



Beijing ●





Dear Shareholders,

The year of 2003 was an extraordinary and meaningful year to the Company. With the support from a vast number of investors and joint efforts of all staff, the Company overcame many unfavourable factors. Reorganisation was completed in April 2003 which has laid a solid foundation for the Company in respect of a sound corporate governance structure and a brand-new operating concept. The Company's H Shares were offered globally to investors at a price of HK\$1.21 in October 2003 and have been listed on the Hong Kong Stock Exchange since 30 October 2003. The closing price of the Company's H Shares on the listing date was HK\$1.47, representing an increase of 21.5% over the offer price. The success in listing has enabled the Company to consolidate its existing market position, further enhance the Group's strengths, accelerate the development of new products and extend cooperation with international counterparts.

In 2003, new models of regional jets and upgraded models of helicopters of the Group successfully completed their maiden flight; new models of economy sedans were also launched in the market with great success. These new models have helped the Group to maintain its position as a leading mini-sized vehicle manufacturer, a helicopter manufacturer with the largest scale of operation and a major aircraft manufacturer in the PRC market.

For the year ended 31 December 2003, the Group recorded sales revenue of RMB15,066 million, representing an increase of 33.22% over that of 2002. Profit for the year amounted to RMB452 million, representing an increase of 13.85% over that of the previous year. Earnings per share amounted to RMB0.134 for 2003. The Company's board of directors proposes the payment of a final dividend of RMB0.0105 per share for 2003 at the forthcoming annual general meeting. Total dividends payout, if approved, amounts to RMB48,758,000.



BUSINESS REVIEW FOR 2003

The PRC economic growth maintained at a fast pace in 2003 with its gross domestic product (the "GDP") growth rate of 9.1 % when compared with that of 2002. The growth of the civil aviation manufacturing industry also kept pace with the GDP whereas the automobile industry grew at a rate of more than 30% for two successive years. Benefiting from the favourable macro economy, the Group's two principal activities, namely the automobile business and the aviation business, have achieved a relatively significant growth during the year. By overcoming the

unfavourable effect brought about by SARS and in face of price competition in the automobile market, the Group has used its best endeavours to maintain and enhance profitability. In 2003, turnover of the automobile segment and the aviation segment increased by 32.52% and 36.70% respectively.

BUSINESS PROSPECT FOR 2004

The Company's board of directors believes that the growth in the economy of the PRC will maintain at a stable and moderate pace in 2004 which will drive the further growth of the aviation manufacturing industry and the automobile manufacturing industry.

The Group has clearly identified opportunities and challenges ahead in 2004. I, together with the staff of the Company, will continue to develop the core business of the Group and pursue for highly effective and transparent corporate governance in the management of the Company with the objective to maximise shareholders' interests. In respect of development strategies, efforts will be devoted by us to :

1. consolidating operations further to lower costs and strengthen our competitive position;
2. expanding our sales and marketing networks to consolidate and increase market share;
3. enhancing our own research and development ("R&D") capability and joint R&D efforts with famous international companies with a view to launching new products built on proprietary intellectual property rights;
4. gradually diverting excessive employees to enhance productivity in line with the State's policies to redevelop traditionally industrial bases in North-east China and strengthen reforms of state-owned enterprises;
5. developing further the principal business activities by consolidating resources, thus developing the Group into a large renowned group inside and outside the PRC.

We will stand by our motto "operating with integrity and providing products and services of quality" in our operation. We will fulfill our commitment to all shareholders in a practical, innovative and fiduciary manner.

On behalf of the board of directors, I would like to thank all our employees for their efforts and extend our gratitude to the Group's shareholders and customers.

Zhang Yanzhong

Chairman

Beijing, 5 April 2004

