AviChina
AviChina Industry & Technology Company Limited
中國航空科技工業股份有限公司

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AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

Annual Results Announcement for the year ended 31 December 2004

The Board of Directors of AviChina Industry & Technology Company Limited (the "Company") announces that the audited annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2004 together with the comparative figures in 2003, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as follows:

For the year ended 31 December 2004, the Group recorded a turnover of RMB12,877,452,000, representing a decrease of RMB2,188,490,000 from that of 2003.

For the year ended 31 December 2004, the Group recorded a profit of RMB71,439,000, representing a decrease of RMB380,635,000 from that of 2003.

The Board of Directors will not recommend the distribution of a final dividend for the year ended 31 December 2004.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 RMB'000	2003 RMB'000
Turnover	3	12,877,452	15,065,942
Cost of sales		(10,947,908)	(12,414,260)
Gross profit		1,929,544	2,651,682
Other revenues	4	56,632	85,477
Selling and distribution expenses		(573,450)	(830,915)
General and administrative expenses		(1,025,729)	(949,729)
Other operating income		—	31,901
Operating profit	5	386,997	988,416
Finance costs, net	6	(170,804)	(209,873)
Share of results of associates before taxation		14,187	(13,811)
Profit before taxation		230,380	764,732
Taxation	7	(92,514)	(60,830)
		137,866	703,902
Minority interests		(66,427)	(251,828)
Profit for the year	8	71,439	452,074
Dividends/Profit distributions	9	—	(123,580)
Earnings per share	10	RMB0.015	RMB0.134

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004

	2004 RMB'000	2003 RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	7,386,637	6,644,431
Land use rights	90,398	91,084
Intangible assets	567,046	516,781
Investments in associates	224,192	166,059
Non-current investments	124,862	132,868
Deferred tax assets	38,713	99,918
	8,431,848	7,651,141
Current assets		
Accounts receivable	1,896,496	2,806,282
Other receivables, prepayments and other current assets	1,083,700	1,060,941
Inventories	3,780,463	3,808,830
Contracts in progress	169,109	21,994
Designated deposits	—	80,000
Trading investments	246,801	219,012
Pledged deposits	434,795	153,763
Term deposits with initial term of over three months	1,214,750	2,415,255
Cash and cash equivalents	2,558,000	2,584,019
	11,384,114	13,150,096
Total assets	19,815,962	20,801,237
Current liabilities		
Trade payables	3,964,059	4,586,909
Other payables, accruals and other current liabilities	1,655,452	1,943,314
Current portion of long-term payable to ultimate holding company	40,946	40,946
Current portion of provisions	68,902	90,536
Current tax liabilities	8,131	12,039
Short-term borrowings	3,898,425	3,784,091
Current portion of non-current borrowings	515,497	199,725
	10,151,412	10,657,560
Net current assets	1,232,702	2,492,536
Total assets less current liabilities	9,664,550	10,143,677
Financed by:		
Capital and reserves		
Share capital	4,643,609	4,643,609
Reserves	452,114	380,675
Proposed final dividend	—	48,758
Shareholders' equity	5,095,723	5,073,042
Minority interests	2,942,016	2,946,124
	8,037,739	8,019,166
Non-current liabilities		
Borrowings	941,937	1,385,942
Long-term payable to ultimate holding company	532,298	573,244
Non-current portion of provisions	56,226	56,226
Deferred income from government grants	45,240	45,138
Deferred tax liabilities	51,110	63,961
	1,626,811	2,124,511
Total shareholders' equity, minority interests and non-current liabilities	9,664,550	10,143,677

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 H shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange").

In accordance with the reorganisation agreement entered into among the Company, AVIC II, 中國華融資產管理公司 ("Hua Rong"), 中國信達資產管理公司 ("Cinda") and 中國東方資產管理公司 ("Orient") effective as of 30th April 2003, the Company issued 2,981,388,500 shares of RMB1.00 each 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 Aviation Industry Group, Ltd.. 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 each.

In 2003, 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 share capital respectively.

2 **Basis of preparation**

The financial statements have been prepared in accordance with IFRS promulgated by the International Accounting Standards Board ("IASB") under the historical cost convention except that non-current investments and trading investments are shown at fair value.

IASB has issued a number of new and revised IFRS which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new IFRS in these financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new IFRS but is not yet in a position to state whether these new IFRS would have a significant impact on its results of operations and financial position.

The preparation of financial statements in accordance with IFRS 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 aircrafts.

(a) *Primary reporting format - business segments*

2004	Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Operating results			
Turnover	2,608,152	10,269,300	12,877,452
Segment results	271,646	160,343	431,989
Other unallocated revenues			9,724
Unallocated costs			(54,716)
Operating profit			386,997
Finance costs, net			(170,804)
Share of results of associates before taxation	15,683	(1,496)	14,187
Profit before taxation			230,380
Taxation			(92,514)
			137,866
Minority interests			(66,427)
Profit for the year			71,439

2003	Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Operating results			
Turnover	2,585,125	12,480,817	15,065,942
Segment results	287,349	656,928	944,277
Other unallocated revenues			18,935
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

(b) *Secondary reporting format - geographical segments*

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

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

4 **Other revenues**

	2004 RMB'000	2003 RMB'000
Sales of scrap materials	19,542	19,173
Income from investments and designated deposits	9,724	18,935
Amortisation of government grants	15,046	15,046
Discretionary value-added tax and real estate tax refund (note)	9,279	14,287
Technical consultancy services	—	14,266
Rental income from plant and equipment	3,041	3,770
	56,632	85,477

Note: Pursuant to relevant tax laws and regulations, certain subsidiaries of the Group are entitled to refunds of certain real estate tax and value-added tax for sales of aircraft.

5 **Operating profit**

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

	2004 RMB'000	2003 RMB'000
Auditors' remuneration	6,816	5,615
Amortisation of land use rights (included in "Administrative expenses")	4,295	4,307
Amortisation of intangible assets		
- development costs (included in "Administrative expenses")	83,360	33,058
- electricity use rights (included in "Administrative expenses")	1,259	1,259
Costs of inventories recognised as expenses included in cost of sales (note)	10,947,908	12,414,260
Depreciation on property, plant and equipment	698,030	662,595
Fair value losses on trading investments	11,582	—
Loss on disposal of property, plant and equipment	2,052	7,920
Loss on sales of trading investments	3,066	—
Operating lease rentals in respect of		
- land and buildings	50,642	57,035
- plant and machinery	23	1,967
Provision for impairment of a non-current investment	25,000	—
Provision for impairment of receivables	45,959	75,920
Repairs and maintenance expense on property, plant and equipment	8,964	15,140
Research and development expense	168,081	63,225
Staff costs (including directors' emoluments)	873,941	903,410
Warranty expense	26,498	104,527
Write-down of inventories to net realisable value	29,418	39,672
Gain on disposal of subsidiaries	—	(31,901)

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

6 **Finance costs, net**

	2004 RMB'000	2003 RMB'000
Interest expense on bank loans		
- wholly repayable within 5 years	242,282	245,961
Interest expense on other loans		
- wholly repayable within 5 years	669	782
- not wholly repayable within 5 years	121	121
Less: amount capitalised in property, plant and equipment (note (a))	(34,697)	(33,477)
Less: government interest subsidies (note (b))	(4,849)	(23,618)
	203,526	189,769
Interest income on bank balances and deposits	(65,701)	(41,382)
Exchange losses, net	29,714	54,722
Bank charges	3,265	6,764
	170,804	209,873

Note:

(a) Amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining a qualifying asset. Interest rates on such capitalised borrowings are as follows:

	2004	2003
Interest rates per annum at which finance costs were capitalised	4.00% to 6.63%	3.69% to 6.63%

(b) Interest subsidies have been granted by local governments to certain subsidiaries of the Group as an encouragement to technical innovation and improvements.

7 **Taxation**

	2004 RMB'000	2003 RMB'000
PRC current income tax	37,988	64,761
Deferred tax	48,354	(4,735)
Share of tax of associates	6,172	804
	92,514	60,830

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 (2003: 33%), except for certain subsidiaries and associates which are taxed at preferential rates ranging from 0% to 30% (2003: 0% to 30%) based on the relevant PRC tax rules and regulations.

8 **Profit attributable to shareholders**

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB71,439,000.

9 **Dividends/Profit distributions**

	2004	2003
	RMB'000	*RMB'000*
Profit distributions (note (i))	—	67,697
Special dividend (note (ii))	—	7,125
Final dividend, proposed, of RMB Nil (2003: RMB0.0105) per share (note (iii))	—	48,758
	—	123,580

Note:

(i) The profit distributions disclosed for the year ended 31 December 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 1 July 2002 to 30 April 2003, as determined in accordance with the PRC GAAP, amounting to approximately RMB7,125,000.

(iii) At the meeting to be held on 4 April 2005, the directors will not recommend the distribution of a final dividend for the twelve months ended 31 December 2004.

10 **Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB71,439,000 (2003: RMB 452,074,000) and based on the weighted average number of 4,643,608,500 (2003: 3,377,707,623 shares) shares in issue during the year.

There was no dilution effect on the basic earnings per share for the years ended 31 December 2003 and 2004 as there were no dilutive shares outstanding during the years ended 31 December 2003 and 2004.

11 **Appropriation of reserves**

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 31 December 2004, the amount of retained earnings available for distribution was approximately RMB90,994,000 being the amount determined in accordance with the PRC GAAP.

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 GAAP to the statutory surplus reserve until the balance reaches 50% of the registered capital. Such reserve can be used to reduce any losses incurred or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation prepared in accordance with PRC GAAP 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.

For the year ended 31 December 2004, the Board of Directors proposed appropriations of 10% and 5% of profit after tax respectively determined under the PRC GAAP of RMB445,000 and RMB222,000 respectively to the statutory surplus reserve fund and the statutory public welfare fund.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

SUMMARY

For the year ended 31 December 2004, the Group recorded profit before taxation of RMB230 million, representing a decrease of 69.93% from that of 2003. Profit for the year amounted to RMB71 million, representing a decrease of 84.29% from that of 2003. The decrease in profit for the year was mainly attributable to the substantial decrease in profit contribution from the Group's automobile business.

For the year ended 31 December 2004, earnings per share of the Group was RMB0.015.

CONSOLIDATED OPERATING RESULTS

1. **Turnover.**

The Group's turnover for 2004 was RMB12,877 million, representing a decrease of 14.53% from RMB15,066 million in 2003. The decrease was mainly attributable to the decrease in both sales price and sales volume of automobile products during the year resulting in a drop in sales revenue. The turnover of automobile products amounted to RMB10,269 million, accounting for 79.75% of the total turnover and representing a decrease of 17.72% from that of 2003; the turnover of aviation products amounted to RMB2,608 million, accounting for 20.25% of the total turnover and representing an increase of 0.89% over that of 2003.

2. **Selling and Distribution Expenses**

The Group's selling and distribution expenses for 2004 amounted to RMB573 million, representing a decrease of RMB 258million (31.05%) from that of 2003.The decrease was mainly attributable to the decrease in the transportation expenses, sales commission, and after-sale service fee in respect of automobile products which decrease resulted from a drop in the sales volume of automobile products.

3. **Administrative Expenses**

The Group's administrative expenses for 2004 amounted to RMB1,026 million, representing an increase of 8% as compared to that of 2003.

4. **Operating Profit**

The Group's operating profit for 2004 amounted to RMB387 million, representing a decrease of RMB601 million (60.83%) from that of 2003 which decrease was mainly due to the slip in the results of the automobile business.

5. **Finance Costs, Net**

The Group's net finance costs amounted to RMB171 million, representing a decrease of RMB39 million (18.57%) from that of 2003.

6. **Taxation**

The Group's income tax for the year was RMB93 million, representing an increase of 52.46% over RMB61 million in 2003.

7. **Minority Interests**

The Group's minority interests for the year decreased by 73.81% from RMB252 million in 2003 to RMB66 million, which was mainly attributable to the substantial decrease in the profits of the Group's certain non-wholly owned subsidiaries in 2004 from that of 2003.

SEGMENT ANALYSIS

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

AUTOMOBILE SEGMENT

In 2004 due to the austerity measures implemented by the State and other unfavorable elements the automobile industry in China ended the "blowout" style growth in the past two years and stepped into a steady development stage through market adjustment. The national volumes of production and sales in 2004 were 5,070,500 and 5,071,100 respectively, representing an increase of 14.11% and 15.50% over that of 2003 respectively. Meanwhile, the overall profitability of the automobile products dropped due to a general decrease in vehicle sales prices and increase in domestic raw material prices, such as steel.

Facing the changes in the automobile industry operating environment in 2004, the Group sped up the business integration and enterprise transformation process. The integration of subsidiaries in automobile business and engine business took effect through the acquisition of the total equity interest in Hafei Motor Co., Ltd. by Harbin Dongan Auto Engine Co., Ltd.. Through setting up AviChina Automobile Business Department, adjustments have been made to the Company's administration departments as well as the management of the subsidiaries engaging in automobile business and there has been in place the centralization of decision making, planning and development, purchasing, marketing and international cooperation, thereby achieving the goal of resources sharing and cost cutting.

SALES REVENUE FROM THE AUTOMOBILE SEGMENT

The Group's sales of automobile products for 2004 amounted to RMB10,269 million, of which the sales of vehicles accounted for RMB8,765 million, representing a decrease of RMB1,935 million from that of 2003. The decrease was mainly attributable to the sharp decrease in sales volume of economy sedans of relatively high unit price coupled with the drop in automobile products' prices. The main reason for the drop in the sales volume of the economy sedans was due to the intense competition in the automobile market. In 2005, the Group will take measures to strengthen its branding, sales network and sales strategy according to the trend of market development.

COST OF SALES OF THE AUTOMOBILE SEGMENT

Cost of sales of the Group's automobile products for 2004 amounted to RMB8,846 million, of which cost of sales of vehicles decreased to RMB7,614 million in 2004 from RMB8,874 million in 2003. The decrease was mainly attributable to the drop in the sales volume of vehicles during the year which resulted in the drop in the cost of sales as compared with that of 2003.

GROSS MARGIN OF THE AUTOMOBILE SEGMENT

Gross margin of the Group's automobile products for 2004 was 13.86%, representing a decrease of approximately 3.18 percentage points from that of 2003. The decrease was mainly attributable to the price cut made by many automobile manufacturers, including the Group, in order to retain and increase market share in the highly competitive domestic automobile market. In addition, prices of raw materials such as steel soared in 2004. Despite the effective measures taken by the Group to lower the costs, the extent of decrease in cost was insufficient to offset the drop in sales revenue, resulting in the decrease in the gross margin.

AVIATION SEGMENT

The PRC economic growth maintained its rapid pace in 2004, which in turn boosted the growth of the civil aviation manufacturing industry. The Group has made substantial progress in the cooperation with international partners in the aviation business. The Group will play an important role in implementing the framework agreement on cooperation in advanced medium general-purpose helicopter project signed between AVIC II and Eurocopter. The construction of model HC120 helicopter final assembly line has been completed, and the first helicopter made on this line has completed its first flight. During the year the Company entered into an agreement with Italy AgustaWestland on the joint production of model A109E helicopter, thereby expanding our scope of international cooperation in the area of aviation products. The Group's model H425 helicopter was awarded an airworthiness certificate by Civil Aviation Administration of China (CAAC). The general transport helicopter, model Z8F, completed its first flight. The Z9 police helicopter series was used by the national police system for the first time. The regional jets business did well last year and five units had been delivered to customers in 2004.

SALES REVENUE FROM THE AVIATION SEGMENT

The Group's sales of aviation products for 2004 amounted to RMB2,608 million, representing an increase of RMB23 million (0.89%) over that of 2003. Sales of aircrafts amounted to RMB1,762 million, representing an increase of RMB279 million (18.81%) over that of 2003. The increase was mainly attributable to the increase in sales volume of helicopters.

Sales of aviation parts and components amounted to RMB684 million, representing a decrease of RMB275 million (28.68%) from that of 2003. The decrease was mainly attributable to the adjustment of production arrangement of AVIC II, the largest customer of the Group's aviation products. As a result, the delivery of the Group's aviation parts and components produced for AVIC II will be postponed to future years.

COST OF SALES OF THE AVIATION SEGMENT

Cost of sales of the Group's aviation products for 2004 increased by RMB42 million to RMB2,102 million as compared to that of 2003, representing an increase of 2,04%. Cost of sales for aviation products has increased slightly in pace with the growth of sales volume.

GROSS MARGIN OF THE AVIATION SEGMENT

Gross margin of the Group's aviation products for 2004 was 19.40%, representing a decrease of approximately 1 percentage point from that of 2003.

CASH FLOW

1. **Liquidity and Capital Resources**

As at 31 December 2004, the Group's cash and cash equivalents amounted to RMB2,558 million, which was mainly derived from the following:

- cash and bank deposits at the beginning of the year;
- funds generated from its operations;
- new bank borrowings

The Group's cash flows for the years 2004 and 2003 were as follows:

Unit: RMB million

Main items of cash flow	2004	2003	Fluctuation *(amount)*	Fluctuation *(percentage)*
Net cash flows generated from operating activities	554	385	169	43.90%
Net cash flows used in investing activities	(185)	(3,419)	3,234	(94.59%)
Net cash flows (used in)/ generated from financing activities	(395)	3,145	(3,540)	(112.56%)
Net (decrease)/increase in cash and cash equivalents	(26)	111	(137)	(123.42%)

2. **Operating Activities**

Net cash flows generated from operating activities for 2004 amounted to RMB554 million, representing an increase of RMB169 million over that of 2003.

3. **Investing Activities**

Net cash flows used in investing activities for 2004 amounted to RMB185 million, representing a decrease of RMB3,234 million from that of 2003, amongst which the increment of term deposits with initial term of over three months dropped by RMB2,948 million from that in 2003.

4. **Financing Activities**

Net cash flows generated from financing activities for the year amounted to RMB395 million, representing a decrease of RMB3,540 million from that of 2003. The main reason was that the Company was listed on 30 October 2003, while in 2004 the Company did not have any such financing activities.

As at 31 December 2004, the Group's total borrowings amounted to RMB5,356 million, of which current borrowings, non-current borrowings due within one year and non-current borrowings due over one year amounted to RMB3,898 million, RMB516 million and RMB942 million respectively.

As at 31 December 2004, the Group's bank borrowings amounted to RMB5,311 million with an average interest rate of 4.71%, representing 99.16% of the total borrowings. Other borrowings amounted to RMB45 million with an average interest rate of 1.75%, representing 0.84% of the total borrowings.

As at 31 December 2004, the Group's borrowings denominated in foreign currencies amounted to RMB749 million, representing 13.98% of the total borrowings, of which borrowings denominated in United States dollars, Euro and Japanese Yen amounted to US$25 million, Euro 33 million and Yen 2,198 million respectively.

GUARANTEED AND SECURED LOANS

As at 31 December 2004, the Group's total borrowings was RMB5,356 million, of which RMB524 million was secured by real properties, machinery and equipment, with a net book value of RMB424 million.

Guaranteed borrowings amounted to RMB3,763 million, of which RMB2,650 million was cross guaranteed amongst the subsidiaries of the Group, RMB167 million was guaranteed by third parties. Guarantees provided by AVICII and its subsidiaries have been released except RMB946 million the release of which is under way.

GEARING RATIO

As at 31 December 2004, the Group's gearing ratio was 27.03% (2003: 26%), which was arrived at by dividing the total borrowings with total assets as at 31 December 2004

CONTINGENT LIABILITIES AND GUARANTEES

As at 31 December 2004, the Group had not provided any guarantees for third party and did not have any significant contingent liabilities.

EXCHANGE RISKS

The Group had a substantial amount of loans denominated in Euro, United States dollars and Japanese Yen due to its operating needs, and the Company had some deposits in Hong Kong dollars raised from issuing shares on its Listing in late 2003. Fluctuation of exchange rates have brought about certain exchange risks to the Group.

USE OF PROCEEDS

According to the plan for use of proceeds, the proceeds used as at 31 December 2004, amounted to RMB662 million in total, out of which RMB530 million was used for the research and development of new vehicle models and new vehicle engines; RMB132 million was used for the research and development of new advanced trainers; and the rest had been deposited in banks in China as short term deposits which will also be used by the Company as planned.

EMPLOYEES OF THE GROUP

As at 31 December 2004, the Group had 32,122 employees.

Employees distribution by functions:

	Number of employees	Percentage to total employees *(%)*
Vehicles and engines	17,262	53.74%
Civil aviation	14,346	44.66%
Other activities	514	1.6%
Total	32,122	100%

For the year ended 31 December 2004, staff costs of RMB874 million in aggregate were incurred by the Group for its employees.

REMUNERATION OF EMPLOYEES

The Group's remuneration scheme is determined by the remuneration committee 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, and contributions to pension plans. The Group will also, in its discretion, pay year-end bonus to employees according to their respective performance.

PROSPECT AND STRATEGY

PROSPECT ON AUTOMOBILE MARKET IN CHINA FOR 2005

The Board of Directors believes that, in 2005, the macro-economy of China will continue to grow at a steady pace, and it is estimated that the GDP will increase by around 8% compared with that of 2004. On that basis, the Group believes that the total demand for automobiles in 2005 will grow steadily. According to the forecast by the China State Information Center, the impact on mini-sized vehicle imposed by austerity measures will be slight, and the demand for mini-sized vehicles will rise slowly but smoothly with an annual increase of around 10%, while the demand for sedans will increase at an annual rate of from around 10% to 12%.

DEVELOPMENT STRATEGIES OF THE GROUP'S AUTOMOBILE BUSINESS

In 2005, the Group will maintain its business strategies of giving priority to mini-sized vehicles, strengthening its position in the sedan market, sharing resources by way of joint venture and cooperation with international partners, perfecting development strategy, optimizing resources allocation and enhancing marketing with a view to achieving growth in automobile business. The Group will take the following strategic measures, including:

1 Further integration of the automobile business. The centralization of decision making, planning and development, purchasing, marketing and international cooperation of automobile business will be implemented to realize the optimal allocation of resources.

2 The Group will strengthen its marketing network. Active marketing strategies will be established to promote the overall quality of the marketing team and the capabilities of employees. We will rearrange the existing sales network and after-sale service network. The Group will enhance its brand names for sedans through active advertising campaigns.

3 New vehicle models will be launched steadily as planned. In 2005, the Group will launch new models such as Hafei Saibao and Changhe Liana according to market situation.

4 The Group will consolidate its core competence. In respect of the production research and development, the Group will capitalize on its comparative advantages and focus on energy saving vehicles with low engine capacity.

5 The existing production facilities will be utilized rationally to improve economy of scale. Costs will be effectively controlled mainly through reducing purchase costs. Every management department will set out specific measures to reduce costs to promote sales of products.

AVIATION PRODUCTS MARKET

The rapid growth of Chinese economy, structural adjustments in communication and transportation, advancement of society and the continuous improvement of people's living standard will all help forming a large potential market for helicopters and civil aeroplanes and provide room for development of the civil aviation manufacturing industry. Regional jet transportation and air freight transportation will become new growth areas in China domestic market. World renowned aviation product manufacturers are adjusting their manufacturing facilities one after another, and have entered into China's market through sino-foreign joint ventures and cooperation, thus providing good opportunities for further development of the Chinese aviation industry.

PROSPECT AND STRATEGIES FOR THE GROUP'S AVIATION BUSINESS

Being the largest helicopter manufacturer and a major aircraft manufacturer in China, the Group possesses strong research capabilities and advanced manufacturing technologies. The Group will take the favourable opportunities to develop aviation products and increase the investment of aviation business in the next few years. The Group will expand its helicopter production capacity, develop domestic and overseas markets, and actively seek to enter into the global supply chain of aviation products. It will strengthen its cooperation with international partners and upgrade the business to a new level generally. Specifically,

1 The Group will expand into new markets. The Group will actively develop markets for new model's of helicopters such as H425, HC120, Z11MB1 and A109E, further develop the markets for current models Z8 and Z9, and strengthen marketing to seek for new customers for regional jets, general-purpose aeroplanes and trainers.

2 The Group will further strengthen cooperation with international partners in the research and manufacturing of helicopters. It is expected that new contracts will be signed in 2005 which will enrich the Group's series of helicopter products. With the cooperation in manufacturing of model A109E helicopter the Group will expand the scope of cooperation with international partners for aviation products. The Group will actively pursue the agreements with Boeing and Airbus and will endeavor to turn them into executable sub-contracts of work-package. The Group will diligently execute sub-contract production of Bell 430 parts and components.

3 In the light of market situation, the Group will quicken its pace in research and development of new models and improvement of current models, and to obtain relevant certificates. The Group will speed up research and development on medium general-purpose helicopter in cooperation with international partners. Good progress has been made in research and development of a new model of advanced trainer and its first flight is expected to be performed by the end of 2005. The Group is actively applying for the airworthiness certificate of N5 series agricultural aeroplane to enter into the US market.

Capitalizing on the State's policy in supporting reforms on large and medium-sized corporations and revitalizing the traditional industrial bases in the Northeast China, the Group will further promote enterprise reforms, adjust corporate structure, optimize human resources, and enhance the Company's productivity.

FINAL DIVIDEND

The Board of Directors will not recommend the distribution of a final dividend for the year ended 31 December 2004.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Prior to 31 December 2004, there had been changes to the Directors, and no changes to the Supervisors and senior management.

Ex-chairman Mr. Zhang Yanzhong, ex-non-executive Directors Mr. Chi Yaozong, Mr. Ni Xianping and Mr. Jiang Liang had resigned due to changes of duties with effect from 16 June 2004. Mr. Zhang Hongbiao has been appointed as chairman, and Mr. Liang Zhenghe, Mr. Tian Min and Mr. Maurice Savart have been appointed as non-executive directors. According to the requirements of the Listing Rules, the Company has appointed Mr. Li Xianzong as the Company' s independent non-executive director. At present, there are three independent non-executive directors among the members of the Board of Directors, which is in compliance with the requirements of the Listing Rules.

PROPOSAL FOR APPOINTING NEW DIRECTORS

The Board of Directors had considered and approved the proposal for change of some of the directors. The resignations of Ms. Hu Jiarui, Mr. Xu Tongxing, Mr. Cui Xuewen and Mr. Yang Jinhuai as directors have been approved due to changes of duties. The Board of Directors has nominated Mr. Wang Yong, Mr. Tan Ruisong and Mr. Wang Bin for appointment as non-executive directors of the Company's First Board of Directors. The profiles of the proposed directors will be set out in the notice of the annual general meeting of the Company for the year 2004. The proposal is subject to shareholders' approval at the annual general meeting to be held on 16 June 2005.

CORPORATE GOVERNANCE

The Board of Directors is of the opinion that in 2004 the Company had complied with the Code of Best Practice as set out in the then applicable Appendix 14 of the Listing Rules except that the number of independent non-executive directors in the audit committee did not form the majority before 30 December 2004. The Company convened a meeting on 30 December 2004 whereby it was approved that Mr. Li Xianzong be appointed as a member of the Audit Committee, and to serve as the chairman of the Audit Committee.

The Audit Committee had reviewed the Group's annual results for the year ended 31 December 2004.

PURCHASE, SALE AND REDEMPTION OF SHARES

As at the year ended 31 December 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

PUBLICATION OF ANNUAL RESULTS

All information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules then in force prior to 31 March 2004 which remain applicable to results announcement in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be 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 China, 4 April 2005

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

** For identification purposes only*