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 2007

Financial Highlights

- Turnover of the Group for 2007 amounted to RMB16,541 million, representing a decrease of 3.33% from that of 2006.
- Operating loss of the Group for 2007 amounted to RMB524 million, representing a further loss of RMB200 million as compared to the loss of RMB324 million in 2006.
- Loss attributable to the equity holders of the Company for 2007 amounted to RMB1,026 million.
- The Board recommended no distribution of final dividend for the year ended 31st December 2007 (2006: Nil).

The Board of Directors (the "Board") of AviChina Industry & Technology Company Limited (the "Company") announces the audited consolidated 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 2007 and the corresponding data for the year 2006 as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2007

	Note	**Group** **2007** *RMB'000*	**2006** *RMB'000*
Revenue	3	16,540,645	17,110,508
Cost of sales		(14,780,935)	(15,204,907)
Gross profit		1,759,710	1,905,601
Other income	4	113,796	98,411
Selling and distribution expenses		(980,648)	(1,156,994)
General and administrative expenses		(950,741)	(1,065,352)
Other operating expenses, net		(466,112)	(105,954)
Operating loss	5	(523,995)	(324,288)
Finance income		57,966	78,256
Finance costs		(387,391)	(272,282)
Finance costs, net		(329,425)	(194,026)
Share of results of associates		56,711	45,051
Loss before income tax		(796,709)	(473,263)
Income tax expense	6	(51,635)	(13,399)
Loss for the year		(848,344)	(486,662)
Attributable to:			
Equity holders of the Company		(1,026,226)	(331,079)
Minority interests		177,882	(155,583)
		(848,344)	(486,662)
Loss per share for loss attributable to equity holders of the Company during the year		RMB	RMB
- Basic and diluted	8	(0.221)	(0.071)

BALANCE SHEETS
AS AT 31ST DECEMBER 2007

	Note	**Group** 2007 *RMB'000*	2006 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		7,325,989	9,049,538
Land use rights		81,375	96,331
Intangible assets		331,614	450,654
Interests in associates		297,921	247,967
Other non-current financial assets		587,417	131,247
Deferred income tax assets		126,241	75,305
		8,750,557	10,051,042
Current assets			
Accounts receivable	9	3,237,673	3,716,924
Advances to suppliers		519,014	628,383
Other receivables and prepayments		1,203,537	708,218
Inventories		5,277,527	4,804,913
Financial assets at fair value through profit or loss		7,414	—
Pledged deposits		638,350	694,391
Term deposits with initial term of over three months		691,820	1,051,128
Cash and cash equivalents		2,452,706	3,155,527
		14,028,041	14,759,484
Total assets		22,778,598	24,810,526

	Note	Group 2007 RMB'000	Group 2006 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		4,643,609	4,643,609
Reserves		(1,155,536)	(314,710)
		3,488,073	4,328,899
Minority interests		3,170,322	3,793,213
Total equity		6,658,395	8,122,112
LIABILITIES			
Non-current liabilities			
Long-term borrowings		1,111,540	836,704
Deferred income from government grants		149,886	157,002
Deferred income tax liabilities		156,332	35,872
		1,417,758	1,029,578
Current liabilities			
Accounts payable	10	6,761,213	7,037,244
Advances from customers		884,568	460,470
Other payables and accruals		1,324,343	1,667,884
Amounts payable to ultimate holding company		520,524	520,524
Provisions		174,431	103,284
Current portion of long-term borrowings		650,457	433,695
Short-term borrowings		4,312,163	5,401,598
Current income tax liabilities		74,746	34,137
		14,702,445	15,658,836
Total liabilities		16,120,203	16,688,414
Total equity and liabilities		22,778,598	24,810,526
Net current liabilities		(674,404)	(899,352)
Total assets less current liabilities		8,076,153	9,151,690

NOTES TO THE FINANCIAL STATEMENTS

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 aviation and automobile products.

The Company's directors regard China Aviation Industry Corporation II ("AVIC II"), a company established in the PRC, as being the ultimate holding company of the Company.

2 BASIS OF PREPARATION

These 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 available-for-sale 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. In accordance with the Group's internal financial reporting system, the Group has determined business segments be presented as the primary reporting format.

(a) Primary reporting format - business segments

The Group is organised into two main business segments:

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

- Automobiles - manufacturing, assembly, sales and servicing of automobiles.

All segment revenues were made to external parties.

	Group As at and for the year ended 31st December 2007		
	Aviation	**Automobiles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Operating results			
Segment revenue	5,327,408	11,213,237	16,540,645
Segment results	306,241	(852,840)	(546,599)
Unallocated income			48,745
Unallocated costs			(26,141)
Operating loss			(523,995)
Finance costs, net	(73,707)	(255,718)	(329,425)
Share of results of associates	53,389	3,322	56,711
Loss before income tax			(796,709)
Income tax expense			(51,635)
Loss for the year			(848,344)
Assets			
Segment assets	8,855,603	12,812,702	21,668,305
Interests in associates	240,552	57,369	297,921
Unallocated assets			812,372
Total assets			22,778,598
Liabilities			
Segment liabilities	6,107,254	9,517,198	15,624,452
Unallocated liabilities			495,751
Total liabilities			16,120,203
Other segment information			
Capital expenditures	217,461	702,851	920,312
Depreciation	89,145	936,147	1,025,292
Amortisation	2,309	62,795	65,104
Provisions for impairments	24,549	359,772	384,321

	Group As at and for the year ended 31st December 2006		
	Aviation	Automobiles	Total
	RMB'000	*RMB'000*	*RMB'000*
Operating results			
Segment revenue	4,427,598	12,682,910	17,110,508
Segment results	375,063	(650,755)	(275,692)
Unallocated income			6,591
Unallocated costs			(55,187)
Operating loss			(324,288)
Finance costs, net	(34,462)	(159,564)	(194,026)
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 information			
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 impairments	30,248	75,706	105,954

(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 from external customers and assets is attributable to markets not located in the PRC.

4 OTHER INCOME

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Profit from sale of scrap materials	22,312	19,699
Income from government grants	70,000	66,223
Refund of value-added tax and real estate tax	3,683	1,878
Rental income from plant and equipment, net	1,074	2,012
Income from rendering of other services, net	11,857	8,599
Dividend income from other non-current financial assets	4,870	—
	113,796	98,411

5 OPERATING LOSS

Operating loss is stated after charging:

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Auditors' remuneration	7,190	7,780
Amortisation		
- Land use rights	6,229	2,983
- Intangible assets	58,875	123,866
Costs of inventories sold	14,780,935	15,204,907
Depreciation on property, plant and equipment	1,025,292	928,113
Loss on disposal of		
- A subsidiary	—	3
- Associates	—	9,811
Operating lease rentals		
- Land and buildings	45,548	41,029
- Property, plant and equipment	216	—
Provision for impairment		
- Property, plant and equipment	243,421	642
- Intangible assets	5,958	70,710
- Other non-current financial assets	—	12,355
- Receivables	13,067	22,126
- Inventories	121,875	121
Repairs and maintenance expense on property, plant and equipment	50,996	24,301

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Research expenditures and development costs charged to income statement directly	244,539	230,712
Staff costs, including directors' emoluments	945,478	997,118
Warranty expenses	246,903	154,841
Write off of intangible assets	83,117	—
and crediting:		
Amortisation of deferred income relating to government grants	33,161	18,396
Fair value gain on financial assets at fair value through profit or loss	338	—
Gain on disposal of		
- Property, plant and equipment	16,838	12,780
- Partial interests in subsidiaries	32,440	—
- Financial assets at fair value through profit or loss	16,305	6,591
Reversal of provision for impairment		
- Other non-current financial assets	1,326	—

6 INCOME TAX EXPENSE

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
PRC enterprise income tax	106,520	52,686
Deferred income taxes	(54,885)	(39,287)
	51,635	13,399

Notes:

Except for certain subsidiaries which are taxed at preferential rates ranging from 7.5% to 15% (2006: 7.5% to 15%), in accordance with the relevant PRC enterprise income tax rules and regulations, 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 for the year (2006: 33%).

7 LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB462,588,000 (2006: RMB166,985,000).

8 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the Company of RMB1,026,226,000 (2006: RMB331,079,000) and based on the weighted average number of 4,643,608,500 (2006: 4,643,608,500) shares in issue during the year.

There was no dilution effect on the basic loss per share for the years ended 31st December 2007 and 2006 as there were no potential dilutive shares outstanding during the years ended 31st December 2007 and 2006.

9 ACCOUNTS RECEIVABLE

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Trade receivables, gross (note (a))		
- Fellow subsidiaries	992,205	1,701,901
- A jointly controlled entity	109,007	—
- Other related parties	949	152,778
- Others	1,329,744	1,206,085
	2,431,905	3,060,764
Less: Provision for impairment of receivables	(234,264)	(222,108)
	2,197,641	2,838,656
Notes receivable (note (b))		
- Fellow subsidiaries	209,000	37,263
- Others	831,032	841,005
	1,040,032	878,268
	3,237,673	3,716,924

Notes:

(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 relationship with the Group. Terms offered to related parties are similar to those offered to third parties. Aging analysis of trade receivables is as follows:

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Current to 1 year	2,109,716	2,820,467
1 year to 2 years	87,174	63,532
2 years to 3 years	58,255	5,449
Over 3 years	176,760	171,316
	2,431,905	3,060,764

(b) Substantially all of the notes receivable are bank acceptance notes with average maturity period of within six months.

10 ACCOUNTS PAYABLE

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Trade payables (note (a))		
- Ultimate holding company	—	6,487
- Fellow subsidiaries	529,067	336,891
- A jointly controlled entity	2,774	—
- Other related parties	8,372	300,957
- Others	4,389,974	4,587,023
	4,930,187	5,231,358
Notes payable (note (b))		
- Fellow subsidiaries	366,881	176,131
- Other related parties	—	756
- Others	1,464,145	1,628,999
	1,831,026	1,805,886
	6,761,213	7,037,244

Notes:

(a) The normal credit period for trade payables generally ranges from 0 to 6 months. Aging analysis of trade payables is as follows:

	Group	
	2007	**2006**
	RMB'000	*RMB'000*
Current to 1 year	4,287,572	4,953,475
1 year to 2 years	489,816	215,827
2 years to 3 years	116,883	46,806
Over 3 years	35,916	15,250
	4,930,187	5,231,358

(b) Substantially all of the notes payable are bank acceptance notes with average maturity period of within six months.

MANAGEMENT DISCUSSION AND ANALYSIS

The principal businesses of the Group are aviation business and automobile business.

For the year ended 31st December 2007, the Group recorded a turnover of RMB16,541 million, representing a decrease of RMB570 million, or 3.33% from the turnover of RMB17,111 million in 2006. Of the decrease, the effect of proportional consolidation for the results of Jiangxi Changhe Suzuki Automobile Co., Ltd. ("Changhe Suzuki") resulted in a decrease of RMB1,156 million in the turnover. If the effect was disregarded, the turnover in 2007 would have increased by RMB590 million as compared to that of 2006. The increase was mainly attributable to the growth in turnover derived from sales of aviation products and automobile engine products. As a result of unfavorable operation and a significant decline in the sales of vehicles in the automobile segment results, the share of loss by the equity holders of the Company amounted to RMB1,026 million.

CONSOLIDATED OPERATING RESULTS

1. **Turnover**

   The Group's turnover for 2007 was RMB16,541 million, representing a decrease of 3.33% from that of RMB17,111 million in 2006.

   The turnover of the Group's aviation products in 2007 increased by 20.31% to RMB5,327 million, which accounted for 32.21% of the total turnover of the Group, or represented an increase of 6.33 percent over 25.88% in 2006. As compared to the 17.16% at the time of the listing of the Company in 2003, the proportion of aviation products to the total turnover has almost doubled. The relative proportion of turnover attributable to the sales of aviation products as compared to the total turnover of the Group is growing steadily year by year. The turnover of the Group's automobile products in 2007 decreased by 11.59% to RMB11,214 million, which accounted for 67.79% of the total turnover of the Group, or represented a decline of 6.33 percent from 74.12% in 2006.

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

2. **Selling and distribution expenses**

The Group's selling and distribution expenses for 2007 amounted to RMB981 million, representing a decrease of RMB176 million, or a 15.21% decrease from that of 2006. The decrease was mainly attributable to a decrease of RMB82 million in terms of selling and distribution expenses as a result of the effect of proportional consolidation for the results of Changhe Suzuki as well as the decline in the sales volume of entire vehicle products, which together resulted in a decrease of RMB150 million in the expenses on loading and freight as well as sales commissions as compared to 2006.

3. **General and administrative expenses**

The Group's general and administrative expenses for 2007 amounted to RMB951 million, representing a decrease of RMB114 million, or a 10.7% decrease from that of 2006. The decrease was mainly attributable to a decrease of RMB73 million resulting from the effect of proportional consolidation adopted for the results of Changhe Suzuki.

4. **Operating loss**

The Group suffered an operating loss of RMB524 million for 2007, representing an increase of RMB200 million as compared to the loss of RMB324 million in 2006. This was mainly attributable to a widened loss in the Group's entire vehicle business as compared to that of 2006.

5. **Finance costs, net**

The Group's net finance costs for 2007 amounted to RMB329 million, representing an increase of RMB135 million over RMB194 million of 2006, which was mainly attributable to an increase in interest expenses resulted from a rise in the interest rate level of bank borrowings.

6. **Income taxation expenses**

The Group's income tax for 2007 was RMB52 million, representing an increase of RMB39 million over the RMB13 million in 2006. Details are set out in note 6 to the financial statements.

7. **Minority interests**

The Group's minority interests for 2007 was a share of profit of RMB178 million, as compared to a loss of RMB155 million in 2006. The profit was mainly attributable to the growth in profits of certain non-wholly owned subsidiaries of the Group in 2007.

SEGMENT INFORMATION

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

AVIATION SEGMENT

Sales Revenue

The Group's sales revenue derived from aviation products for 2007 was RMB5,327 million, representing an increase of RMB899 million, or a 20.30% increase over that of 2006. The increase was mainly attributable to the increase in sales volume of helicopters and aviation parts and components during the year.

Cost of Sales

Cost of sales of the Group's aviation products for 2007 was RMB4,644 million, representing an increase of RMB882 million, or a 23.44% increase over that of 2006.

Gross Margin

Gross margin of the Group's aviation products for 2007 was 12.83%, representing a decrease of 2.2 percent from that of 2006. The decrease was mainly attributable to increase in domestic raw materials prices not matched with increases in the selling prices of the Group's aviation products which remained at the same level.

Review and Outlook

In 2007, the Group had put more efforts in the market development of its aviation products. Through participating in the 2007 Asian Aerospace International Expo and Congress in Hong Kong, the reputation of the Group's aviation products has been further enhanced.

During the reporting period, the Group sold 120 helicopters in total, representing 24 units more than that of 2006, which was mainly attributable to an increase in the delivery of fuselages for EC-120 helicopter. The sales volume of Z9 helicopter also increased, marking the entry into a steadily growing stage of market demands for this product. Jiangxi Changhe-Agusta Helicopter Co., Ltd. delivered two CA109 helicopters in 2007, and signed a sales contract with the China Central Television in May 2007 for the sale of one CA109 helicopter to be used for Olympic aerial shooting and is expected to be delivered in May 2008.

Apart from continuing to perform the export and production contract on K8 trainers entered into with China National Aero-Technology Import & Export Corporation, co-production of K8E trainers project with Egyptian partners also progressed smoothly. The test flight of L15 advanced trainer, which was primarily researched and manufactured by the Group, has progressed smoothly. At present, the Group is actively exploring the domestic and international markets for L15 advanced trainer.

The sales of the Group's Y-12 series aircraft remained steady. The application for type certificate ("TC") for Y-12F multi-purpose aircraft had been accepted by the Federal Aviation Administration of the United States ("FAA"). It will perform its maiden flight in 2008. N-5A aircraft had been granted TC by the FAA and the market outlook for it is positive. The Group is currently engaging in the research, development, upgrading and improving of its agricultural and forestry planes in accordance with the demands of the domestic and international markets. The research and development of N-5B plane is progressing well and has achieved milestone development.

The Group is continuously strengthening its co-operation with international partners on aviation products and expanding its subcontracting business on parts and components production. Tianjin Zhongtian Aviation Industry Investment Co., Ltd., in which Hafei Aviation Industry Co., Ltd.(" Hafei Aviation") and Jiangxi Hongdu Aviation Industry Co., Ltd.("Hongdu Aviation") both have interests, has entered into a joint venture contract with Airbus China Co., ("Airbus") on the establishment of a joint venture company for the setting up of a final assembly line for Airbus A320 series in Tianjin. In addition, AVIC II and Airbus have entered into a framework agreement on establishment of a composite material manufacturing center. According to the framework agreement, Hafei Aviation and Airbus will set up a joint-venture manufacturing center to produce composite parts and components for A350XWB wide body aircraft. The Company plans to invest RMB100 million in the joint-venture project. Hongdu Aviation entered into a sub-contracting agreement with U.S. Goodrich Corporation for the production of parts and components for engines of the new Boeing 787 aircraft for the period from 2008 to 2021. The contract value is estimated to be US$57 million.

The Company has also increased its investments in the aviation business. To support the large scale industrialization of helicopter production of Jiangxi Changhe Aviation Industry Company Limited ("Changhe Aviation") and upon the approval by the Board at the sixth board meeting of the second Board in 2007, the Company increased its investment in Changhe Aviation by increasing its contribution to the registered capital by RMB200 million. As part of the proposed private placing of shares by Hongdu Aviation, the Company will subscribe such number of new shares to be issued by Hongdu Aviation equivalent to RMB250 million.

With the official launch of China's self-developed large aircraft and the growing demands for domestic helicopters and general aircraft, new opportunities have been created for the development of civil aviation products and the Group's aviation business will benefit from this in long run. In 2007, the Group made satisfactory progress in the market development of its aviation products. However, the profitability of its aviation business is yet to improve. In 2008, the Group will adopt the following strategies to improve its aviation business:

1. Accelerate and expand its efforts in research and development of aviation products, invest in more funds in this area, actively participate in the development and manufacture of large aircraft, and strongly promote the international technological co-operation on helicopter production as well as the development of general-purpose aircraft;

2. Strengthen co-operation with overseas partners, actively develop domestic and international markets for its aviation products, strive to realize large scale helicopters export sales contracts and expand sub-contracting production;

3. Strengthen the co-ordination with domestic and international counterparts in production and outsourcing of parts and equipment so as to promote a balanced production and improve large scale production capability; and

4. Based on lean management, the Group will continuously enhance the quality of civil aviation products, improve quality of services and endeavor to reduce production costs so as to improve the operational effectiveness of aviation business.

AUTOMOBILE SEGMENT

Sales Revenue

The Group's turnover of automobile products for 2007 amounted to RMB11,214 million, representing a decrease of RMB1,469 million from that of 2006. The effect of proportional consolidation for the results of Changhe Suzuki resulted in a decrease of sales revenue of RMB1,156 million. If the effect was disregarded, the turnover would have represented a decrease of RMB313 million from that of 2006. Of the 2007 turnover, the sales revenue of entire vehicle products was RMB7,304 million, representing a decrease of RMB2,822 million, or a 27.87% decrease from that of 2006; and external sales of automobile engine products and auto parts and components amounted to RMB3,909 million, representing an increase of 52.93% over that of 2006.

Cost of Sales

Cost of sales of the Group's automobile products for 2007 amounted to RMB10,137 million, representing a decrease of RMB1,306 million from that of 2006. The effect of proportional consolidation for the results of Changhe Suzuki resulted in a decrease of RMB1,150 million in the cost of sales. If the effect was disregareded, the cost of sales would have represented a decrease of RMB156 million as compared to that of 2006. Of the total cost of sales, the cost of sales of entire vehicle products was RMB7,243 million, representing a decrease of RMB2,206 million, or a 23.35% decrease from that of 2006; the cost of external sales of automobile engines and auto parts and components amounted to RMB2,894 million, representing an increase of 45.14% over that of 2006.

Gross Margin

Gross margin of the Group's automobile products for 2007 was 9.60%, representing a decrease of approximately 0.18 percent from that of 2006. During the year of 2007, despite a series of price-cutting measures to promote sales, the sales volume of the Group's entire vehicle products had not reached the expected level, this resulted in a low utilization rate of the production capacity, increased depreciation of production lines over that of 2006, which contributed to a drop in the gross margin of the Group's entire vehicle products. Nevertheless, the sales volume of auto engine products rose and the gross margin of the auto engine products remained steady. Overall, the gross margin of the Group's automobile products dropped slightly in 2007.

Review and Outlook

In 2007, the PRC automobile industry maintained its rapid growth as a whole. According to the statistics published by China Automobile Industry Association, a total of approximately 8,882,400 and 8,791,500 vehicles were produced and sold, respectively in the PRC in 2007, representing an increase of 22.02% and 21.84% as compared to that of 2006, respectively.

In 2007, due to certain negative factors, such as decline in the competitiveness of the Company's automobile products, the sales volume of the Group's entire vehicle products dropped. In contrast, the sales volume of automobile engine products maintained a significant growth. The Group sold 291,694 vehicles in 2007, representing a decrease of 15.29% as compared to that of 2006, among which the sales volume of mini-vans and trucks was 196,052, representing a decrease of 17.16% from that of 2006; and the sales volume of sedans was 95,642, representing a decrease of 11.20% from that of 2006. External sales of auto engines was 283,991 units, representing an increase of 46.26% over that of 2006.

In 2007, the Group continued to restructure the range of its automobile products, during which it launched a new model, Landy, and two upgraded models, Lobo Fuel-Saving π and Ideal II. The Group also escalated its promotional efforts in the upgraded model Beidouxing (1.4L), which recorded a sales volume of 41,940 units, representing an increase of 23.56% over that of 2006. The Group completed the development of HF9 and Furuida single/double-seat model and commenced the production of 4G15 auto engines. Development of diesel engines also achieved a remarkable progress as the 4G93D engine model received the honor of "China Top Ten Engines", marking a significant milestone in the Group's development of diesel engine.

In 2007, the Group strengthened international and domestic co-operation by actively pushing forward the international and domestic collaborations of the Group's enterprises engaging in the manufacturing of entire vehicle products and automobile engines. During the reporting period, the Group entered into a Memorandum of Cooperation with the PSA Group of France, while its discussion with a domestic automobile group on strategic co-operation had progressed smoothly. The partnerships with Suzuki, Mitsubishi, AVL and BOSCH had also been reinforced.

The Group always emphasizes the development of overseas markets for its entire vehicle products as well as the markets for external sales of its automobile engines. The export of entire vehicle products to the markets in Russia and South America achieved a significant breakthrough while the assembly line set up in Vietnam for auto model, namely, Ideal has commenced production. In the meantime, the export volume of mini-trucks continued to increase. The Group's enterprises engaging in automobile engine manufacturing had endeavored to develop the market for sales to domestic proprietary automobile manufacturers. The rapid growth in external sales of automobile engines has boosted the rapid development of the Group's auto engine business.

In 2008, the Group will further reinforce the strategy of strengthening the development of mini-vehicles and co-developing economy sedans, adhere to the marketing-oriented principle in its business operations, improve its operational efficiency and profitability in order to enhance the development of the entire vehicle segment and the engine segment simultaneously and endeavor to promote the co-operation with domestic and international automobile manufacturers.

1. With emphasis on marketing strategies, the Group will refine its sales and marketing practices, enhance the level of marketing network, and endeavor to explore second and third-tier markets so as to boost the sales volume of mini-sedans and mini-vans and trucks;

2. Based on market positioning, the Group will restructure its product mix, make appropriate adjustments to the prices and accessories of each model based on the Cost-Volume-Profit Analysis. Models with higher profit margin will be promoted in priority. At the same time, the Group seeks to reduce outsourcing costs and administrative expenses through optimal production means, and minimize the impact caused by the inflationary prices of raw materials including steel, metals and plastics.

3. The Group will continue to upgrade the existing entire vehicle models and engine models and develop new models, launch new model HF9 and Furuida single/double-seat model and steadily promote the introduction and development of other successive new automobile models, upgraded models and engine products; and

4. Further promote the co-operation between the domestic and overseas manufacturers of entire vehicle in order to better integrate with the mainstream of automobile industry and enjoy complementary advantages through co-operation and thereby promote development.

CASH FLOW

1. **Liquidity and capital resources**

   As at 31st December 2007, the Group's net cash and cash equivalents amounted to RMB2,453 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 each of the year 2007 and 2006 were as follows:

Unit: RMB million (except percentage)

Main items of cash flow	**2007**	**2006**	**Change (amount)**	**Change (percentage)**
Net cash flows generated from operating activities	**97**	910	(813)	(89.34%)
Net cash flows used in investing activities	**(475)**	(1,551)	1,076	(69.37%)
Net cash flows generated from financing activities	**(188)**	854	(1,042)	(122.01%)
Net increase/(decrease) in cash and cash equivalents	**(566)**	213	(779)	(365.73%)

2. **Operating activities**

Net cash in-flows generated from operating activities for the year amounted to RMB97 million, representing a decrease of RMB813 million from that of 2006.

3. **Investing activities**

Net cash out-flows used in investing activities for the year amounted to RMB475 million, representing a decrease of RMB1,076 million from that of 2006, among which term deposits with an initial term of over three months decreased by RMB359 million, while in 2006 the amounted increased by RMB246 million.

4. **Financing activities**

Net cash flows generated from financing activities for the year was an outflow of RMB188 million, while the financing activities in 2006 generated a net cash in-flow of RMB854 million. The net outflow was mainly due to an increase in the repayment of bank borrowings in 2007.

As at 31st December 2007, the Group's total borrowings amounted to RMB6,074 million, of which the current borrowings, long-term borrowings due in one year and non-current portion of long-term borrowings amounted to RMB4,312 million, RMB650 million and RMB1,112 million, respectively.

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

Maturity	RMB million
Within one year	650
In the second year	319
In the third to fifth year	510
After the fifth year	283
Total	1,762

As at 31st December 2007, the Group's bank borrowings amounted to RMB5,914 million with an average interest rate of 6.39% per annum, representing 97.37% of the total borrowings. Other borrowings amounted to RMB160 million with an average interest rate of 0.07%, accounting for 2.63% of the total borrowings.

As at 31st December 2007, the Group's borrowings denominated in foreign currencies amounted to RMB538 million, representing 8.85% of the total borrowings, of which borrowings denominated in United States Dollar, Euro and Japanese Yen amounted to US$1 million, Euro43 million and Yen1,119 million respectively.

GEARING RATIO

As at 31st December 2007, the Group's gearing ratio was 26.67% (31st December 2006: 26.89%), which was arrived at by dividing the total borrowings by total assets as at 31st December 2007.

CONTINGENT LIABILITIES AND GUARANTEES

As at 31st December 2007, the Group had not provided any guarantees in favor of any third party nor were there any significant contingent liabilities.

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

As at 31st December 2007, there was no designated deposit or overdue fixed deposit placed by the Group 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 associated to United States Dollar, Euro, Hong Kong Dollar and Japanese Yen.

Due to its operational needs, the Group had drawn loans denominated in Euro, United States Dollar and Japanese Yen. In addition, the Company has some deposits in Hong Kong Dollar in the amount of HK$50 million, being part of the proceeds raised from the initial public offering in October 2003. The directors are of the opinion that the exchange risks to the Group are low and will not have any material adverse impact on the Group's financial results.

SUBSEQUENT EVENTS

1. Approved by shareholders on 31st March 2008, Hongdu Aviation, one of the Company's subsidiaries, whose shares are listed on the Shanghai Stock Exchange, will place to the Company, Jiangxi Hongdu Aviation Industrial Group Corporation ("Hongdu Group") and certain other independent third parties not more than 98,000,000 new shares for cash and certain other assets of Hongdu Group (the "Placement"). Upon completion of the Placement, and subject to the approval from China Securities Regulatory Commission, the Company's interest in Hongdu Aviation will be reduced to approximately 46.09%. Upon completion of the Placement, the accounts of Hongdu Aviation will continue to be consolidated into the Group's accounts.

2. In January 2008, the Group disposed of an aggregate of 16,140,000 A shares of Jiangxi Changhe Automobile Co., Ltd. ("Changhe Auto"), representing 3.94% of the total share capital of Changhe Auto.

USE OF PROCEEDS

According to the plan for use of proceeds, the proceeds used up to 31st December 2007 amounted to RMB925 million in total, out of which RMB700 million was used for the research and development of new vehicle models and new vehicle engines; RMB225 million was used for the research and development of new advanced trainers and helicopters; 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 of 31st December 2007, the Group had 27,849 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	17,068	61.29%
Aviation	10,169	36.51%
Other activities	612	2.2%
Total	27,849	100%

For the year ended 31st December 2007, a total staff costs of RMB945 million were incurred by the Group in connection with its employees, representing a decrease of RMB52 million as compared to RMB997 million in 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 2007.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Liu Tao and Mr. Liu Hongde were appointed as vice presidents of the Company at a board meeting of the Company held on 27th August 2007. Mr. Liu Hongde subsequently resigned from his position as the vice president of the Company on 11th April 2008 due to change of work position. Save as disclosed herein, there had been no changes to the directors, supervisors and senior management of the Company for the year ended 31st December 2007.

AUDIT COMMITTEE

The Board has established an audit committee and set out the Terms of Reference of the Audit Committee 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 2007 and the Company's 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 operations. The Board reviewed the corporate governance practices adopted by the Company and is of the view that the Company has complied with the principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("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 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 securities transactions by directors under the Listing Rules for the year ended 31st December 2007.

THE ANNUAL REPORT

The annual report of the Company for the year ended 31st December 2007 will be despatched to the shareholders of the Company and published on the respective websites of The Stock Exchange of Hong Kong Limited and the Company (http://www.avichina.com) in due course.

By Order of the Board
AviChina Industry & Technology Company Limited
Zhang Hongbiao
Chairman

Beijing, 11th April 2008

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. Tian Min, Mr. Song Jingang, 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*