

	For the six months ended 30th June 2005		
	Aviation	Automobiles	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Other income			42,308
Unallocated costs			(13,965)
Operating profit			158,546
Finance costs, net			(60,386)
Share of results of associates	3,685	2,491	6,176
Profit before taxation			104,336
Taxation			(26,013)
Profit for the period			<u>78,323</u>

Other segment items

Capital expenditures	186,805	1,041,414	1,228,219
Depreciation	75,729	306,781	382,510
Amortisation	310	53,392	53,702
Provisions/(reversal of provisions) for receivables and inventories	8,042	(1,285)	6,757

As at 31st December 2005

	As at 31st December 2005		
	Aviation	Automobiles	Total
	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)
Assets			
Segment assets	7,114,388	14,400,585	21,514,973
Interests in associates	182,184	70,679	252,863
Unallocated assets			943,666
Total assets			<u>22,711,502</u>
Liabilities			
Segment liabilities	3,715,239	9,653,737	13,368,976
Unallocated liabilities			633,320
Total liabilities			<u>14,002,296</u>

3 Operating profit

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

	For the six months ended 30th June		
	2006	2005	
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	
Amortisation			
— Intangible assets	64,447	51,234	
— land use rights	3,846	2,468	
Costs of inventories recognised as expenses	6,900,212	5,773,288	
Depreciation and impairment on property, plant and equipment	435,443	382,510	
(Gain)/loss on disposal of property, plant and equipment	(1,790)	4,670	
Operating lease rentals			
— land and buildings	19,451	17,988	
— plant and machinery	160	667	
Provision for impairment of investments *	7,481	25,000	
Provision for impairment of receivables	52,536	17,880	
Provision for impairment of development costs	68,590	—	
Rental income from plant and equipment	(391)	—	
Repairs and maintenance expense on property, plant and equipment	7,883	7,337	
Research and development expenses	36,588	69,705	
Staff costs	476,893	408,859	
Warranty expenses	57,358	49,405	
Interest income on bank balances and deposits	(26,424)	(22,970)	
Reversal of provision for inventories	(9,378)	(11,123)	
Profit on disposal of a subsidiary (note)	(21)	—	

* Included in general and administrative expenses

Note:

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

4 Finance costs, net

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

5 Taxation

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

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

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

6 Dividends

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

7 (Loss)/earnings per share

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

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

8 Accounts receivable

	30th June 2006	31st December 2005
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade receivables, gross (note (a))	2,437,721	2,276,439
Less: provision for impairment of receivables	(280,710)	(252,719)
Trade receivables, net	2,157,011	2,023,720
Notes receivable (note (b))	572,334	905,379
	<u>2,729,345</u>	<u>2,929,099</u>

The carrying amounts of accounts receivable approximate their fair value.

(a) No specific credit period is granted by the Group to its customers. Certain of the Group's sales were on advance payment or documents against payment, and sales to small, new or short-term customers are normally expected to be settled shortly after delivery. A credit period, which may be extended for up to six months, may be granted, subject to negotiation, in respect of sales to customers with good credit history and good business relationship with the Group. Ageing analysis of trade receivables is as follows:

	30th June 2006	31st December 2005
	RMB'000 (Unaudited)	RMB'000 (Audited)
Current to 1 year	2,117,115	1,987,199
1 year to 2 years	123,414	88,181
2 years to 3 years	41,045	28,868
Over 3 years	156,147	172,191
	<u>2,437,721</u>	<u>2,276,439</u>

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

9 Trade payables

	30th June 2006	31st December 2005
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade payables (note (a))	4,747,944	4,282,784
Notes payable (note (b))	1,353,570	1,531,777
	<u>6,101,514</u>	<u>5,814,561</u>

(a) Trade payables

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

	30th June 2006	31st December 2005
	RMB'000 (Unaudited)	RMB'000 (Audited)
Current to 1 year	4,478,711	4,072,192
1 year to 2 years	192,715	191,612
2 years to 3 years	65,072	13,581
Over 3 years	11,446	5,399
	<u>4,747,944</u>	<u>4,282,784</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS**Business Review**

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

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

Automobile Business:

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

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

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

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

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

Aviation Business:

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

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

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

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

Future Outlook**Automobile Business:**

Although the production and sales showed rapid increase during the first half of 2006, the general view of the market players is that such rapid growth contributed from the launching of new car models and cutting in price, such momentum is unlikely to be sustained through the second half of the year. With sales volume showing a downward trend since May 2006, it will be very difficult for the second half of 2006 to experience the same rapid growth as the first half of 2006. With oil price constantly going up and customers keeping cash for future purchase, the sales volume of automobile will also be adversely affected. In light of the above, given the intense competition and price pressure, the Board takes a cautious view on the results of the Group's automobile business, despite its expectation on the increase in sales volume caused by the general acceptance by the market of the three new models launched during the first half of 2006 and the possible launching of other new car models.

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

Aviation Business:

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

Financial Review

Turnover

For the six months ended 30 June 2006, the Group achieved a turnover of RMB7,972 million, which represented an increase of RMB1,234 million, or 18.31%, when compared with RMB 6,738 million of the corresponding period in the previous year.

The turnover of the Group's automobile segment amounted to RMB6,274 million for the first year of 2006, which represented an increase of 12.78% when compared with that of the corresponding period in the previous year and accounted for 78.70% of the total turnover. The turnover of the Group's aviation segment amounted to RMB1,698 million, which represented an increase of 44.51% when compared with that of the corresponding period in the previous year and accounted for 21.30% of the total turnover. For the first half of 2006, the proportion of aviation products in the total turnover has increased by 3.86 percentage points when compared with that of the corresponding period in 2005.

Gross profit

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

Selling and distribution expenses

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

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

General and administrative expenses

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

Financial costs, net

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

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

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

Liquidity and Financial Resources

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

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

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

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

Capital Structure

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

Pledge of Assets

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

Gearing Ratio

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

Exchange Risks

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

Contingent Liabilities and Guarantees

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

Material Acquisition and Disposal

For the six months ended 30 June 2006, the Group did not have any material acquisition or disposal.

Use of Proceeds

Pursuant to the plan of application of proceeds, as at 30 June 2006, an amount of RMB895 million was invested, of which RMB700 million was invested in the automobile products for the research and development of new vehicle and new engine models, and RMB195 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 People's Republic of China (the "PRC"). The Company will utilize the rest of the proceeds pursuant to the plan of the use of proceeds.

Employees

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

Changes of Directors, Supervisors and Senior Management

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

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

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

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

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

Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as its code of securities transacted by the directors and the supervisors. The Board has also confirmed that, having made specific enquiry to all directors and supervisors, all the directors and supervisors of the Company had complied with the required standards set out in the Model Code during the six months ended 30th June 2006.

Other Major Events

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

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

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

Audit Committee

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

Corporate Governance

The Company has strictly complied with the applicable laws and regulations in the jurisdiction in which it is listed and the Articles of Association of the Company to standardize actions. For the six months ended 30 June 2006, the Company was in compliance with all the code provisions set out in the Code on Corporate Governance Practices set out under Appendix 14 to the Listing Rules, except the following deviation: The Listing rules 3.10(1) prescribes that at least three independent non-executive directors should be appointed. Since Dr. The Hon. Li Kwok-Po, David had resigned from his position as an independent non-executive director of the Company valid from 16 June 2006, the requirement temporarily did not comply with from 16 June 2006 to 28 August 2006.

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

Purchase, Sale and Redemption of Securities

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Information disclosed on the website of the Stock Exchange

The electronic version of this announcement is published on the website of the Stock Exchange (<http://www.hkex.com.hk>) as well as the website of the Company (www.avichina.com). The Company will dispatch to its shareholders the Interim Report for the six months ended 30 June 2006 in due course, which will be published on the website of the Stock Exchange and contains all information required by Appendix 16 to the Listing Rules.

By order of the board
AviChina Industry & Technology Company Limited


Zhang Hongbiao
Chairman

Beijing, 28 August 2006

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

* For identification purposes only