform of the Group's subsidiaries listed in The Shanghai Stock Exchange, including Dongan Motor, Changhe Auto and Hafei Aviation, has been completed on 5th July 2006, 9th August 2006 and 24th August 2006 respectively. The share reform scheme of Hongdu Aviation has also been approved at a related shareholders' meeting held on 31st July 2006. Effect of these share reform schemes will be announced upon completion of all necessary procedures of the share reform schemes, including procedures as required by The Shanghai Stock Exchange, and approval at the Board meeting of the Company. Financial effects of these share reform schemes will be reflected in the annual financial statements for 2006.

**BOARD OF DIRECTORS**

Chairman	Zhang Hongbiao
Vice Chairman	Wu Xiandong Tan Ruisong
Directors	Liang Zhenhe Song Jingang Wang Bin Chen Huaqiu Tian Min Wang Yong Maurice Savart Guo Chongqing* Li Xianzong* Dr. The Hon. Li Kwok-Po, David* (resigned on 16th June 2006) Lau Chung Man, Louis* (appointed on 28th August 2006)

\* Independent Non-executive Directors

**SENIOR MANAGEMENT**

President	Wu Xiandong
Vice President	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	
AviChina Industry & Technology Company Limited	
Abbreviation name in Chinese:	中航科工
Abbreviation name in English:	AVICHINA
Legal representative:	Zhang Hongbiao

**PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

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**AUTHORISED REPRESENTATIVE**

Wu Xiandong  
Yan Lingxi

**PRINCIPAL BANKERS**

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Bank of China  
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China Construction Bank  
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Shanghai Pudong Development Bank Ltd.  
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Shanghai, the PRC

**PLACE OF LISTING, STOCK NAME AND STOCK CODE**

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

**REGISTERED ADDRESS**

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#### Auditors in the PRC

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