

*Important Note: The following is an English translation of the Chinese version of the Rules Governing the Operation of Meetings for the Board of Directors of AviChina Industry & Technology Company Limited (中国航空科技工业股份有限公司董事会议事规则). In case of any discrepancies or inconsistencies, the Chinese version shall always prevail.*

## **Rules Governing the Operation of Meetings for the Board of Directors**

(Approved by the 3<sup>rd</sup> meeting of the first session of the Board held on April 4<sup>th</sup>, 2005)

### **Chapter 1 General Rules**

**Article 1** In order to standardize the operation of the board of directors (the “**Board**”) of AviChina Industry & Technology Company Limited (the “**Company**”), the following rules are set out pursuant to Company Law of the People’s Republic of China (the “**Company Law**”), Mandatory Provisions for Articles of Associations for Companies to be Listed Overseas, Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), and the Articles of Association of the Company (“**Articles of Association**”) and Rules Governing the Operation of Shareholders’ General Meetings (“**Rules for Shareholders’ General Meeting**”).

**Article 2** The Board has been organized as required by the Articles of Association.

### **Chapter 2 Duties and Authorities of the Board**

**Article 3** The Board shall be accountable to the shareholders’ general meeting and exercises the following functions and powers:

1. to convene shareholders’ general meetings and to report on its work to the shareholders’ general meeting;
2. to implement the resolutions of the shareholders’ general meetings;
3. to decide on the business plans and investment plans of the Company;
4. to formulate the annual financial budgets and final accounts of the Company;
5. to formulate the profit distribution plans and plans for making up losses of the Company;
6. to formulate plans for the increase or reduction of the registered capital of the Company and plans for the issue of bonds;
7. to draft plans for the merger, division or dissolution of the Company;
8. to decide on the structure of the internal management departments of the Company;
9. to engage or dismiss the Company’s general manager, deputy general manager(s) and chief financial officer(s) of the Company based on the nomination by the general manager, and to decide on their remunerations;
10. to formulate the basic management systems of the Company;

11. to formulate proposals for any amendment on the Articles of Association;
12. to decide on the establishment of special committees and the appointment and dismissal of relevant persons in charge;
13. to propose the appointment or change of the Company's accounting firm for auditing of the Company at the general meetings;
14. to consider and decide the changes to the proportion of shares held in subsidiaries listed in PRC due to the issue of new shares (including new issue or placement) by these listed companies;
15. to consider and decide the transfer, pledge or setting rights of any third parties of all or part of shares of PRC listed companies held by the Company or its subsidiaries;
16. to consider and decide all resolutions and to be proposed at the general meetings of PRC listed companies of which the Company and its subsidiaries respectively have interests in accordance with the article of association of these listed companies ;
17. to draft material acquisition or disposal proposals of the Company (assets acquired or disposed of (including interests) exceeding 20% of the net assets shown in the Company's latest balance sheet considered at the shareholders' general meeting);
18. to vote at the board meeting of the Company's subsidiaries about the appointment and removal of subsidiaries' senior management; and
19. to exercise any other powers conferred by the shareholders' general meeting or by the Articles of Association.

**Article 4** The prerequisites for the Board to exercise its duties and authorities:

The general manager shall provide necessary information and materials to the directors of the Company (the “**Directors**”) for the Board to make decisions scientifically, quickly and cautiously.

The Directors can require the general manager or relevant departments of the Company through the general manager to provide necessary materials and explanations for them to make decisions scientifically, quickly and cautiously.

If the independent non-executive Directors consider necessary, independent institutions could be appointed to provide independent advices as basis for their decision, fees of which shall be borne by the Company.

**Article 5** The Directors shall review at least once a year on whether the internal control systems of the Company and its subsidiaries are effective, and report such review to the shareholders of the Company in the annual report of the year which shall cover all important monitoring aspects, including financial monitor, operation monitor, compliance monitor and risk management function.

**Article 6** The Board shall consider and make decisions by resolutions that shall

be proposed by the Board to the shareholders' general meeting (including issues proposed by two or more independent non-executive directors) as stipulated by laws, administrative regulations and Articles of Association.

Regarding of the extraordinary resolution proposed by shareholders who individually or jointly holding 5% or more of the total number of shares of the Company carrying voting rights to the annual general meeting, the Board can decide whether to propose at the annual general meeting after considering according to the relevance standards prescribed in Rules for Shareholders' General Meeting.

**Article 7** To ensure and improve the stability and efficiency of the Company's daily operation, according to Articles of Association and authorized by shareholders' general meeting, the Board shall specify the decision procedures of investment plan, assets disposal, liability policy, connected transaction and other significant issues, and confer part of the authorities to the chairman, one or more Directors or the general manager.

**Article 8** Authority and authorization of making decision on investment plan:

1. The Board is responsible for considering and deciding on the mid-long term investment plan proposed by the general manager, and proposes it to the shareholders' general meeting for approval.

2. The Board is responsible for considering and deciding on the annual investment plan proposed by the general manager, and proposes it to the shareholders' general meeting for approval. The Board can make adjustment of no more than 20% on the capital expenditure amount of the year approved by shareholders' general meeting; the chairman authorized by the Board can make adjustment of no more than 10% on the capital expenditure amount of the year approved by shareholders' general meeting; the general manager authorized by the Board can make adjustment of no more than 5% on the capital expenditure amount of the year approved by shareholders' general meeting.

3. For single projects included in the investment plan (including but not limited to investments on fixed assets and external equity), the Board could consider and approve projects on which the investment amount is not more than 10% of the latest audited net assets value; the chairman authorized by the Board could consider and approve projects on which the investment amount is not more than 4% of the latest audited net assets value; the general manager authorized by the Board could consider and approve projects on which the investment amount is not more than 2% of the latest audited net assets value.

4. For venture investment (including but not limited to bonds, futures, stocks) on industries irrelevant to the Company's business using the Company's assets, the Board can consider and approve projects on which the investment amount is not more than

5% of the latest audited net assets value; the chairman authorized by the Board could consider and approve projects on which the investment amount is not more than 2% of the latest audited net assets value; the general manager authorized by the Board could consider and approve projects on which the investment amount is not more than 1% of the latest audited net assets value.

**Article 9** Authority and authorization of making decision on disposal of assets

1. On disposing fixed assets, if sum of the expected value of fixed assets to be disposed, and the value of fixed assets disposed during the 4 months before this proposal disposal, does not exceed 33% of the latest net assets value in the balance sheet considered on the shareholders' general meeting, it shall be decided by the Board, but meanwhile meet the following conditions: (1) according to the standards for judging assets disposal authority specified in the Listing Rules (“**five ratios**”), the Board could consider and approve projects which are not within the requirement of shareholders approval stipulated by the Listing rules and Articles of Association (normally the five ratios are less than 25%).

2. The chairman authorized by the Board could consider and approve projects with five ratios between 2% and 5%; the general manager authorized by the Board to consider and approve projects with five ratios less than 2%.

**Article 10** Authority and authorization of making decision on liabilities:

1. If the Board decides to borrow money or provide guarantee, the asset liability ratio in the latest audited balance sheet shall not exceed 70% in principle after such decision is executed.

2. According to the annual investment plans approved by the shareholders' general meeting, the Board considers and approves the annual long-term loan amount; the chairman is authorized by the Board to make adjustment of no more than 20% on the annual long-term loan amount approved by Board and the general manager is authorized by the Board to make adjustment of no more than 10% on the annual long-term loan amount approved by Board; Within the annual long-term loan amount approved by the Board, the chairman is authorized by the Board to consider, approve and sign the long-term loan contracts with single loan amount of no more than RMB 200 million; the general manager is authorized by the Board to consider, approve and sign the long-term loan contracts with single loan amount of no more than RMB 100 million.

3. Within the annual current capital loan amount approved by the Board, the chairman is authorized by the Board to sign short-term current capital loan comprehensive credit contract for manufacturing and operation pursuant to the company's operating needs. Within the comprehensive credit amount, the chairman is authorized by the Board to consider, approve and sign short-term current capital loan contracts with single loan amount of no more than RMB 500 million; the general manager is authorized by the Board to consider, approve and sign short-term current

capital loan contracts with single loan amount of no more than RMB 250 million.

4. The total external guaranty amount of the company and its subsidiaries shall not exceed 50% of the latest audited net assets value of the Company and its subsidiaries. The chairman is authorized by the Board to consider, approve and sign the external guaranty contracts with guarantee amount between RMB 100 million and RMB 200 million. The general manager is authorized by the Board to consider, approve and sign the external guaranty contracts with guarantee amount of no more than RMB 100 million.

**Article 11** Authority and authorization of making decision on connected transactions:

According to provisions of Listing Rules, the connected transactions which should be approved by shareholders' general meeting shall be approved by the general meeting. The Connected transactions with each ratio (except profit ratio) lower than 2.5% or each ratio (except profit ratio) between 2.5% to 25% and with total amount less than HKD 10 million shall be decided by the Board.

Independent non-executive Directors shall examine the connected transactions of the Company and its subsidiaries according to provisions of Listing Rules.

### **Chapter 3 Committees of the Board**

**Article 12** The Board establishes four professional committees, namely audit committee, remuneration committee, investment and budget committee and strategy committee. The professional committees research on professional issues, and provide advices and suggestions to the Board for decision making.

The professional committee shall all consist of Directors, and each committee may appoint several professional advisors as necessary.

The audit committee consists of 1 or 2 non-executive Directors and 2 or 3 independent non-executive Directors who shall be majority, and may appoint several professional advisors.

The remuneration committee consists of 1 or 2 non-executive Directors and 2 or 3 independent non-executive Directors who shall be majority, and may appoint several professional advisors.

The investment and budget committee and strategy committee consists of 3 to 5 Directors respectively, and may appoint several professional advisors.

**Article 13** The main duties of the audit committee are to appoint external auditors, to examine and supervise the Company's financial reporting procedures and internal supervisory system, and to provide opinions and suggestions to the Board.

**Article 14** The main duties of the remuneration committee are as follows:

1. to establish policies on human resources management;
2. to review the remuneration strategy;
3. to determine the remuneration and welfare of Directors, supervisors and senior managements.
4. to review and supervise the remuneration and welfare of all administrative employees and the execution of employee welfare plan.

**Article 15** The main duties of investment and budget committee are to review and supervise the annual financial budgets, final accounts, business plans and the investment plans of the Company, to provide advices and suggestions to the Board and supervise the execution of the investment approved by the Board.

**Article 16** The main duties of strategy committee are to research on the company's long-term development strategy and significant investment decision, to provide opinions and suggestions to the Board, and to supervise the execution of strategic decisions approved by the Board.

The strategy committee consists of 3 professional committees, namely aircraft committee, helicopter committee and automobile committee, with main duties to research on the long-term development strategy and significant investment decisions of the Company's aircraft, helicopter, and automobile business respectively, and provide opinions and suggestions to the strategy committee of the Board.

**Article 17** Each professional committee of the Board shall draw up detailed terms of reference, which will take effect upon approval by the Board.

**Article 18** The Company shall have one or two secretaries to the Board who shall be a senior management staff of the Company. His or her main duties shall be as follows:

1. to ensure the completeness of the Company's organizational documents and records;
2. to ensure that the Company prepares and submits according to law, the documents and reports required by relevant authorities;
3. to guarantee that the Company's register of shareholders is properly established and that persons entitled to relevant records and documents of the Company obtain such relevant records and documents in a timely manner;
4. to be responsible for arranging and coordinating the disclosure of information;
5. to be responsible for confidentiality of price sensitive information and establishing effective confidential system and measures; and
6. to exercise duties and obligations (including other functions authorized by the Board) which are regulated by laws, supervising authorities of which the Company is listed and this Articles of Association.

**Article 19** The Company shall establish specific department to act as the daily institution for carrying out duties of the Board secretary.

**Article 20** The Board secretary is responsible for coordinating the information disclosure of the Company and its subsidiaries.

#### **Chapter 4 Rules Governing Meetings for the Board**

**Article 21** The Board Meetings can be classified as the regular meetings and extraordinary meetings. Board regular meetings are held four times a year while the extraordinary meetings shall be convened by chairman of the Board as appropriate.

**Article 22** The regular meetings shall include: annual results Board meeting, Board meeting after shareholders' annual general meeting, interim results Board meeting, and work summary Board meeting, among which:

1. The annual results Board meeting shall be convened within 120 days upon the ending of the fiscal year, to consider the annual report of the company and deal with other relevant matters;

The date of the annual results Board meeting shall ensure the despatch to the shareholders of the Company in time stipulated within the Articles of Association, the announcement of the annual preliminary financial results within the time stipulated by relevant laws, and the convening of the shareholders annual general meeting within 180 days after the ending of the fiscal year.

2. The Board meeting after shareholders' annual general meeting mainly reviews the work of the Company during the first half year, and discusses on work of the Company during the second half year.

3. The interim results Board meeting shall be convened within 60 days after the ending of the first 6 months of a fiscal year, to review the interim report of the Company and deal with other relevant matters.

4. The work summary Board meeting shall be convened in November or December every year, to listen to and discuss the general manager's report on expected complement of this year's work and work arrangements of the next year.

**Article 23** Under the following circumstances, the chairman of the Board shall issue a notice to convene an extraordinary meeting of the Board within 5 business days:

1. on request of more than one-third of the Directors;
2. on request of the Supervisory Committee;
3. on request of two or more than two independent non-executive Directors;
4. on request of the chairman of the Board when he or she thinks necessary; and

5.when general meeting being convened by listed companies in PRC held by subsidiaries of the Company and voting of these subsidiaries on all resolutions being needed, except the connection transaction.

**Article 24** The Board meetings shall be classified into on-site meetings, video conference call, and written resolution meetings.

All board meetings could be convened in the form of on-site meetings.

The Board meetings could apply the form of video conference call, as long as Directors presented can hear clearly other Directors, and communicate with others. Video conference call shall be recorded by audio and radio recordings. Directors who cannot sign resolutions on the meeting, shall vote in voice, and complete the written procedures as soon as possible. The Directors' voice vote have the same force as the written vote, provided that the written vote after the meeting is in conformity with the voice vote in meeting.

Written resolution meeting shall be convened only under the condition of emergency, when the Board meeting cannot be convened by on-site meeting and video conference call for certain reasons and when the issues to be considered are routine and individual which do not need to be discussed; such resolutions shall be made through circulating a pending resolution to all Directors.

Unless the Board minutes recorded otherwise,, Directors' signing on the resolution shall be deemed as approval.

#### **Article 25** Resolution Proposal

The Board meeting's resolutions are proposed according to the following situations:

1. resolutions proposed by Directors;
2. resolutions proposed by the Supervisory Committee;
3. resolutions proposed of the professional committees of the board;
4. resolutions proposed by the general manager;
- 5.resolutions proposed by controlling subsidiaries, or companies with shares held by the Company to their shareholders' general meeting which the Board thinks necessary to convene a meeting to consider and vote
- 6.other issues the Company thinks necessary for the Board meeting to consider.

#### **Article 26** Resolution Collection

The Board sectary is responsible for collecting drafts of resolutions to be proposed on the meeting, and the proposer shall submit the resolution and relevant supplemental materials before the meeting. Resolutions related with significant connected transactions which have to be considered by the Board meeting or shareholders general meeting as required by laws (according to standards issued by



supervisory authorities from time to time), shall be approved by independent non-executive Directors first, and then be proposed to the Board. The Board secretary shall sort the materials, list out the time, venue and schedules of the Board meeting, and submit them to the chairman.

**Article 27** Convening of the Board Meeting

The Board meeting shall be convened by the chairman of the Board. If the chairman cannot convene the meeting for certain reasons, he or she shall appoint the vice chairman or other Directors to convene the meeting. If the chairman neither convene the meeting nor appoint others to convene the meeting for no reason, the vice chairman or more than half of the Directors shall elect a Director to convene the meeting.

**Article 28** Notice of the Board Meeting

1. Before the Board meeting, notice of the meeting shall be sent to all Directors, supervisors and other persons who shall present at the meeting as non-voting delegates. The notice of meeting generally contains the following information:

- (1) time and venue of the meeting;
- (2) duration of the meeting;
- (3) reasons to convene the meeting and resolutions of the meeting; and
- (4) the date sending out the notice.

2. The notice of the Board meeting shall be sent out in the following ways:

- (1) notice for convening the Board meeting shall be sent out by phone or fax;
- (2) notice of the regular Board meeting shall be sent out 10 days before the meeting;
- (3) the notice shall be in Chinese, and supplemented by English if necessary.

Any Director can give up the right of receiving the board meeting notice.

In the event that the Director is present at the meeting and he has not propose the objection that he failed to received the meeting notice either before his participation of the meeting or during his participation of the meeting, it shall be deemed that the meeting notice has been delivered to him.

**Article 29** Preparation before the meeting

In the duration between sending the notices and convening the meeting, the Board secretary is responsible for communicating with all Directors, to get their opinions and suggestions on relevant resolutions and transferring them to the proposers for amending.

The Board secretary shall also supplement information to Directors for making decisions on resolutions, including related background information on topic of the

meeting and other materials facilitating the Director to make decisions scientifically, quickly and cautiously.

If more than 1/4 of the Directors consider the materials are not sufficient or the argumentation is not specific, they may jointly propose to postpone the Board meeting or considering on part of issues at the meeting which shall be adopted by the Board. Unless such requirements are proposed directly on the Board meeting, the Board secretary shall sent the notice of postponing the board meeting or considering on part of issues at the meeting to Directors, supervisors, and other persons presenting without voting right, upon receiving written requirements on such above postponing.

### **Article 30** Presenting at the Board Meeting

Board meetings shall be held only if more than half of the Directors are present. The Directors shall attend the Board meetings in person. If a Director is unable to attend a meeting for any reason, he or she may entrust in writing another Director to attend the meeting on his or her behalf (in the event that independent non-executive Directors cannot attend the meeting in person, they may entrust other independent non-executive Directors to attend in lieu of them). The instrument of entrustment shall specify the name of the proxy, items of proxy, scope of authorization and duration, and be signed or stamped by the Director who can not attend the meeting in person.

The Board shall propose to the shareholders' general meeting for replacing the Director who has not attended the meeting in person for two consecutive times.

The Board meeting shall be chaired by the chairman. In the event that the chairman cannot preside over the meeting, he may appoint the vice chairman or other Directors in writing to chair the Board meeting in lieu of him. In the event that the chairman neither preside over the meeting for no reasons, nor appoint a specific person to preside over the meeting for him, a Director could be elected to preside over the meeting by the vice chairman or more than half of the Directors. After new session of board of directors is elected by the shareholder's general meeting, the board meeting shall be chaired by director who won the most votes on the shareholders' general meeting (if two or more won the most votes, then one shall be elected) to elect the chairman of the session of Board.

### **Article 31** Considering of Resolutions

The Presider shall announce the beginning of the meeting as scheduled. After the beginning of the meeting, Directors presenting at the meeting shall first reach agreements on the agenda. If more than 1/4 of the Directors consider the materials are not sufficient or the argumentation is not specific, they may jointly propose to postpone the Board meeting or considering on part of issues at the meeting which shall be adopted by the Board. After Directors presenting at the meeting reach agreement on the agenda, the meeting shall consider the respective resolutions with presiding of the presider, and the proposer or his assignee shall report works or

explain resolution to the Board.

When the Board meeting is considering related plans, resolutions and reports, the person in charge of the undertaking department could be required to attend the meeting as a nonvoting delegate, provide relevant information for the Board to understand the detailed essentials or processes and make the right decision. If proposals are found out to be unclear and unfeasible, the Board shall require the undertaking department to explain, and return the proposal without voting at that Board meeting. The independent non-executive Directors shall provide independent opinions to the Board on the following items:

1. remunerations of the Company's Directors, general manager, vice general manager, chief financial officer, and Board secretary;
2. connected transactions as specified in the Listing Rules; and
3. issues that independent non-executive Directors think may not in the interests of minority shareholders.

Independent non-executive Directors shall show their opinions on the above items explicitly in the following ways:

1. "Agree";
2. "Reserved opinion" and the reasons;
3. "Against" and the reasons;
4. "waiver" and the obstacles;

### **Article 32** Voting for Resolutions

All Directors presenting at the Board meeting shall express opinions as for, against or waiver when considering resolutions on the Board meeting. Directors proxies shall perform power within the scope of authorization. Directors who neither attend the board meeting nor appoint others to attend in lieu of them, shall be deemed as giving up the voting rights of this Board meeting.

In the event of interests' confliction, the Director shall abstain from the voting or declare his interest to the Board as required by the Articles of Association and Company Law.

Except the issues stated in sub-paragraph 6, 7, 11 in Article 3 which have to be passed by the affirmative votes of more than 2/3 of all the Directors, the Board's resolutions in respect of all other matters may be passed by the affirmative vote of a simple majority of the Directors. The Board shall perform its duties according to laws, administrative regulations, Articles of Association and shareholder's resolutions.

The Board meeting shall vote by hands or ballots. Each director has one vote, in the event of negative votes equal affirmative votes, the chairman of the Board has the right to cast another vote. When voting on the Company's connected transactions, Directors with interests related should not vote on them. If resolutions can not be

reached due to some Directors' withdrawing, such proposal shall be submitted to the shareholders' general meeting directly for discussion.

#### **Article 33** Resolutions of the Board Meeting

The Board meeting shall generate resolutions on the proposals. Directors' opinions shall be recorded in the minutes of the Board meeting.

### **Chapter 4 Supplementary Rules**

**Article 34** These rules shall be effective upon approval by the Board.

**Article 35** These rules shall be interpreted and amended by the Board.

**Article 36** For matters not covered in these rules or where these rules are in conflict with laws and administrative statutes promulgated from time to time, other regulatory documents, the Listing Rules, the Articles of Association and the provisions and requirements of the relevant regulatory authority, the provisions of the laws, administrative statutes, other regulatory documents, the Listing Rules, the Articles of Association and the provisions and requirements of the relevant regulatory authority shall prevail.

**Article 37** None of the provisions and terms contained in these rules shall affect the provisions of the Articles of Association and the rights of the shareholders (whether that be legal rights or rights under the Articles of Association or any other rights). Any provisions and terms contained in these rules shall not be deemed as setting lower requirements than those of the Listing Rules.