



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

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

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

The board of directors (the "Board") of AviChina Industry & Technology Company Limited (the "Company") announces the audited annual results of the Company and its subsidiaries (collectively the "Group") prepared in accordance with the International Financial Reporting Standards for the year ended 31st December 2006 and the corresponding data for the year 2005 are as follows:

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2006**

	Note	Group	
		2006 RMB'000	2005 RMB'000
Revenue	3	17,110,508	14,266,108
Cost of sales		(15,204,907)	(12,395,184)
Gross profit		1,905,601	1,870,924
Other income	4	183,258	208,757
Selling and distribution expenses		(1,156,994)	(781,374)
General and administrative expenses		(1,177,897)	(950,104)
Operating (loss)/profit	5	(246,032)	348,203
Finance costs, net		(272,282)	(153,896)
Share of results of associates		45,051	45,367
(Loss)/profit before income tax		(473,263)	239,674
Income tax expense	6	(13,399)	(52,078)
(Loss)/profit for the year		(486,662)	187,596
Attributable to:			
Equity holders of the Company		(331,079)	118,072
Minority interests		(155,583)	69,524
		(486,662)	187,596
Dividend	7	—	48,758
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year			
- Basic and diluted	8	RMB (0.071)	RMB 0.025

**CONSOLIDATED BALANCE SHEETS
AS AT 31ST DECEMBER 2006**

	Note	Group	
		2006 RMB'000	2005 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		9,049,538	8,973,078
Land use rights		96,331	99,314
Intangible assets		450,654	552,878
Interests in associates		247,967	252,863
Other non-current financial assets		131,247	115,886
Deferred income tax assets		75,305	49,489
		10,051,042	10,043,508
Current assets			
Accounts receivable	9	3,716,924	2,929,099
Advances to suppliers		628,383	625,761
Other receivables and prepayments		708,218	792,336
Inventories		4,804,913	4,126,618
Other financial assets at fair value through profit or loss		—	41,027
Pledged deposits		694,391	405,574
Term deposits with initial term of over three months		1,051,128	805,217
Cash and cash equivalents		3,155,527	2,942,362
		14,759,484	12,667,994
Total assets		24,810,526	22,711,502

	Note	Group	
		2006 RMB'000	2005 RMB'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		4,643,609	4,643,609
Reserves		(314,710)	521,428
Proposed final dividend		—	48,758
		4,328,899	5,213,795
Minority interests		3,793,213	3,495,411
Total equity		8,122,112	8,709,206
LIABILITIES			
Non-current liabilities			
Long-term borrowings		836,704	1,032,013
Non-current portion of provisions		—	56,226
Deferred income from government grants		157,002	105,437
Deferred income tax liabilities		35,872	49,343
		1,029,578	1,243,019
Current liabilities			
Trade payables	10	7,037,244	5,814,561
Advances from customers		460,470	401,750
Other payables and accruals		1,667,884	1,423,159
Amounts payable to ultimate holding company		520,524	532,298
Current portion of provisions		103,284	81,636
Current income tax liabilities		34,137	8,592
Short-term borrowings		5,401,598	4,097,287
Current portion of long-term borrowings		433,695	399,994
		15,658,836	12,759,277
Total liabilities		16,688,414	14,002,296
Total equity and liabilities		24,810,526	22,711,502
Net current liabilities		(899,352)	(91,283)
Total assets less current liabilities		9,151,690	9,952,225

1 Organisation and principal activities

AviChina Industry & Technology Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 30th April 2003 as a joint stock company with limited liability under the PRC laws. The Company and its subsidiaries are collectively referred to as the "Group". The Group is principally engaged in the research, development, manufacture and sale of automobile and aviation products.

The Company's directors regard AVIC II, a company established in the PRC, as being the ultimate holding company of the Company.

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of other non-current financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss as appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

3 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*

The Group is organised into two main business segments:

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

All segment revenues were made to external parties.

Primary reporting format - business segments

	Group		
	As at and for the year ended 31st December 2006		
	Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Operating results			
Segment revenue	4,427,598	12,682,910	17,110,508
Segment results	404,140	(619,988)	(215,848)
Other unallocated income			6,591
Unallocated costs			(36,775)
Operating loss			(246,032)
Finance costs, net	(81,951)	(190,331)	(272,282)
Share of results of associates	42,540	2,511	45,051
Loss before income tax			(473,263)
Income tax expense			(13,399)
Loss for the year			(486,662)
Assets			
Segment assets	7,720,276	15,976,945	23,697,221
Interests in associates	192,339	55,628	247,967
Unallocated assets			865,338
Total assets			24,810,526
Liabilities			
Segment liabilities	5,119,222	11,051,521	16,170,743
Unallocated liabilities			517,671
Total liabilities			16,688,414
Other segment items			
Capital expenditures	157,655	1,045,909	1,203,564
Depreciation	70,266	857,847	928,113
Amortisation	1,277	125,572	126,849
Provisions for impairment	30,248	75,706	105,954
Group			
As at and for the year ended 31st December 2005			
	Aviation RMB'000	Automobiles RMB'000	Total RMB'000
Operating results			
Segment revenue	3,550,166	10,715,942	14,266,108
Segment results	275,125	108,887	384,012
Unallocated income			2,031
Unallocated costs			(37,840)
Operating profit			348,203
Finance costs, net	(77,167)	(76,729)	(153,896)
Share of results of associates	50,023	(4,656)	45,367
Profit before taxation			239,674
Taxation			(52,078)
Profit for the year			187,596
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			22,711,502
Liabilities			
Segment liabilities	3,715,239	9,653,737	13,368,976
Unallocated liabilities			633,320
Total liabilities			14,002,296
Other segment items			
Capital expenditures	256,714	2,307,396	2,564,110
Depreciation	117,521	546,568	664,089
Amortisation	656	98,836	99,492
Provisions for impairment	30,456	112,388	142,844

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

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)	Change (percentage)
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%
Net increase/(decrease) in cash and cash equivalents	213	384	(171)	(44.53%)

2 Operating activities

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

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

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:

Maturity	RMB million
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 ("HK\$") 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 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 Huaqiu, 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 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 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
Chairman

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 Huaqiu, 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