中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

Annual Results Announcement for the year ended 31 December 2003

Financial Highlights

- Turnover increased significantly by 33.22% to RMB15,065,942,000 (2002: RMB11,309,391,000)
- Gross profit increased by 9.40% to RMB2,651,682,000 (2002: RMB2,423,923,000)
- Profit for the year increased by 13.95% to RMB452,074,000 (2002: RMB396,715,000)
- Proposed final dividend of RMB 0.0105 per share
- Basic and diluted earnings per share were RMB0.134 (2002: RMB0.13)

The board of directors of AviChina Industry & Technology Company Limited (the "Company") are pleased to announce that the audited turnover of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2003 amounted to RMB15,065,942,000 representing an increase of RMB3,756,551,000 over that of 2002. Profit for the year amounted to RMB452,074,000, representing an increase of RMB55,359,000 over that of 2002. Comparison between figures in 2003 and 2002 is as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2003

	Note	2003	2002
		RMB'000	*RMB'000*
Turnover	3	15,065,942	11,309,391
Cost of sales		(12,414,260)	(8,885,468)
Gross profit		2,651,682	2,423,923
Other revenues	4	85,477	51,638
Selling and distribution expenses		(830,915)	(692,411)
General and administrative expenses		(949,729)	(939,787)
Other operating income		31,901	—
Operating profit	5	988,416	843,363
Finance costs, net	6	(209,873)	(139,058)
Share of results of associates before taxation		(13,811)	2,906
Profit before taxation		764,732	707,211
Taxation	7	(60,830)	(124,597)
		703,902	582,614
Minority interests		(251,828)	(185,899)
Profit for the year		452,074	396,715
Dividends/Profit distributions	8	(123,580)	(216,539)
Earnings per share	9	RMB 0.134	RMB 0.13

CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER 2003

	2003	2002
	RMB'000	*RMB'000*
ASSETS		
Non-current assets		
Property, plant and equipment	6,644,431	6,217,412
Land use rights	91,084	95,391
Intangible assets	516,781	293,618
Investments in associates	166,059	82,680
Non-current investments	132,868	69,448
Deferred tax assets	99,918	68,927
	7,651,141	6,827,476
Current assets		
Accounts receivable	2,806,282	2,097,653
Other receivables, prepayments and other current assets	1,060,941	959,641
Inventories	3,808,830	3,298,668
Contracts in progress	21,994	88,812
Designated deposits	80,000	80,000
Trading investments	219,012	—
Pledged deposits	153,763	200,835
Term deposits with initial term of over three months	2,415,255	667,704
Cash and cash equivalents	2,584,019	2,472,910
	13,150,096	9,866,223
Total assets	20,801,237	16,693,699
Current liabilities		
Trade payables	4,586,909	3,951,885
Other payables, accruals and other current liabilities	1,943,314	1,884,744
Current tax liabilities	12,039	24,034
Current portion of long-term payable to ultimate holding company	40,946	—
Current portion of provisions	90,536	101,103
Short-term borrowings	3,784,091	2,688,686
Current portion of non-current borrowings	199,725	533,877
	10,657,560	9,184,329
Net current assets	2,492,536	681,894
Total assets less current liabilities	10,143,677	7,509,370
Financed by:		
Share capital	4,643,609	3,116,519
Reserves	380,675	(496,052)
Proposed final dividend	48,758	—
Shareholders' equity	5,073,042	2,620,467
Non-current liabilities		
Borrowings	1,385,942	1,420,415
Long-term payable to ultimate holding company	573,244	—
Non-current portion of provisions	56,226	629,470
Deferred income from government grants	45,138	56,389
Deferred tax liabilities	63,961	37,705
	2,124,511	2,143,979
Minority interests	2,946,124	2,744,924
Total shareholders' equity, non-current liabilities and minority interests	10,143,677	7,509,370

NOTES:

1 **Group reorganisation and principal activities**

The Company was established in the People's Republic of China ("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") in the preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

In accordance with the reorganisation agreement entered into among the Company, AVIC II, 中國華融資產管理公司 ("China Hua Rong Asset Management Corporation" or "Hua Rong"), 中國信達資產管理公司 ("China Cinda Asset Management Corporation" or "Cinda") and 中國東方資產管理公司 ("China Orient Asset Management Corporation" or "Orient") effective as of 30th April 2003, the Company issued 2,981,388,500 shares of RMB1.00 per share to AVIC II in exchange for various assets and liabilities relating to the manufacture, assembly, sales and servicing of automobiles, helicopters, jet trainers and aircraft, transferred to the Company by AVIC II. In addition, 104,620,000 shares, 15,470,000 shares and 15,040,000 shares, all of RMB 1.00 each, were issued to Hua Rong, Cinda and Orient (collectively the "Asset Management Companies") respectively for the transfer of their equity interests of 14.61%, 2.16% and 2.1% in Harbin Aircraft Industry Group, Ltd ("Hafei Industry Company") to the Company respectively.

The aggregate number of shares issued in this connection amounting to 3,116,518,500 shares were the initial registered capital of the Company with a par value of RMB1.00 per share (collectively the "Domestic Shares"). Shareholder's rights are governed by the PRC Company Law, which requires an increase in registered capital to be approved by shareholders in general meeting and the relevant PRC government and regulatory authorities.

Pursuant to the Reorganisation, AVIC II transferred to the Company certain of its assets, liabilities and interests in the PRC related to (i) the development, manufacture and sales of mini-sized vehicles, economy sedan, and auto motors engines, (ii) the development, manufacture, sales and modification of civilian aircraft, helicopters and related aviation products, (iii) a helicopter research institute, and (iv) an electrical aviation products development company (collectively the "Transferred Businesses").

During the year, the Company completed its initial public offering and placing of 1,679,800,500 H Shares which comprised 1,527,090,000 new shares issued by the Company and 152,710,500 shares offered by AVIC II and the Asset Management Companies. As a result, the issued share capital of the Company increased from 3,116,518,500 shares to 4,643,608,500 shares, comprising 2,963,808,000 Domestic Shares and 1,679,800,500 H Shares, representing 63.83% and 36.17% of the issued capital respectively.

2 **Basis of preparation**

As AVIC II controlled the Transferred Businesses before the Reorganisation and continues to control the Company after the Reorganisation, the consolidated financial statements of the Group for the years ended 31st December 2002 and 2003 have been prepared as a reorganisation of business under common control in a manner similar to a uniting of interests. Accordingly, the assets and liabilities transferred to the Company have been stated at historical amounts.

The consolidated financial statements of the Group for the years ended 31st December 2002 and 2003 present the consolidated results and the state of affairs of the Group as if the Group had been in existence throughout the period and as if the Transferred Businesses were transferred to the Company by AVIC II at 1st January 2002 or when such businesses were acquired by AVIC II, whichever is later. The Company's directors are of the opinion that the consolidated financial statements prepared on this basis present fairly the consolidated financial position, consolidated results and consolidated cash flows of the Group as a whole. Therefore, the net profit for the year ended 31st December 2003 includes the consolidated results before the Reorganisation.

As set out in Note 1, the Group increased its interests in the assets and liabilities in Hafei Industry Company previously owned by the Asset Management Companies from 81.13% to 100% with effect from 30th April 2003. Accordingly, the minority interests in Hafei Industry Company have been recognised in the consolidated profit and loss account and consolidated cash flow statements from 1st January 2002 up to 30th April 2003, and in the consolidated balance sheet as of 31st December 2002.

The financial statements include the historical costs of operations relating to the Transferred Businesses. Expenses that could be specifically identified include the following:

- purchases of goods and services;
- staff costs (excluding those attributable directly to administration staff);
- depreciation (excluding those attributable directly to property, plant and equipment used for general and administrative functions);
- selling and distribution expenses;
- research and development costs;
- taxes other than income taxes; and
- finance costs

Costs for which a specific identification method was not practical include only general and administrative expenses, which are allocated to the Group by AVIC II based on the average of the percentages of the respective historical number of employees, assets and turnover of the Transferred Businesses to the total historical number of employees, assets and turnover of AVIC II.

As the Company was only established on 30th April 2003, there are no comparative figures in the Company's balance sheet as at 31st December 2002.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

3 **Turnover and segment information**

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

(a) **Primary reporting format — business segments**

	2003 Aviation	2003 Automobiles	2003 Total
	RMB'000	*RMB'000*	*RMB'000*
Operating results			
Turnover	2,585,125	12,480,817	15,065,942
Segment results	280,523	597,212	877,735
Other revenues			85,477
Other operating income			31,901
Unallocated costs			(6,697)
Operating profit			988,416
Finance costs, net			(209,873)
Share of results of associates before taxation	(6,888)	(6,923)	(13,811)
Profit before taxation			764,732
Taxation			(60,830)
			703,902
Minority interests			(251,828)
Profit for the year			452,074

	2002 Aviation	2002 Automobiles	2002 Total
	RMB'000	*RMB'000*	*RMB'000*
Operating results			
Turnover	1,890,951	9,418,440	11,309,391
Segment results	220,340	606,578	826,918
Other revenues			51,638
Unallocated costs			(35,193)
Operating profit			843,363
Finance costs, net			(139,058)
Share of results of associates before taxation	(270)	3,176	2,906
Profit before taxation			707,211
Taxation			(124,597)
			582,614
Minority interests			(185,899)
Profit for the year			396,715

(b) **Secondary reporting format - geographical segments**

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.

4 **Other revenues**

	2003	2002
	RMB'000	*RMB'000*
Sales of scrap materials	19,173	9,762
Income from investments and designated deposits	18,935	18,006
Amortisation of government grants	15,046	—
Discretionary value-added tax and real estate tax refund	14,287	7,437
Technical consultancy services	14,266	9,175
Rental income from plant and equipment	3,770	7,258
	85,477	51,638

5 **Operating profit**

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

	2003	2002
	RMB'000	*RMB'000*
Auditors' remuneration	5,615	1,578
Amortisation of land use rights (included in "Administrative expenses")	4,307	3,224
Amortisation of intangible assets		
- electricity use rights (included in "Administrative expenses")	1,259	1,259
- development costs (included in "Administrative expenses")	33,058	15,782
Costs of inventories recognised as expenses included in cost of sales (note)	12,414,260	8,885,468
Depreciation on property, plant and equipment	662,595	443,009
Gain on disposal of subsidiaries	(31,901)	—
Loss on disposal of property, plant and equipment	7,920	2,327
Operating lease rentals in respect of		
- land and buildings	57,035	60,380
- plant and machinery	1,967	3,570
Provision for impairment of property, plant and equipment (included in "Administrative expenses")	—	4,152
Provision for impairment of receivables	75,920	31,429
Repairs and maintenance expense on property, plant and equipment	15,140	15,028
Research and development expense	63,225	105,357
Staff costs	903,410	855,923
Warranty expense	104,527	70,654
Write-down of inventories to net realisable value	39,672	18,602

Note:

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

6 **Finance costs, net**

	2003 RMB'000	2002 RMB'000
Interest expense on bank loans and overdrafts		
- wholly repayable within 5 years	243,081	240,649
- not wholly repayable within 5 years	2,880	2,880
Interest expense on other loans		
- wholly repayable within 5 years	782	890
- not wholly repayable within 5 years	121	121
Less: amount capitalised in property, plant and equipment	(33,477)	(42,306)
Less: government interest subsidies	(23,618)	(17,880)
	189,769	184,354
Interest income on bank balances and deposits	(41,382)	(43,277)
Exchange losses/(gains), net	54,722	(3,420)
Bank charges	6,764	1,401
	209,873	139,058

7 **Taxation**

	2003 RMB'000	2002 RMB'000
PRC current income tax	64,761	120,788
Deferred taxation	(4,735)	2,796
Share of taxation attributable to associates	804	1,013
	60,830	124,597

The provision for PRC current income tax is calculated based on the statutory income tax rate of 33% of the assessable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year (2002: 33%), except for certain subsidiaries or associates which are taxed at preferential rates ranging from 0% to 30% (2002: 0% to 30%) based on the relevant PRC tax rules and regulations.

8 **Dividends/Profit distributions**

	2003 RMB'000	2002 RMB'000
Profit distributions *(note (i))*	67,697	216,539
Special dividend *(note (ii))*	7,125	—
Final dividend, proposed of RMB0.0105 per share *(note (iii))*	48,758	—
	123,580	216,539

(i) The profit distributions disclosed during the years ended 31st December 2002 and 2003 represent profit distributions and dividends declared by the relevant subsidiaries of the Group to their then owners or shareholders prior to the completion of the Reorganisation of the Group, after setting aside a required percentage of their net profits to the relevant statutory reserves in accordance with the rules and regulations applicable in the PRC and the Articles of Association of the relevant subsidiaries.

The rates of dividend and the number of shares ranking for dividends are not presented for those profit distributions as such information is not meaningful.

(ii) Pursuant to the Reorganisation, the Company agreed to distribute a special dividend to AVIC II immediately after its establishment, which represents the undistributed profit of the Group for the period from 1st July 2002 to 30th April 2003, as determined in accordance with the PRC GAAP, amounting to approximately RMB7,125,000.

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

9 **Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB452,074,000 (2002: RMB396,715,000) and based on the weighted average of 3,377,707,623 (2002: 3,116,518,500) shares in issue during the year.

There was no dilution effect on the basic earnings per share for the years ended 31st December 2002 and 2003 as there were no dilutive shares outstanding during the years ended 31st December 2002 and 2003.

10 **Appropriation of reserves**

(a) **Statutory surplus reserve**

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

(b) **Statutory public welfare fund**

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

(c) For the year ended 31st December 2003, the Board of Directors proposed to allocate 10% and 5% of profit after taxation respectively determined under PRC GAAP (amounting to RMB16,259,000 and RMB8,129,000 respectively) to statutory surplus reserve and statutory public welfare fund.

(d) Subsequent to the Reorganisation, in accordance with the relevant PRC regulations and Articles of Association of the Company, retained profits available for distribution by the Company will be deemed to be the lower of the amounts determined in accordance with the PRC GAAP and the amount determined in accordance with IFRS. As at 31st December 2003, the amount of retained profits available for distribution was approximately RMB135,970,000, being the amount determined in accordance with the PRC GAAP.

Management Discussion and Analysis of Financial Position and Operating Results

Overview

For the year ended 31 December 2003, the Group recorded profit before taxation of RMB765 million, representing an increase of 8.20% over that of 2002. Whilst profit for the year amounted to RMB452 million, representing an increase of 13.85% over that of 2002. The increase in profit for the year was mainly attributable to increase in revenue generated from the Group's principal operations of 33.22% over that of the previous year.

For the year ended 31 December 2003, basic and diluted earnings per share were RMB0.134.

Consolidated Operating Results

1. **Turnover**

The Group's turnover for 2003 increased by 33.22% from RMB11,309 million to RMB15,066 million. The increase was mainly attributable to the increase in sales volume of economy sedans and trainers during the year.

The Group was mainly operating in the PRC where a majority of the turnover was generated therefrom.

2. **Selling and distribution expenses**

Selling and distribution expenses for 2003 amounted to RMB831 million, representing an increase of RMB139 million (20.09%) over that of 2002, of which:

(1) Vehicle transportation expenses increased by RMB98 million, which was mainly attributable to the change from open wagons in the past to the current sealed trucks in respect of transportation means.

(2) Sales commission increased by RMB31 million, which was mainly attributable to the increase in sales of vehicles.

3. **Administrative expenses**

The Group's administrative expenses for 2003 amounted to RMB950 million which was relatively stable as compared to that of 2002.

4. **Operating profit**

The Group's operating profit for 2003 amounted to RMB988 million, representing an increase of RMB145 million (17.20%) over that of 2002. The increase was primarily due to increase in turnover.

5. **Finance costs, net**

The Group's net finance cost amounted to RMB210 million, representing an increase of RMB71 million (51.08%) over that of 2002, among which exchange losses increased by RMB58 million. This was mainly because the Group borrowed certain bank borrowings denominated in foreign currencies which incurred exchange losses as a result of exchange rate fluctuations in the second half year of 2003.

6. **Taxation**

The Group's income tax for the year decreased by 51.20% from RMB125 million in 2002 to RMB61 million. The decrease was mainly because (1) certain subsidiaries of the Group were granted preferential income tax treatment as they are high-tech companies located in state economic and technological development zones; and (2) there was an increase in the Group's investment in domestically produced equipment in 2003 which entitled the Group to certain tax deduction pursuant to relevant regulations.

7. **Minority interests**

The Group's minority interests for the year increased by 35.48% from RMB186 million in 2002 to RMB252 million, which was mainly attributable to the increase in profit of certain non-wholly-owned subsidiaries during the year.

Analysis by business segment

The Group's principal operations are divided into two segments, namely the automobile segment and the aviation segment.

Revenue from the Automobile Segment

The Group's sales of automobile products for 2003 amounted to RMB12,481 million, of which the sales of vehicles amounted to RMB10,700 million, representing an increase of RMB1,680 million over that of 2002. The increase was mainly attributable to the strong increase in sales volume of economy sedans of higher unit selling prices. As such, the sales revenue of vehicles for 2003 increased by 18.6% even though the total sales volume remained stable.

The majority of vehicle engines produced by the Group was used for the own-produced vehicles. Total production volume of vehicle engines for 2003 amounted to 426,000 units, of which 90,300 units were sold to external manufacturers. Since the Group began to focus on developing external markets of its vehicle engines in 2003, external sales of vehicle engines for 2003 increased by 238.70% from RMB385 million in 2002 to RMB1,304 million.

Cost of Sales of the Automobile Segment

Cost of sales of the Group's automobile products for 2003 amounted to RMB10,354 million, of which cost of sales of vehicles increased to RMB8,874 million from RMB7,101 million in 2002. The increase was mainly attributable to such factors as increase in sales of economy sedans, increase in vehicle accessories according to demand and increase in purchase price of raw materials etc.

Cost of sales of the Group's vehicle engines for 2003 increased to RMB1,065 million from RMB330 million in 2002. The increase was mainly attributable to (1) increase in sales volume; (2) the higher unit prices of most of the engines sold in 2003 as most of them being electronic fuel injection engines with advanced technology and less pollution which bear higher unit cost than carburetors sold in previous years.

Gross Margin of the Automobile Segment

Gross margin of the Group's automobile products for 2003 was 17.04%, representing a decrease of approximately 4 percentage points over that of 2002. The decrease was mainly attributable to the appropriate price adjustment made by the Group to its mini-vans and mini-trucks in view of price competition from its competitors, as well as price increase in raw materials and spare parts. Although the Group adopted certain measures to lower its costs, cost of sales per unit of mini-vans and mini-trucks still increased which was mainly due to the use of electronic fuel injection engines of higher costs. In spite of this, gross margin of the Group's economy sedans increased by approximately 2 percentage points over that of 2002, was mainly attributable to increase in use of domestic raw materials and spare parts as well as increase in sales volumes.

Gross margin of the Group's vehicle engines for 2003 was 18.33%, representing an increase of approximately 4 percentage points over that of 2002. The increase was mainly attributable to the economies of scale resulting from increase in production volume and sales of engines in 2003.

Revenue from the Aviation Segment

The Group's sales of aviation products for 2003 amounted to RMB2,585 million, representing an increase of RMB694 million (36.70%) over that of 2002. Sales of aircraft amounted to RMB1,484 million, representing an increase of RMB360 million (32.03%) when compared with RMB1,124 million of 2002.

Sales of aviation parts and components amounted to RMB959 million, representing an increase of RMB296 million (44.65%) over that of 2002.

Cost of Sales of the Aviation Segment

Cost of sales of the Group's aviation products for 2003 increased by RMB619 million from 2002 to RMB2,060 million, representing an increase of 42.96%. The increase was mainly attributable to (1) increase in sales volume and hence the cost of sales; (2) increase in unit cost led by the price increase in domestic-procured raw materials; (3) price increase in imported spare parts.

Gross Margin of the Aviation Segment

Gross margin of the Group's aviation products for 2003 was 20.31%, representing a decrease of approximately 3.5 percentage points over that of 2002. The decrease was mainly attributable to price increase in domestic-procured raw materials and imported spare parts.

Cash Flow:

1. **Liquidity and capital resources**

As at 31 December 2003, the Group's cash and cash equivalents amounted to RMB2,584 million which was mainly derived from the followings:

- cash and bank deposits at the beginning of the year;
- proceeds generated from the public listing of the Company's shares;
- funds generated from its operations;
- new bank borrowings;

The Group's cash flows for the year ended 31 December 2003 and 2002 were as follows:

Unit: RMB million

	2003	2002	Fluctuation (amount)	Fluctuation (percentage)
Net cash flows generated from operating activities	604	1,404	(800)	(56.98%)
Net cash flows used in investing activities	(3,638)	(2,375)	(1,263)	53.18%
Net cash flows generated from financing activities	3,145	283	2,862	1,011.31%
Increase/(decrease) in cash and cash equivalents	111	(688)	799	(116.13%)

2. **Operating Activities**

Net cash flows generated from operating activities for the year amounted to RMB604 million, representing a decrease of RMB800 million over that of 2002. The decrease was mainly attributable to the increase in procurement activities with the increment in inventories up by RMB483 million over the same of 2002 whilst the increment in account payables was down by RMB334 million over the same of 2002.

3. **Investing Activities**

Net cash flows used in investing activities for the year amounted to RMB3,638 million, representing an increase of RMB1,263 million over that of 2002. The increase was a combined effect of the follows: (1) term deposits with an initial term of over three months was up by RMB1,706 million over the same in 2002 as a result of proceeds received from listing placed in term deposits; (2) increase in trading investment by RMB219 million over the same in 2002; (3) decrease in purchase of property, plant and equipment by RMB868 million over the same in 2002.

4. **Financing Activities**

Net cash flows generated from financing activities for the year amounted to RMB3,145 million, representing an increase of RMB2,862 million over that of 2002. The increase was mainly due to proceeds from listing of the Company amounted to RMB2,167 million, net cash generated from issuance of additional shares by a subsidiary amounted to RMB241 million and borrowings increased by RMB727 million.

As at 31 December 2003, the Group's total borrowings amounted to RMB5,370 million, of which current borrowings, non-current borrowings due within one year and non-current borrowings due over one year amounted to RMB3,784 million, RMB200 million and RMB1,386 million respectively.

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

Maturity	RMB million
Within one year	200
In the first to second years	714
In the second to fifth years	660
After the fifth year	12
Total	1,586

As at 31 December 2003, the Group's bank borrowings amounted to RMB5,321 million with an average interest rate of 4.65%, representing 99.09% of the total borrowings. Other borrowings amounted to RMB49 million with an average interest rate of 1.85%, representing 0.91% of the total borrowings.

As at 31 December 2003, the Group's borrowings denominated in foreign currencies amounted to RMB938 million, representing 17.5% of the total borrowings. As at 31 December 2003, borrowings denominated in United States dollars, Euro and Japanese Yen amounted to US$33 million, Euro 33 million and Yen 4,234 million respectively.

Gearing Ratio

As at 31 December 2003, the Group's gearing ratio was 26% (2002: 28%), which was arrived at by dividing the total borrowings by total assets as at 31 December 2003.

Contingent Liabilities and Guarantees

As at 31 December 2003, the Group has not provided any guarantees for third party and has no significant contingent liabilities.

Guaranteed and Secured loans

As at 31 December 2003, the Group's bank borrowings amounted to RMB5,158 million and which includes:

Secured loans amounted to RMB410 million which were secured by buildings, machinery and equipment with a net book value of RMB401 million.

Guaranteed borrowings amounted to RMB4,275 million, among which RMB2,679 million was cross guaranteed among the subsidiaries of the Group and RMB1,369 million was guaranteed by AVIC II and its subsidiaries. Guarantees provided by AVIC II and its subsidiaries are under the process of release pursuant to the undertakings made by the Company on its listing.

Exchange Risks

The Group had a substantial amount of loans denominated in Euro, United States dollars and Japanese Yen due to its operating needs. The Group incurred exchange losses of approximately RMB54.72 million in 2003 due to the significant appreciation of value in Euro and Japanese Yen against Renminbi during the year. Since a substantial amount of Hong Kong dollars was raised from the public offering of the Company's shares, fluctuation of exchange rate between Hong Kong dollars and Renminbi has brought about exchange risks to the Group. The Group is adopting effective measures to minimise the risks.

New Issue and Capital Structure

In 2003, the Company issued a total of 1,527,090,000 H shares (including shares issued under the over-allotment option) pursuant to the global offering. Meanwhile, AVIC II and other three promoters sold an aggregate of 152,710,500 shares (including shares sold under the over-allotment option) in the Company. Upon the issue and sale, 1,679,800,500 shares are held by the public, representing 36.17% of the Company's total share capital. Net proceeds of the public offering, after deducting the intermediary fees and relevant fees amounting to RMB1,870 million will be utilised as the Company's capital expenditure and investment as planned.

As at 31 December 2003, the Company had 4,643,608,500 shares in issue, fully paid or credited as fully paid, of RMB1.00 each. The Company's capital structure as at 31 December 2003 was as follows:

Class of shares	Number of shares as at 31 December 2003	Percentage of total number of shares in issue as at 31 December 2003 (%)
Domestic shares	2,963,808,000	63.83
Overseas listed foreign invested shares (H shares)	1,679,800,500	36.17
Total	4,643,608,500	100

Alteration of the Company's share capital during the year was as follows:

1. Upon its establishment on 30 April 2003, the Company's registered capital was RMB3,116,518,500, divided into 3,116,518,500 domestic shares of RMB1.00 each.

2. Immediately after the global offering in October 2003 (taking into account of the over-allotment option), the Company's registered capital has been increased to RMB4,643,608,500, divided into 2,963,808,000 domestic shares and 1,679,800,500 H shares.

Use of Proceeds

Since the Company has been listed for a relatively short period of time, proceeds of the global offering have not been utilised. Currently, net proceeds (after deducting the intermediary fees and relevant fees) amounting to RMB1,870 million, are placed in time deposits in banks in the PRC. The Company will utilise the proceeds to expand the Group's production capability in vehicles and vehicle engines and develop new models of vehicles, improve and upgrade helicopters and develop new models of helicopters, improve and upgrade trainers, general purpose aeroplanes and research and develop new models of traniers, develop regional jets, establish a new vehicle and helicopter R&D center etc.

Employees of the Group

As at 31 December 2003, the Group had 33,293 employees.

Employees analysed by functions

	Number of employees	Percentage to total employees (%)
Vehicles and engines	16,793	50.44%
Civil aviation	14,084	42.30%
Other activities	2,416	7.26%
Total:	33,293	100%

For the year ended 31 December 2003, staff costs of RMB903 million in aggregate were incurred by the Group for its employees.

Remuneration Scheme

The Group's remuneration system is determined by the remuneration committee under the board of directors based on fair and reasonable principles which are similar to those available in the market. Remuneration of employees comprises of basic salary, contribution to a housing fund, contributions to pension plans and benefits in kind. The Group will also, in its discretion, pay year-end bonus to employees according to their respective performance. Certain of the Company's directors and senior management and subsidiaries' senior management are also entitled to an interim performance incentive programme and a share appreciation rights plan. Certain core technicians of the Company and certain supervisors and department heads of the Company's headquarter are also entitled to the share appreciation rights plan.

Market Review

The PRC economic growth maintained at a fast pace in 2003 with its gross domestic product (the "GDP") growth rate of 9.1 % when compared with that of 2002. The growth of the civil aviation manufacturing industry also kept pace with the GDP whereas the automobile industry has grown at a rate of more than 30% for two successive years. In particular, the automobile market developed more rapidly. The rapid growth of sales of vehicles in the PRC in 2002 continued in 2003. Leveraging on the strong growth of the economy, the steady increase in personal income and the decrease of selling prices, sedans achieved the swiftest growth within the PRC automobile industry in 2003. Capitalising on the continuous launch of new products, economy sedans priced at less than RMB100,000 became the most active and popular segment in the sedan market, although price competition in this segment was rather intense.

Affected by the outbreak of SARS and the safety regulation relating to vehicle frontal crash, the PRC mini-van market was sluggish in 2003 with an aggregate of 695,400 units of mini-vans sold, representing only a slight increase of 10.12% over that of the previous year. The sales of mini-trucks decreased to 137,200 units in total, representing a decrease of 6.19% when compared with that of the previous year.

Benefiting from the favourable macro economy, the Group's two principal activities, namely the automobile business and the aviation business, have achieved a relatively significant growth during the year.

Review on the Group's Automobile Business in 2003

In face of intense market competition, the Group has adopted a strategy in respect of product structure adjustment with more resources allocated to the economy sedan market which grew more rapidly. During 2003, two new models of sedans, namely "Hafei Lobo" and "Changhe Ideal" were launched. The Group has transformed from an entity principally engaged in the production of mini-vans and mini-trucks to one involved in the production of economy sedans, mini-vans and mini-trucks.

In 2003, the Group sold a total of 327,000 units of vehicles and produced a total of 426,000 units of vehicle engines. Of the vehicle engines, 90,300 units were sold to outside manufacturers, and the rest of them were used internally.

Review on the Group's Aviation Product Business in 2003

During 2003, the Group has spared no effort in improving and upgrading its aviation products and developing new models. Better results were achieved in respect of development of new models. The ERJ145 turbofan regional jet jointly assembled by the Group and Embraer-Empresa Brasileira de Aeronautica S.A. successfully had its first flight in Harbin, the PRC in 2003. The H425 helicopter developed by the Group also successfully had its first flight. It is the domestically developed civil helicopter which is equipped with the most advanced technology to date. Its performance is up to the international standard. In addition, the upgraded Z-11 had its first flight successfully and an airworthiness certificate was issued by the PRC airworthiness authority. The successful first flights of the two models of helicopters aforesaid have provided more choices in respect of helicopter models in the civil helicopter market. The Group is now jointly developing a new model of trainer for export.

Market Prospect

Prospect of Automobile Market

We expect that the PRC automobile industry will continue to grow in 2004. According to a preliminary forecast made by the China Association of Automobile Industry (中國汽車工業協會), the total output of vehicles will be 5,100,000 to 5,340,000 units, among which trucks, vans and sedans will account for 1,310,000 to 1,370,000 units, 1,290,000 to 1,350,000 units and 2,500,000 to 2,620,000 units respectively. In view of the continuous development of new models, competition in the middle-end and high-end sedan market will be even more intense in 2004. Meanwhile, the competition between economy sedans with lower prices and cost of usage will also be more intense. One of the noticeable characteristics of competition in the current automobile industry is the shift from price competition solely to comprehensive competition which involves recognition of brand names, rate of launching new models, quality of after-sales services and strength in procurement and sales network. In 2004, the State will strongly promote the structural adjustment and reorganisation of the automobile industry through the implementation of industrial policies. The State will enhance the difficulty in entering the industry by standardising investment. As such, automobile manufacturers with research and development expertise and scale production capability will benefit from the State's policies relating to the automobile industry.

Following the implementation of mandatory regulations by the State such as rules relating to environmental protection, road safety and China Compulsory Certification, and the lowering of import tariff and the abolition of quota of imported vehicles, all automobile manufacturers are expected to have even more intense competition in terms of pricing, performance , quality and features and services of their products in order to maintain and increase their market share. The Group will adopt the measures as described in the section headed "Strategic Measures to be Adopted by the Group in 2004" below to consolidate the Group's leading position in the PRC mini-sized vehicle industry.

Prospect of Aviation Product Market

The PRC economy is currently in a period of stable growth. The State insists on increasing domestic demand and continues to implement proactive financial policies and sound monetary policies. The national economy will continue to grow at a stable and rapid rate through the efforts to be made on the western China development and revitalisation of traditional and industrial bases in the northeast China. The macro economy, which the Group forms a part, remains favourable. It is anticipated that the aviation transport market will grow along with the GDP. Accordingly, demands for aviation products from aviation services providers and government departments will also grow in parallel with the development of the national economy, and thus stimulating the development of the civil aviation product manufacturing industry. According to the analysis in the "Annual Report on the PRC Civil Aircraft Market Estimation" (《中國民用飛機市場預測年報》) issued by the China Aviation Industry Development and Research Center, in view of the continuous growth of the PRC economy, rapid development of tourism, implementation of strategies in respect of the western PRC development and comprehensive reforms on the civil aviation industry, the PRC aviation transport market in future will grow at a rate more rapid than the average development rate of the global aviation transport in the corresponding period, and is the market with the most potential to grow in the world. Leveraging on advanced technology and well-developed products, famous aviation product manufacturers in the world are eager to enter the PRC market. The Group must compete to get orders even though there is a potential market for its aviation products. The Group will adopt the measures as described in the section headed "Strategic Measures to be Adopted by the Group in 2004" below to consolidate the Group's market status as the largest helicopter manufacturer and the major aircraft manufacturer in the PRC.

Strategic Measures to be Adopted by the Group in 2004

1. **Automobile products:**

   i. In light of the decrease of gross margin resulting from price competition, measures in respect of improving the gross margin will be reviewed.

   ii. The construction of a vehicle and engine research and development centre will be speeded up in order to further enhance the Group's own development capability in respect of vehicles and engines. The Group will keep launching products deploying its own intellectual property rights and brand names on the basis of joint design and development with famous international vehicle design companies.

   iii. The cooperation with famous international automobile manufacturers in respect of launching new models and capital investment will be enhanced in order to further increase the market share of the Group's automobile products.

   iv. Automobile product design will be standardised gradually and on this basis, procurement channels of automobile production will be integrated step by step. Production plants of entire vehicles and engines will be consolidated to further lower the production cost.

   v. More emphasis will be put on development of a marketing and sales network. On the basis of consolidation of the original sales network, new sales and after-sales services centres will be established or enlarged in some districts. The Group will put the focus on consolidation of the existing markets. It will also devote efforts to developing markets in small and medium sized cities as well as rural markets.

   vi. Development and production of new models of vehicles and engines will be speeded up.

2. **Development of aviation products:**

   i. More emphasis will be put on major markets and customers by strengthening the Company's marketing capability.

   ii. Effort will be put in developing potential markets and procuring groups of customers in light of the significant strategy of the State to develop the central and western China as well as the potential of domestic regional jet, general purpose aeroplane and helicopter markets.

   iii. Cooperation with international counterparts will commence, particularly in the production of helicopters, improving and upgrading existing models and joint research and development of new models of helicopters.

   iv. The Group will develop new customer base for regional jets.

   v. New models of advanced trainers for export will be developed by way of cooperation with other manufacturers.

   vi. The Group will increase its market share in export of helicopters and trainers by making great efforts in developing the international market.

3. **Enhancement of corporate reforms:**

   Capitalising on the State's policy on supporting reforms on large and medium-sized corporations and revitalising the traditional and industrial bases in the northeast China, the Group will improve the organisational structure of each subsidiary and the human resources system and reduce the size of staff to further enhance the Company's productivity.

Final Dividend

The board of directors recommend the payment of a final dividend of RMB0.0105 per share for 2003, at an amount of RMB48,758,000 in total, subject to approval of shareholders at the annual general meeting to be held on 16 June 2004. The final dividend will be paid to those shareholders whose names appear on the Company's register of members at the close of business on 16 June 2004. The Company's register of members will be closed from 17 May 2004 to 16 June 2004 (both days inclusive). In order to register for the transfer of shares, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited not later than 4:00 p.m. on 14 May 2004. The final dividend is proposed to be paid on or about 8 July 2004.

In accordance with Article 149 of the Company's articles of association, dividends shall be declared by Renminbi to shareholders. Dividends for domestic shares will be paid by Renminbi within three months after the declaration date while dividends for H shares, calculated and declared in Renminbi, will be paid by Hong Kong dollars within three months after the declaration date. This amount denominated in Hong Kong dollars shall be converted based on the average conversion price between Renminbi and Hong Kong dollars issued by the People's Bank of China for the five working days prior to the declaration of dividends at the annual general meeting to be held on 16 June 2004.

Purchase, Sale and Redemption of Shares

Save for the global offering (including the exercise of the over-allotment option) in 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares for the year ended 31 December 2003.

Audit Committee

The audit committee consists of two non-executive directors and two independent non-executive directors, namely Chi Yaozong, David Li Kwok-po, Guo Chongqing and Hu Jiarui, with Chi Yaozong serving as the chairman of the committee. The Company's audit committee has reviewed the Group's results announcement for the year ended 31 December 2003 at the meeting convened on 28 March 2004.

Code of Best Practice

The board of directors of the Company is of the opinion that the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rule Governing the Listing of Securities on the Hong Kong Stock Exchange since the listing of its H shares on the Hong Kong Stock Exchange except that the number of independent non-executive directors in the audit committee has not formed the majority. The Company is currently reviewing issues relating to corporate governance pursuant to the 2004 revised Listing Rules.

Proposed New Directors

The board of directors have considered and passed a resolution relating to the change of certain directors. It has been agreed that Mr. Zhang Yanzhong, Mr. Chi Yaozong, Mr. Ni Xianping and Mr. Jiang Liang would resign as directors of the Company due to changes of duties. The board of directors of the Company nominate Mr. Zhang Hongbiao, Mr. Liang Zhenhe, Mr. Tian Min and Mr. Maurice Savart as proposed directors of the Company. Biographical details of the proposed directors are set out in the Company's notice of 2003 annual general meeting. The resolution aforesaid is subject to the approval at the annual general meeting to be held on 16 June 2004.

Proposed Amendments to the Articles of Association

The board of directors proposed to amend the Articles of Association in order to reflect the alteration of share capital structure and increase of registered capital as a result of the global offering of the Company in 2003 and to comply with the revised Listing Rules which have taken effect from 31 March 2004. Details of the amendments to the Articles of Association are set out in a separate announcement of the Company dated the same date of this announcement.

Disclosure of Information on the Website of the Hong Kong Stock Exchange

All information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the Hong Kong Stock Exchange's website (http://www.hkex.hk) and the Company's website (http://www.avichina.com) in due course.

By the order of the Board
Zhang Yanzhong
Chairman

Beijing, the PRC
5 April 2004

* *For identification purposes only*

Notice of Annual General Meeting

Notice is hereby given that the 2003 Annual General Meeting of AviChina Industry & Technology Company Limited (the "Company") will be held at 9 a.m. on Wednesday, 16 June 2004 at AVIC Hotel, No. 2 Donghuan Nan Road, Chaoyang District, Beijing to transact the businesses as follows:

I. To consider and approve the following as ordinary resolutions:

   1. The resolution relating to the Report of the Board of Directors for the year 2003;
   2. The resolution relating to the Report of the Supervisory Committee for the year 2003;
   3. The resolution relating to the audited financial statements of the Company for the year ended 31 December 2003;
   4. The resolution relating to the profit distribution plan of the Company for the year ended 31 December 2003;
   5. The resolution relating to the appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and domestic auditors of the Company for the financial year 2004 respectively and to determine their remuneration;
   6. The resolution relating to the approval of Rules Governing the Operation of Meetings for Shareholders' General Meeting;
   7. The resolution relating to the change of the Company's Directors.
   8. The resolution to be proposed by shareholders holding 5% or more of the total number of the Company's shares carrying voting rights, if any, by way of ordinary resolutions.

II. To consider and approve the following as special resolutions:

   1. The resolution relating to the amendment of Articles of Association;
   2. The resolution to be proposed by shareholders holding 5% or more of the total number of the Company's shares carrying voting rights, if any, by way of special resolutions.

By order of the Board
Yan Lingxi
Company Secretary

5 April 2004

Notes:

1. Closure of Register and Eligibility to Attend the Shareholder's General Meeting

   Pursuant to Article 38 of the Company, the H Share register of the Company will be closed from 17 May 2004 to 16 June 2004 (both days inclusive), during which no transfer of H Shares will be effected. Holders of the Company's H Shares and Domestic Shares whose names appear on the Company's Register of Members before 4:00 p.m. on Wednesday 16 June 2004 (both days inclusive) are entitled to attend the meeting.

   In order to attend the Annual General Meeting, holders of the Company's H Shares shall lodge all transfers together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company's H Shares Registrar, not later than 4:00 p.m. on 14 May 2004 at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

2. Registration Procedures for Attending the Annual General Meeting

   a. The shareholder or its proxies shall produce his identification proof;

   b. Holders of H Shares or Domestic Shares who wish to attend the Annual General Meeting must complete the reply slip to confirm the attendance, and return the same to the address designated by the Company not later than 20 days before the date of the Annual General meeting, i.e. no later than 26 May 2004.

   c. Shareholders may deliver the reply slip by post or facsimile to the address designated by the Company.

3. Proxies

   a. Any shareholder who is entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf at the Annual General Meeting. A proxy need not be a shareholder of the Company. Any shareholder who wish to appoint a proxy should first review the 2003 Annual Report as dispatched to each shareholder by the Company.

   b. For any shareholder who has appointed more than one proxy, such proxies shall only vote on a poll.

   c. Any shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointor or his attorney duly authorized in writing. If the appointor is a legal person, the instrument shall be signed by its directors or attorneys duly authorized with the seal of the legal person affixed. If the instrument is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign or other documents of authorization must be notarially certified. In order to be valid, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered in the case of holders of domestic shares, to the address designated by the Company, and in the case of holders of H Shares, to Computershare Hong Kong Investor Services Limited not less than 24 hours before the time for holding the Annual General Meeting.

4. The record date for the payment of dividend by the Company will be 16 June 2004.

5. The Shareholders' General Meeting is expected to last for half a day. Shareholders attending the meeting are responsible for their own transportation and accommodation expenses.

   Designated address of the Company:
   P. O. Box 1655, Beijing, the PRC (Postal code: 100009)
   Telephone No.: 86-10-64094825 Facsimile No.: 86-10-64094826, 86-10-64094836
   Attention: Yan Lingxi, Xu Bin

Biographical Details of Proposed Directors:

Mr. Zhang Hongbiao

Mr. Zhang Hongbiao (張洪飈), 59, a research professor. He has been president of AVIC II since December 2003. Mr. Zhang graduated from the Beijing University of Aeronautics and Astronautics in Aircraft Design in 1968 and received his master degree from Chongqing University in 1981. He commenced his career in aviation industry in September 1968 and used to be the director of the technology department, section chief and assistant to the chief engineer, deputy general manager and general manager of Harbin Dongan Engine Manufacturing Company. He was appointed as the deputy chief engineer in May 1990 and subsequently the chief engineer of the Ministry of Aero-Space; appointed as the vice president of AVIC in 1993 and as the deputy director of the Commission of Science Technology and Industry for National Defence in 1999.

Mr. Liang Zhenhe

Mr. Liang Zhenhe (梁振河), 58, a research professor. Mr. Liang graduated from the Northwestern Polytechnical University in Aircraft Design Profession in August 1970 and commenced his career in aviation industry. He used to be the deputy section chief, section chief, deputy general manager and general manager of Hanzhong 141 Plant (漢中141廠) in Shanxi. He was appointed as the deputy general manager and general manager of Hanzhong Tianda Aviation Industry Corporation (漢中天達航空工業總公司) in Shanxi since November 1990. He was deployed to AVIC in 1996 and used to be the deputy director of the corporate governance department and the deputy director of the corporate governance office. Mr. Liang was appointed as the deputy general manager of AVIC II in 1999. He was awarded the "Model Worker" (勞動模範) by the Ministry of Aero-Space in April 1991.

Mr. Tian Min

Mr. Tian Min (田民), 48, one senior accountant. Mr. Tian graduated from Zhengzhou Aviation Industry Management in department of Organisational Management in July 1982. After graduation, he used to be the deputy section chief, deputy director, director and deputy chief accountant, chief accountant and deputy general manager, general manager, chairman of Hongdu Aviation Industry (Group) Co., Ltd. (洪都航空工業(集團)有限公司). Mr. Tian also received his master degree in Engineering from the East China University of Science and Technology (華東科技大學). He was elected as a representative of the 10th National People's Congress of Jiangxi in 2002. Mr. Tian received the honour from AVIC II and the Commission of Science Technology and Industry for National Defence as the Youth with Excellent Contributions; the incentive award to the general manager from AVIC II. He was elected the candidate (senior management expert) of "511 Experts Work" of the Commission of Science Technology and Industry for National Defence in 2002.

Maurice Savart

Mr. Maurice Savart, 45, the senior vice president of European Aeronautic Defence and Space Company-EADS N.V. ("EADS") in charge of business in north Asia. Mr. Savart commenced his career in science and technology for national defence in 1982 when he worked at the Training and Cooperation Department of the Ministry of Defence of France. He used to be the area sales manager (Asia) Thomson - CSF/Aerospace Group, the business development director (Asia Pacific), vice president (North Asia) of the LAGARDERE Group, the managing director (North Asia) of AEROSPATIALE LAGARDERE INTERNATIONAL. He has been the senior vice president (North Asia business) of EADS since July 2000. Mr. Savart graduated from the School of Engineering of Ecole Nationale Supérieure de Physique et de Chimie in France in 1980 and received his master degree in Science from the University of California in the US in 1981 and a MBA degree from the School of Business Administration of Institut Supérieur des Affaires in France in 1982.