



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)

ANNOUNCEMENT

Share Reform Proposal of Hongdu Aviation

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

Pursuant to the rules and regulations promulgated by related authorities of China, the Board wishes to announce that the Company has proposed a share reform proposal for the conversion of all unlisted shares of Hongdu Aviation, a subsidiary of the Company whose A shares are listed on the Shanghai Stock Exchange, to listed A shares of Hongdu Aviation.

Under the Hongdu Aviation Proposal, all the other unlisted shareholders of Hongdu Aviation propose to offer 2.25 unlisted shares in Hongdu Aviation for every 10 unlisted shares to Hongdu Aircraft and Hongdu Aircraft will inject assets into Hongdu Aviation as a consideration for A Shareholders of Hongdu Aviation to agree to the listing of all the unlisted shares in Hongdu Aviation. If the Hongdu Aviation Proposal is fully implemented, the total share capital of Hongdu Aviation will remain unchanged but will thereafter comprise 100% of listed A shares.

The terms of Hongdu Aviation Proposal set out in this announcement are only terms proposed by the subsidiary of the Company to the A Shareholders of Hongdu Aviation and are subject to change and finalization after negotiations between the subsidiary of the Company and A Shareholders of Hongdu Aviation. The terms set out here do not constitute an offer and are not legally binding. The subsidiary of the Company may or may not proceed with the Proposal. The Company will issue a further announcement to inform Shareholders and investors if the Proposal has been finalized or if there is any material change or progress of the Proposal.

Investors are advised to exercise caution when dealing in shares of the Company.

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

Pursuant to the rules and regulations issued by related authorities of China, including the "The Guidelines on Share Reform Proposals of the Listed Companies" and "Provisions on Management of Share Reform Proposals of Listed Companies", share reform proposal has been made for the conversion of all unlisted shares of Hongdu Aviation into listed A shares of Hongdu Aviation.

SHARE REFORM PROPOSAL OF HONGDU AVIATION

As at the date of this announcement, the issued shares of Hongdu Aviation are 252,000,000. Hongdu Aircraft, a subsidiary of the Company, is an unlisted shareholder of Hongdu Aviation, which holds 137,962,800 unlisted shares representing 54.75% of the issued shares. Other unlisted shareholders of Hongdu Aviation hold 6,037,200 unlisted shares, representing 2.40% of the total issued shares.

Hongdu Aviation Proposal

Under the Hongdu Aviation Proposal, all the other unlisted shareholders propose to offer 2.25 unlisted shares in Hongdu Aviation to Hongdu Aircraft for every 10 unlisted shares held by them and Hongdu Aircraft will inject assets into Hongdu Aviation as a consideration for A Shareholders of Hongdu Aviation to agree to the listing of all the unlisted shares in Hongdu Aviation. If the Hongdu Aviation Proposal is fully implemented, the total share capital of Hongdu Aviation will remain unchanged but will thereafter comprise 100% of listed A shares.

Effect of Hongdu Aviation Proposal

According to the Hongdu Aviation Proposal, all the other unlisted shareholders of Hongdu Aviation will offer a total of 1,358,370 unlisted shares to Hongdu Aircraft and Hongdu Aircraft will inject assets with a net value of RMB159,605,186 (approximately HK\$154,956,491) into Hongdu Aviation. The unlisted shares of Hongdu Aircraft in Hongdu Aviation (including the 1,358,370 unlisted shares to be offered to Hongdu Aircraft by the other unlisted shareholders of Hongdu Aviation) will be converted into listed A shares of Hongdu Aviation. If Hongdu Aviation Proposal is fully implemented, Hongdu Aircraft will hold 55.29% of the equity interests in Hongdu Aviation which will remain as a subsidiary of the Company.

Based on the net assets per share in the Annual Report of Hongdu Aviation for the financial year ended 31 December 2005, net asset value represented by the 1,358,370 unlisted shares to be offered by other unlisted shareholders of Hongdu Aviation to Hongdu Aircraft is RMB6,457,792 (approximately HK\$6,269,701). The net profits (after deducting all charges except taxation and excluding extraordinary items) in the Annual Report of Hongdu Aviation attributable to the above 1,358,370 unlisted shares for the financial year ended 31 December 2005 and the financial year ended 31 December 2004 were RMB287,791 (approximately HK\$279,408) and RMB196,585 (approximately HK\$190,860) respectively.

The net profits (after deducting all charges except taxation and excluding extraordinary items and the incomes from investments in Hongdu Aviation) of Hongdu Aircraft for the financial year ended 31 December 2005 and the financial year ended 31 December 2004 were RMB69,555,343 (approximately HK\$67,529,459) and RMB58,281,857 (approximately HK\$56,584,327) respectively.

The terms of Hongdu Aviation Proposal set out in this announcement are only terms proposed by Hongdu Aircraft and other unlisted shareholders of Hongdu Aviation to the A Shareholders of Hongdu Aviation and are subject to change and finalization after negotiations between Hongdu Aircraft, other unlisted shareholders of Hongdu Aviation and A Shareholders of Hongdu Aviation. The terms set out here do not constitute an offer and are not legally binding. Hongdu Aircraft may or may not proceed with the Proposal. The Company will issue an announcement to inform Shareholders and investors if the Proposal has been finalized or if there is any material change or progress of the Proposal.

The Company confirms that when the transactions contemplated under the Hongdu Aviation Proposal are fulfilled, the Company will proceed with the same in compliance with the requirements pursuant to the Listing Rules.

Business of the Group

The Group is principally engaged in the research, development, manufacture and sale of the automobile and aviation products.

Business of Hongdu Aviation

Hongdu Aviation is principally engaged in the development, research, manufacture and sale of aviation products.

Investors are advised to exercise caution when dealing in shares of the Company.

Definition:

In this announcement unless the context otherwise requires, the following terms shall have the following meanings:

"A share(s)"	Renminbi-denominated domestic shares traded on the Shanghai Stock Exchange by the PRC legal persons or individuals
"A Shareholder(s)"	holder(s) of A share(s)
"the Board"	the board of directors of the Company
"the Company"	AviChina Industry & Technology Company Limited
"Hongdu Aircraft"	Jiangxi Hongdu Aircraft Industry Co., Ltd., a wholly-owned subsidiary of the Company
"Hongdu Aviation"	Jiangxi Hongdu Aviation Industry Co., Ltd., a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 54.75% of its interests being held by the Company through Hongdu Aircraft, 2.40% of its interests being held by other unlisted shareholders and the rest 42.86% of its interests being held by A Shareholders
"Hongdu Aviation Proposal" or "Proposal"	the proposal on the share reform of Hongdu Aviation presented by unlisted shareholders of Hongdu Aviation
"the Group"	the Company and all or any of its subsidiaries
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (as amended from time to time)
"PRC"	the People's Republic of China
"Shareholders"	the shareholders of the Company

In this announcement, all amounts denominated in RMB have been converted into HK\$ using an exchange rate of HK\$1.00:RMB1.03, for the purpose of illustration only, and does not constitute a representation that any amount has been, could have been, or may otherwise be exchanged or converted at this or any other rate.

By order of the Board
AviChina Industry & Technology Company Limited
Yan Lingxi
Company Secretary

Hong Kong, 16 June 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 Huaiqiu, Mr. Tian Min, Mr. Wang Yong, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing and Mr. Li Xianzong.

* For identification purposes only.