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)

(Stock Code: 2357)

2005 Interim Results Announcement

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

During the Reporting Period, the Group achieved turnover of RMB6,737,661,000, operating profit of RMB158,546,000 and net profit attributable to equity holders of the Company of RMB30,157,000, representing a decrease of 1.25%, 52.46% and 77.92% respectively when compared with those of the corresponding period in the previous year.

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

CONDENSED CONSOLIDATED INCOME STATEMENT

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

CONDENSED CONSOLIDATED BALANCE SHEET

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited) (Restated)
ASSETS		
Non-current assets		
Property, plant and equipment	8,156,138	7,386,637
Land use rights	106,779	90,398
Intangible assets	548,714	567,046
Investments in associates	230,330	224,192
Non-current investments	101,162	124,862
Deferred tax assets	40,117	38,713
	9,183,240	8,431,848
Current assets		
Accounts receivable	2,695,217	1,896,496
Other receivables, prepayments and other current assets	1,267,015	1,083,700
Inventories	3,839,632	3,780,463
Contracts in progress	379,937	169,109
Trading investments	225,886	246,801
Pledged deposits	535,988	434,795
Term deposits with initial term of over three months	956,559	1,214,750
Cash and cash equivalents	2,364,236	2,558,000
	12,264,470	11,384,114
Total assets	21,447,710	19,815,962
Financed by:		
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	4,643,609	4,643,609
Reserves	482,271	452,114
	5,125,880	5,095,723
Minority interests	3,475,786	2,942,016
Total equity	8,601,666	8,037,739
LIABILITIES		
Non-current liabilities		
Borrowings	1,123,150	941,937
Long-term payable to ultimate holding company	511,825	532,298
Non-current portion of provisions	56,226	56,226
Deferred income from government grants	42,232	45,240
Deferred tax liabilities	47,482	51,110
	1,780,915	1,626,811

	30th June 2005 RMB'000 (Unaudited)	31st December 2004 RMB'000 (Audited) (Restated)
Current liabilities		
Trade payables	4,978,122	3,964,059
Other payables, accruals and other current liabilities	1,717,782	1,655,452
Current tax liabilities	12,331	8,131
Current portion of long-term payable to ultimate holding company	40,946	40,946
Current portion of provisions	64,667	68,902
Short-term borrowings	3,996,293	3,898,425
Current portion of non-current borrowings	254,988	515,497
	11,065,129	10,151,412
Total liabilities	12,846,044	11,778,223
Total equity and liabilities	21,447,710	19,815,962
Net current assets	1,199,341	1,232,702
Total assets less current liabilities	10,382,581	9,664,550

NOTES:

1 **Basis of preparation and accounting policies**

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

This condensed financial information should be read in conjunction with the 2004 annual financial statements.

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

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

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

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

— IAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

— IASs 2, 8, 10, 16, 17, 21, 27, 28, 32, 33, 36, 38 and 39, IFRS 3 and IFRIC Interpretation 1 had no material effect on the Group's policies.

— IAS 24 has extended the identification of related parties and disclosure of related parties to include state-owned enterprises. Related parties included China Aviation Industry Corporation II ("AVIC II") and its related parties, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control, joint control or exercise significant influence and key management personnel of the Company and AVIC II as well as their close family members.

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

— IAS 16 — the exchange of property, plant and equipment is accounted at fair value prospectively; and

— IFRS 3 — prospectively after 31st March 2004.

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

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

2 **Segment information**

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

Primary reporting format - business segments

The Group is organised into two main business segments:

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

Secondary reporting format - geographical segments

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 People's Republic of China.

Primary reporting format - business segments

	For the six months ended 30th June 2005 (Unaudited) Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Operating results			
Turnover	1,175,302	5,562,359	6,737,661
Segment results	88,704	41,499	130,203
Other revenues			42,308
Unallocated costs			(13,965)
Operating profit			158,546
Finance costs, net			(60,386)
Share of results of associates	3,685	2,491	6,176
Profit before income tax			104,336
Income tax expense			(26,013)
Profit for the period			78,323

	For the six months ended 30th June 2004 (Unaudited) (Restated) Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Operating results			
Turnover	829,802	5,993,423	6,823,225
Segment results	25,868	259,495	285,363
Other revenues			54,401
Unallocated costs			(6,289)
Operating profit			333,475
Finance costs, net			(92,923)
Share of results of associates	(211)	(598)	(809)
Profit before income tax			239,743
Income tax expense			(42,691)
Profit for the period			197,052

3 **Operating profit**

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

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

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

4 **Finance costs, net**

	For the six months ended 30th June	
	2005	2004
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited) (Restated)
Interest expense on bank loans		
— wholly repayable within 5 years	122,548	114,014
— not wholly repayable within 5 years	7,831	8,816
Interest expense on other loans		
— wholly repayable within 5 years	334	363
— not wholly repayable within 5 years	61	61
Less: amount capitalised in property, plant and equipment	(17,987)	(17,154)
Less: government interest subsidies	(1,680)	(3,524)
	111,107	102,576
Exchange gains, net	(51,904)	(12,673)
Bank charges	1,183	3,020
	60,386	92,923

5 **Income tax expense**

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

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

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

6 **Dividends**

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

7 **Earnings per share**

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

For the six months ended 30 June 2005, net profit attributable to the equity holders of the Company amounted to RMB 30 million, representing a decrease of 78.10%, when compared with RMB137 million of the corresponding period in the previous year, mainly attributable to the drop in the profit level of automobile products. During the Reporting Period, the domestic automobile market suffered from severe price competition and soaring material costs. The lower sales price and higher costs have squeezed the profit margin of the Company's automobile business. Although the profit of the Group's aviation business in the same period increased, such increase was not able to make up for the plunge in profit from the automobile business.

Automobile Business:

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

During the Reporting Period, the Group sold 177,600 units of vehicles, representing an increase of 7.90% when compared with the corresponding period of the previous year. Among these sales, 41,700 units were economy sedans, representing an increase of 22.65% when compared with that of the corresponding period in the previous year, while 135,900 units were mini van, representing an increase of 4.06% when compared with that of the corresponding period in the previous year. Although there was certain increase in the volume of total sales in the Reporting Period as compared to the same period last year, the turnover and gross profit recorded a decrease of 7.18% and 19.72% at RMB 5,562 million and RMB 749 million respectively in the first six months ended 30 June 2005 attributable to the intense price competition in the automobile market.

During the Reporting Period, the Group continued to push forward the integration of its automobile business and joined force with an international consultancy company to improve the development strategies of its automobile business, further integrating the sales network and auxiliary systems. At present, the Group has in general achieved coordinated efforts in product development and sales.

The new sedan model "Hafei Saibao" was brought to the market in the first half of the year. Through united advertising and marketing schemes, this model steadily begun its sales in some cities in China pursuant to the Company's plan. At the same time, projects such as the Shenzhen automobile production line, Jiujiang automobile production line and engine production line are also progressing smoothly according to schedule.

Aviation Business:

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

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

In the first half of 2005, the aviation business accounted for 17.44% of the total revenue of the Group representing an increase of 5.28 percentage point when compared with that of the corresponding period in 2004.

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

Substantial progress has been achieved in exploiting the international market. Following the signing of a sales contract for 40 K8 aircraft at the beginning of 2005, the Group has signed 27 K8 aircraft exporting contracts with Pakistan. The signing of a series of contracts builds up a stable market which supports the development of the trainers of the Group.

During the Reporting Period, the Group has signed an agreement with Boeing Company and Airbus Company relating to the subcontracting of aviation parts. These agreements further extend the Group's participation in the global supply chain of aviation products through international cooperation.

Future Outlook

The Board estimated that some unfavorable factors which have influenced the China automobile market will continue to exist. A big challenge common to all automobile manufacturers under the intense competition is how to improve the gross margin and retain a steady increase in the sales volume. However, the Board also sees the opportunities for the development of business in mini-sized vehicles and economy sedans. These opportunities emerge with the implementation in automobile industry of policies promoting environmental friendly cars with low emission and the "establishment of an energy saving society" advocating to abolish all unreasonable restrictions on the use of low oil-consuming, low-displacement and low-emission vehicles.

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

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

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

Financial Review

Current Assets and Financial Resources

As at 30 June 2005, the Group's net cash and cash equivalents amounted to RMB 2,364 million, representing a decrease of RMB 194 million when compared with RMB 2,558 million at the beginning of the Reporting Period. Cash and cash equivalents were mainly derived from the cash and bank deposits at the beginning of the Reporting Period and funds generated from its operations during the Reporting Period. As at 30 June 2005, the Group's total borrowings amounted to RMB 5,374 million. Of the Group's total borrowings, current borrowings amounted to RMB 3,996 million, non-current borrowings due within 1 year amounted to RMB 255 million and non-current borrowings amounted to RMB 1,123 million.

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

Capital Structure

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

Pledge of Assets

As at 30 June 2005, the Group's secured loans amounted to RMB374 million, representing a decrease of RMB150 million when compared with RMB524 million at the beginning of the Reporting Period. These loans were secured by such fixed assets as buildings, machinery and equipment with a net book value of RMB391 million.

Gearing Ratio

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

Exchange Risks

As at 30 June 2005, the Group has arranged certain amounts of loans denominated in Japanese Yen and Euros for business operational needs. Fluctuation in exchange rate has brought risks relating to exchange to the Group.

Contingent Liabilities and Guarantees

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

Major Acquisitions and Disposals

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

Use of Proceeds

Pursuant to the plan of application of proceeds, as at 30 June 2005, an amount of RMB832 million was invested of which RMB700 million was invested in the automobile products for the research and development of new vehicles and new engine models, and RMB132 million was invested in aviation products for the research and development of new advanced trainer models. The rest of the proceeds were put in short term deposits in banks in the PRC. The Company will utilize the rest of the proceeds pursuant to the plan of application of proceeds.

Employees

As at 30 June 2005, the Group had 30,456 employees and incurred total staff costs of RMB408,859,000 during the Reporing Period.

Changes of Directors, Supervisors and Senior Management

For the six months ended 30 June 2005, there were changes in some directors but there was no change to supervisors and senior management. Non-executive directors, Mr. Xu Tongxing, Mr. Cui Xuewen, Mr. Yang Jinhuai and Ms. Hu Jiarui, have resigned as directors of the Company due to changes of duties; whereas Mr. Tan Ruisong, Mr. Wang bin and Mr. Wang Yong have been appointed as non-executive directors of the Company. The changes of directors were approved at the Company's annual general meeting held on 16 June 2005.

Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") as its code of securities transactions by the Board and the supervisors. The Board has also confirmed that all the directors and supervisors of the Company had complied with the required standard set out in the Model Code during the Reporting Period.

Audit Committee

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

Code on Corporate Governance Practices

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

Code Provision A.5.4

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

Code Provision B.1.3

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

The Stock Exchange of Hong Kong Limited ("Stock Exchange") has granted to the Company a conditional waiver from the strict compliance with the Rule 3.24 of the Listing Rules. Mr. Barry Wong has been appointed to assist the Chief Financial Officer of the Company in discharging his duty as a qualified accountant for a term of three years commencing on 13 May 2005.

Purchase, Sale and Redemption of Securities

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

Disclosure of Financial Information

The electronic version of this announcement will be published on the website of the Stock Exchange (http://www.hkex.com.hk). An interim report for the six months ended 30 June 2005 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published on the website of the Stock Exchange in due course.

By Order of the Board
AviChina Industry & Technology Company Limited
Zhang Hongbiao
Chairman

Beijing, 26 August 2005

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

* *For identification purposes only*