



Mr. Zhang Hongbiao

Chairman



Mr. Wu Xiandong

Vice Chairman and President



Mr. Liang Zhenhe

Non-executive Director



Mr. Song Jingang

Non-executive Director



Mr. Chen Huaiqiu

Non-executive Director





Mr. Xu Tongxing
Non-executive Director



Mr. Cui Xuewen
Non-executive Director



Mr. Tian Min
Non-executive Director



Mr. Yang Jinhui
Non-executive Director



Ms. Hu Jiarui
Non-executive Director



Mr. Maurice Savart

Non-executive Director



Dr. The Hon. Li Kwok-Po, David

Independent Non-executive Director



Mr. Guo Chongqing

Independent Non-executive
Director



Mr. Li Xianzong

Independent Non-executive
Director





Mr. Wang Shouxin
Chairman of
Supervisory Committee



Mr. Li Shentian
Supervisor



Ms. Bai Ping
Supervisor



Mr. Tang Jianguo
Supervisor



Ms. Lu Liubao
Supervisor



Ms. Liu Xianping

Supervisor



Mr. Yu Yan

Supervisor



Ms. Zheng Li

Independent Supervisor



Mr. Xie Zhihua

Independent Supervisor





Mr. Li Hui
Vice President



Mr. Liu Cheng
Vice President



Mr. Li Yao
Vice President and CFO



Mr. Yan Lingxi
Company Secretary



Mr. Ip Kun Wan, Kiril
Company Secretary



The board of directors of AviChina Industry & Technology Company Limited presents its report of the directors together with the audited financial statements of the Group for the year ended 31 December 2004.

BUSINESS OF THE GROUP

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

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.

RESULTS AND DIVIDEND

The results of the Group in 2004 are set out in the consolidated profit and loss account on page 53 of the annual report.

The Board does not recommend the distribution of a final dividend for the year ended 31 December 2004.

SHARE CAPITAL

In 2004 there were no changes in the share capital of the Group.

The Company's capital structure as at 31 December 2004 was as follows:

Class of shares	Number of shares as at 31 December 2004	Percentage of total number of shares in issue as at 31 December 2004 (%)
Domestic shares	2,963,808,000	63.83
Overseas listed foreign invested shares (H shares)	1,679,800,500	36.17
Total	<u>4,643,608,500</u>	<u>100.00</u>



SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, pursuant to the register kept under Section 336 the Securities and Futures Ordinance (the "SFO"), shareholders holding more than 5% equity interests in the Company and associated corporations were as follows:

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 share held
AVIC II	Domestic shares	2,835,305,636	95.66%	61.06%	Long position
EADS	H shares	232,180,425	13.82%	5%	Long position

Save as disclosed above, as at 31 December 2004, the Company had not been notified of any interests and short positions in 5% or more than 5% of shares and underlying shares of the Company which had been recorded in the register kept under section 336 of the Securities and Futures Ordinance.

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 31 December 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

As at 31 December 2004, the Group did not have designated deposits or 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 for the year are set out in the 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 2004, determined in accordance with relevant accounting principles and financial regulations applicable to PRC enterprises amounted to RMB90,994,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's total purchases from the five largest suppliers accounted for 12% of the Group's total purchases, of which purchases from the largest supplier accounted for approximately 4% of the Group's total purchases. The Group's sales to the five largest customers accounted for 26% of the Group's total sales, of which, sales to the largest customer accounted for 13% of the Group's total sales.

Purchases from the five largest suppliers accounted for 28.67% of the total purchases in the Group's aviation segment, of which, purchases from the largest supplier accounted for 8.16% of the total purchases in the Group's aviation segment. Sales in the aviation segment to the five largest customers accounted for 85% of the total sales in the Group's aviation segment, of which, sales to the largest customer accounted for 63% of the total sales in the Group's aviation segment.

Purchases from the five largest suppliers accounted for 13.73% of the total purchases in the Group's vehicle segment, of which, purchases from the largest supplier accounted for 4.34% of the total purchases in the Group's vehicle segment. Sales in the vehicle segment to the five largest customers accounted for 16% 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 period of this report, save for the connected transactions with AVIC II, the controlling shareholder, as disclosed in the section of Connected Transactions in this annual report, none of the Directors, 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.

WELFARE PLANS 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 2004, the Group has 813 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 as 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 110,000 square metres 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 meters 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 aircrafts 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 establishment agreement of Dongan Engine dated 16 June 1998, 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 2004, subsidiaries of the Company had, from time to time, provided goods and services to Dongan Engine and Hafei Auto and vice versa.

Besides, certain subsidiaries of the Company had, from time to time, provided guarantees to Dongan Engine and Hafei Auto. During 2004 Hafei Auto had not provided any guarantee for Hafei Industry Company (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;



Report of the Board of Directors

- (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



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)
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 favorable 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.

In addition to the above, the Company also entered into certain connected transactions in 2004. Please refer to items 1 and 3 in the paragraph "Major Events" in "Report of the Board of Directors" for details.



Report of the Board of Directors

CORPORATE GOVERNANCE

The Board is of the opinion that the Company had complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules applicable in 2004 except that the number of independent non-executive directors in the audit committee had not formed the majority before 30 December 2004. The Board convened a meeting on 30 December 2004 whereat it was approved that Mr. Li Xianzong be appointed as a member of the audit committee, and to serve as the chairman of the audit committee.

For the year ended 31 December 2004, the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (hereinafter referred to as the "Model Code") set out in Appendix 10 to Listing Rules as the code of conduct by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

The primary duties of the Board are to formulate strategies for the Group, to establish the goal for the management and to supervise the performance of the management. The Board has formulated several written terms to define its responsibilities and to standardize its operating procedures.

The Board comprises 14 directors whose profiles are listed on pages 43 to 45 of this annual report.

The Board convenes meetings regularly and convenes contingent meetings where important decisions need to be made. The Company Secretary is accountable to the Board, and the Company Secretary shall ensure that the proceedings of the Board are complied with and shall provide opinions to the Board in relation to compliance matters. Besides, the Company Secretary will also assist newly appointed directors to participate in the work of the Board.

DUTIES OF SPECIAL COMMITTEES

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

Strategic Development Committee

The Company has established a strategic development committee. The primary duties of the strategic development committee are to examine 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 Mr. Wu Xiandong, Mr. Song Jingang, Mr. Guo Chongqing and Mr. Chen Huaiqiu, with Mr. Wu Xiandong serving as the chairman of the committee.

The Company has set up professional committees within the strategic development committee specializing in helicopter, aeroplane and vehicle business. Each technical committee focuses on 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 the Company and to provide opinions or proposals to the Board. The audit committee consists of two non-executive directors, Mr. Liang Zhenhe and Ms Hu Jiarui, and three independent non-executive directors Dr. David Li Kwok-Po, Mr. Guo Chongqing and Mr. Li Xianzong, with Mr. Li Xianzong serving as the chairman of the committee. The Company has complied with the Rule 3.21 of the Listing Rules.

During the financial year, the audit committee proactively promoted the establishment of comprehensive accounting policies and important financial policies to standardize the financial reporting procedures of the Company. The audit committee convened a meeting on 30 March 2005 to review the Group's annual results for the year ended 31 December 2004.

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 reviewing and supervising the implementation of all executives' compensation packages and employees' benefit plans. The compensation committee comprises one non-executive director and three independent non-executive directors. Current members of the compensation committee are Mr. Song Jingang, Dr. David Li Kwok-Po, Mr. Guo Chongqing and Mr. Li Xianzong, with Mr. Song Jingang serving as the chairman of the committee.

During the financial 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.

THE INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received letters from all the independent non-executive directors confirming their independence according to Rule 3.13 of the Listing Rules. The Board believes that all the independent non-executive directors have complied with the requirements of Rule 3.13 of the Listing Rules and they remain as independent persons.

PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the Board, as at the date of this report, there is a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR EVENTS

1. On 14 October 2004, Changhe Industry Company (a subsidiary of the Company) entered into an equity interest transfer contract with Hefei Changhe Automobile Co., Ltd. ("Hechang Company"), whereby Changhe Industry Company intended to acquire 7.70% equity interest of Changhe Auto held by Hechang Company for a consideration of RMB100,971,584. Hechang Company is an associate of AVIC II (as defined in the Listing Rules) After completion of this transaction, Changhe Industry Company will hold 71.58% equity interest in Changhe Auto. This transaction is expected to be completed in 2005.



Report of the Board of Directors

2. On 2 November 2004, Changhe Industry Company (a subsidiary of the Company) entered into a contract with Italy AgustaWestland Company on the joint production of model A-109E light twin-engine helicopter. The parties will make financial contribution together to establish a joint venture to manufacture model A-109E light twin-engine helicopter in China.
3. On 30 December 2004, Dongan Motor, which the Company holds 70.01% equity interest, entered into an agreement to acquire 74.81% equity interest in Hafei Auto held by Hafei Industry Company (a wholly-owned subsidiary of the Company) for a consideration of RMB898,947,200. On 30 December 2004, Dongan Motor also entered into an agreement to acquire the rest 25.19% equity interest in Hafei Auto held by China Aero, Dongan Group, CATIC and Shenheng, all of which are associates of AVIC II, for a consideration of RMB302,692,800. Upon completion of the transactions, although the Company's effective equity interest in Hafei Auto will be reduced from 74.81% to 70.01%, the Company will hold the entire equity interest of Hafei Auto through Dongan Motor. After the completion of the transactions, certain related management functions of Hafei Auto and Dongan Motor will be combined to increase management efficiency and lower administrative and general expenses, thus improving the profitability of the Company's automobile business, and shortening the cycle for research and development of new vehicle models and lower research and development costs. The implementation of the transactions is subject to the completion of a right issue of Dongan Motor on A share market.
4. Changhe Auto, a subsidiary of the Company, resolved to increase its investment in Changhe Suzuki in accordance with its current shareholding percentages, while Changhe Suzuki will set up a Jiujiang branch. The additional investment will be spent on constructing production lines for vehicles of new models and for engines of new models, thus enlarging the production scale of Changhe Auto to enhance the market competitiveness of the Company's automobile business.

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.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Prior to 31 December 2004, there had been changes to the Directors, and no changes to the Supervisors and senior management.

Ex-chairman Mr. Zhang Yanzhong, Ex-non-executive directors Mr. Chi Yaozong, Mr. Ni Xianping and Mr. Jiang Liang had resigned due to changes of duties with effect from 16 June 2004. Mr. Zhang Hongbiao has been appointed as chairman, and Mr. Liang Zhenghe, Mr. Tian Min and Mr. Maurice Savart have been appointed as non-executive Directors. The Company has appointed Mr. Li Xianzong as the Company's independent non-executive Director. At present, there are three independent non-executive directors among the members of the Board of Directors, which is in compliance with the requirements of the Listing Rules.



DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhang Hongbiao (張洪飈), 59, chairman of the Board of Directors. He is a research professor. He has been president of AVIC II since December 2003. Mr. Zhang graduated from the Beijing University of Aeronautics and Astronautics in Aircraft Design in 1968 and received his master degree from Chongqing University in 1981. He commenced his career in aviation industry in September 1968 and used to be the head of technology department, workshop supervisor, assistant to the chief engineer, deputy general manager and general manager of Harbin Dongan Engine Manufacturing Company. He was appointed as the deputy chief engineer in May 1990 and subsequently the chief engineer of the Ministry of Aero-Space, the vice president of China Aviation Industry Corporation in 1993 and the vice chairman of the Commission of Science Technology and Industry for National Defence in 1998.

Mr. Wu Xiandong (吳獻東), 40, vice chairman of the Board of Directors 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 organization in the aviation industry. He has been engaged in the aeronautics field since July 1987, joined AVIC in 1996, and 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. Liang Zhenhe (梁振河), 58, a non-executive Director. He is a research professor. Mr. Liang graduated from the Northwestern Polytechnical University in Aircraft Design Profession in August 1970 and commenced his career in aviation industry. He used to be the deputy section chief, section chief, deputy general manager and general manager of Hanzhong 141 Plant (漢中一四一廠) in Shanxi. He was appointed as the deputy general manager and general manager of Hanzhong Tianda Aviation Industry Corporation (漢中天達航空工業總公司) in Shaanxi in November 1990. He was deployed to China Aviation Industry Corporation in 1996 and used to be the deputy director of the corporate governance department and the vice president of AVIC II in 1999. He was awarded the "Model Worker" by the Ministry of Aero Space in April 1991.

Mr. Song Jingang (宋金剛), 60, 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 head of technology department, workshop supervisor, 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), 59, 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.



Report of the Board of Directors

Mr. Xu Tongxing (須桐興), 59, a non-executive Director. He is also a senior professional adviser of AVIC II 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, the vice chairman and chairman of Dongan Group. He once was the chairman of the board of directors of Dongan Motor.

Mr. Cui Xuewen (崔學文), 59, a non-executive Director. He is also a senior professional adviser of AVIC II 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 supervisor, the director of the production division and a deputy chief engineer, a deputy head, the general deputy head and the head of the plant. Mr. Cui once served as the chairman of the board of directors of Hafei Industry Company and the chairman of the board of directors of Hafei Auto. He was honored as a "National Model Worker" and awarded with a "National Labour's Day Medal". He is a representative of the 10th National People's Congress.

Mr. Tian Min (田民), 48, a non-executive Director. He is also a senior accountant. Mr. Tian graduated from Zhengzhou Aviation Industry Management Institute in Department of Organisational Management in July 1982. After graduation, he used to be the deputy section chief, deputy director, director and deputy chief accountant, chief accountant and deputy general manager, general manager, and chairman of Hongdu Aviation Industry (Group) Co., Ltd.. Mr. Tian also received his master degree in Engineering from the East China University of Science and Technology. He was elected as a representative of the 10th National People's Congress of Jiangxi Province in 2002. Mr. Tian received the honour from AVIC II and the Commission of Science Technology and Industry for National Defence as the Youth with Excellent Contributions; the incentive award to the general managers from AVIC II. He was elected the candidate (senior management expert) of "511 Experts Work" of the Commission of Science Technology and Industry for National Defence in 2002.

Mr. Yang Jinhuai (楊金槐), 60, a non-executive Director. He is also a senior professional adviser of AVIC II 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, the chairman and concurrently general manager of Changhe Group and a director of Changhe Auto. He was honored as a "National Model Worker" and awarded with a "National Labour's Day Medal". He is a representative of the 10th National People's Congress.

Ms. Hu Jiarui (胡家瑞), 54, a non-executive Director. She is also a vice president level researcher of the Industrial and Commercial Bank of China, Harbin Branch. 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. She once served as a deputy general manager of China Hua Rong Asset Management Corporation Harbin Office. In December 1998, Ms. Hu graduated from Harbin Normal University, majoring in Chinese language and literature.



Mr. Maurice Savart, 46, a non-executive Director and the senior vice president of EADS in charge of business in north Asia. Mr. Maurice commenced his career in science and technology for national defence in 1982 when he worked at the Training and Cooperation Department of the Ministry of Defence of France. He used to be the area sales manager (Asia) Thomson-CSF/Aerospace Group, the business development director (Asia Pacific), vice president (North Asia) of the Lagardere Group, the managing director (North Asia) of Aerospatiale Lagardere International. He has been the senior vice president (North Asia business) of EADS since July 2000. Mr. Maurice graduated from the School of Engineering of Ecole Nationale Supérieure de Physique et de Chimie in France in 1980 and received his master degree in Science from the University of California in the USA in 1981 and a MBA degree from the School of Business Administration of Institut Supérieure des Affaires in France in 1982.

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 on 8 May 2003.

Mr. Guo Chongqing (郭重慶), 71, an independent non-executive Director. He is also an academican of the Chinese Academy of Engineering and a professor of Tongji University, a professor of Shanghai Jiao Tong 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 had 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.

Mr. Li Xianzong (李現宗), 47, an independent non-executive Director. He is a professor and supervisor for master degree candidates. He graduated from Zhengzhou Institute of Aeronautical Industry Management in 1982. He then graduated from Tianjin Finance and Economics Academy in 1996 with a master degree majoring in accounting. Mr. Li was the deputy chairman and subsequently the chairman of the Accounting Department, Zhengzhou Institute of Aeronautical Industry Management. He is the deputy dean of Zhengzhou Institute of Aeronautical Industry Management. Mr. Li was an independent non-executive Director of Guizhou Guihang Automobile Parts Joint Stock Company Limited. Mr. Li is also a member of the Association of Accounting in the PRC, member of the Professors' Association of Accounting in the PRC, non-practicing member of the Chinese Institute of Certified Public Accountants in the PRC, an asset appraiser, member of the Institute of Internal Auditors, and a member of the third Council of the Chief Accountants' Association in the PRC.



Report of the Board of Directors

SUPERVISORS

Mr. Wang Shouxin (王守信), 62, a Supervisor. He is also a professional adviser 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 and the vice president of AVIC II.

Mr. Li Shentian (李申田), 58, 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), 53, a Supervisor. He is also a director of the human resources department of AVIC II, a director of China Aviation Industry Economy Technology Research Centre and the director of development and research department. He is a research professor. 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, a research fellow of 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), 60, 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), 39, a Supervisor. She is also a senior deputy manager of China Cinda Asset Management Corporation 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 China Cinda Asset Management Corporation Harbin Office.

Mr. Yu Yan (于岩), 42, a Supervisor. He has also been an assistant manager of the assets management department of China Orient Asset Management Corporation 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.

Independent Supervisors

Ms. Zheng Li (鄭力), 69, 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 auditor. 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), 45, 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.



Report of the Board of Directors

SENIOR MANAGEMENT

Mr. Li Hui (李慧), 49, a vice president of the Company. He is also a research professor and a post-graduate. 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 and the director of the general office of AVIC II, and the director of China Aviation Industry Economy Technology Research Centre and the director of development and research department.

Mr. Liu Cheng (劉楨), 61, a vice president of the Company. He is also the director of Dongan Motor, Dongan Automobile Engine Manufacture Company, 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 of 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, and the director of AVIC II's automobile department. He is awarded special subsidy by the State Council as a specialist.

Mr. Li Yao (李耀), 40, 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 from 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), 34, a company secretary appointed in April 2003. He is also a supervisor of Hafei Aviation and Hafei Auto, and a senior engineer. He graduated from the Beijing University of Aeronautics and Astronautics with a bachelor degree in engineering (majoring in management 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 and a division director in the corporate assets management department of AVIC II, and is also the director in the security and legal department of the Company.



Mr. Ip Kun Wan (葉冠寰), Kiril, 44, 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.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors (except the independent non-executive Directors) and Supervisors has entered into service contract with the Company. 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 2004, 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 to be recorded and kept in the register pursuant to section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code 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%

For the year ended 31 December 2004, none of the directors, supervisors and senior management of the Company, their spouses or children under the age of 18 years had been granted any rights to subscribe for equity or debt securities of the Company, nor had any of them exercised such rights.



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.

During the financial year, out of the 28 existing Directors, Supervisors and senior management, 4 of them have annual remuneration over RMB150,000, 16 of them have annual remuneration from RMB100,000 to RMB150,000, 4 of them have remuneration from RMB30,000 to RMB100,000, and 4 of them have remuneration less than RMB20,000.

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.