

The board of directors (the "Board") of AviChina Industry & Technology Company Limited presents its report of the directors together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2003.

BUSINESS OF THE GROUP

The Group is principally engaged in the research, development, manufacture and sale of vehicles and civilian aircrafts.

The principal activities of the Group are:

- the development, manufacture and sale of mini-sized vehicles, economy sedans and vehicle engines in the PRC; supply of vehicle parts and components and the provision of after-sale service;
- the development, manufacture, sale and upgrade of aviation products such as helicopters, trainers, general purpose aeroplanes and regional jets for domestic and overseas customers; supply of aviation parts and components and the provision of after-sale service;
- the joint development and production of helicopters with leading foreign helicopter manufacturers; and
- the manufacture and sale of other machinery equipment and electronic products.

NEW ISSUE AND CAPITAL STRUCTURE

In 2003, the Company issued a total of 1,527,090,000 H shares (including shares issued under the over-allotment option) pursuant to the global offering. Meanwhile, AVIC II and the other three promoters sold an aggregate of 152,710,500 shares (including shares sold under the over-allotment option) in the Company. Upon the issue and sale, 1,679,800,500 shares are held by the public, representing 36.17% of the Company's total issued share capital. Net proceeds of the public offering, after deducting the intermediary fees and relevant fees, amounting to RMB1,870 million will be utilised for the Company's capital expenditure and investment as planned.

As at 31 December 2003, the Company had 4,643,608,500 shares in issue, fully paid or credited as fully paid, of RMB1.00 each. The Company's capital structure as at 31 December 2003 was as follows:

| Class of shares | Number of | Percentage |
|--|----------------------------------|--|
| | shares as at 31 December 2003 | of total number of shares in issue as at 31 December 2003 (%) |
| Domestic shares | 2,963,808,000 | 63.83 |
| Overseas listed foreign invested shares (H shares) | 1,679,800,500 | 36.17 |
| Total | 4,643,608,500 | 100 |

Alteration of the Company's share capital during the year was as follows:

1. Upon its establishment on 30 April 2003, the Company's registered capital was RMB3,116,518,500, comprising 3,116,518,500 domestic shares of RMB1.00 each.
2. Immediately after completing the global offering in 2003 (taking into account the over-allotment option), the Company's registered capital has been increased to RMB4,643,608,500, divided into 2,963,808,000 domestic shares and 1,679,800,500 H shares.

SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2003, pursuant to the register kept under Section 336 the Securities and Futures Ordinance (the "SFO"), save for the interests as disclosed in the section headed "The interests of Directors, Supervisors and chief executives in the securities of the Company", the following shareholders had notified the Company in respect of their interests in the Company's share capital in issue:

| Name of shareholders | Class of shares | Number of shares | Percentage of shareholdings to the same class of shares | Percentage of shareholdings to share capital in issue | Nature of shares held |
|--|-----------------|------------------|---|---|-----------------------|
| AVIC II | Domestic shares | 2,842,260,596 | 95.66% | 61.06% | long positions |
| European Aeronautic Defence and Space Company - EADS N.V. | H Shares | 232,180,425 | 13.82% | 5% | long positions |
| Commonwealth Bank of Australia | H Shares | 123,432,000 | 7.35% | 2.66% | long positions |

Save as disclosed above, as at 31 December 2003, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register to be kept under section 336 of the Securities and Futures Ordinance.

PURCHASE, SALE AND REDEMPTION OF SHARES

Save for the global offering (including the exercise of the over-allotment option) in 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares for the year ended 31 December 2003.

DIVIDEND

The board of directors recommend the payment of a final dividend of RMB0.0105 per share for 2003, in an amount of RMB48,758,000 in total, subject to the approval of the shareholders at the annual general meeting to be held on 16 June 2004. The final dividend will be paid to those shareholders whose names appear on the Company's register of members at the close of business on 16 June 2004. The Company's register of members will be closed from 17 May 2004 to 16 June 2004 (both days inclusive). In order to register for the transfer of shares, all transfer instruments accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited not later than 4:00 p.m. on 14 May 2004. The final dividend is proposed to be paid on or about 8 July 2004.

In accordance with Article 149 of the Company's articles of association, dividends shall be declared in Renminbi to the shareholders. Dividends for domestic shares will be paid in Renminbi within three months after the declaration date while dividends for H shares, calculated and declared in Renminbi, will be paid in Hong Kong dollars within three months after the declaration date. This amount denominated in Hong Kong dollars shall be converted based on the average conversion rate between Renminbi and Hong Kong dollars issued by the People's Bank of China for the five working days prior to the declaration of dividends at the annual general meeting to be held on 16 June 2004.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and the laws of the People's Republic of China.

DESIGNATED DEPOSITS AND OVERDUE FIXED DEPOSITS

Details of designated deposits are set out in note 25 to the financial statements. As at 31 December 2003, the Group did not have overdue fixed deposits.

FIXED ASSETS

Details of the fixed assets are set out in note 14 to the financial statements.

RESERVES

Details of movement in reserves of the Group and the Company for the year are set out in consolidated statement of changes in shareholders' equity and in note 36 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2003, determined in accordance with the PRC GAAP, amounted to RMB135,970,000.

MAJOR CUSTOMERS AND SUPPLIERS

So far as the Directors are aware of, during the year, the Group's total purchases from the five largest suppliers accounted for 13% of the Group's total purchases. Of these, purchases from the largest supplier accounted for approximately 5% of the Group's total purchases. The Group's sales to the five largest customers accounted for 24.3% of the Group's annual total sales. Of which, sales to the largest customer accounted for 11% of the Group's total sales.

Purchases from the five largest suppliers accounted for 15% of the total purchases in the Group's aviation segment. Of which, purchases from the largest supplier accounted for 6% of the total purchases in the Group's aviation segment. Sales in the aviation segment to the five largest customers accounted for 91% of the total sales in the Group's aviation segment. Of which, sales to the largest customer accounted for 65% of the total sales in the Group's aviation segment.

In the vehicle segment, purchases from the five largest suppliers accounted for 16% of the total purchases in the Group's vehicle segment. Of which, purchases from the largest supplier accounted for 5% of the total purchases in the Group's vehicle segment. Sales in the vehicle segment to the five largest customers accounted for 15% of the total sales in the Group's vehicle segment. Of which, sales to the largest customer accounted for 5% of the total sales in the Group's vehicle segment.

During the year, save for the connected transactions with AVIC II and the controlling shareholder as disclosed in section of connected transactions in this annual report, none of the Directors, Supervisors and their associates or any shareholder holding more than 5% in the share capital of the Group has any interest in the above major suppliers and customers.

SUBSIDIARIES AND ASSOCIATES

Details of subsidiaries and associates are set out in note 43 to the financial statements.

COMPENSATION PLAN

Compensation for the Directors (except the independent non-executive Directors and Hu Jiarui), Supervisors (except independent supervisors, Liu Xianping and Yu Yan) and senior management officers comprises of one or more of the following three components, namely basic salary and other remuneration, the interim performance incentive programme and the Share Appreciation Rights plan. Of which, these Directors, Supervisors and senior management officers are entitled to basic salaries and other remuneration (including benefits, contribution to a housing fund scheme and benefits in kind given to all the employees by the Company); these Directors and senior management officers are entitled to participate in the interim performance incentive programme and these Directors, Supervisors and senior management officers are entitled to participate in the Share Appreciation Rights plan.

In order to motivate the staff, in addition to basic salary and other remuneration, management officers of certain subsidiaries are entitled to participate in the interim performance incentive programme and the Share Appreciation Rights plan. Certain core technical staff of the Company and department managers at the head office are entitled to participate in the Share Appreciation Rights plan.

The Compensation Committee of the Company is formulating implementation details in accordance with the above compensation plan, which will be implemented in 2004.

WELFARE AND SOCIAL INSURANCE FOR STAFF

Details of the welfare plans and social insurance for staff are set out in note 13 to the financial statements.

Up to 31 December 2003, the Group has 498 retired employees, all of them have participated in the basic pension insurance social planning in various provinces in accordance with the government policies of the PRC. Basic pension funds are being paid from the social plan funds.

CONNECTED TRANSACTIONS

The connected transactions of the Company in the year in respect of which waivers have been granted by the Stock Exchange were as follows:

1. On 2 October 2003, the Company entered into a product and ancillary services mutual supply agreement ("Mutual Supply Agreement") with AVIC II (the controlling shareholder of the Company) whereby the AVIC II Group has agreed to provide certain products and services to the Group and the Group has agreed to provide certain products and services to AVIC II Group for a term of three years.

2. On 2 October 2003, the Company entered into a comprehensive services agreement (“Comprehensive Services Agreement”) with AVIC II whereby AVIC II Group has agreed to provide certain social welfare and logistics services to the Group for a term of three years.
3. On 2 October 2003, the Company entered into a land use rights leasing agreement (“Land Use Rights Leasing Agreement”) with AVIC II whereby the AVIC II Group has agreed to lease to the Group 48 pieces of lands, with an aggregate area of approximately 2.9 million square metres at the annual rent of approximately RMB37.6 million. The lands are used by the Group workshops, warehouses, administrative office and ancillary facilities. The term of the lease is 20 years and the Company is entitled to require AVIC II to renew the terms of the lease by giving AVIC II a written notice at least 6 months before the expiry of the lease.
4. On 2 October 2003, the Company entered into a properties leasing agreement (“Properties Leasing Agreement”) with AVIC II whereby the AVIC II Group has agreed to lease to the Group 54 buildings with an aggregate gross floor area of approximately 111,000 sq.m. at an annual rent of approximately RMB24 million. Similarly, the Company has agreed to lease to the AVIC II Group certain properties with an aggregate gross floor area of approximately 37,000 square metres at an annual rent of approximately RMB1.1 million. These properties are used by the Group as workshops, warehouses and ancillary facilities. These properties are leased for a term of 10 years and the Company is entitled to require AVIC II to renew the term of the lease by giving AVIC II a written notice at least 6 months before the expiry of the lease.
5. On 2 October 2003, the Company entered into a technology cooperation framework agreement (“Technology Cooperation Agreement”) with AVIC II for a term of three years whereby the AVIC II Group has agreed to transfer or grant a licence to the Group to use certain existing technology required for the Group’s business in connection with the production of aircraft and automobiles. The agreement has also provided for future cooperation between the AVIC II Group and the Group in respect of development of new technology.
6. On 30 June 1999, Harbin Dongan Automotive Engine Manufacturing Co., Ltd (“Dongan Engine”), a non-wholly owned subsidiary of the Company, entered into a technology transfer agreement (“Mitsubishi Technology Transfer Agreement”) with Mitsubishi Motor Corporation (“Mitsubishi”), a connected person by virtue of it being a substantial shareholder of Dongan Engine, whereby Mitsubishi has agreed to grant to Dongan Engine licence to use the industrial properties rights, patent and technology documents relating to the 4G1 series engines, gearboxes and the respective assemblies, parts and components.
7. As part of the joint venture agreement dated 16 June 1998, relating to the establishment of Dongan Engine, the CKD spare parts supply agreement between Dongan Engine and Mitsubishi (“Mitsubishi CKD Agreement”) states that Dongan Engine agrees to purchase parts and components from Mitsubishi.
8. On 24 June 1998, Jiangxi Changhe Suzuki Automobile Co., Ltd. (“Changhe Suzuki”), an indirect non-wholly owned subsidiary of the Company, entered into a technology transfer and joint development agreement (“Joint Development Agreement”) with Suzuki Motor Corporation (“Suzuki”), a connected person by virtue of it being a substantial shareholder of Changhe Suzuki for a term of eight years, whereby Changhe Suzuki shall pay an one-off payment to Suzuki and thereafter, for the CH6350 series automobiles produced by Changhe Suzuki, Changhe Suzuki shall pay to Suzuki a total fee (including royalty fees) calculated as a percentage of the ex-factory price (after deducting the price of imported KD parts and purchase price of engines).

9. During 2003, Changhe Suzuki and OKAYA & Co. Ltd. ("OKAYA") had from time to time entered into contracts for the supply of KD parts from OKAYA in the ordinary course of business and on normal commercial terms. OKAYA is a connected person by virtue of it being a substantial shareholder of Changhe Suzuki.
10. During 2003, Hafei Auto, an indirect non-wholly owned subsidiary of the Company entered into contracts for the purchase of parts and components for vehicles from Wenzhou Tianou Automobile Parts Manufacturing Company Limited ("Wenzhou Tianou") from time to time in the ordinary course of business and on normal commercial terms. Wenzhou Tianou is a connected person by virtue of it being a substantial shareholder of Harbin Hafei Tianou Automobile Parts Company Limited ("Hafei Tianou"), which is an indirect non-wholly owned subsidiary of the Company.
11. During 2003, Hafei Auto entered into contracts for the purchase of gears from Jiangsu Feichuan Company Limited ("Jiangsu Feichuan") from time to time in the ordinary course of business and on normal commercial terms. Jiangsu Feichuan is a connected person by virtue of it being a substantial shareholder of Harbin Hafei Automobile Rear-bridge Manufacturing Company Limited which is an indirect non-wholly owned subsidiary of the Company.
12. On 2 October 2003, the Company and various members of the Group entered into an internal connected transaction agreement ("Internal CT Agreement") which set out the general principles of the transactions between the Company (or its wholly-owned subsidiaries) and the non-wholly owned subsidiaries of the Company and transactions between the non-wholly owned subsidiaries of the Company. During 2003, subsidiaries of the Company had, from time to time, provided goods and services to Dongan Engine and Hafei Auto and vice versa.

In addition, certain subsidiaries of the Company had from time to time, given guarantees in favour of Dongan Engine and Hafei Auto. Hafei Auto had also given a guarantee in favour of Hafei Aircraft Industry (Group) Co., Ltd., (a wholly-owned subsidiary of the Company).

The Board of Directors (including independent non-executive Directors) has confirmed that the above transactions had been entered into under the following conditions:

- (a) The transactions were entered into in the ordinary and usual course of business of the Group;
- (b) The transactions were entered into: i) on normal commercial terms; or ii) in accordance with the relevant agreements governing such transactions, or if no agreements are available, on terms no less favourable than those available from/to independent third parties; or iii) where there is no available comparison for the purpose of determining whether (i) or (ii) above is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned;

(c) The aggregate value of the respective transactions had not exceeded the following limits:

| The transaction | Cap (If expressed as a % of turnover or cost of sales, it means % of the total turnover or cost of sales of the Group respectively in the year when the relevant transactions take place) |
|--|--|
| Mutual Supply Agreement | |
| (i) Annual expenditures in respect of products and services provided by the AVIC II Group | 30% of the cost of sales |
| (ii) Annual revenue in respect of products and services provided by the Group | 20% of the total turnover |
| Comprehensive Services Agreement | |
| Annual expenditures for the provision of services by the AVIC II Group | 1.4% of the cost of sales |
| Land Use Rights Leasing Agreement and Properties Leasing Agreement | |
| Annual rents payable by the Group | RMB61,600,000 |
| Annual rents receivable by the Group | RMB1,100,000 |
| Technology Cooperation Agreement | |
| (i) Annual expenditure of the Group | 0.6% of the cost of sales |
| (ii) Annual amount received by the Group | 0.6% of the total turnover |
| Mitsubishi Technology Transfer Agreement | |
| Annual expenditure of the Group | 0.1% of the cost of sales |
| Mitsubishi CKD Agreement | |
| Annual expenditure of the Group | 5.5% of the cost of sales |
| Joint Development Agreement | |
| Annual expenditure of the Group | 0.3% of the cost of sales |
| Transaction regarding supply of KD parts between Changhe Suzuki and OKAYA | |
| Annual expenditure of the Group | 2.9% of the cost of sales |
| Transactions regarding Hafei Tianou | |
| Annual expenditure of the Group | 0.12% of the cost of sales |
| Transactions regarding Hafei Rear-bridge | |
| Annual expenditure of the Group | 0.34% of the cost of sales |
| Internal CT Agreement | |
| (i) Annual expenditure of Dongan Engine and Hafei Auto (to the extent the transactions do not fall within any exemption under the Listing Rules), except guarantee | 19.5% of the cost of sales |
| (ii) Annual revenue received by Dongan Engine and Hafei Auto (to the extent the transactions do not fall within any exemption under the Listing Rules), except guarantee | 7% of the total turnover |
| (iii) amount of guarantee provided by the subsidiaries of the Company in favour of Dongan Engine and Hafei Auto as at the end of each financial year | RMB2,700 million |
| (iv) amount of guarantee provided by Hafei Auto in favour of Hafei Industry Company as at the end of each financial year | RMB500,000 |

The Company's auditors have reviewed the relevant transactions, and have confirmed in a letter to the Directors stating that:

- (a) The transactions have received the approval of the Board;
- (b) The transactions have been entered into in accordance with the pricing policies as stated in the relevant agreements, or if no such policies or agreements are available, on terms no less favourable than those available from/to independent third parties;
- (c) The transactions have been entered into in accordance with the terms of the respective agreements and documents governing the transactions, or if no such agreements or documents are available, on terms no less favourable than those available from/to independent third parties;
- (d) The aggregate amounts of the transactions have not exceeded the respective caps as set out above.

CODE OF BEST PRACTICE

The board of directors of the Company is of the opinion that the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rule Governing the Listing of Securities on the Hong Kong Stock Exchange since the listing of its H shares on the Hong Kong Stock Exchange except that the number of independent non-executive directors in the audit committee has not formed the majority. The Company is currently reviewing issues relating to corporate governance pursuant to the 2004 revised Listing Rules.

DUTIES OF SPECIAL COMMITTEES

The Company has established three Special Committees under the Board, being the Audit Committee, Compensation Committee and Strategic Development Committee.

➤ **Strategic Development Committee**

The Company has established a strategic development committee. The primary duty of the Company's strategic development committee is to conduct researches on the Company's long-term development strategies and significant investment decisions and to provide opinions or proposals to the Board. The members of the strategic development committee are Wu Xiangdong, Song Jingang, Guo Chongqing, Ni Xianping and Chen Huaqiu, with Wu Xiangdong serving as the chairman of the committee.

During the financial year, in accordance with the development of the Company's business, the strategic development committee studied the future development strategies of the Company. The Company will set up new professional committees in the Committee specialising in helicopter, aeroplane and vehicle business, which will emphasis on the research of the future developments for the Company's aviation and vehicle business.

➤ **Audit Committee**

The Company has established an audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of our Group and to provide advices and recommendations to the Board. The audit committee consists of two non-executive directors and two independent non-executive directors. Current members of the audit committee are Chi Yaozong, David Li Kwok-po, Guo Chongqing and Hu Jiarui, with Chi Yaozong as the chairman of the committee.

During the year, the audit committee proactively promoted the establishment of comprehensive accounting policies and important financial policies to standardise the financial reporting procedures of the Company. The audit committee convened a meeting on 28 March 2004 to review the draft of the Group's financial statements for the year ended 31 December 2003.

➤ **Compensation Committee**

The Company has established a compensation committee. The primary duties of the compensation committee include establishing the human resources management policies, reviewing the compensation policies, and formulating the compensation packages of the directors, supervisors, general manager and senior management officers, recommending and establishing annual and long-term performance criteria and targets as well as supervising the implementation of all executives' compensation packages and employees' benefit plans. The compensation committee comprises two non-executive directors and one independent non-executive director. Current members of the compensation committee are Song Jingang, Chi Yaozong and David Li Kwok-po, with Song Jingang serving as the chairman of the committee.

During the year, the compensation committee had upgraded the Company's compensation plan and the employees' compensation welfare system, and promoted the implementation of the Company's compensation plan.

MAJOR LITIGATION

As at 31 December 2003, the Company was not involved in any material litigation or dispute.

MAJOR EVENTS

1. On 23 September 2003, under the approval by CSRC, Hafei Aviation (a subsidiary of the Company) conducted a rights issue, pursuant to which 19,500,000 A Shares of RMB1.00 each were placed and RMB274,755,000 was raised in aggregate. The share capital of Hafei Aviation was accordingly increased from RMB240,000,000 to RMB259,500,000, and the Group's attributable interest in the company was reduced from 59.7% to 55.8%.
2. On 20 November 2003, Hafei Aviation (a subsidiary of the Company), Eurocopter, China National Aero-Technology Import and Export Corporation and Singapore Technologies Aerospace Ltd. entered into the Framework Agreement to establish a final assembly line at the production site of Hafei Aviation to produce EC-120 helicopters. It is expected that the establishment of the final assembly line will take in approximately one year. Upon completion, the final assembly line will have the capacity to produce 20 EC-120 helicopters annually.
3. On 16 December 2003, Hafei Aviation (a subsidiary of the Company), Embraer and Hafei Industry Company set up a joint venture (Harbin Embraer), and the first ERJ-145 series regional jet was formally launched and completed its successful maiden flight.
4. As disclosed in the prospectus of the Company, Hafei Auto has formally applied to CSRC for the issue of 400,000,000 to 450,000,000 new A Shares. The issue of A Shares by Hafei Auto is being reviewed by regulatory institutions outside and inside the PRC.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. In the forthcoming Annual General Meeting, a resolution for the re-appointment of PricewaterhouseCoopers will be presented.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors



Mr. Zhang Yanzhong (張彥仲), 64, an executive Director and chairman of the Board of Directors. He was the President of AVIC II since it was founded in 1999 until December 2003. He is a research professor, and a fellow of the Chinese Academy of Engineering. He graduated from the Northwest University of PRC in Physics in 1962 and received his Ph.D. degree in information engineering from Trinity College of Cambridge University in 1984. He has been involved in the aviation industry since September 1962 and used to be a Deputy Director of the Ministry of Aviation Industry's No. 304 Institute, and the Vice Chief Engineer, the Chief Engineer of the Ministry of Aviation Industry since 1986, Chief Engineer of the Ministry of Aero-Space Industry and, in 1993, the Vice President of AVIC. He is also a member of the China People's Political Consultative Committee and used to be the Chairman of the Chinese Aviation Science & Technology Funds and of

the Chinese Aviation Scholarship Funds, the Executive Director of the International Council of the Aeronautical Sciences (ICAS). He was a visiting professor of Sydney University of Australia. He has received eleven national or ministerial awards and published nine books.



Mr. Wu Xiandong (吳獻東), 39, an executive Director and the president of the Company. He is a research professor. He graduated from Beijing University of Aeronautics and Astronautics majoring in electro-mechanical control in manufacturing engineering and received his Ph.D. degree from the Moscow Aircraft Institute of Russia majoring in production organisation in the aviation industry. He has been involved in the aeronautics field since July 1987, joined AVIC in 1996, joined AVIC II in 1999. He used to be an assistant engineer in Harbin Dongan Engine Manufacturing Company, the general manager of Harbin Aviation Elec-Mec Company, the director of assets and enterprises management department of AVIC II and an assistant to the president of AVIC II and a vice president of AVIC II.

Non-executive Directors



Mr. Chi Yaozong (池耀宗), 62, a non-executive Director. He is a professional consultant to AVIC II since 2003 and a class one senior accountant. He graduated from Hangzhou Aviation Industrial School of Finance and Economics and the Communist Party's Central School's Correspondence College, majoring in economics and management. He commenced his career in aviation industry in March 1959 and used to be the financial controller and chief accountant of Chengdu Engine (Group) Company, a deputy director of the finance department of the Ministry of the Aviation Industry and a deputy director and the director of the finance department of the Ministry of Aero-Space Industry, the finance director and chief accountant of AVIC, and a vice president of AVIC II.



Mr. Song Jingang (宋金剛), 59, a non-executive Director. He is also a vice president of AVIC II and a researcher level senior engineer. He graduated from the Harbin Military Engineering Institute, majoring in aero-engine. He commenced his career in aviation industry in August 1965 and used to be a deputy director of the technology department, section chief of the assembly line, a deputy director and the director of Harbin Dongan Mechanic Factory, a deputy general manager and the general manager of Harbin Dongan Engine Manufacturing Company, the general manager and the chairman of AVIC Mini-sized Vehicle (Group) Co., Ltd. (中航微型汽車(集團)有限責任公司).



Mr. Chen Huaiqiu (陳淮秋) 58, a non-executive Director. He is also the director of the planning and development department of AVIC II and a research professor. He graduated from the Beijing University of Aeronautics and Astronautics in 1969 majoring in aeronautic engineering dynamics. He commenced his career in aviation industry in September 1970 and used to be a technician of Guizhou Base of the Third Ministry of Machine Building, a lecturer at Metal Technology Institute of the Beijing Aeronautics College, a deputy division director, a division director and a deputy director of the planning department of AVIC.



Mr. Xu Tongxing (須桐興), 59, a non-executive Director. He is also the chairman of the board of directors of Dongan Group and Dongan Motor and a research professor. He graduated from Harbin Military Engineering Institute in July 1969, majoring in aeroplane design and manufacturing. He used to be an operator and a technician of Dongan Group and a deputy director of the personnel division, a director of the cadre department and the vice chairman of Dongan Group.



Mr. Cui Xuwen (崔學文), 58, a non-executive Director. He is also the chairman of the board of directors of Hafei Industry Company, the chairman of the board of directors of Hafer Auto and a researcher level senior engineer. He graduated from Nanjing Huadong Engineering College majoring in military engineering in 1970 and then worked in Hafei Industry (Group) Company Limited, as a technician at workshop, a deputy technology director, the director of the production division and a deputy chief engineer, a deputy head, the general deputy head and the head of the plant. He is a representative of the 10th National People's Congress.



Mr. Jiang Liang (姜亮), 60, a non-executive Director. He is a researcher level senior engineer. He graduated from China University of Science and Technology in July 1966, majoring in the aerial vehicle structural mechanics. He then worked in Hongdu Aviation Industry (Group) Company Limited as a designer in the aeroplane design institute, a deputy director of the design office, the chief quality controller and a deputy head of the plant, the chief engineer, the principal deputy general manager, the general manager and the chairman. He was a representative the 9th National People's Congress.



Mr. Yang Jinhui (楊金槐), 59, a non-executive Director. He is also the chairman of the board of directors and the general manager of Changhe Group, a director of Changhe Auto and a researcher level senior engineer. He graduated from Tongji University of Shanghai in July 1970, majoring in electrical design. He then worked in Changhe Group, where he used to serve as a designer, a team head and a deputy director of the design institute. He also used to be a deputy general manager of Changhe Group. He is a representative of the 10th National People's Congress. He was also honored as a "National Model Worker" and awarded with a "National Labour's Day Medal".



Mr. Ni Xianping (倪先平), 48, a non-executive Director. He is also the director of the Helicopter Department of AVIC II and a research professor, a Ph.D. in Engineering. He graduated from the Nanjing University of Aeronautics and Astronautics majoring in helicopter design. From 1982, he served as a designer, an engineer, a deputy team head, an assistant chief engineer, the director of the office of the chief engineer, a deputy chief engineer, a deputy director and the director of the China Helicopter Research Institute. He is now a visiting professor of Beijing University of Aeronautics and Astronautics and Nanjing University of Aeronautics and Astronautics. Since 1996, he has been the chief designer of a major research subject of the "Ninth Five-year Plan", the rotor theoretical prototype. He was ranked in the first and the second tiers in the "State Cadre Reserve Plan" sponsored by seven State ministries in 1997 and received the honour from AVIC as the Youth with Excellent Contributions and six science and technology awards from the Ministry of Aero-Space Industry and AVIC II.



Ms. Hu Jiarui (胡家瑞), 54, a non-executive Director. She is also a deputy general manager of Hua Rong's Harbin Office. She used to be an assistant director of the investment planning department of the Industrial and Commercial Bank of China, Harbin Branch, in 1985, the director of the sales department of the Industrial and Commercial Banks of China, Harbin Branch in 1987, a deputy president of the Industrial and Commercial Bank of China, Harbin Branch in 1992 in charge of credit and loan business. In December 1998, Ms. Hu graduated from Harbin Teacher's University, majoring in Chinese language and literature.

Independent Non-executive Directors



Dr. The Hon. Li Kwok-Po, David (李國寶), 65, an independent non-executive Director. He is also the chairman of the board of directors and chief executive of the Bank of East Asia Limited. He is the chairman of The Chinese Banks' Association Limited and the Hong Kong Management Association, a member of the Banking Advisory Committee, the Exchange Fund Advisory Committee and the Land Fund Advisory Committee, a director of the Mandatory Provident Fund Schemes Authority, a board member of the Trustees of the Better Hong Kong Foundation, a member of the Legislative Council of Hong Kong and a Pro-Chancellor of the University of Hong Kong. He also serves on Hong Kong Red Cross Advisory Board. He is also the director of China Merchants China Direct Investments Limited, China Overseas Land & Investment Limited, COSCO Pacific Limited, Dow Jones & Company, Inc., Guangdong Investment Limited, Henderson Cyber Limited, The Hong Kong and

China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, Hong Kong Interbank Clearing Limited, The Hong Kong Mortgage Corporation Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited, Sime Darby Berhad and Vitasoy International Holdings Limited. He joined the Company as an independent non-executive Director in May 2003.



Mr. Guo Chongqing (郭重慶), 70, an independent non-executive Director. He is also an academican of the Chinese Academy of Engineering and a professor of Tongji University, the consulting dean of the Mechanical Engineering Institute and Economics and Management Institute, an assistant department head of Engineering Management of Chinese Academy of Engineering, a member of the specialist consultative committee of National Management Institute of Natural Science Funds and a member of the specialist committee of Chinese Association of Machine Building. He graduated from Harbin Polytechnical University in 1957 majoring in machinery manufacturing and was an assistant professor in the university. He has been the chief designer of a number of major national construction projects, and was awarded the "Chinese Master of Engineering Design". He joined the Company as an independent non-executive Director in May 2003.

SUPERVISORS



Mr. Wang Shouxin (王守信), 61, a Supervisor. He is also a vice president of AVIC II and a research professor. He graduated from Peking University in 1967 majoring in mathematics mechanics. He commenced his career in aviation industry in August 1968 and used to be a deputy director and the director of the specialist division of the personnel department of the Ministry of Aviation Industry, an assistant to the director of the science and technology research institute of the Ministry of Aero-Space Industry, a deputy director and the director of the exploration and design institute of AVIC, the director of the security department of AVIC, the director of the human resources department and the supervision department of AVIC II.



Mr. Li Shentian (李申田), 57, a Supervisor. He is also the general legal counsel of AVIC II, a research professor, a qualified PRC practicing lawyer and enterprise legal advisor. He graduated from the Beijing Aeronautics College and the Nanjing Huadong Engineering Institute, majoring in exterior ballistics, and from Beijing Renwen Correspondence University majoring in law. He also took the examination in legal professional in the National Tertiary Self Study Education Examination. He commenced his career in aviation industry in 1970 and used to be a technician in Harbin Aircraft Manufacturing Company, a secretary of the general office and a deputy director of the legal division of the Ministry of Aviation Industry, the director of the legal division of the policy and legal department, an inspector, a deputy director of the supervision department and a legal counsel of the Ministry of Aero-Space Industry, a deputy director of the general office, the director of the legal centre of AVIC and the director of the general office of AVIC II.



Ms. Bai Ping (白萍), 49, a Supervisor. She is also the director of the finance and audit department of AVIC II, a class one senior accountant and a certified public accountant. She graduated from Zhengzhou Aviation Industry Management Institute majoring in financial management. She also took the business administration diploma course in the faculty of economics, management and human resources training center in Beijing University of Aeronautics and Astronautics and an MBA course sponsored by the University of California, USA. She commenced her career in aviation industry in 1970 and served as a staff in the management office of electronic component division of Shaanxi Xingping Qinling Company, an Auditor of the audit department of the Ministry of Aero-Space Industry, a deputy director and the director of the audit office under the finance department of AVIC.



Mr. Tang Jianguo (湯建國), 52, a Supervisor. He is also a deputy director of the human resources department and a director of development and research department of AVIC II, a director of China Aviation Industry Economy Technology Research Centre and a research professor and a special research fellow at the China Labour Science Academy. He graduated from Beijing University of Aeronautics and Astronautics majoring in metallic materials and welding. He commenced his career in aviation industry in December 1971 and used to serve at Factory No. 550 under the Ministry of Aviation Industry, Beijing University of Aeronautics and Astronautics and AVIC. He is a research fellow of China Engineering Academy's Beijing University of Aeronautics and Astronautics advanced education study centre, a research fellow of China Labour Scientific Institute (中國勞動科學院) and a member of China Labour's Society.



Ms. Lu Liubao (魯留寶), 59, a Supervisor. She is also the director of the corporate supervision department of AVIC II and a senior engineer. She is a college graduate and commenced her career in aviation industry in July 1967 and used to be the director of the promotion department of Shenyang Aircraft Manufacturing Factory, a staff official of corporate administration department, a deputy director of general office and an official supervisor of the supervisory department of the Ministry of Aero-Space Industry, the director of the general office of the disciplinary supervision committee and the supervisory department, an officer of the disciplinary office and a vice department representative of AVIC, a deputy director of the disciplinary committee and supervision department of AVIC II.



Ms. Liu Xianping (劉顯萍), 38, a Supervisor. She is also a senior deputy manager of Cinda's Harbin Office and a senior accountant. She graduated from the Northeast School of Finance and Economics in July 1988 and then joined the China Construction Bank, Heilongjiang Branch, where she used to be a research analyst, a secretary, a manager and staff in the investment research institute, the general office, the trust and investment corporation, the finance and accounting department of the China Construction Bank, Heilongjiang Branch, until July 1999, when she joined Cinda's Harbin Office.

Independent Supervisors



Mr. Yu Yan (于岩), 41, a Supervisor. He has also been an assistant manager of the assets management department of Orient's Harbin Office since 2000 responsible for assets and stock management. Mr. Yu is a senior economist. From 1989, he worked in the Bank of China Heilongjiang Branch's finance research institute, trust and investment corporation and corporate department engaged in research, investment management, investment fund and credit and loan operations. He has an extensive experience in finance and investment management.



Ms. Zheng Li (鄭力), 68, an independent Supervisor. She is the chairperson of the China Institute of Internal Audit. Ms. Zheng is a senior economist, a registered accountant and an international registered internal Auditors. She graduated from the Moscow Finance and Economics Institute in January 1959. She then worked in the former State Development and Planning Commission and held the position of deputy division head, division head and deputy department head of the General Department of National Economy of the State Development and Planning Commission; she was a full-time committee member of the State Development and Planning Commission; the deputy Auditors-general of the Auditing Administration, a special inspector of the State Council and a member of the supervisory board of China Development Bank. She was a deputy to the 9th China People's Political Consultative Committee, a member of the executive board of the 5th, 6th and 7th All-China Women's Federation and was awarded the National "Eighth of March" Red Flag Bearer.



Mr. Xie Zhihua (謝志華), 44, an independent Supervisor. He is also a professor and a vice chancellor at the Beijing Business University, a Ph.D. degree holder, a certified public accountant, a director of the China Accounting Society, a special research fellow at the Ministry of Finance's research institute the Chinese Study Centre of University of Cardiff in the United Kingdom, a Ph.D. student field work monitor in a capacity of honorary student advisor at the Cardiff Business School of the United Kingdom and a visiting professor at the King's College in Canada. He is awarded special subsidy by the State Council as a specialist.

SENIOR MANAGEMENT



Mr. Liu Cheng (劉頴), 60, a vice president of the Company. He is also the director of the automobile department of AVIC II, a director of Dongan Motor, Changhe Auto and Hafei Auto. He is a university graduate and a researcher level senior engineer. He commenced his career in aviation industry in January 1964 and used to be a designer at the Fourth Institute of the Third Ministry of Machine-Building Industry, a technician, the general production coordinator, a sub-division chief, a deputy chief engineer and the chief engineer at the Ministry of Aviation Industry's No. 3297 Factory, a deputy director Base 012 of the Ministry of Aviation Industry, a deputy general manager and the chief of the technology committee at Tianda Aviation Industry Corporation, a production base affiliated with the Ministry of Aviation Industry. He is awarded special subsidy by the State Council as a specialist.



Mr. Li Hui (李慧), 48, a vice president of the Company. He is also the director of the general office of AVIC II. He is a post-graduate and a senior engineer. He graduated from Beijing University of Aeronautics and Astronautics majoring in computer programme system design and economics and management. He commenced his career in aviation industry in September 1978 and used to be a technician at the electrical equipment division of the ancillary machine department of the Third Ministry of the Machine-Building Industry and general office secretary, an assistant engineer at the Third Ministry of the Machine-Building Industry, secretary and engineer at general office of the Ministry of the Aviation Industry, a deputy director and the director of the trading division of China Aviation Industry Science and Technology Corporation, a deputy general manager of China Aviation Industry Science and Technology Corporation, a deputy director, the general deputy director of the

general office of AVIC II, the director of the development and research department of AVIC II and the director of China Aviation Industry Economy Technology Research Centre.

SENIOR MANAGEMENT

Mr. Li Yao (李耀), 39, a vice president and the chief financial officer of the Company. He is also a director of Hafei Aviation and BIAM Hi-Tech Company Limited, a supervisor of Changhe Auto and a senior accountant. He graduated in Zhengzhou Aviation Industry Management Institute majoring in finance and accounting and studied in the Beijing University of Aeronautics and Astronautics majoring in corporate management and industrial economics. He commenced his career in aviation industry in July 1986 and served as a staff official in the finance department of the Ministry of Aviation Industry and the Ministry of Aero-Space Industry, a deputy director of the enterprise division of the finance department of AVIC, a deputy director of the finance and audit department of AVIC II.

COMPANY SECRETARY

Mr. Yan Lingxi (閻靈喜), 33, a company secretary appointed in April 2003. He is also a supervisor of Hafei Aviation, Hafei Auto and Beijing AVIC Estate Management Co., Ltd. and a senior engineer. He graduated from the Beijing University of Aeronautics and Astronautics with a bachelor degree in engineering (majoring in administration information system) in 1991 and with a master degree in management in 1999. He commenced his career in aviation industry in July 1991 and worked in the reform bureau of the Ministry of Aero-Space Industry, the corporate management office of Nanjing Jincheng Machinery Factory, the corporate management department and the asset and business management department of AVIC. He was appointed as a deputy division director in 1999 and the division director in 2001 in the corporate assets management department of AVIC II.

COMPANY SECRETARY

Mr. Ip Kun Wan (葉冠寰), Kiril, 43, a company secretary appointed on 6 September 2003. He graduated from The University of Hong Kong in 1983 with a bachelor degree in mechanical engineering and from University of Sydney in 1993 with a master degree in transport management. He began his career working as a marine engineer in 1983 and subsequently worked as a ship surveyor. In 1995, he commenced his second career with an international law firm working on commercial and shipping matters. In 1994, he completed his common professional examinations in law and subsequently in 1995 obtained the postgraduate certificate in laws from The University of Hong Kong. In 1997, he qualified as a Hong Kong solicitor. He is the company secretary and group legal counsel of China Everbright Limited (a company listed on the Stock Exchange) since June 2002.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Prior to 31 December 2003, there had been no changes to the Directors, Supervisors and senior management of the Company.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors (except the independent non-executive Directors) and Supervisors has entered into service contracts with the Company, commencing from 30th April 2003 to 29 April 2006 (of which, the service contracts of two independent Supervisors started from 19 June 2003 to 18 June 2006). None of the Directors and Supervisors have entered into service contracts which are not terminable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year, none of the Directors or supervisors had a material interest, directly or indirectly, in any contract of significance to which the Company or its subsidiaries was a party.

THE INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SECURITIES OF THE COMPANY

As at 31 December 2003, interests of the Directors, Supervisors and chief executives of the Company in the Shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required pursuant to section 352 of the SFO, to be registered and required to be kept therein, or which were notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

| Name of Company or its associated corporation | Name of Director/ Supervisor/ chief executive | Number and class of securities held | Capacity in holding interest | Type of interests held | Approximate % of shareholding in the same securities |
|---|---|--|---------------------------------|---------------------------|--|
| AviChina | David Li Kwok-po | 2,000,000 H Shares | Beneficial owner | Long position | 0.12% |
| Dongan Motor | Xu Tongxing | 5,070 A Shares | Beneficial owner | Long position | 0.0011% |

In 2003, no option in the securities or debentures of the Company's share capital had been granted to its Directors, supervisors and senior management or their spouse or children under 18.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of remuneration of the existing Directors, Supervisors and senior management are set out in note 11 to the financial statements. Hu Jiarui, Liu Xianping and Yu Yan did not receive any remuneration from the Group during the year. During the year, out of the 27 existing Directors, Supervisors and senior management, 6 of them have annual remuneration over RMB150,000, 13 of them have annual remuneration between RMB100,000 to RMB150,000, and 8 of them have remuneration between RMB30,000 to RMB100,000.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

By Order of the Board of Directors

Zhang Yanzhong

Chairman

Beijing, the PRC, 5th April 2004