

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)

Annual Results Announcement for the year ended 31st December 2006

Financial Highlight

Other financial assets at fair value through profit or loss

Term deposits with initial term of over three months

Cash and cash equivalents

Pledged deposits

Total assets

Turnover of the Group for 2006 amounted to RMB17,111 million, representing an increase of 19.94% over that of 2005.

41,027

405,574

805,217

2,942,362

12,667,994

22,711,502

694,391

1,051,128

3,155,527

14,759,484

24,810,526

- Operating loss of the Group for 2006 amounted to RMB246 million, representing a decrease of RMB594 million from the profit of RMB348 million of 2005.
- Loss attributable to the equity holders of the Company for 2006 amounted to RMB331 million.

Part	oup the year ended	Group and for the v	Asata		2005	2006	Note		ollectively the	subsidiaries (co	and its s	Technology Company Limited (the annual results of the Company
CRISONIDATE PATE OF 1999 1999 1999 1999 1999 1999 1999 1		st December			RMB'000	RMB'000						
CONSIDER TRIE YEAR CROUNT STATE CROSS STA		Automobiles RMB'000					QUITY	E	2000 and the			
Second S	OOO RMB OO	KMB 000	KMB 000	Operating results			attributable to the					
Marche M	,910 17,110,50	12,682,910	4,427,598		4 (42 (00	4 642 600			Group	G		
Property	,988) (215,84	(619,988)	404,140	Segment results			•		2005	2006	Note	
Control of March 1, 10, 10, 10, 10, 10, 10, 10, 10, 10,	6,59			Other unallocated income					RMB'000	RMB'000		
Control Cont	(36,77						roposed mar dividend		14,266,108	17,110,508	3	Revenue
Circuit (Gross poetity 1,870,026 1,870,027 1,	(246,03			Operating loss			Minority interests		(12,395,184)	(15,204,907)		Cost of sales
Scaling and distribution Scaling	,331) (272,28	(190,331)	(81,951)				•		1,870,924	1,905,601		Gross profit
Content and administrative expenses 1,17,17,879 950,1161 9	,511 45,05	2,511	42,540		8,709,206	8,122,112	tal equity	10	208,757	183,258	4	
Recent and administrative	(473,263			Loss before income tax			ARILITIES	LI	(781.374)	(1.156.994)		
Comparing (mostpreffice 17.7897) 0.990.0000 0.982.0000000000000000000000000000000000	(13,399			Income tax expense					(/01,5/1)	(1,100,551)		•
Content into the Septem Se	(486,662			Loss for the year	1 032 013	836 704			(950,104)	(1,177,897)		expenses
Finance costs, act Share of results of associates 4.031 4.35,07 1.025,07 1.					-,,	,					5	
Content Cont	.945 23.697.221	15 076 045	7 720 276		56,226	_				` ' '		
Classification Clas		55,628		*	105 427	157 002						
Classifyporfit for the year	865,338						0 0		<i>'</i>			•
Carrent liabilities	24,810,520			Total assets			beterred income tax natimites				O	_
Marious Corness Cor				Liabilities	1,243,019	1,029,578			187,596	(486,662)		(Loss)/profit for the year
Equity holders of the Company (155,583) 69,324 (155,583) 69,324 (165,583)	,521 16,170,743	11,051,521	5,119,222	*			report liabilities	C.				
Minority interests	517,67				5 814 561	7 037 244			110.072	(221.070)		
Dividend	16,688,414			Total liabilities			1 7					
Amounts payable to ultimate Classification Classifi		4 0 4 5 0 0 0										Willionty interests
Dividend 7		1,045,909	157,655	Capital expenditures	-,,,	-,,	* *			(480,002)		
Company during the year RMB RMB RMB RMB RMB Company during the year RMB RMB RMB RMB RMB Company during the year RMB	,847 928,113	857,847	70,266	Depreciation	532,298	520,524			48,758		7	Dividend
the equity holders of the Company during the year RMB	,572 126,849	125,572	1,277	Amortisation			Current portion of provisions					
Company during the year	,706 105,954	75,706	30,248	Provisions for impairment	<i>'</i>	,						
Basic and diluted 8 (0,071) 0,025 borrowings 433,695 399,994 343 talend for to the property of					4,097,287	5,401,598	, and the second					Company during the year
CONSOLIDATED BALANCE SHEETS AS AT 31ST DECEMBER 2006 Note 2005 Total liabilities 16,688,414 14,002,296 Note 2006 2005 RMB '000 RMB	-	_	As at a		399,994	433,695					0	Desir and diluted
Note 2006 2005 RMB '000		st December							0.025	(0.071)	8	- Basic and diluted
Note 2006 2005 RMB '000		RMB'000										
Note 2006 2005 RMB'000 RMB'000 RMB'000 RMB'000 Total equity and liabilities 24,810,526 22,711,502 Segment revenue 3,550,166 10,715.					14,002,296	16,688,414	tal liabilities	To	3			AS AT SIST DECEMBER 2000
ASSETS Non-current assets Property, plant and equipment 9,049,538 8,973,078 Land use rights 06,631 99,314 AviChina Industry & Technology Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 50th April 2003 as a joint stock company with limited liability preferred to as the "Group". The Company's directors regard AVIC II, a company established in the PRC, as being the ultimate holding company of the Company. Current assets Accounts receivable 9 3,716,924 2,929,099 Advances to suppliers ACCOURTE receivables and Other receivables and Total equity and liabilities 24,810,526 22,711,502 Segement results 275,125 108,308 Segement results 275,125 108,308 Unallocated income Unallocated costs Unallocated income Unallocated costs Unallocated income Unallocated Inaliabilities (including derivative instruments in conformity with IFRS requires the Unallocated liabilities Unallocated liabi	042 14 266 10	10.715.042	2.550.166						-		Note	
ASSETS Note current liabilities Reportry, plant and equipment equipment land interests in associates Accounts receivable assets Accounts receivable Advances to suppliers Accounts receivable Advances to suppliers Accounts receivable Accounts receivable Advances to suppliers Accounts receivable Accounts receivable Advances to suppliers Accounts receivable Ac				-	22,711,502	24,810,526	tal equity and liabilities	To			Note	
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Current assets Accounts receivable Advances to suppliers Other receivables and Other receivables and other not construct financial sastets and financial sastet and financial liabilities (including derivative instruments) at fair value through profit or loss as appropriate. Other receivables and Other receivables and other non-current financial sastets and financial liabilities (including derivative instruments) at fair value through profit or loss as appropriate. Other receivables and Other receivables and other non-current financial sastets and financial liabilities (including derivative instruments) at fair value through profit or loss as appropriate. Other receivables and other non-current financial sastets and financial liabilities (including derivative instruments) at fair value through profit or loss as appropriate. Other receivables and other non-current financial sastets Liabilities Segment liabilities Unallocated assets Other receivable of the non-current financial sastets Liabilities Advances to suppliers Segment liabilities Other receivable of the non-current financial sastets and financial statements in conformity with IFRS requires the	,679 252,863	70,679		Interests in associates			Basis of preparation	2	10,043.508	10.051.042		
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Advances to suppliers 628,383 625,761 Other receivables and The preparation of financial statements in conformity with IFRS requires the Unallocated liabilities					ding derivative	al liabilities (includ	assets, and financial assets and financial		2,929,099	3,716,924	9	Accounts receivable
Other receivables and	,737 13,368,976 633,320	9,653,737	3,715,239	_		** *			625,761	628,383		Advances to suppliers
Total liabilities	14,002,290			Total liabilities	management to	es. It also requires	use of certain critical accounting estir		# 02.225	5 00 510		
prepayments 708,218 792,336 exercise its judgement in the process of applying the Group's accounting	17,002,290						exercise its judgement in the process					
Inventories 4,004,913 4,120,018 . Other segment nems	7396 2,564,110	2,307396	256.714				•	3	4,126,618	4,804,913		

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

The Group is organised into two main business segments:

All segment revenues were made to external parties.

Automobiles - manufacturing, assembly, sales and servicing of

Aviation - manufacturing, assembly, sales and servicing of helicopters, trainers and other aircrafts.

Primary reporting format - business segments

Depreciation

Provisions for impairment

Secondary reporting format - geographical segments

117,521

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 revenue and assets is attributable to markets not located in the PRC.

664,089

10 Accounts payable 2005 1B'000

Other income	ā	
		oup
	2006	2005
	RMB'000	RMB'000
Interest income on bank balances and		
deposits	78,256	73,968
Sale of scrap materials	19,699	16,511
Income from available-for-sale financial assets and financial assets at fair		
value through profit or loss	6,591	2,031
Amortisation of government grants	66,223	96,634
Refund of value-added tax and real		
estate tax	1,878	4,706
Rental income from plant and		
equipment	2,012	5,069
Income from other services	8,599	9,838
	183,258	208,757

Operating (loss)/profit

Operating (loss)/profit is after changing/(crediting) of the following:

	Group		
	2006	2005	
	RMB'000	RMB'000	
Amortisation:			
- Land use rights	2,983	4,904	
- Intangible assets	123,866	94,588	
	126,849	99,492	
Cost of inventories sold	15,204,907	12,395,184	
Depreciation on property, plant and equipment	928,113	664,089	
(Gain)/loss on disposal of			
- Property, plant and equipment	(12,780)	9,513	
- Subsidiaries	3	1,918	
Operating lease rentals			
- Land and buildings	41,029	38,515	
- Plant and machinery	_	430	
Provision/(reversal of provision) for impairment:			
- Receivables	22,126	33,877	
- Inventories	121	(13,941)	
- Other non-current financial assets	12,355	25,000	
- Property, plant and equipment	642	1,305	
- Intangible assets	70,710	96,603	
Income tax expense	G	coup	

The provision for PRC enterprise 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 (2005: 33%), except for certain subsidiaries which are taxed at preferential rates ranging from 7.5% to 33% (2005: 7.5% to 33%) based on the relevant PRC tax rules and regulations.

2006

RMB'000

52,686

(39,287)

13.399

2005

64,621

(12,543)

Dividen

Dividend	Group		
	2006	2005	
	RMB'000	RMB'000	
Final dividend, proposed, of RMB Nil			
(2005: RMB0.0105) per share		48,758	

The board of directors do not recommend the payment of a dividend for the year ended 31st December 2006.

(Loss)/earnings per share

PRC enterprise income tax

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to equity holders of the Company of RMB 331,079,000 (2005: profit of RMB118,072,000) and based on the weighted average number of 4,643,608,500 (2005: 4,643,608,500) shares in issue during the year.

There was no dilution effect on the basic earnings per share for the years ended 31st December 2005 and 2006 as there were no potential dilutive shares outstanding during the years ended 31st December 2005 and 2006.

Accounts receivable

Teedanis Teed value	Group		
	2006	2005	
	RMB'000	RMB'000	
Trade receivables, gross (note (a))			
- Fellow subsidiaries	1,701,901	1,116,620	
- Other related parties	152,778	165,317	
- Others	1,206,085	994,502	
	3,060,764	2,276,439	
Less: provision for impairment of			
receivables	(222,108)	(252,719)	
	2,838,656	2,023,720	
Notes receivable (note (b))	878,268	905,379	
	3,716,924	2,929,099	

Note:

(a) Certain of the Group's sales were on advance payment or documents against payment. Sales to small, new or short-term customers are normally expected to be settled shortly after delivery. A credit period of up to six months may be granted in respect of sales to customers with good credit history and long-established business relationship with the Group. Terms offered to related parties are similar to those offered to third parties. Ageing analysis of trade receivables is as follows:

	Group		
	2006	200	
	RMB'000	RMB'000	
Current to 1 year	2,820,466	1,987,199	
1 year to 2 years	63,532	88,18	
2 years to 3 years	5,449	28,868	
Over 3 years	171,317	172,19	
	3,060,764	2,276,439	

(b) Notes receivable are bills of exchange with average maturity period of within six months.

2006 2005 RMB'000 RMB'000 Trade payables (note (a)) Ultimate holding company 6,487 277,370 - Fellow subsidiaries 336,891 300,957 529,391 Other related parties - Others 4.587.023 3.476.023 5.231.358 4.282.784 Notes payable (note (b)) 1.805.886 1.531.777 7 037 244 5,814,561

Note:

(a) Trade payables

The normal credit period for trade payables generally ranges from 0 to 6 months. Ageing analysis of trade payables at 31st December 2006 is as follows:

	Group		
	2006	2005	
	RMB'000	RMB'000	
Current to 1 year	4,953,475	4,072,192	
1 year to 2 years	215,827	191,612	
2 years to 3 years	46,806	13,581	
Over 3 years	15,250	5,399	
	5,231,358	4,282,784	

 Notes payable are bills of exchange with average maturity period of within six months.

MANAGEMENT DISCUSSION AND ANALYSIS

The main business of the Group includes automobile business and aviation business.

For the year ended 31st December 2006, the Group recorded a turnover of RMB17,111 million, representing an increase of 19.94% over that of 2005. The loss attributable to the equity holders of the Company was RMB331 million, caused by the drop in the results of the automobile business

CONSOLIDATED OPERATING RESULTS

1 Turnover

The Group's turnover for 2006 was RMB17,111 million, representing an increase of 19.94% over RMB14,266 million of 2005. The turnover of the Group's automobile products amounted to RMB12,683 million, representing an increase of 18.36% over that of 2005 and accounting for 74.12% of the total turnover; the turnover of the Group's aviation products amounted to RMB4,428 million, representing an increase of 24.73% over that of 2005 and accounting for 25.88% of the total turnover.

The Group operates mainly in mainland China from where a majority of the turnover is generated.

2 Selling and distribution expenses

The Group's selling and distribution expenses for 2006 amounted to RMB1,157 million, representing an increase of RMB376 million, or 48.14%, over that of 2005. The increase was mainly attributable to the increase of RMB90 million in the after-sales service expenses for the Group's automobile and engine products during the year; the significant increase in transportation expenses as the sales volume of automobile products rose while the oil price soared; and the increase of RMB67 million in advertisement expenses as the Group had to dedicate more investment for advertising to promote the sales of the Group's automobile products in a competitive market.

General and administrative expenses

The Group's administrative expenses for 2006 amounted to RMB1,178 million, representing an increase of RMB228 million, or 24.00%, over that of 2005. The increase was mainly attributed to a growth of RMB135 million in the investment on research and development and an increase of RMB69 million in the salaries of management and compensation for retirement pension.

4 Operating (loss)/profit

The Group suffered an operating loss of RMB246 million for 2006, representing a decrease of RMB594 million from the profit of RMB348 million of 2005. The decrease was mainly due to the slip in the gross profit margin of the entire vehicle products as well as the increase in the periodic expenses.

Finance costs, net

The Group's net finance costs for 2006 amounted to RMB272 million, representing an increase of RMB118 million, or 76.62%, over that of 2005. The increase was mainly attributable to the fluctuation of exchange rates which resulted in an exchange loss of RMB14 million representing a decrease of RMB72 million as compared with an exchange gain of RMB58 million in 2005.

Income tax expense

The Group's income tax for 2006 was RMB13 million, representing a decrease of RMB39 million from RMB52 million of 2005.

7 Minority interest

The Group's minority interests for 2006 was a loss of RMB155 million, representing a decrease of RMB225 million from a profit of RMB70 million in 2005, which was mainly attributable to the loss incurred in certain non-wholly owned subsidiaries of the Group in 2006.

SEGMENT INFORMATION

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

AUTOMOBILE SEGMENT

Business Review

In 2006, a total of approximately 7,280,000 and 7,220,000 vehicles in China were produced and sold respectively, representing an increase of 27% and 25% respectively as compared with that of 2005. The Group sold 344,359 vehicles in 2006, representing an increase of 4.02% as compared with that of 2005, among which the sales volume of sedans was 107,708, representing an increase of 17.76% over that of 2005 and the sales volume of mini-vans and mini-trucks dropped to 236,651, representing a decrease of 1.22% from that of 2005. The decrease was

mainly due to the drop in domestic sales of mini-vans and mini-trucks despite an increase in the export sales. During the year of 2006, the Group has made many achievements in the independent innovation in its automobile products. A series of automobile models developed by the Group independently have obtained many awards in China and abroad. The cycle time of launching new products to the market was also reduced. In 2006, six new models, including Saibao V series, two compartment Liana, Ideal II sedan, Furuida, Minyi M408 mini-van, Hafei Minyi mini-truck and three upgraded models had been launched into the market.

For the year ended 31st December 2006, the sales revenue of the Group's automobile products recorded RMB12,683 million, representing an increase of 18.36% over that of 2005. The increase was mainly attributable to the climbing sales volume in sedans which have a relatively higher price than that of mini-vans and mini-trucks and the rise in sales volume of sedan engines sold to third parties. However, the results of the automobile segment suffered a loss of RMB620 million during the year due to the great drop in the gross margin of the entire vehicles and the rise of the period expenses.

SALES REVENUE

The Group's sales revenue of automobile products for 2006 amounted to RMB12,683 million, in which sales revenue of the entire vehicles was RMB10,127 million, representing an increase of RMB732 million, or 7.79%, over that of 2005.

COST OF SALES

Cost of sales of the Group's automobile products for 2006 amounted to RMB11,443 million, among which the cost of sales of the entire vehicles increased to RMB9,449 million from RMB8,297 million in 2005. The increase was mainly attributable to the increase in the sales volume of the entire vehicles during the year and the increase in expenses relating to depreciation on new production lines and the amortization of vehicle molds

GROSS MARGIN

Gross margin of the Group's automobile products for 2006 was 9.78%, representing a decrease of approximately 2.79 percentage points from that of 2005. The gross margins of economy sedans and mini-vans and mini-trucks suffered a great drop. During the year, the Group cut the price of economy sedans to boost the sales volume as such segment was facing pressure from the market. At the same time, the automobile production lines in Jiujiang and Shenzhen were completed and commenced production which caused the increase in depreciation and amortization expenses whereas the sales volume did not reach the expected level given the relatively low utilization rate of the production capacity. All these factors resulted in a drop in the gross margin of the Group's automobile products.

AVIATION SEGMENT

Business Review

With the rapid growth in China's GDP, the structural adjustments in transportation and the continuous improvement of people's living standards, a large potential market for helicopters and civil aeroplanes has been formed, which presents a wider horizon for the development of China's civil aviation industry. The Group is the largest helicopter manufacturer and a major aeroplane manufacturer in China. In 2006, with continuous rapid growth of China's economy, increased orders from the Chinese government for helicopters and increase in sales of aviation parts and components, the Group's aviation business kept its high-speed growth. In 2006, the sales revenue of the Group's aviation products was RMB4,428 million, representing an increase of 24.73% as compared to that of 2005, and the results of the Group's aviation segment was RMB404 million, representing an increase of 46.91% as compared to that of 2005.

In 2006, the Group attained achievements in research and development and market development of aviation products. The Group has participated in the research and development of L 15 advanced trainer, which performed its first flight successfully in March 2006 and was presented at the 6th China International Aviation & Aerospace Exhibition as a third-generation advanced trainer independently developed and manufactured by China. The development and upgrade of the Group's general aeroplanes has also made some progress. N-5B agricultural aeroplane successfully performed its maiden flight at the end of 2006. Harbin Embraer Aircraft Industry Co., Ltd. entered into an agreement relating to the sale of 50 ERJ-145 regional jets. The newly upgraded Y-12E aeroplane has attracted export sales contracts. Jiangxi Changhe-Agusta Helicopter Co., Ltd. entered into sales contract with Beijing Police Bureau for the sale of two CA109 helicopters. Hafei Aviation Industry Co., Ltd. ("Hafei Aviation") and Jiangxi Hongdu Aviation Industry Co., Ltd. ("Hongdu Aviation") had taken 10% interest respectively in Tianjin Zhongtian Aviation Industry Investment Co., Ltd. which engages in the assembly of Airbus A320 series in China.

Sales Revenue

The Group's sales revenue of aviation products for 2006 was RMB4,428 million, representing an increase of RMB878 million, or 24.73%, over that of 2005, in which the sales of aeroplanes and helicopters amounted to RMB2,676 million, representing an increase of RMB473 million, or 21.47%, over RMB2,203 million of 2005. The increase was mainly attributable to the increase in sales volume of helicopters during the year.

Sales of the Group's aviation parts and components amounted to RMB1,622 million, representing an increase of RMB494 million, or 43.79%, over RMB1,128 million of 2005. The increase was mainly attributable to the growth in the volume of parts and components sold to AVIC II Group.

Cost of Sales

Cost of sales of the Group's aviation products for 2006 was RMB3,762 million, representing an increase of RMB736 million, or 24.32%, over RMB3,026 million in 2005. The increase in the cost of sales goes in tandem with the growth in the sales revenue of aviation products.

Gross Margin

Gross margin of the Group's aviation products for 2006 was 15.03%, which was comparable with that of 2005, representing a modest increase of 0.27 percentage points over that of 2005.

CASH FLOW

l Liquidity and capital resources

As at 31st December 2006, the Group's net cash and cash equivalents amounted to RMB3,156 million which was mainly derived from the followings:

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

The Group's cash flow for the year 2006 and 2005 were as follows:

	Unit: RMB million (except percentage)			
Main items of cash flow	2006	2005	Change (amount)	
Net cash flows generated from operating activities	862	1,506	(644)	(42.76%)
Net cash flows used in investing activities	(1,503)	(1,939)	436	(22.49%)
Net cash flows generated from financing activities	854	817	37	4.53%

equivalents 2 Operating activities

increase/(decrease) in cash and cash

Net

Net cash flows generated from operating activities for the year amounted to RMB862 million, representing a decrease of RMB644 million from that of 2005.

384

(171)

(44.53%)

213

3 Investing activities

Net cash flows used in investing activities for the year amounted to RMB1,503 million, representing a decrease of RMB436 million from that of 2005, among which the term deposits with initial term over three months increased by RMB246 million, representing an increase of RMB656 million when compared with the drop of RMB410 million in 2005.

4 Financing activities

Maturity

Net cash flows generated from financing activities for the year amounted to RMB854 million, representing an increase of RMB37 million over that of 2005.

As at 31st December 2006, the Group's total borrowings amounted to RMB6,672 million, of which the current borrowings, the current portion of long-term borrowings and the non-current portion of long-term borrowings amounted to RMB5,401 million, RMB434 million and RMB837 million respectively.

The Group's long-term borrowings are repayable as follows:

Within one year	434
In the second year	233
In the third to fifth year	366
After the fifth year	238
Total	1,271

As at 31st December 2006, the Group's bank borrowings amounted to RMB6,099 million with an average interest rate of 5.29%, representing 91.41% of the total borrowings. Other borrowings amounted to RMB573 million with an average interest rate of 1.42%, representing 8.59% of the total borrowings.

As at 31st December 2006, the Group's borrowings denominated in foreign currencies amounted to RMB804 million, representing 12.05% of the total borrowings, of which borrowings denominated in United States dollars and Euros amounted to US\$60 million and Euro33 million respectively.

GEARING RATIO

As at 31st December 2006, the Group's gearing ratio was 26.89% (31st December 2005: 24.35%), which was arrived at by dividing the total borrowings by total assets as at 31st December 2006.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31st December 2006, the Group had not provided any guarantees in favor of any third party nor any significant contingent liabilities.

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31st December 2006, the Group had not placed any designated deposit or overdue fixed deposit that could not be collected by the Group upon maturity.

EXCHANGE RISKS

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. The Group's assets and liabilities, and transactions arising from its operations subject to foreign exchange risk are primarily linked to the United States Dollar ("USD"), Euro, Hong Kong Dollar ("HKS") and Japanese Yen. The Group has not used any forward contracts to hedge its exposure as the foreign currency risk is considered as minimal.

As at 31st December 2006, the Group had certain borrowings and deposits in banks denominated in foreign currencies. The exchange rates of Renminbi against United States Dollar and Hong Kong Dollar have been relatively stable over the past few years. Since July 2005, Renminbi has experienced certain appreciation. The directors are of the opinion that such appreciation did not have any material adverse impact on the Group's financial results.

SUBSEQUENT EVENT

On 16 March 2007, the Enterprise Income Tax Law (the "new EIT law") was passed at the Fifth Session of the Tenth National People's Congress of the People's Republic of China. The new EIT law will come into effect from 1 January 2008. Such that the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" and "Provisional Regulations of the People's Republic of China on Enterprise Income Tax" which are currently applicable to the Group will be abrogated simultaneously. The Group has already commenced an assessment on the impact of the new EIT law but is yet to quantify its impact on the Group's results of operations and financial position in the future.

USE OF PROCEEDS

According to the plan for use of proceeds, the proceeds used as at 31st December 2006 amounted to RMB895 million in total, out of which RMB700 million was used for the research and development of new vehicle models and new vehicle engines; RMB195 million was used for the research and development of new advanced trainers; and the balance was deposited with the banks in China as short term deposits which would also be used by the Company as planned.

EMPLOYEES AND REMUNERATION

As at 31st December 2006, the Group had 27,469 employees. The Group has provided appropriate emoluments, benefits and trainings to its employees.

Employees breakdown by functions

	Number of employees	Percentage to total employees (%)
Vehicles and engines	16,504	60%
Aviation	10,187	37%
Other activities	778	3%
Total	27,469	100%

For the year ended 31st December 2006, a total staff costs of RMB979 million were incurred by the Group in connection with its employees, representing an increase of RMB186 million when compared with RMB793 million of 2005.

BUSINESS OUTLOOK

With the soaring economy in China, the income level of residents improved constantly which is anticipated to drive the automobile consumption to rise at a high speed. According to the forecast of China Automobile Industry Association, the total output of China's automobile manufacturers in 2007 is expected to reach 8,500,000, representing an increase of 16.76% over that of 2006. The growth in sedans is expected to outperform the industry growth. The Board believes that the automobiles manufactured by the Group, which feature "safe, environmental-friendly, energy-saving, economical and practical", being in line with the policy direction of China automobile industry and the development of the world automobile industry, will keep the growth in sales volume in 2007. However, at the same time, the Company will also face challenges in improving the gross margin of entire vehicles and reducing the loss under ever increasing competition. The Board is confident that, after the share reform and the separation of the Group's automobile business from aviation business, the business structure of the Group has been streamlined by reducing the number of management tiers and the automobile business has been operating based on the market forces as well as the model that is desirable for the development of automobile enterprises. All these factors are expected to enable the automobile business of the Group to be benefited and nourished.

The Group will continue the strategy of developing "safe, environmental-friendly, energy-saving, economical and practical" low-emission vehicles, adhering to the principle of enhancing the mini-sized vehicles and sedans and pushing forward the independent research and development and the international cooperation. The Group will further study the market and commit to conduct effective work in respect of marketing, research and development of new products, structural adjustment and cost control.

China's civil aviation market has been flourishing in recent years. As the largest helicopter manufacturer and a major aeroplane manufacturer, the Group's aviation products will continue to benefit from the expansion of China's civil aviation market in the following years. In the coming years, both the production and sales volume of the Group's aviation products, especially helicopters, will increase substantially due to the increase in orders from the Chinese government. The fast growth in aviation business of both AVIC II Group and AVIC I Group results in an increase in demand for aviation parts and components manufactured by the Group. As the Group has made advancement in the subcontract production for the world's renowned aviation manufacturers, such as Airbus and Boeing, sales volume of the Group's aviation parts and components is expected to grow steadily. With the gradual opening of civil aviation market and low altitude airspace by Chinese government, demands for light general aeroplanes are ascending. This will also provide a huge room for the development of the Group's general aeroplanes. In addition to ensuring timely deliveries for current aviation products' orders, the Group will endeavor to boost a balanced production and lean management structure for its aviation business.

FINANCIAL EFFECTS OF SHARE REFORM

During 2006, the Group's four subsidiaries whose A shares are listed on the Shanghai Stock Exchange have completed their respective share reform scheme (collectively "Share Reform"). Accordingly the Group's holdings of unlisted domestic shares ("Domestic Shares") in each of Harbin Dongan Auto Engine Co., Ltd ("Dongan Motor") and Jiangxi Changhe Automobile Co., Ltd ("Changhe Auto"), Hongdu Aviation and Hafei Aviation have been converted into circulating A shares and become tradable on the Shanghai Stock Exchange subject to certain lock-up conditions.

As a result of the Share Reform, the Company's equity interests in Dongan Motor, Changhe Auto, Hongdu Aviation and Hafei Aviation have been reduced from 70.01%, 72.53% (among which 0.96% was held by Dongan Motor directly), 54.75% and 55.73% to 59.51%, 63.22% (among which 0.83% was held by Dongan Motor directly), 55.29% and 50.05% respectively. The effect of reduction in equity interests in the above subsidiaries totalled RMB507,746,000 which have been charged to the reserve of the Group for the year ended 31st December 2006.

OTHER SIGNIFICANT EVENTS

1. Disposal of equity interests in Beijing Wisewell Avionics Technology Co., Ltd. ("Wisewell")

On 28th April 2006, the Company entered into an agreement with AVIC II to transfer the 51% equity interests in Wisewell to AVIC II. As each of the percentage ratios (as defined in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), other than the profits ratio) for the disposal was below 0.1%, the transaction was exempted from compliance with the requirements under Chapter 14A of the Listing Rules relating to reporting, announcement and independent shareholders' approval.

2. Transfer of equity interests in Beijing Fangzheng Dongan Lanthanide New Material Co., Ltd ("Fangzheng Dongan")

On 16th June 2006, Dongan Motor, a subsidiary of the Company, and Harbin Dongan Engine (Group) Co., Ltd. ("Dongan Group"), entered into an agreement, pursuant to which Dongan Motor agreed to transfer the 27% equity interests in Fangzheng Dongan to Dongan Group. As each of the percentage ratios (as defined in

the Listing Rules, other than the profits ratio) for the transaction was more than 0.1% but below 2.5%, the agreement 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.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares for the year ended 31st December 2006.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Pursuant to the Articles of Association of the Company, the terms of office of the first Board and the first Supervisory Committee expired at the date when the annual general meeting of the Company for the year 2005 ("AGM") was held, and the retired directors and supervisors of the Company for the meeting of the Company may offer themselves for re-election. The directors and supervisors of the Company for the new term were re-elected/elected at the AGM held on 16th June 2006. Mr. Zhang Hongbiao, Mr. Wu Xiandong, Mr. Tan Ruisong, Mr. Liang Zhenhe, Mr. Song Jingang, Mr. Tian Min, Mr. Wang Bin, Mr. Chen Huaiqiu, Mr. Wang Yong, Mr. Maurice Savart, Mr. Guo Chongqing and Mr. Li Xianzong were re-elected as directors of the second session of the 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-elected/elected as supervisors of the second session of the Supervisory Committee of the Company. The terms of office of the re-elected/elected directors and supervisors are three years each, commencing from the date of the AGM and expiring on the date of the annual general meeting of the Company for the year 2008.

Dr. The Hon. Li-Kwok-Po, David resigned his position as independent non-executive director of the Company due to personal reasons. His resignation became effective since the end of the AGM.

Ms. Liu Xianping and Ms. Lu Liubao resigned their position as supervisors of the Company due to personal reasons. Their resignation became effective since the end of the AGM.

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

At the extraordinary general meeting of the Company held on 28th 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.

AUDIT COMMITTEE

The Board has established the audit committee and set out the Terms of Reference of the Audit Committee of the Board in accordance with the Guide for the Effective Audit Committee issued by the Hong Kong Institute of Certified Public Accountants.

The audit committee had reviewed the consolidated financial statements of the Group for the year ended 31st December 2006 and the Company's preliminary annual results announcement.

CORPORATE GORVENANCE

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 its operation.

In the 2006 Interim Report, the Company disclosed that, from 16th June to 28th August 2006, the Company temporarily failed to comply with Rule 3.10 of the Listing Rules which prescribed that at least three independent non-executive directors should be appointed. The Company convened an extraordinary general meeting on 28th August 2006 to approve the appointment of Mr. Lau Chung Man, Louis as independent non-executive director of the Company. Thereafter, the constitution of the Board is in compliance with the applicable requirement of the Listing Rules. The Board reviewed the corporate governance practices adopted by the Company and is of the view that, except the deviation mentioned above, the Company has complied with principles and code provisions set out in the Code on Corporate Governance Practices of the Listing Rules.

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 Listing Rules as its own guidelines for securities transactions by the directors and supervisors of the Company. Upon specific enquiries with the directors and supervisors of the Company, the Board confirms that all directors and supervisors of the Company complied with the Model Code for the year ended 31st December 2006.

INFORMATION DISCLOSURE ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The electronic version of this announcement will be published on both the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.avichina.com). The annual report of the Company for the year ended 31st December 2006, which contains all information as required by Appendix 16 to the Listing Rules, will be dispatched to the shareholders of the Company and published on the website of the Stock Exchange in due course.

By Order of the Board AviChina Industry & Technology Company Limited

Zhang Hongbiao

Beijing, 2nd April 2007

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. Tian Min, Mr. Wang Bin, Mr. Chen Huaiqiu, 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 purpose only