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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AviChina Industry & Technology Company Limited**, you should at once hand this circular and the enclosed proxy form to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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### 中國航空科技工業股份有限公司 AviChina Industry & Technology Company Limited\*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2357)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS: ACQUISITION OF 100% EQUITY INTEREST IN AVIC PLANNING AND ISSUANCE OF DOMESTIC SHARES AS CONSIDERATION;**

**(2) CONTINUING CONNECTED TRANSACTIONS: ENTERING INTO OF THE SUPPLEMENTARY AGREEMENTS RELATING TO THE CONTINUING CONNECTED TRANSACTIONS AND REVISION OF RELEVANT ANNUAL CAPS RESULTING FROM THE ACQUISITION OF THE 100% EQUITY INTEREST IN AVIC PLANNING;**

**(3) PROPOSED CONSEQUENTIAL AMENDMENTS TO THE ARTICLES OF ASSOCIATION;**

**AND**

**(4) NOTICE OF EGM**

**Financial Adviser to the Company**



**Guotai Junan Capital Limited**

**Independent financial adviser to the Independent Board Committee and Independent Shareholders**

**ANGLO CHINESE** 英高  
CORPORATE FINANCE, LIMITED

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A letter from the Board is set out on pages 9 to 41 of this circular. A letter from the Independent Board Committee is set out on pages 42 to 43 of this circular. A letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders is set out on pages 44 to 66 of this circular.

A notice convening the EGM of the Company to be held at 10:00 a.m. on Monday, 13 June 2016 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC is set out on pages 124 to 127 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed hereto and are also published on the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon on or before Monday, 23 May 2016. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM or any adjournment thereof (as the case may be) and voting in person if you so wish.

10 May 2016

\* For identification purpose only

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“Acquisition”	pursuant to the Equity Acquisition and Share Issuance Agreement and the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement, the acquisition of 100% equity interest in AVIC Planning by the Company from AVIC, the consideration for which is to be satisfied by the issuance of the Consideration Shares to AVIC
“AMES”	AVIC Electromechanical Systems Company Limited* (中航機電系統有限公司), a wholly-owned subsidiary of AVIC
“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of (1) the Acquisition and the Issuance; (2) (a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017; and (3) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017
“AVIC”	Aviation Industry Corporation of China* (中國航空工業集團公司), the controlling shareholder of the Company directly and indirectly holding 54.85% shareholding in the Company as at the Latest Practicable Date
“AVIC Avionics”	China Avionics Systems Co., Ltd., (中航航空電子系統股份有限公司), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange, which is owned as to 43.22% by the Company as at the Latest Practicable Date and a subsidiary of the Company by reason of its accounts being consolidated into that of the Company
“AVIC Avionics Group”	AVIC Avionics and its subsidiaries

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## DEFINITIONS

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“AVIC Construction and Development”	AVIC Construction and Development Technology Co., Ltd.* (中航建發科技有限公司), a wholly-owned subsidiary of AVIC as at the Latest Practicable Date, and whose Entrusted Assets will be entrusted to and managed by AVIC Planning
“AVIC Group”	AVIC and its subsidiaries
“AVICOPTER”	AVICOPTER PLC (中航直升機股份有限公司), formerly known as Hafei Aviation Industry Co., Ltd. (“Hafei Aviation”), is a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange; as at the Latest Practicable Date, it is held as to 28.21% by Harbin Aviation Industry (Group) Co., Ltd., a wholly-owned subsidiary of the Company, and as to 6.45% by the Company. It is a subsidiary of the Company by reason of its accounts being consolidated into that of the Company
“AVICOPTER Group”	AVICOPTER and its subsidiaries
“AVIC Planning”	China Aviation Planning and Design Institute Co., Ltd.* (中國航空規劃設計研究總院有限公司), a wholly-owned subsidiary of AVIC as at the Latest Practicable Date
“AVIC Planning Group”	AVIC Planning and its subsidiaries
“Board”	the board of directors of the Company
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited company whose H shares are listed on the Hong Kong Stock Exchange
“Completion”	completion of the transactions contemplated under the Equity Acquisition and Share Issuance Agreement and the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement
“Consideration”	RMB2,173,281,600 (initially RMB2,164 million pursuant to the Equity Acquisition and Share Issuance Agreement before adjustment by the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement) being the consideration for the Acquisition to be paid by the Company to AVIC upon the Completion

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“Consideration Share(s)”	491,692,669 new Domestic Shares (initially approximately 489,592,000 new Domestic Shares under the Equity Acquisition and Share Issuance Agreement before adjustment by the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement) to be issued by the Company to AVIC at the Issue Price to satisfy the consideration for the Acquisition upon the Completion
“Contractual Price”	the price to be agreed between the relevant parties for the provision of the aviation products, raw materials and related services (as the case may be), which shall be the Reasonable Costs incurred in providing the same plus not more than 8.0% of such costs, which is determined after taking into account the average profit margin of approximately 7% of the costs among industrial enterprises, the average profit margin in the aviation industry and the profits previously received by the Group or AVIC Group for similar products or services. The 8% margin used to determine the Contractual Price is the maximum profit margin under the Mutual Provisions of Services Agreement and the Products and Services Mutual Supply and Guarantee Agreement and specific prices will be determined under separate agreements in each transaction
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	domestic share(s) of nominal value of RMB1.00 each in the ordinary share capital of the Company
“EGM”	the extraordinary general meeting of the Company to be held on Monday, 13 June 2016 for the purposes of considering and, if thought fit, approving, among other things: (1) the Acquisition and the Issuance; (2) (a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017; (3) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017; and (4) the proposed consequential amendments to the Articles of Association
“Equity Acquisition and Share Issuance Agreement”	the agreement entered into between the Company and AVIC on 30 September 2015 relating to the Acquisition and the Issuance

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## DEFINITIONS

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“Existing Land Use Rights and Properties Leasing Agreement”	the land use rights and properties leasing agreement entered into on 30 August 2011 as amended by the supplemental agreement entered into between AVIC and the Company on 26 August 2014 for a term of 20 years commencing from 1 January 2012, details of which are set out in paragraph 2.4 under Section I of the announcement on the continuing connected transactions of the Company dated 26 August 2014
“Existing Mutual Provision of Services Agreement”	the mutual provision of services agreement entered into between the Company and AVIC on 26 August 2014, for a term of three years commencing from 1 January 2015 to 31 December 2017, details of which are set out in paragraph 2.2 under Section I of the announcement on continuing connected transaction of the Company published on 26 August 2014
“Existing Products and Services Mutual Supply and Guarantee Agreement”	the products and services mutual supply and guarantee agreement entered into among AVIC Avionics, Hafei Aviation (renamed as “AVICOPTER”) and the Company on 26 August 2014, for a term of three years commencing from 1 January 2015 to 31 December 2017, details of which are set out in paragraph 2.5 under Section I of the announcement on the continuing connected transactions of the Company dated 26 August 2014
“General Mandate”	the general mandate granted to the Board for the issue and allotment of new securities and dealing with the additional shares (either Domestic Shares or H shares) of a maximum of not more than 20% of the aggregate amount of the nominal value of the existing Domestic Shares and/or H Shares in issue as at the date of the relevant resolution of the Shareholders passed at the annual general meeting of the Company held on 12 June 2015
“Government-guidance Price”	the price for a particular type of products as determined by the parties within the scope as provided under the laws, regulations, decisions or orders promulgated by the central government, provincial government or other regulatory authorities in the PRC
“Government-prescribed Price”	jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in particular transactions, which mainly comprise the relevant costs plus profit margin. The relevant costs will be proposed by the relevant manufacturing enterprises, subject to final confirmation by the relevant price control authorities and the industry regulators in the PRC. The existing prices of aviation products of the Group are mainly prescribed by the PRC government. Such Government-prescribed Price will not be published and is not publicly available

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“Group”	the Company and its subsidiaries
“H share(s)”	overseas listed foreign invested share(s) of nominal value of RMB1.00 each in the ordinary share capital of the Company, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollar
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Jason Chi Wai, to advise the Independent Shareholders in respect of: (1) the Acquisition and the Issuance; (2) (a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017; and (3) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017
“Independent Shareholders”	Shareholders (other than AVIC and its associates and any Director who is a shareholder of the Company and holds a senior management position with AVIC) who are not required to abstain from voting on the resolutions to be proposed at the EGM to approve: (1) the Acquisition and the Issuance; (2) (a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017; and (3) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017

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“Issuance”	pursuant to the Equity Acquisition and Share Issuance Agreement and Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement, the issuance of 491,692,669 new Domestic Shares (initially of approximately 489,592,000 new Domestic Shares under the Equity Acquisition and Share Issuance Agreement before adjustment by the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement) to AVIC as the consideration for the acquisition of the 100% equity interest in AVIC Planning held by AVIC
“Issue Price”	RMB4.42 (equivalent to approximately HK\$5.39 at an exchange rate of HKD1=0.82RMB on 30 September 2015) per Consideration Share
“Latest Practicable Date”	3 May 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
“Last Trading Day”	29 September 2015, being the last trading day of the H Shares on the Hong Kong Stock Exchange immediately prior to the date of the Equity Acquisition and Share Issuance Agreement
“Market Price”	(i) where there are comparable market prices or standard charging rates entered into by independent third parties under normal commercial terms from transaction records of previous similar transactions, the transaction price shall be fixed at such price or standard; or (ii) if the transactions have no comparable market prices entered into between independent third parties, the transaction price shall be fixed by the price of non-connected transactions between the Company and independent third parties: (a) (as buyer) by tender procedures in accordance with the relevant PRC laws and regulations relating to tender and bidding or choosing the most favorable price among at least 2 to 3 selected suppliers after taking into account the suppliers’ manufacturing qualifications and delivery time, and business relationship between the Company and suppliers according to the Company’s internal procurement policy or (b) (as supplier) negotiating with clients within prescribed price range according to the Company’s internal sales policy after taking into account the transaction volumes and business relationship between the Company and purchasers. The Market Price will be determined or approved by the authorized departments/persons of the specific entities under the Group in particular transactions



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## DEFINITIONS

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“New Continuing Connected Transactions”	the transactions entered into in the ordinary and usual course of business and provided by (i) AVIC Planning Group to AVIC Group, including engineering technology (including planning, consultation, design and supervision), project engineering general contracting and equipment general contracting services, etc.; and (ii) by AVIC Group to AVIC Planning Group, including labour services, engineering and equipment subcontracting services.
“New Intragroup Continuing Connected Transactions”	transactions entered into in the ordinary and usual course of business and provided by (i) AVIC Planning Group to AVIC Avionics Group and AVICOPTER Group, including engineering technology (including planning, consultation, design and supervision), project engineering general contracting and equipment general contracting services, etc.; and (ii) by AVIC Avionics Group and AVICOPTER Group to AVIC Planning Group, including engineering and equipment subcontracting services.
“PRC”	the People’s Republic of China
“Reasonable Costs”	the costs confirmed by the parties to the agreement after arm’s length negotiations and as permitted by the relevant accounting system/principles of the PRC (inclusive of sales tax and surcharges), mainly comprising direct manufacturing costs (inclusive of materials, labour and other manufacturing expenses) and indirect fees apportioned between the parties
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holder(s) of the Shares
“Shares”	Domestic Shares and H Shares of the Company
“Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement”	the supplementary agreement dated 10 March 2016 entered into between the Company and AVIC to supplement the Equity Acquisition and Share Issuance Agreement by adjusting, among other things, the valuation of the Target Equity and the Consideration for the Acquisition to RMB2,173 million (i.e. RMB2,173,281,600) and the Consideration Shares to be issued to 491,692,669 new Domestic Shares

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## DEFINITIONS

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“Supplementary Agreement to the Existing Mutual Provision of Services Agreement”	the supplementary agreement dated 19 October 2015 entered into between the Company and AVIC to amend the Existing Mutual Provision of Services Agreement, by incorporating the New Continuing Connected Transactions upon completion of the Acquisition into the Existing Mutual Provision of Services Agreement (as amended) for the purposes of unified management, details of which are set out in Section III of the “Letter from the Board” in this circular
“Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement”	the supplementary agreement dated 19 October 2015 entered into between the Company, AVIC Avionics and AVICOPTER to amend the Existing Products and Services Mutual Supply and Guarantee Agreement, by incorporating the New Intragroup Continuing Connected Transactions upon completion of the Acquisition into the Existing Products and Services Mutual Supply and Guarantee Agreement (as amended) for the purposes of unified management, details of which are set out in Section III of the “Letter from the Board” in this circular
“Target Equity”	100% equity interest in AVIC Planning
“Valuation Date”	being 30 June 2015
“Valuation Report”	the valuation report dated 2 December 2015 on the valuation of the Target Equity as at the Valuation Date by the Valuer
“Valuer”	China United Assets Appraisal Group Limited, an independent and qualified PRC valuer

\* For identification purpose only.

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LETTER FROM THE BOARD

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中國航空科技工業股份有限公司  
**AviChina Industry & Technology Company Limited\***

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2357)

*Executive Directors:*

Mr. Lin Zuoming  
Mr. Tan Ruisong

*Non-executive Directors:*

Mr. Gu Huizhong  
Mr. Gao Jianshe  
Mr. Guo Chongqing  
Mr. Maurice Savart

*Independent non-executive Directors:*

Mr. Lau Chung Man, Louis  
Mr. Liu Renhuai  
Mr. Yeung Jason Chi Wai

*Registered Office:*

8th Floor, Tower 2  
No. 5A Rongchang East Street  
Beijing Economic-Technological  
Development Area  
Beijing, PRC

*Principal place of business  
in Hong Kong:*

Unit 2202A, 22nd Floor,  
Fairmont House,  
8 Cotton Tree Drive,  
Central, Hong Kong

10 May 2016

*To the Shareholders:*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS: ACQUISITION OF 100% EQUITY INTEREST IN AVIC PLANNING AND ISSUANCE OF DOMESTIC SHARES AS CONSIDERATION;**

**(2) CONTINUING CONNECTED TRANSACTIONS: ENTERING INTO OF THE SUPPLEMENTARY AGREEMENTS RELATING TO THE CONTINUING CONNECTED TRANSACTIONS AND REVISION OF RELEVANT ANNUAL CAPS RESULTING FROM THE ACQUISITION OF THE 100% EQUITY INTEREST IN AVIC PLANNING;**

**(3) PROPOSED CONSEQUENTIAL AMENDMENTS TO THE ARTICLES OF ASSOCIATION;**

**AND**

**(4) NOTICE OF EGM**

\* For identification purpose only

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## LETTER FROM THE BOARD

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References are made to the announcements of the Company dated 30 September 2015 and 10 March 2016 on the entering into of the Equity Acquisition and Share Issuance Agreement and the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement in relation to the Acquisition i.e. the acquisition of 100% equity interest in AVIC Planning by the Company from AVIC, the Consideration for the Acquisition i.e. the Issuance of Consideration Shares by the Company to AVIC.

Reference is also made to the announcement of the Company dated 19 October 2015 in relation to the entering into of (i) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement with AVIC and (ii) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics and AVICOPTER respectively, to manage the New Continuing Connected Transactions between AVIC Planning Group and AVIC Group and the New Intragroup Continuing Connected Transactions between AVIC Planning Group and the connected subsidiaries of the Company upon completion of the Acquisition.

The purposes of this circular are to provide you with, among other things, information relating to the following resolutions to be considered and, if appropriate, approved at the EGM:

- (1) the Acquisition and the Issuance;
- (2) (a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017;
- (3) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017; and
- (4) the proposed consequential amendments to the Articles of Association.

### **I. ACQUISITION OF 100% EQUITY INTEREST IN AVIC PLANNING AND ISSUANCE OF DOMESTIC SHARES AS CONSIDERATION**

#### **1. Introduction**

On 30 September 2015, the Company entered into the Equity Acquisition and Share Issuance Agreement with AVIC, pursuant to which the Company conditionally agreed to acquire and AVIC conditionally agreed to sell the Target Equity i.e. 100% equity interest in AVIC Planning, the consideration for which is to be satisfied by the issuance of approximately 489,592,000 Domestic Shares to AVIC at the Issue Price i.e. RMB4.42 (equivalent to approximately HK\$5.39) per Consideration Share. The consideration for the Acquisition was initially agreed at RMB2,164 million, which was determined based on arm's length negotiations and with reference to, among other factors, the historical financial information, comparable consideration, the business prospects and potentials of AVIC Planning, the valuation of AVIC Planning by the Valuer etc. Pursuant to the Equity Acquisition and Share Issuance Agreement, the final consideration for the Acquisition will be subject to adjustment, if any, which will be finally determined by the state-owned assets supervision and administration authorities or its authorized entity. If the final consideration for the

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## LETTER FROM THE BOARD

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Acquisition is adjusted, the total number of Consideration Shares will be correspondingly adjusted at the Issue Price. After filing with and confirmed by the state-owned assets supervision and administration authorities, the valuation of the Target Equity has been adjusted from RMB2,164 million to RMB2,173 million (i.e. RMB2,173,281,600). Taking into account the adjusted valuation of the Target Equity and other factors, on 10 March 2016, the Company entered into the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement with AVIC, pursuant to which, the consideration for the Acquisition of 100% equity interest in AVIC Planning has been confirmed as RMB2,173 million (i.e. RMB2,173,281,600) and the number of Consideration Shares to be issued at the Issue Price by the Company to AVIC has been adjusted from approximately 489,592,000 shares to 491,692,669 shares. The Consideration Shares, as adjusted, represent approximately 15.77% and 8.98% of the existing total issued Domestic Shares and existing total issued share capital of the Company, respectively, and approximately 13.62% of the total issued Domestic Shares and 8.24% of the total issued share capital as enlarged by the Issuance upon Completion. As the Company has already entered into the Equity Acquisition and Share Issuance Agreement with AVIC on 30 September 2015 and the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement on 10 March 2016 which were before the expiry of the relevant period of the General Mandate (which was granted by the annual general meeting of the Company held on 12 June 2015), the Consideration Shares will be issued under the General Mandate and will rank equally with the existing Domestic Shares. Subject to approval by the shareholders at the EGM and approval by SASAC, the Consideration Shares will be issued as soon as possible and within three months from the date of obtaining all the relevant approvals.

### **2. (1) Equity Acquisition and Share Issuance Agreement and (2) Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement**

#### ***2.1 The Equity Acquisition and Share Issuance Agreement – Summary of the principal terms***

##### *2.1.1 Date*

30 September 2015

##### *2.1.2 Parties*

Vendor (Share Subscriber): AVIC

Purchaser (Share Issuer): the Company

##### *2.1.3 Target Equity*

The 100% equity interest in AVIC Planning held by AVIC

##### *2.1.4 Consideration, Consideration Shares and Issue Price*

According to the Equity Acquisition and Share Issuance Agreement, the Consideration was initially determined at RMB2,164 million. Upon the valuation of the Target Equity having been confirmed by the state-owned assets supervision and administration authorities at RMB2,173 million (i.e.

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## LETTER FROM THE BOARD

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RMB2,173,281,600), the Consideration for the Acquisition and the number of Consideration Shares at the Issue Price have been correspondingly adjusted. Please refer to the section headed “3. Consideration, Consideration Shares and Issue Price” below for details.

### *2.1.5 Conditions Precedent*

Pursuant to the Equity Acquisition and Share Issuance Agreement, the Acquisition and Issuance will become effective upon fulfilment (or waiver) of, among other things, the following conditions:

- (1) AVIC having completed all necessary internal approval procedures in accordance with the requirements of its articles of association;
- (2) Each of the Acquisition and the Issuance having been approved by the Board;
- (3) Each of the Acquisition and the Issuance having been approved by Independent Shareholders of the Company at the EGM;
- (4) The valuation report of the Target Equity having been acknowledged by AVIC and the SASAC having accepted the valuation report for filing; and
- (5) The Issuance having been acknowledged or approved by the SASAC.

As at the Latest Practicable Date, all conditions precedent have been satisfied other than conditions (3) and (5).

### *2.1.6 Completion*

The Equity Acquisition and Share Issuance Agreement will be completed on the date on which (i) the conditions set out above have been satisfied; (ii) the title to the equity interest of AVIC Planning has been registered in the name of the Company; and (iii) the Consideration Shares have been issued to and registered in the name of AVIC.

## ***2.2 The Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement – Summary of principal terms***

### *2.2.1 Date*

10 March 2016

### *2.2.2 Parties*

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## LETTER FROM THE BOARD

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### *2.2.3 Major terms of adjustment*

According to the Equity Acquisition and Share Issuance Agreement, the Consideration was initially determined at RMB2,164 million. Upon the valuation of the Target Equity having been confirmed by the state-owned assets supervision and administration authorities at RMB2,173 million (i.e. RMB2,173,281,600), the Consideration for the Acquisition and the number of Consideration Shares at the Issue Price have been correspondingly adjusted. Please refer to the section headed “3. Consideration, Consideration Shares and Issue Price” below for details.

### **3. Consideration, Consideration Shares and Issue Price**

#### ***3.1 Consideration***

According to the Equity Acquisition and Share Issuance Agreement, the Company has agreed to acquire and AVIC has agreed to sell the Target Equity i.e. 100% equity interest in AVIC Planning. Subject to adjustment, if any, which would be finally determined by the state-owned supervision and administrative authorities, the consideration for the Acquisition was initially agreed at RMB2,164 million, which was determined based on arm’s length negotiations, and with reference to, among other things, the historical financial information, comparable prices, the business prospects and potentials of AVIC Planning, and the valuation of AVIC Planning by the Valuer etc.

Upon the valuation of the Target Equity having been confirmed by the state-owned assets supervision and administration authorities at RMB2,173 million (i.e. RMB2,173,281,600), the Consideration for the Acquisition, after taking into consideration of the valuation as confirmed by the state-owned assets supervision and administrative authorities and other factors, is adjusted and determined at RMB2,173 million (i.e. RMB2,173,281,600) under the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement.

#### ***3.2 Consideration Shares***

According to the Equity Acquisition and Share Issuance Agreement, the Company conditionally agreed and subject to adjustment, if any, to the Consideration which may be determined by the state-owned assets supervision and administrative authorities, to issue approximately 489,592,000 Consideration Shares to AVIC as consideration for the Acquisition. If the final consideration for the Acquisition is adjusted, the total number of Consideration Shares will be correspondingly adjusted at the Issue Price.

As the Consideration for the Acquisition is adjusted to RMB2,173 million upon confirmation of the valuation by the state-owned assets and supervision and administration authorities, it is agreed, pursuant to the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement with AVIC, that the number of Consideration Shares to be issued by the Company to AVIC is to be adjusted from approximately 489,592,000 new Domestic Shares to 491,692,669 new Domestic Shares at the Issue Price of RMB4.42 per Consideration Share.

The Consideration Shares, when issued, will rank equally in all respects among themselves, and with the Domestic Shares then in issue on the day of issuance of the Consideration Shares, and be entitled to all dividends and other rights attached to the Domestic Shares from the date of issuance. The Consideration

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## LETTER FROM THE BOARD

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Shares will be issued under the General Mandate. The Issuance of the Consideration Shares as consideration for the Acquisition was agreed after arms' length negotiations between the Company and AVIC and also considering that the Issuance will avoid any impact on the liquidity of the Company if the consideration were to be paid for by cash.

Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the date of the issuance of the Consideration Shares, the number of Consideration Shares represents:

- (a) approximately 15.77% and 8.98% of the existing total issued Domestic Shares and the existing total issued share capital of the Company as at the Latest Practicable Date; and
- (b) approximately 13.62% and 8.24% of the total issued Domestic Shares and the total issued share capital of the Company as enlarged by and upon Completion of the Issuance.

### **3.3 Issue Price**

The Issue Price of each Consideration Share is RMB4.42 (approximately HK\$5.39), which is determined based on arm's length negotiations between the Company and AVIC and with reference to the average closing price of approximately HK\$5.39 per H Share as quoted on the Hong Kong Stock Exchange for the 20 consecutive trading days up to 30 September 2015 (exclusive). The Issue Price represents:

- (a) a discount of approximately 0.00% over the closing price of HK\$5.39 per H Share on the Hong Kong Stock Exchange on the Last Trading Day; and
- (b) a discount of approximately 3.06% over the average closing price of HK\$5.56 per H Share on the Hong Kong Stock Exchange on the Last Trading Day (inclusive) and five preceding consecutive trading days.

*Note:* The comparison above is provided for investors' convenience and for reference only. The Company's Domestic Shares are non-listed Shares.

### **4. The Valuation**

The Consideration for the Acquisition is determined based on arm's length negotiations, and with reference to, among other factors, the historical financial information, pricing comparables with reference to the publicly available information relating to an acquisition of a large-scale engineering design company by an A-share listed company in 2014 (which is also an architectural design and research institute acquisition by issuance of shares and had an implied price-to-earnings ratio for 2014 and 2015 of 8.7 and 7.4 times respectively). The major features of the A-share listed acquisition are similar and relevant to the Acquisition. The business model of the target company in that acquisition, which is also an architectural design and research institute, is similar to AVIC Planning and completion of which took place recently in September 2015. The business prospects and potentials of AVIC Planning (please refer to "9. Reasons and Benefits of the Acquisition" below), and the valuation of AVIC Planning by the Valuer etc. The Valuation Report is prepared based on the asset-based approach and income approach, with the income approach being finally adopted for the purpose of the valuation, which initially valued the Target Equity as at the Valuation Date at



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## LETTER FROM THE BOARD

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RMB2,164 million. According to the Valuation Report, as at the Valuation Date (i.e. 30 June 2015) and based on a total net asset value of RMB531.4674 million, the appraised value of the Target Equity based on the income approach was RMB2,173.2816 million and the appraised value based on the asset-based approach was RMB1,608.0294 million. For details of the carrying amount of the total assets, total liabilities and net assets of each of the appraisal methods, please refer to the Valuation Report in Appendix I to this Circular. Based on the income approach, the appraised value of RMB2,173.2816 million represents an increase of RMB1,641.8142 million over the total net asset value of the Target Equity or an appreciation rate of 308.92%. The income approach was adopted because of: (1) the great market development potential of AVIC Planning considering that it is in the construction consulting and design and general contracting services industry; (2) the wide range of business qualifications of AVIC Planning which can facilitate the conduct of future businesses; and (3) the competitiveness of AVIC Planning in the market, including its industrial experience advantages and highly quality and professional teams. The Board is of the view that, considering the reasons for adopting the income approach in the evaluation as stated in the Valuation Report, the reasons and benefits of the Acquisition as stated in “Reasons and benefits of the Acquisition” as stated in paragraph 9 below, and that the Valuation Report has been accepted for filing with the government authorities, the valuation is fair and reasonable. As at the Latest Practicable Date, the Valuation Report has been accepted for filing with the government authorities. Upon filing the valuation report with the state-owned assets supervision and administration authorities, the valuation has been confirmed and adjusted to RMB2,173 million (RMB2,173,281,600). Notwithstanding that the Valuation Date of the Valuation Report was 30 June 2015, the Directors are of the view that valuation is fair and reasonable as there are, as far as the Directors are aware, no material adverse changes to the Target Equity up to the Latest Practicable Date. The Valuer has estimated that the performance of AVIC Planning will closely relate to the size of fixed asset investments by the Chinese government. During recent years, fixed asset investments in China continued to maintain stable growth. From 2005 to 2014, the compound growth rate of China’s fixed asset investments was at a rate of 21.49% per annum. At the same time, AVIC Planning has achieved corresponding rapid growth, with a compound growth rate at more than 30% for the years from 2012 to 2014. Based on the PRC government targeted GDP growth rate of 6.5% or more per annum for the next five years to year 2020 and taking into consideration the historical performance of AVIC Planning and the targeted economic performance set by the Chinese government, it is estimated that the performance of AVIC Planning will correspondingly continue to grow, with a corresponding decline in growth rate, if the growth rate of fixed asset investments decreases. Taking into the consideration the above, and the assumptions in section IX “Assumptions” in the Valuation Report (which is set out in Appendix I to this circular), it is estimated that AVIC Planning will achieve a total revenue of approximately RMB7,600 million and an estimated net profit of approximately RMB235 million for the year 2015 whereas the estimated compound growth rate for revenue for years 2016 to 2020 would be approximately 6.5% per year. Based on the information available to the Company, there is no material difference between the unaudited net profit of AVIC Planning for the year ended 31 December 2015 and the estimated net profit of AVIC Planning of approximately RMB235 million estimated by the Valuer. The above estimates are based on various assumptions, which may be inaccurate, change or vary, and are estimated by the Valuer for the purpose of preparing the valuation in the Valuation Report only. Shareholders and investors should therefore consider the estimates with care and take into account other disclosures in this circular when considering how to vote at the EGM. As the Valuation Report has adopted the income approach method, it constitutes a profit forecast under Rule 14.61 of the Hong Kong Listing Rules and the requirements of Rule 14.62 of the Hong Kong Listing Rules are applicable.

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## LETTER FROM THE BOARD

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At the time of making the announcement on 30 September 2015, the valuation had been made but details of the Valuation Report had not been finalized and as a result, the Company's reporting accountant and financial advisers had not had the chance to review the Valuation Report for the purpose of complying with the requirements of Rule 14.62 of the Hong Kong Listing Rules. The Company applied for a waiver from the Hong Kong Stock Exchange for strict compliance and for time to comply with the requirements of Rule 14.62 of the Hong Kong Listing Rules and the Hong Kong Stock Exchange has granted the waiver.

On 10 March 2016, the Company published an announcement setting out the major assumptions of the valuation and confirmations as required by Rule 14.62 of the Hong Kong Listing Rules. The valuation of the Target Equity contained in the Valuation Report produced in Appendix I to this circular, based on the following major special assumptions:

- (i) The external economic environment remains unchanged, and there is no significant change in the current national macro-economy during the forecast period;
- (ii) There is no significant change in the social and economic environment in which AVIC Planning is involved and the applicable policy on tax and tax rate;
- (iii) The operation and management teams of AVIC Planning perform their duties diligently during the forecast period and maintain the current operation and management model;
- (iv) The principal businesses, product structures, revenue and cost compositions, sales strategies and cost control etc. of AVIC Planning continue to maintain their current status during the forecast period;
- (v) Each asset is based on the actual inventory as at the Valuation Date, and the prevailing market value of the relevant assets is based on the effective domestic price as at the Valuation Date;
- (vi) The basic information and the financial information provided by AVIC Planning is true, accurate and complete;
- (vii) AVIC Planning will during the future operating period continue to obtain high-tech enterprise certification and enjoy an income tax rate of 15%; and
- (viii) The scope of valuation is confined to those contained in the valuation declaration form as provided by AVIC Planning, without taking into account any possible existing or contingent assets or contingent liabilities outside the list provided by AVIC Planning.

Ernst & Young, the Company's reporting accountant, has reviewed the relevant forecast calculations and the letter from Ernst & Young is set out in Appendix II to this circular. Guotai Junan, acting as the Company's financial adviser, has confirmed that it is satisfied that the relevant forecast has been made by the Directors after due and careful enquiry and the letter from Guotai Junan is set out in Appendix III to this circular.

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## LETTER FROM THE BOARD

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### 5. Information of AVIC Planning

As at the Latest Practicable Date, AVIC holds 100% equity interest in AVIC Planning. With a registered capital of RMB450 million, AVIC Planning is wholly reorganized from the former public institution – China Aviation Planning and Design Research Institute – and forms the professional company in the fixed asset investment segment of AVIC engaging in planning, design, consultation, construction and operation. AVIC Planning is a professional company engaged in the provision of consultation and design services in the aviation industry as its core and the provision of professional services in the construction and operation in relation to fixed assets. In respect of the consultation and design services, it is engaged in high-end consultation, investment analysis, engineering design for front-end fixed asset investment projects (including services relating to project proposal, feasibility study report, preliminary analysis, construction drawing and designs and related documentations etc.). In respect of construction general contracting, it is engaged in the provision of complete services for fixed asset investment construction for aviation manufacturing as well as the construction and management of such projects (including services related to survey, design, purchase, construction, supervision and verification etc.). It is one of the leading professional service providers engaged in the provision of services on aviation industry related comprehensive engineering planning and design and construction services, large-span construction engineering, aircraft and engine maintenance engineering, large-scale aeronautical test equipment design and manufacturing, energy and environmental engineering design etc. Projects completed by AVIC Planning in recent years cover the aviation and aerospace projects, general aviation and civil construction as well as various civil industries such as environmental and energy, medical and pharmaceutical industries.

AVIC Planning is a large national-level design entity with over 60 years' professional background experience in the aviation industry. It has seven national-level experts in engineering investigation and design, more than 70 experts who have been awarded special government allowance and recognized national outstanding contributions, approximately 1,300 employees with senior professional titles and national registered professional qualifications; it was principally responsible for or participated in formulating more than 100 industry standards, and has won more than 100 prizes, including the prizes on the top ten national science and technology progress awards, the National Prize for Progress in Science and Technology Outstanding Awards, National Prize for Excellent Engineering Design Special Award etc. It is one of the 60 odd design and consultancy services companies holding the “Engineering Design Integrated Qualification Class-A” among a total of 19,000 odd such companies in China. The total amount of its construction contracting contract completed in year 2014 was ranked 18 by the “2015 Ranging for Completed Construction Contracting Contract Amount” published by China Exploration & Design Association.

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## LETTER FROM THE BOARD

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According to the adjustments made to the benefit plan for employees etc., the audited financial information of the Target Equity i.e. 100% equity interest in AVIC Planning for the six months ended 30 June 2015, the financial year ended 31 December 2014 and the unaudited financial information for the financial year ended 31 December 2013 were adjusted as follows:

<b>Item</b>	<i>In RMB millions</i>		
	<b>For the six months ended 30 June 2015 (audited)</b>	<b>For the financial year ended 31 December 2014 (audited)</b>	<b>For the financial year ended 31 December 2013 (unaudited)</b>
Total assets	7,074.0964	5,748.6520	4,882.6483
Operating revenue	3,947.5520	6,175.5222	5,324.2768
Net profit (before tax)	144.3727	230.0860	179.7070
Net profit (after tax)	127.3747	212.4532	160.8237

*Note:* The above financial information on the 100% equity in AVIC Planning excludes the financial information of the Entrusted Assets (as referred to in paragraph 6 below).

According to the data prepared by the management based on the pro forma financial information of AVIC Planning, for the two financial years ended 31 December 2014 and 2015, the revenue from provision of services by AVIC Planning Group to AVIC Group (excluding the Group) for significant transactions was RMB2,539.00 million and RMB2,756.88 million, respectively and the revenue from provision of services by AVIC Planning Group to the Group for significant transactions was RMB491.78 million and RMB546.99 million, respectively. Since AVIC Planning obtained all orders at Market Price or Market Price determined through tender procedures where the connected parties and independent third parties are equally treated, the Directors are of the view that the historical revenue and profit contribution of AVIC Group have no material impact on the profit forecast and valuation of the Target Equity.

### **6. Business Non-competition Arrangement**

Prior to the Acquisition, due to defects such as unclear titles of certain land and properties, some assets of AVIC Planning (namely, AVIC Institute of Geotechnical Engineering Co., Ltd., AVIC Planning Changsha Design Institute Co., Ltd., Beijing Yinyan Enterprise Co., Ltd. and AVIC Property Management Co., Ltd., which are four subsidiaries of AVIC Planning and their respective subsidiaries) were excluded from the assets constituting the Acquisition. These defective assets (referred to as the “Entrusted Assets”) have been transferred from AVIC Planning to and be held by AVIC Construction and Development, a limited company established by AVIC to hold the Entrusted Assets.

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## LETTER FROM THE BOARD

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To avoid business competition between AVIC Planning and the Entrusted Assets, AVIC entered into an entrustment agreement with AVIC Planning on 30 September 2015 by entrusting the 100% of equity interest in AVIC Construction and Development to AVIC Planning. Pursuant to the entrustment agreement:

- (i) shareholders' rights of AVIC relating to request for distribution of profits, rights to share in the distribution of remaining assets and the rights to dispose the equity interest are reserved to AVIC;
- (ii) other than the reserved rights of AVIC as stated above, AVIC Planning is entrusted with all other shareholder's rights of AVIC in AVIC Construction and Development and shall be responsible for all management functions of AVIC Construction and Development and in respect of its subsidiaries, such rights including, among others, development strategies and long term planning, operational and investment planning, appointment of directors and supervisors (other than employee representatives) and senior management, financial budgets, material restructurings etc.; and
- (iii) AVIC Planning is entrusted with all decision making rights on the management operations and development of AVIC Construction and Development and its subsidiaries, subject to the policy wishes of AVIC.

By entrusting all decision making rights on the management operations and development of AVIC Construction and Development and its subsidiaries while reserving the reserved rights of AVIC as a shareholder as stated above, the Company will, upon completion of the Acquisition of AVIC Planning, have control over the day-to-day management of AVIC Planning and AVIC Construction and Development and would thus be able to avoid and manage competitions among the two groups. AVIC Planning is entitled to receive payment of management fees pursuant to the entrustment agreement. The management fees shall not be less than the management costs and are agreed at RMB0.5 million per annum. If the actual management costs are in excess of RMB0.5 million, both parties shall negotiate to adjust the annual sum payable. In addition, an incentive payment will be paid to AVIC Planning if 3% of the audited consolidated net profit of AVIC Construction and Development in a year is in excess of RMB0.5 million, any such excess shall be paid to AVIC Planning. The management fees arrangement is currently below the minimum disclosure requirements under the Hong Kong Listing Rules and the Directors further estimated that the management fees and incentive payment (if any) for the next three financial years ending 31 December 2018 will be below the minimum disclosure requirements of the Hong Kong Listing Rules. If at any time during the next three financial years the aggregate of the management fees and incentive payment (if any) exceed the minimum disclosure requirements under the Hong Kong Listing Rules, the Company will forthwith or as soon as possible comply with such disclosure requirements.

Subject to the title issues of the Entrusted Assets having been dealt with satisfactorily and the approval of relevant regulatory authorities having been obtained, the Company will, when appropriate, acquire the Entrusted Assets and will also comply with the disclosure and approval requirements under the Hong Kong Listing Rules upon proceeding with such acquisition. Currently, the Company does not have any plan to acquire the Entrusted Assets and as at the Latest Practicable Date, the Company has not entered into any agreement, arrangement, understanding or undertaking to acquire the Entrusted Assets.

## LETTER FROM THE BOARD

### 7. Implications of the Acquisition on the Shareholding Structure

Assuming there is no change in the issued share capital of and the shareholding in the Company from the Latest Practicable Date to the date of the issuance of the Consideration Shares pursuant to the Equity Acquisition and Share Issuance Agreement and the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement, the shareholding structure of the Company (a) as at the Latest Practicable Date; and (b) immediately after Completion (inclusive of issuance of the Consideration Shares) will be as follows:

Name of the Shareholder	Number of Shares held as at the Latest Practicable Date			Immediately after Completion (including Issue of the Consideration Shares)		
	Number of Shares	Approximate% to the relevant class of issued share capital of the Company	Approximate % to the total issued share capital of the Company	Number of Shares	Approximate% to the relevant class of issued share capital of the Company	Approximate % to the total issued share capital of the Company
<b>Domestic Shares</b>						
AVIC and its subsidiaries	2,989,492,900	95.88%	54.61%	3,481,185,569	96.44%	58.35%
Other domestic shareholders (Note)	<u>128,502,365</u>	<u>4.12%</u>	<u>2.35%</u>	<u>128,502,365</u>	<u>3.56%</u>	<u>2.15%</u>
Sub-total	<u>3,117,995,265</u>	<u>100%</u>	<u>56.96%</u>	<u>3,609,687, 934</u>	<u>100.00%</u>	<u>60.50%</u>
<b>H Shares</b>						
China Aviation Industry (HK) Co., Ltd	13,076,000	0.55%	0.24%	13,076,000	0.55%	0.22%
Other H Shareholders	<u>2,343,357,902</u>	<u>99.45%</u>	<u>42.80%</u>	<u>2,343,357,902</u>	<u>99.45%</u>	<u>39.28%</u>
Total	<u>5,474,429,167</u>	<u>-</u>	<u>100.00%</u>	<u>5,966,121, 836</u>	<u>-</u>	<u>100.00%</u>

*Note:* Other domestic shareholders are shareholders who have been holding the domestic shares of the Company since the restructuring of the Company for the purpose of listing of the H Shares of the Company on the Hong Kong Stock Exchange.

The public float percentage of the Company will satisfy the minimum public float requirement of the Hong Kong Stock Exchange upon the completion of the Acquisition.

### 8. Fund Raising of the Company in the Past 12 Months

The Company has not engaged in any fund raising activities involving issuance of equity securities in the past 12 months immediately prior to the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### 9. Reasons for and Benefits of the Acquisition

- (1) AVIC Planning is a professional company engaged in the provision of consultation and design services in the aviation industry as its core and the provision of professional services in the construction and operation in relation to fixed assets. Please refer to paragraph 5 “Information of AVIC Planning” above for detailed information on AVIC Planning. The Acquisition will be beneficial to the Company in further extending its aviation manufacturing business to the front-end engineering services (such as planning, design and consultation services at a preliminary stage) of the aviation manufacturing business, and will further complete the Company’s aviation industry chain.
- (2) The Acquisition will help to raise the profits of the Group. AVIC Planning has a relatively higher management level with relatively higher business capabilities and profit generating ability, and the Acquisition will be beneficial in expanding the revenue scale of the Group, raise the profitability level in terms of return on equity, earnings per share etc.
- (3) The Acquisition will help the Company extend into and develop new businesses and new markets. Upon Completion of the Acquisition, and riding on the national development strategy of “One Belt One Road” and the “Going-Global” policy, the Company can take advantage of the competitive technological edges of AVIC Planning to extend into the emerging and the international aviation engineering markets. Meanwhile, with expansion in the domestic aviation industry scale, the opening of low altitude air space, and the development of general aviation market, the demand for aviation engineering construction will further increase, and AVIC Planning will continue to expand its market share through its proprietary professional edges. Further, fixed asset investments in China will continue to grow as a policy of the PRC government. For further information relating to the fixed asset investment by the PRC government and development of the aviation industry, please refer to paragraph 2.3.3(C) “Industry and policy factors considered in the estimates” below.
- (4) The Acquisition will be beneficial to the Company in maximizing the synergies among its businesses by applying the experience and capabilities of AVIC Planning in the relevant areas, optimizing the industrial layout for the aviation manufacturing businesses of the Company, and raising its manufacturing capabilities.
- (5) The Acquisition is the first attempt in China of an injection of a company being restructured from a public institution in the aviation industry into an overseas listed company; it probes the way into the future mergers and acquisitions of the Company. As at the Latest Practicable Date, the Company had no identified specific acquisition plans or targets, and had not entered into any definitive agreements with any potential targets.

The Directors (excluding the independent non-executive Directors) are of the opinion that the terms of the Equity Acquisition and Share Issuance Agreement and the consideration for the Acquisition (including the Issue Price for the Consideration Shares) are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The views of the independent non-executive Directors are set out in the section headed “LETTER FROM THE INDEPENDENT BOARD COMMITTEE” in this circular.

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## LETTER FROM THE BOARD

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Each of Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, Directors of the Company, who are chairman, general manager, vice general manager and vice general manager of AVIC, respectively, is deemed to have a material interest in the transactions contemplated under the Equity Acquisition and Share Issuance Agreement and thus had abstained from voting on the relevant Board resolutions approving the Equity Acquisition and Share Issuance Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules.

### **10. Hong Kong Listing Rules Implications**

As the Latest Practicable Date, AVIC is a controlling shareholder of the Company directly and indirectly holding 54.85% shareholding in the Company. AVIC Planning is a wholly-owned subsidiary of AVIC, and in accordance with the rules in Chapter 14A of the Hong Kong Listing Rules, AVIC and AVIC Planning are connected persons of the Company. As the highest of the applicable size test percentage ratios in relation to each of the Acquisition and the Issuance is over 5% but less than 25%, the Acquisition and the Issuance constitute discloseable and connected transactions under the Hong Kong Listing Rules and as the Acquisition involves the issuance of Domestic Shares as the consideration, both the Acquisition and the Issuance are subject to the reporting, announcement and approval of the Independent Shareholders requirements.

An Independent Board Committee comprising all of the independent non-executive Directors have been established to advise the Independent Shareholders on, among other things, the connected transactions contemplated under the Acquisition and the Issuance. None of the members of the Independent Board Committee has any material interest in the transactions contemplated under the Equity Acquisition and Share Issuance Agreement.

Anglo Chinese has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, among other things, the connected transactions mentioned above.

### **11. General Information**

#### *Information on the Company*

The Company is a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange. The Company is mainly engaged in the research, development, manufacture and sales of civil aviation products.

#### *Information on AVIC*

AVIC is held and controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products. As at the Latest Practicable Date, AVIC is the controlling shareholder of the Company, directly and indirectly holding 54.85% shareholding in the Company.



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## LETTER FROM THE BOARD

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### *Information on AVIC Planning*

Please refer to paragraph 5 above for details.

## **II. ENTERING INTO OF THE SUPPLEMENTARY AGREEMENTS RELATING TO THE CONTINUING CONNECTED TRANSACTIONS AND REVISION OF RELEVANT ANNUAL CAPS**

### **1. Background**

Upon Completion of the Acquisition, AVIC Planning will become a wholly-owned subsidiary of the Company and as AVIC is the controlling shareholder of the Company and therefore a connected person of the Company under the Hong Kong Listing Rules, the continuing transactions conducted between AVIC Planning Group and AVIC Group will become the New Continuing Connected Transactions of the Company.

Upon completion of the Acquisition, AVIC Planning will become a wholly-owned subsidiary of the Company and as both AVIC Avionics and AVICOPTER are connected subsidiaries (by virtue of AVIC, as the controlling shareholder of the Company, holds, directly and indirectly, more than 10% equity interest in each of AVIC Avionics and AVICOPTER) and therefore connected persons of the Company under the Hong Kong Listing Rules, the continuing transactions between AVIC Planning Group and AVIC Avionics Group and between AVIC Planning Group and AVICOPTER Group, will become the New Intragroup Continuing Connected Transactions of the Company.

### **2. Entering into of Respective Supplementary Agreements to the Existing Mutual Provision of Services Agreement and the Existing Products and Services Mutual Supply and Guarantee Agreement and Revision of Relevant Annual Caps**

References are made to the announcement of the Company dated 26 August 2014 and the circular dated 26 September 2014 in relation to the continuing connected transactions of the Company, and in particular, among other things, the principal terms of the Existing Mutual Provision of Services Agreement and the Existing Products and Services Mutual Supply and Guarantee Agreement and the annual caps of relevant transactions for the two financial years ending 31 December 2017.

#### ***2.1 Supplementary Agreement to the Existing Mutual Provision of Services Agreement***

##### ***2.1.1 New Continuing Connected Transactions***

In the ordinary and usual course of business, AVIC Planning Group and AVIC Group from time to time enter into transactions upon normal commercial terms, including (i) provision of engineering technology (including planning, consultation, design and supervision), project engineering general contracting and equipment general contracting services by AVIC Planning Group to AVIC Group; and (ii) provision of labour services, engineering and equipment subcontracting services by AVIC Group to AVIC Planning Group. Upon Completion of the Acquisition and as such continuing transactions will become the New Continuing Connected Transactions of the Company, the Company proposes to amend the Existing Mutual Provision of Services Agreement by entering into a supplementary agreement, incorporating

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## LETTER FROM THE BOARD

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the New Continuing Connected Transactions into the Existing Mutual Provision of Services Agreement (as amended) for unified management, and revising the respective annual caps of the revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017.

### 2.1.2 Amendments to the Existing Mutual Provision of Services Agreement

Principal terms of the Existing Mutual Provision of Services Agreement (as amended and shown by underlining) are summarized as follows:

- Parties : AVIC  
The Company
- Date : 19 October 2015
- Terms for the mutual provision of services to be amended : AVIC Group to provide, without limitation, the following services to the Group:
1. services relating to the production and business operations of the Group including, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment purchase, maintenance, repair and leasing; (v) construction and transportation; (vi) design, consultancy and network related services; (vii) cultural, hygienic, social security and logistic services; (viii) import and export agency services; (ix) test flight and related information technology and quality monitoring services; and (x) other relevant services.
  2. engineering and equipment subcontracting services.

The Group to provide, without limitation, the following services to AVIC Group:

1. services relating to the production and business operations of AVIC Group including:(i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing; (v) construction and transportation; (vi) design, consultancy and network related services; (vii) enterprise entrustment management services; and (viii) other relevant services.
2. engineering technology (including planning, consultation, design and supervision), project engineering general contracting and equipment general contracting services.

*Note:* the New Continuing Connected Transactions are underlined above.

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## LETTER FROM THE BOARD

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The mutual provision of services by the parties shall be made on terms not less favorable than those offered to/by Independent Third Parties under comparable conditions.

Term : From the completion date of the Acquisition up to 31 December 2017

### *2.1.3 Other terms of the Existing Mutual Provisions of Services Agreement*

The other terms of the Existing Mutual Provisions of Services Agreement will remain unchanged and applicable. The principal terms remaining applicable include:

Pricing : The services will be provided: (i) to one party according to the Government-prescribed Price or the Government-guidance Price (which would apply to the supply of power such as the provision of electricity, water, steam if such supply of power was originally obtained by the other party at the Government-prescribed Price or the Government-guidance Price); (ii) according to the Market Price by tender procedure or other means (as the case may be) for services where the Market Price is available, such as construction, transportation, planning, consultation and network design; and (iii) if none of the above is applicable, then according to the Contractual Price (which would apply to the provision of property management and maintenance services; equipment maintenance, repair and leasing; cultural, hygienic, social security and logistic services; import and export agency services; test flight and related information technology and quality monitoring services; entrustment services).

For the New Continuing Connected Transactions, in respect of the services to be provided by the Group to AVIC Group, engineering technology services (including planning, consultation and supervisory services), project engineering general contracting and equipment general contracting services will be provided at the Market Price and (where applicable) Market Price determined through the tender procedures. In respect of the services to be provided by AVIC Group to the Group, engineering and equipment subcontracting services will be provided at Market Price and (where applicable) Market Price determined through the tender procedures. Such tender procedures are in accordance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which are required to go through tender and bidding).

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## LETTER FROM THE BOARD

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*Note:* for details, please refer to the definitions of “Government-prescribed Price”, “Government-guidance Price”, “Market Price” and “Contractual Price” in the “Definitions” section.

Payment : Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into specific services agreement in each service provision transaction.

### ***2.2 Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement***

#### *2.2.1 New Intragroup Continuing Connected Transactions*

In the ordinary and usual course of business, AVIC Planning Group and the connected subsidiaries of the Company, AVIC Avionics Group and AVICOPTER Group from time to time enter into transactions on normal commercial terms, including (i) provision of engineering technology (including planning, consultation, design and supervision), project engineering general contracting and equipment general contracting services by AVIC Planning Group to AVIC Avionics Group and AVICOPTER Group; and (ii) provision of engineering and equipment subcontracting services by AVIC Avionics Group and AVICOPTER Group to AVIC Planning Group respectively. Upon completion of the Acquisition, as such continuing transactions will become the New Intragroup Continuing Connected Transactions of the Company, the Company proposes to amend the Existing Products and Services Mutual Supply and Guarantee Agreement by entering into a supplementary agreement, incorporating the New Intragroup Continuing Connected Transactions into the Existing Products and Services Mutual Supply and Guarantee Agreement (as amended) for unified management, and revising the respective annual caps of relevant revenue transactions under the Existing Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017.

#### *2.2.2 Amendments to the Existing Products and Services Mutual Supply and Guarantee Agreement*

Principal terms of the Existing Products and Services Mutual Supply and Guarantee Agreement (as amended and shown by underlying) are summarized as follows:

Parties : The Company  
AVIC Avionics  
AVICOPTER

Date : 19 October 2015

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## LETTER FROM THE BOARD

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- The terms relating to service scope to be amended :
- (1) The Group (including AVICOPTER Group) to provide (i) aviation parts and components, raw materials, and related manufacturing, labour and guarantee services; and (ii) engineering technology (including planning, consultation, design and supervision), project engineering general contracting and equipment general contracting services, to AVIC Avionics Group. Meanwhile, AVIC Avionics Group to provide aviation products, parts and components and related manufacturing and labour services, equipment purchase, engineering and equipment subcontracting services to the Group (including AVICOPTER Group).
  - (2) The Group (including AVIC Avionics Group) to provide (i) aviation parts and components, raw materials and related manufacturing, labour and guarantee services; and (ii) engineering technology (including planning, consultation, design, supervision), project engineering general contracting, equipment general contracting services to AVICOPTER Group. Meanwhile, AVICOPTER Group also to provide aviation products, parts and components and related manufacturing and labour services, equipment purchase, engineering and equipment subcontracting services to the Group (including AVIC Avionics Group).

*Note:* the New Intragroup Continuing Connected Transactions are underlined above.

Term : From the completion date of the Acquisition up to 31 December 2017

### 2.2.3 Other terms of the Existing Products and Services Mutual Supply and Guarantee Agreement

The other terms will remain unchanged and applicable. The principal terms remaining applicable include:

Pricing : The price of products and/or services will be determined as follows: (i) as most products under the Products and Services Mutual Supply and Guarantee Agreement are aviation products peculiar to the industry, the Government-prescribed Price will apply; (ii) if the price is not prescribed by the government, exercise Market Price by tender procedure or other means (as the case may be); (iii) if there is no Market Price, exercise the Contractual Price.

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## LETTER FROM THE BOARD

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For the New Intragroup Continuing Connected Transactions, engineering technology services (including planning, consultation and supervisory services), project engineering general contracting and equipment general contracting services will be provided by the Market Price (and where applicable) through the tender procedures. In respect of engineering and equipment subcontracting services, such services will be provided at Market Price and (where applicable) Market Price determined through the tender procedures. Such tender procedures are in accordance with the relevant PRC laws and regulations relating to tender and bidding, which set out, among other things, specific requirements for the bidders and construction projects which are required to go through tender and bidding.

*Note:* for details, please refer to the definitions of “Government-prescribed Price”, “Market Price” and “Contractual Price” in the “Definitions” section.

Payment : The parties will enter into separate contracts to set out the specific terms and conditions (including the payment terms) for the provision of products/services according to the principles and scope provided for under the Existing Products and Services Mutual Supply and Guarantee Agreement (as amended).

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## LETTER FROM THE BOARD

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### 2.3 Historical Amounts and Revision of Annual Caps

#### 2.3.1 Existing Mutual Provision of Services Agreement

(A) Historical amounts:

Set out below are the historical amounts of the transactions between AVIC Planning Group and AVIC Group for the three financial years ended 31 December 2015:

	<i>In RMB Millions</i>		
	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2015</b>
<b>Historical revenue from provision of services to AVIC Group (including project engineering general contracting, equipment general contracting, consultation and design services, etc.)</b>	3,522	4,178	6,278
<b>Historical expenses for services provided by AVIC Group (including equipment subcontracting and labour services, etc.)</b>	59	200	131

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## LETTER FROM THE BOARD

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(B) Estimated amounts for the New Continuing Connected Transactions:

Upon completion of the Acquisition, the estimated amounts of the New Continuing Connected Transactions between AVIC Planning Group and AVIC Group for the two financial years ending 31 December 2017 are as follows:

	<i>In RMB Millions</i>	
	<b>Year ending 31 December 2016</b>	<b>Year ending 31 December 2017</b>
<b>Estimated revenue from provision of services to AVIC Group (including project engineering general contracting, equipment general contracting, consultation and design services, etc.)</b>		
Among which: engineering technology (including planning, consultation, design and supervision, etc.)	929	1,063
Project engineering general contracting	5,771	6,593
Equipment general contracting	677	821
Others (labour, entrustment and comprehensive services, etc.)	23	23
<b>In total</b>	<b>7,400</b>	<b>8,500</b>
<b>Estimated expenses for services provided by AVIC Group (including equipment subcontracting, labour services, etc.)</b>	21	25

(C) Industry and policy factors considered in the estimates

When making the estimates, the Company has taken into the following information relating to fixed asset investments and development of the aviation industry in the PRC:

- (i) According to the information available from National Bureau of Statistics of China, fixed asset investments in China continued to maintain stable growth. In 2014, the fixed asset investments amounted to RMB51,202.07 billion, representing a year-on-year increase of 15.2%. From 2005 to 2014, the compound growth rate of China's fixed asset investments was at a rate of 21.49% per annum. Based on an estimated GDP growth rate of 6.5% per annum for the five years from 2016 to 2020, it is estimated that fixed asset investments in China would grow at a rate of 9.5% for 2016, which will drive the development of the supervisory and design industries;
- (ii) During the "13th Five Years", the PRC government will increase its investments in aviation and aerospace, leading to the construction of a number of major construction capacity engineering projects, innovative bases construction projects as well as supportive key experimental construction projects; and



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## LETTER FROM THE BOARD

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- (iii) Further, with expansion in the domestic aviation industry scale, the imminent opening of low altitude air space, and the development of general aviation market, the demand for aviation engineering construction will further increase.

(D) Specific factors considered in the estimates

The estimated amounts for the New Continuing Connected Transactions for the two financial years ending 31 December 2017 were determined based on, among other things, the following factors:

- (i) the historical transactions, transaction amounts and relevant growth trend and growth range of the services provided by AVIC Planning Group to AVIC Group, including the above historical transaction amounts for the three financial years ended 31 December 2015;
- (ii) the estimated revenue for the two financial years ending 31 December 2017 based on the contract value of approximately RMB11 billion of the engineering contracts which have been signed between AVIC Planning Group and AVIC Group but not yet executed as at 30 June 2015;
- (iii) during the 13th Five-year Planning period, the aviation industry of China will embrace even greater development, which will bring corresponding increases in demands for aviation engineering construction, which, in accordance with the future business development plan of AVIC Planning, is estimated to bring an estimated 15% annual increase in the services to be provided by AVIC Planning Group to AVIC Group; and
- (iv) the single design service model will be progressively superseded by EPC (engineering procurement construction, i.e. project engineering general contracting) model, which will result in an increase in revenue for the provision of the relevant services.

(E) Annual caps proposed to be revised

Upon completion of the Acquisition and based on the estimated amounts of the New Continuing Connected Transactions for the two financial years ending 31 December 2017, the estimated increase in the amount of relevant expenditure transactions under the Existing Mutual Provision of Services Agreement is small and does not affect the relevant existing caps, with no revision of the annual caps for the expenditure transactions required. However, the relevant revenue transactions will increase substantially and the

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## LETTER FROM THE BOARD

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proposed revised annual caps of the relevant revenue transactions (after consolidating the annual caps of the existing revenue transactions and the estimated amount for the new revenue transactions) for the two financial years ending 31 December 2017 are as follows:

<b>Revenue Transactions</b>	<i>In RMB Millions</i>	
	<b>Year ending 31 December 2016</b>	<b>Year ending 31 December 2017</b>
Existing annual caps	281	318
Estimated amount for the New Continuing Connected Transactions	7,400	8,500
<b>Annual caps proposed to be revised</b>	<b>8,000</b>	<b>9,200</b>

(F) The proposed revised annual caps for revenue transactions

The proposed revised annual caps of the relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017 are determined based on, among other things, the following factors:

- (i) the existing annual caps for the relevant revenue transactions under the Existing Mutual Provision of Services Agreement;
- (ii) the estimated amount of the New Continuing Connected Transactions upon completion of the Acquisition for the two financial years ending 31 December 2017 (please refer to the paragraph headed “Estimated amounts for the New Continuing Connected Transactions” under paragraph 2.3.1 (B) above); and
- (iii) a buffer of 4% increase, taking into account uncertain factors caused by inflation and future business development.

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## LETTER FROM THE BOARD

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### 2.3.2 Existing Products and Services Mutual Supply and Guarantee Agreement

(A) Historical amounts:

Set out below are the historical amounts of the transactions between AVIC Planning Group and AVIC Avionics Group and AVICOPTER Group for the three financial years ended 31 December 2015:

	<i>In RMB Millions</i>		
	<b>Year ended 31 December 2013</b>	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2015</b>
<b>Historical revenue from provision of services to AVIC Avionics Group and AVICOPTER Group (including project engineering general contracting, equipment general contracting, consultation and design services, etc.)</b>	7	73	114
<b>Historical expenses for services provided by AVIC Avionics Group and AVICOPTER Group (including equipment subcontracting, labour services, etc.)</b>	–	0.1	0.05

(B) Estimated amounts for the New Intragroup Continuing Connected Transactions:

Upon completion of the Acquisition, the estimated amounts of the New Intragroup Continuing Connected Transactions for the two financial years ending 31 December 2017 are as follows:

	<i>In RMB Millions</i>	
	<b>Year ending 31 December 2016</b>	<b>Year ending 31 December 2017</b>
<b>Estimated revenue from provision of services to AVIC Avionics Group and AVICOPTER Group (including project engineering general contracting, equipment general contracting, consultation and design services, etc.)</b>	870	980
<b>Estimated expenses for services provided by AVIC Avionics Group and AVICOPTER Group (including equipment subcontracting and labour services, etc.)</b>	5	6

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## LETTER FROM THE BOARD

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(C) Factors considered in the estimates

When estimating the New Intragroup Continuing Connected Transactions, the Company has taken into the industry and policy factors set out in paragraph 2.3.1(C) “Industry and policy factors considered in the estimates” above. Further, the Company has considered the following specific factors:

- (i) the new investment and construction projects of certain subsidiaries of AVIC Avionics and AVICOPTER, among which, the estimated revenues of project contract value of signed contracts and those with firm intention to sign for the two financial years ending 31 December 2017 amount to approximately RMB270 million and RMB180 million respectively;
- (ii) based on the industry and policy factors considered above, the Company estimates that additional potential contracts with an aggregate estimated contract value of over RMB200 million per year will be awarded to AVIC Avionics Group and AVICOPTER Group in 2016 and 2017 respectively; and
- (ii) variations and adjustments are common for design and construction contracts for various reasons, including change of plans, unexpected geological conditions, and other unexpected factors arising during the course of construction. Such variations and adjustments could be quite substantial. A sum of 30% to 40% is added to the estimates to allow for variations and adjustments which are likely to occur.

(D) Annual Caps proposed to be revised

Upon completion of the Acquisition and based on the estimated amounts of the New Intragroup Continuing Connected Transactions for the two financial years ending 31 December 2017, the estimated increase in the amount of relevant expenditure transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement is small and does not affect the relevant existing caps, with no revision of the annual caps for the expenditure transactions required. However, the relevant revenue transactions will increase relatively and the proposed revised annual caps of the relevant revenue transactions (after consolidating the annual caps of the existing revenue transactions and the estimated amount for the new revenue transactions) for the two financial years ending 31 December 2017 are as follows:

	<i>In RMB Millions</i>	
	<b>Year ending 31 December 2016</b>	<b>Year ending 31 December 2017</b>
<b>Revenue Transactions</b>		
Existing annual caps	1,800	2,200
Estimated amount for the New Intragroup Continuing Connected Transactions	870	980
<b>Annual caps proposed to be revised</b>	<b>2,700</b>	<b>3,200</b>

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## LETTER FROM THE BOARD

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(E) The proposed revised annual caps for revenue transactions

The proposed revised annual caps of the relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017 are determined based on, among other things, the following factors:

- (i) the existing annual caps for the relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement; and
- (ii) the estimated amount for the New Intragroup Continuing Connected Transactions upon completion of the Acquisition for the two financial years ending 31 December 2017 (please refer to the paragraph headed “Estimated amounts for the New Intragroup Continuing Connected Transactions” under paragraph 2.3.2(B) above).

### ***2.4 New Land Use Rights and Properties Leasing***

Upon completion of the Acquisition, as AVIC Planning will become the wholly-owned subsidiary of the Company, the properties rented by AVIC Planning Group from AVIC Group will constitute newly rented properties, which have a total area of approximately 9,297 square meters, and a total annual rent of approximately RMB10.54 million. Pursuant to the Existing Land Use Rights and Properties Leasing Agreement, the Group proposes to include such new properties leasing in the new leasing plan for 2016 to be incorporated into the Existing Land Use Rights and Properties Leasing Agreement and into the relevant annual caps to be monitored in accordance with the terms of the agreement. The amount for such new land use rights and properties leasing will not affect the existing annual caps, and therefore the relevant annual caps for the Existing Land Use Rights and Properties Leasing Agreement need not to be revised.

### **3. Reasons for and Benefits of Entering into of the Supplementary Agreements Relating to the Continuing Connected Transactions and Revision of Relevant Annual Caps**

The New Continuing Connected Transactions and the New Intragroup Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group. Taking into account the historical connection and long-term cooperation relationship among AVIC Planning, AVIC, the Group and the Company’s connected subsidiaries, AVIC Avionics Group and AVICOPTER Group, the Directors (excluding the independent non-executive Directors) are of the opinion that:

- (i) the above transactions will continue to facilitate the overall operations and growth of the Group’s business upon Completion of the Acquisition;
- (ii) the entering into of the supplementary agreements to the Existing Mutual Provision of Services Agreement and the Existing Products and Services Mutual Supply and Guarantee Agreement, respectively serves to consolidate the management of the New Continuing Connected Transactions and New Intragroup Continuing Connected Transactions into and subject such transactions to be regulated by the revised Existing Mutual Provision of Services Agreement and the Existing Products and Services Mutual Supply and Guarantee Agreement, respectively; and

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## LETTER FROM THE BOARD

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- (iii) the proposed revised annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement and the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017, respectively, serve as caps on such connected transactions and that the proposed revised annual caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The views of the independent non-executive Directors are set out in the section headed “LETTER FROM THE INDEPENDENT BOARD COMMITTEE” in this circular.

Each of Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, Directors of the Company, who are chairman, general manager, vice general manager and vice general manager of AVIC, respectively, is deemed to have a material interest in the above transactions and thus had abstained from voting on the relevant Board resolutions approving the entering into of the supplementary agreements relating to the continuing connected transactions and revision of relevant annual caps in accordance with the Company Law of the PRC and the Hong Kong Listing Rules.

#### **4. Hong Kong Listing Rules Implications**

AVIC is a controlling shareholder of the Company and by virtue of its holding, directly and indirectly, more than 10% equity interest in each of AVIC Avionics and AVICOPTER, each of AVIC, AVIC Avionics and AVICOPTER (the latter two being connected subsidiaries) is a connected person of the Company pursuant to the Hong Kong Listing Rules.

According to Chapter 14A of the Hong Kong Listing Rules, as each of the highest of the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) for (1) entering into the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and revising the annual caps of the relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017; and (2) entering into the Supplementary Agreement to the Products and Services Mutual Supply and Guarantee Agreement and revising the annual caps of the relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017 is higher than 5%, such continuing connected transactions are subject to the reporting, announcement and the independent shareholders’ approval requirements.

An Independent Board Committee comprising all of the independent non-executive Directors have been established to advise the Independent Shareholders on, among other things, (i) (a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017; (ii) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017. None of the members of the Independent Board Committee has any material interest in the entering into of the supplementary agreements relating to the continuing connected transactions.

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## LETTER FROM THE BOARD

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Anglo Chinese has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on, among other things, the supplementary agreements relating to the continuing connected transactions and revision of relevant annual caps mentioned above.

### 5. General Information

#### *Information on the Company*

The Company is a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange. The Company is mainly engaged in the research, development, manufacturing and sales of civil aviation products.

#### *Information on AVIC*

AVIC is held and controlled by the State Council of the PRC, and is mainly engaged in the development and manufacturing of aviation products and non-aviation products. As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company holding 54.85% shareholding directly and indirectly in the Company.

#### *Information on AVIC Planning*

Please refer to paragraph 5 under Section I above for details.

#### *Information on AVIC Avionics*

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange (stock code: 600372). AVIC Avionics is a subsidiary of the Company, with 43.22% equity interest being held by the Company, and is mainly engaged in the manufacturing of avionics and electrical products and accessories. Its accounts have been consolidated into that of the Company and therefore it is a subsidiary of the Company.

#### *Information on AVICOPTER*

AVICOPTER is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange (stock code: 600038). AVICOPTER is held as to 28.21% equity interest by Harbin Aviation Industry (Group) Co., Ltd., a subsidiary of the Company, and as to 6.45% equity interest by the Company. It is mainly engaged in the development, research and manufacturing of helicopter products. Its accounts have been consolidated into that of the Company and therefore it is a subsidiary of the Company.

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## LETTER FROM THE BOARD

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### III. PROPOSED CONSEQUENTIAL AMENDMENTS TO THE ARTICLES OF ASSOCIATION

#### 1. Changes in shareholding structure after Completion of the Acquisition

As the shareholding structure of the Company will change upon Completion of the Acquisition, the Board proposes to amend Articles 18 and 21 of the Articles of Association to reflect changes to the registered capital and the number of issued shares.

##### *1.1 Article 18 of the Articles of Association*

To amend the original Article 18 of the Articles of Association as follows (amendments shown by way of underline):

“**Article 18** Upon the approval of the securities regulatory authorities of the State Council, a total number of 1,679,800,500 shares of overseas listed foreign invested shares (including 1,527,090,000 shares issued by the Company, and 152,710,500 existing shares held by State-owned shareholders of the Company sold pursuant to the relevant requirements of the PRC regulations on reduction of State-owned shares) had been issued and sold after the establishment of the Company.

Upon the approval of the securities regulatory authorities of the State Council, the Company issued and sold 305,416,000 shares of overseas listed foreign shares on 10 March, 2010, and Aviation Industry Corporation of China sold 29,217,402 existing shares pursuant to the relevant requirements of the PRC regulations on reduction of State-owned shares. The Company issued 183,404,667 Domestic Shares on 18 January, 2012; the Company issued and sold 342,000,000 shares of overseas listed foreign invested shares on 2 March, 2012. The Company issued 491,692,669 Domestic Shares in June 2016.

The current shareholding structure of the Company is: the total number of issued ordinary shares of the Company amounts to 5,966,121,836 shares, of which, 3,297,780,902 shares are held by Aviation Industry Corporation of China, representing 55.28% of the Company's total issued ordinary shares; 183,404,667 shares are held by AVIC Electromechanical Systems Company Limited, representing 3.07% of the Company's total issued ordinary shares; 99,488,927 shares are held by China Huarong Assets Management Corporation, representing 1.66% of the Company's total issued ordinary shares; 14,706,448 shares are held by China Cinda Assets Management Corporation, representing 0.25% of the Company's total issued ordinary shares; 14,306,990 shares are held by China Orient Assets Management Corporation, representing 0.24% of the Company's total issued ordinary shares; 2,356,433,902 shares are held by overseas listed foreign shareholders, representing 39.50% of the Company's total issued ordinary shares.”

##### *1.2 Article 21 of the Articles of Association*

To amend the original Article 21 of the Articles of Association as follows (amendments shown by way of underline):

“**Article 21** The registered capital of the Company is RMB5,966,121,836.”



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## LETTER FROM THE BOARD

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### 2. Amendments to be considered and approved at the EGM

The abovementioned proposed consequential amendments to the Articles of Association are subject to the Shareholders' approval by way of a special resolution at a general meeting, at which an authorization will also be sought to authorise any executive director of the Company to make corresponding revision to the amendments to the Articles of Association according to the opinions of the relevant regulatory authorities. The proposed consequential amendments to the Articles of Association are still subject to the approval, registration and/or filing with the relevant regulatory authorities.

### IV. EGM

The EGM will be held at 10:00 a.m. on Monday, 13 June 2016 at AVIC Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC. The notice of the EGM is set out on pages 124 to 127 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed herewith. Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon on or before Monday, 23 May 2016. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you wish.

AVIC and its associate(s), if any, are connected persons of the Company as defined under the Hong Kong Listing Rules. Each of Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, who are Directors of the Company and shareholders of the Company (please refer to section 2 of Appendix IV to this circular for details of the interests of the Directors in the Shares of the Company) and who at the same time are the chairman, general manager, vice general manager and vice general manager of AVIC, respectively, is deemed to have a material interest in the connected transactions to be considered and approved at the EGM. Each of the abovementioned persons will abstain from voting at the EGM in respect of the resolutions to be proposed in relation to (1) the Acquisition and the Issuance; (2)(a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017; and (3) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017. As at the Latest Practicable Date, AVIC and its associate(s), if any, directly owned 3,002,568,900 shares of the Company, representing approximately 54.85% of the total issued share capital of the Company. AVIC was entitled to control all voting rights in respect of such shares.

To the best knowledge of the Directors after having made all reasonable enquiries, apart from AVIC and its associates and the Directors mentioned above who are deemed to have a material interest, no other Shareholder has a material interest in the (1) the Acquisition and the Issuance; (2)(a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for

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## LETTER FROM THE BOARD

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the two financial years ending 31 December 2017; (3) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017 Agreement; and (4) the proposed consequential amendments to the Articles of Association upon completion of the Acquisition, and therefore no other Shareholder will be required to abstain from voting on the resolutions to approve the aforementioned matters at the EGM.

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, all votes at the EGM will be taken by poll. The Company will announce the results of the poll in accordance with the Hong Kong Listing Rules following the EGM.

### V. RECOMMENDATIONS

Your attention is drawn to:

- (a) the letter from the Independent Board Committee which is set out on pages 42 to 43 of this circular;
- (b) the letter from Anglo Chinese which is set out on pages 44 to 66 of this circular; and
- (c) other information set out in the appendices to this circular.

After considering the factors disclosed in the sections headed “Reasons for and Benefits of the Acquisition” and “Reasons for and Benefits of Entering into of the Supplementary Agreements relating to the Continuing Connected Transactions and Revision of Relevant Annual Caps” above, the Directors (excluding (i) the independent non-executive Directors, whose views are set out in the section headed “Letter from the Independent Board Committee” in this circular; and (ii) Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, who have abstained from voting at the meeting of the Board to approve the relevant resolutions) are of the opinion that terms and conditions of:

- (1) the Acquisition and the Issuance as set out in the Equity Acquisition and Share Issuance Agreement and the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement;
- (2) (a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017; and
- (3) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017;

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## LETTER FROM THE BOARD

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are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM.

The Directors also consider that the abovementioned proposed consequential amendments to Articles of Association upon completion of the Acquisition are in the interests of the Company and the Shareholders as a whole. Therefore, the Directors recommend the Shareholders to vote in favour of the relevant special resolution to be proposed at the EGM.

Yours faithfully,  
By Order of the Board  
**AviChina Industry & Technology Company Limited\***  
**Lin Zuoming**  
*Chairman*

\* *For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**中國航空科技工業股份有限公司**  
**AviChina Industry & Technology Company Limited\***  
(A joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 2357)

10 May 2016

*To the Independent Shareholders*

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 10 May 2016 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the terms and conditions of:

- (1) the Equity Acquisition and Share Issuance Agreement and the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement and the connected transactions constituted thereunder, i.e. the Acquisition and the Issuance;
- (2) (a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017; and
- (3) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement; and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017;

are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Anglo Chinese has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the abovementioned matters.

We wish to draw your attention to the letter from the Board set out on pages 9 to 41 of the Circular and the letter from Anglo Chinese set out on pages 44 to 66 of the Circular.

\* For identification purpose only

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the advice given by Anglo Chinese, we are of the opinion that the Equity Acquisition and Share Issuance Agreement, the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement are on normal commercial terms and in the ordinary and usual course of business of the Group, which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider entering into the Equity Acquisition and Share Issuance Agreement, the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee  
**AviChina Industry & Technology Company Limited\***

**Lau Chung Man, Louis,**

**Liu Renhuai**

**Yeung Jason Chi Wai**

*Independent Non-executive Directors*

\* *For identification purpose only.*

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## LETTER FROM ANGLO CHINESE

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*The following is the text of the letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.*

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### ANGLO CHINESE

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CORPORATE FINANCE, LIMITED  
40<sup>th</sup> Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong  
www.anglochinesegroup.com

財務顧問有限公司  
英高

*To the Independent Board Committee  
and the Independent Shareholders*

10 May 2016

Dear Sirs,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTIONS: ACQUISITION OF 100% EQUITY INTEREST IN AVIC PLANNING AND ISSUANCE OF DOMESTIC SHARES AS CONSIDERATION;**
- (2) CONTINUING CONNECTED TRANSACTIONS: ENTERING INTO OF THE SUPPLEMENTARY AGREEMENTS RELATING TO THE CONTINUING CONNECTED TRANSACTIONS AND REVISION OF RELEVANT ANNUAL CAPS RESULTING FROM THE ACQUISITION OF THE 100% EQUITY INTEREST IN AVIC PLANNING**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the connected transactions contemplated under the Equity Acquisition and Share Issuance Agreement and its supplementary agreement, the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement and the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017. Details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 10 May 2016, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context requires otherwise.

As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company directly and indirectly holding 54.85% equity interest in the Company. AVIC Planning is a wholly-owned subsidiary of AVIC. As both AVIC Avionics and AVICOPTER are subsidiaries of the Company and AVIC holds more than 10% equity interests in each of them, they are connected subsidiaries of the Company under the Hong Kong Listing Rules. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVIC, AVIC Avionics and AVICOPTER is a connected person of the Company. As the highest of the applicable

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size test percentage ratios in relation to the Acquisition and the Issuance is over 5% but less than 25%, the Acquisition and the Issuance both constitute discloseable and connected transactions respectively under the Hong Kong Listing Rules, and as the Acquisition involves the issuance of Domestic Shares as consideration, both the Acquisition and the Issuance are subject to the reporting, announcement and the Independent Shareholders' approval requirements. As each of the highest applicable size test percentage ratios in relation to: i) the entering into the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017; and ii) the entering into the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017 is more than 5%, such continuing connected transactions of the Company will be subject to, among other things, approval by the Independent Shareholders.

An Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders on the connected transactions contemplated under the Equity Acquisition and Share Issuance Agreement and its supplementary agreement, the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement and the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017.

Votes of the Independent Shareholders at the EGM shall be taken by poll. As AVIC and certain Directors have a material interest in the Equity Acquisition and Share Issuance Agreement and its supplementary agreement, the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement, AVIC and its associates and any Director who is a Shareholder and holds a senior management position with AVIC will abstain from voting at the EGM.

### **BASIS OF OUR OPINION**

In formulating our opinion, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Hong Kong Listing Rules including the notes thereto to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information, statements, opinion and representations contained or referred to in this circular and all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the letter from the Board contained in this circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in this circular.

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The Directors confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in this circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in this circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted any form of independent in-depth investigation into the business and affairs or the prospects of the Company, AVIC, AVIC Avionics, AVICOPTER or any of their respective subsidiaries or associates.

Apart from normal professional fees for our services to the Company in connection with this appointment, no arrangement exists whereby Anglo Chinese will receive any benefits from the Company or any of its associates. Within the past two years from the Latest Practicable Date, we were previously engaged as the independent financial adviser by the Company for one occasion, details of which were set out in the circular of the Company dated 26 September 2014. Given our independence role and normal professional fees received from the Company under the past engagement, we consider it would not affect our independence to form our opinion in this letter.

### **PRINCIPLE FACTORS AND REASONS CONSIDERED**

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the Equity Acquisition and Share Issuance Agreement and its supplementary agreement, the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement and the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017, we have taken into account the following principal factors:

#### **I. Equity Acquisition and Share Issuance Agreement and its supplementary agreement**

##### ***Background of the Equity Acquisition and Share Issuance Agreement and its supplementary agreement***

##### ***Information of AVIC***

AVIC is held and controlled by the State Council of the PRC and is mainly engaged in the development and manufacturing of aviation products and non-aviation products.



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### *Information of the Company*

As at the Latest Practicable Date, AVIC is the controlling shareholder of the Company, directly and indirectly holding 54.85% equity interest in the Company. The Company is a joint stock limited liability company incorporated in the PRC, with its H Shares listed on the Hong Kong Stock Exchange. As a member of AVIC Group, the Company is mainly engaged in the research, development, manufacture and sales of civil aviation products.

The table below illustrates the audited consolidated financial results of the Group as extracted from the Company's annual report 2014 and the unaudited financial results from its interim report 2015:

<b>Consolidated Income Statement</b>	<b>For the year ended 31 December 2013</b> <i>RMB'000 (Audited)</i>	<b>For the year ended 31 December 2014</b> <i>RMB'000 (Audited)</i>	<b>Year on year change</b> %	<b>For the six months ended 30 June 2015</b> <i>RMB'000 (Unaudited)</i>
Revenue	22,192,749	25,710,377	15.85%	11,354,405
Gross profit	4,307,726	4,898,787	13.72%	2,590,441
Gross profit margin	19.41%	19.05%		22.81%
Profit attributable to the equity holders of the Company	712,623	781,298	9.64%	359,534
<b>Consolidated Balance Sheet</b>	<b>As at 31 December 2013</b> <i>RMB'000 (Audited)</i>	<b>As at 31 December 2014</b> <i>RMB'000 (Audited)</i>	<b>Year on year change</b> %	<b>As at 30 June 2015</b> <i>RMB'000 (Unaudited)</i>
Total assets	50,928,302	54,721,833	7.45%	57,563,970
Net asset value (net of minority interest)	10,122,825	10,815,434	6.84%	11,430,249
Cash and cash equivalents	6,725,516	5,797,986	-13.79%	4,246,086
Total borrowings	6,117,877	7,418,087	21.25%	8,363,462
Gearing ratio (total borrowings/total assets)	12.01%	13.56%		14.53%

### *Business and financial information on AVIC Planning*

As at the Latest Practicable Date, AVIC holds 100% equity interest in AVIC Planning. AVIC Planning, whose registered capital is RMB450 million, has been reorganised from the former public institution, China Aviation Planning and Design Research Institute, into the professional segment of AVIC engaging in planning, design, consultation, construction and operation of fixed asset investment

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for engineering customers mainly in aviation, aerospace and civil aviation industries. It is a large national-level design entity with over 60 years' professional background experience in the aviation industry. It has 7 national-level experts in engineering investigation and design, 70 experts which have been awarded special government allowance and recognised national outstanding contributions, approximately 1300 employees with senior professional titles and national registered professional qualifications, and is responsible for and participate in formulating more than 100 industrial standards, and has won more than 100 prizes, including the prize for top ten national science and technology progress awards, the outstanding award of National Prize for Progress in Science and Technology and the National Prize for Excellent Engineering Design.

The table below illustrates the audited financial results of AVIC Planning as extracted from its audited pro forma consolidated financial statements prepared in accordance with the Generally Accepted Accounting Principles in the PRC.

<b>Consolidated Income Statement</b>	<b>For the year ended 31 December 2014 RMB'000 (Audited)</b>	<b>For the six months ended 30 June 2015 RMB'000 (Audited)</b>
Revenue	6,175,522	3,947,552
Profit attributable to the equity holders of the parent company	212,453	127,375
	<b>As at 31 December 2014 RMB'000 (Audited)</b>	<b>As at 30 June 2015 RMB'000 (Audited)</b>
<b>Consolidated Balance Sheet</b>		
Total assets	5,748,652	7,074,046
Net asset value (net of minority interest)	407,701	530,346
Cash and cash equivalents	1,439,372	1,085,158
Total borrowings	193,513	157,433
Gearing ratio (total borrowings/total assets)	3.37%	2.23%

### ***Principal terms of the Equity Acquisition and Share Issuance Agreement and its supplementary agreement***

On 30 September 2015, the Company entered into the Equity Acquisition and Share Issuance Agreement with AVIC pursuant to which, AVIC has agreed to sell and the Company has agreed to acquire, subject to fulfillment of certain conditions as stated on page 12 of the letter from the Board, the entire equity interest in AVIC Planning for a consideration of RMB2,164 million, which will be satisfied by the Company by way of issuing to AVIC 489,592,000 Domestic Shares at the Issue Price of RMB4.42 (equivalent to approximately HK\$5.39) per Consideration Share upon Completion. On 10 March 2016, the Company entered into the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement with AVIC, pursuant to which, the consideration for the Acquisition

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of the entire equity interest in AVIC Planning was adjusted to approximately RMB2,173 million, which will be satisfied by the Company by way of issuing to AVIC 491,692,669 Domestic Shares at the Issue Price of RMB4.42 (equivalent to approximately HK\$5.39) per Consideration Share upon Completion.

### *The consideration*

#### *i. Basis of the consideration*

The consideration for Acquisition of RMB2,173 million was determined based on arms' length negotiations and with reference to, among various other factors, the historical financial information, comparable prices, the business prospects and potentials of AVIC Planning, the valuation of AVIC Planning by an independent and qualified PRC valuer, etc.

We understood that when determining the Consideration, the Directors had made reference to a comparable transaction announced in 2015 where Shanghai Lengguang Industrial Co., Ltd, a company listed on Shanghai Stock Exchange, acquired a Shanghai architectural design and research institute by the issuance of shares. In that particular transaction, the implied 2014 and 2015 (based on forecasted 2015 net profits) price-to-earnings ratio was some 8.7 and 7.4 times respectively, which are close to those derived from the consideration of the Acquisition and AVIC Planning's net profits in 2014 and 2015 (as forecasted). We concur with the Company that the major features of such acquisition are similar and relevant to the Acquisition, since such target company is an architectural design and research institute, whose business model is similar to AVIC Planning, and completion of such transaction took place recently in September 2015.

According to the National Bureau of Statistics of China, fixed assets investment amount has been increasing stably from 2005 to 2014 with compound annual growth rate of approximately 21% and this trend is expected to continue in the foreseeable future pursuant to the favourable economic policies that were introduced for the purpose of driving investment growth. Scale of domestic aviation industry is likely to widen as the increased concern over national defense will drive an increase in national defense expenditure and the deepened reform of low altitude air space will drive an expansion of general aviation activities. In addition, introduction of the national development strategy "One Belt One Road" and "Going-Global" are expected to create more demands of oversea large-scale infrastructure and related projects. Based on the factors mentioned above, we concur with the Company's viewpoint that the engineering industry in PRC and overseas is likely to prosper in the foreseeable future, and AVIC Planning, with its leading position in aviation industry related engineering survey, design and construction contracting services, will benefit from the overall economic and industry growth.

#### *ii. Valuation methodology*

The valuation report is prepared based on the asset-based approach and income approach, with the income approach being finally adopted for the purpose of the valuation, and by considering the net asset value of AVIC Planning in its recent financial reports, the development prospects and potentials of AVIC Planning, which valued the Target Equity as at the Valuation Date at RMB2,173

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million. As the valuation report has adopted the income approach, it constitutes a profit forecast under the Hong Kong Listing Rules and the Company's reporting accountant and financial adviser have issued comfort letters in this regard.

We have reviewed the valuation report prepared by China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司) dated 2 December 2015, which was set out in Appendix I to this circular, and discussed with the valuer on the methodology adopted and the assumptions used in arriving at the valuation of the Target Equity as at 30 June 2015. We have not noticed any material issues that should bring to the attention of Shareholders and believe the assumptions used under the valuation report are fair, reasonable and complete. The valuer has considered two commonly used valuation approaches, asset-based approach and income approach, to determine the value of the Target Equity. Asset-based approach focuses on a company's net asset value (i.e., fair value of its total assets minus its total liabilities) and determines a company's value by estimating the total costs to set up the same business. Income approach focuses on the economic benefits the company will create in the future and determines its value by aggregating the present value of its forecasted cash inflow. The value of the Target Equity was approximately RMB1,608 million under the asset-based approach and approximately RMB2,173 million under income approach. Since AVIC Planning recorded stable historical operating income and is expected to achieve sustainable growth in the future based on its large potential market space, comprehensive business qualification, competitive advantage in terms of industry experience and professional team, we concur with the valuer that the valuation value under the income approach was a more appropriate value to adopt as a reference for the consideration of the Acquisition.

The details of the implied profit forecast and major assumptions used were set out on pages 14 to 16 of the circular. In the course of reviewing the valuation report, we have specially interviewed the valuer on the assumptions made in projecting AVIC Planning's future profits and understood that such assumptions were determined based on the discussion between AVIC Planning and the valuer and revenues in 2015 and 2016 were estimated with reference to existing contracts and signed memorandum of understandings between AVIC Planning and its existing and potential customers, whereas revenues in 2017 and thereafter, owing to the lack of any concrete supporting documents, were forecasted to expand at significantly lower annual growth rates comparing to the historical growth rates achieved in 2013 and 2014. As advised by the Company, based on the information available to the Company, there is no material difference between the unaudited net profit of AVIC Planning for the year ended 31 December 2015 and the estimated net profit of AVIC Planning of approximately RMB235 million for the same year adopted by the valuer. We also noticed that the net profit margin in each of the financial years from 2016 and thereafter is forecasted to be lower than the historical margins achieved by AVIC Planning from 2012 to 2015. We believe such projection has been made conservatively and prudently and consider such assumptions and the implied profit forecast fair and reasonable.

In the fiscal year 2014, approximately 67.7% of AVIC Planning's revenue was generated from AVIC Group (excluding the Group). We understood from the Company that AVIC Planning did not separate its profit derived from AVIC historically. Since AVIC Planning obtained all orders through tender procedures where the connected parties and independent third parties are equally treated, and

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the forecasted revenues in 2015 and 2016 were covered by existing contacts or signed memorandum of understandings, we concur with the Company that the historical revenue and profit contribution of AVIC has no material impact on the profit forecast and valuation.

We understood that the valuer has carried out its work in four stages, namely i) assessment preparation; ii) on-site assessment; iii) estimation, summarisation, internal audit, and communication; and iv) report submission, to determine the value the Target Equity. We interviewed the valuer regarding its expertise and understand that the valuer is independent from the Company and AVIC. We have also inspected the license of the valuer as a qualified valuer in the PRC; reviewed the terms of its engagement, particular regard to whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the valuation report, opinion or statement; and assessed whether representations made by the Group or AVIC Group to the valuer are in accordance with our knowledge. As the valuation report was prepared according to the valuation standards in the PRC for the filing with the relevant state-owned assets supervision and administration authorities, we have not relied on such valuation report to form our opinion and recommendation given in this letter.

*iii. Payment method*

The Company will issue approximately 491,692,669 Domestic Shares to AVIC as consideration for the Acquisition. The Consideration Shares, when issued, will rank equally in all respects among themselves, and with the Domestic Shares then in issue on the day of issuance of the Consideration Shares, and be entitled to all dividends and other rights attached to the Domestic Shares from the date of issuance. The Consideration Shares will be issued under the General Mandate.

The current arrangement for the consideration payment, in our view is fair and reasonable and in the interest of the Company and the Shareholders as a whole, because the issue of Consideration Shares will minimise the cash outlay in connection with the Acquisition and will slightly dilute the interest of Independent Shareholders from approximately 45.12% to 41.40%.

*iv. Consideration Shares*

The Issue Price of RMB4.42 (equivalent to approximately HK\$5.39) per Consideration Share was determined based on arm's length negotiations between the Company and AVIC and with reference to the average closing price of approximately HK\$5.39 per H Share as quoted on the Stock Exchange for the 20 consecutive trading days up to the date of the Board resolution (excluding the Last Trading Day).

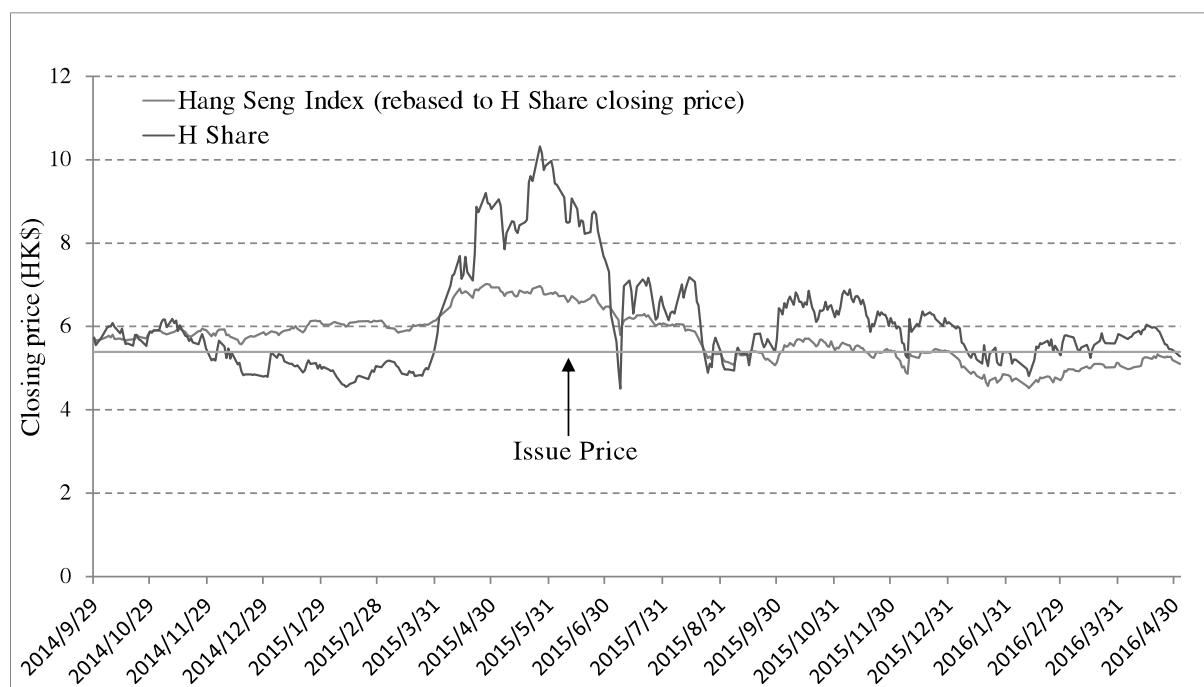
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### 1. Historical market price of the Shares

The chart below illustrates the movement of the daily closing prices of the H Shares during a period starting from one year prior to the Last Trading Day, up to and including the Latest Practicable Date:



Source: Bloomberg

As shown in the chart above, the price performance of the H Shares broadly outperformed the Hang Seng Index. During the period under review, the closing prices of the H Shares ranged from HK\$4.51 to HK\$10.32 per H Share, with an average of approximately HK\$6.14 per H Share. The Issue Price of RMB4.42 (equivalent to approximately HK\$5.39) per Consideration Share lies within the range of the closing price and is approximately 12.22% below the average closing price of the H Shares for the period under review.

### 2. Comparison of the Issue Price

As the Consideration Shares to be issued and allotted are Domestic Shares which will not be tradable on any stock exchange, we have used the share price of H Shares for the purpose of analysis. The Issue Price of RMB4.42 (equivalent to approximately HK\$5.39) per Consideration Share represents:

- (a) the closing price of HK\$5.39 per H Share as quoted on the Stock exchange on the Last Trading Day;

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- (b) a discount of approximately 3.06% to the average closing price of approximately HK\$5.56 per H Share as quoted on the Stock exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (c) a discount of approximately 2.71% to the average closing price of approximately HK\$5.54 per H Share as quoted on the Stock exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (d) a discount of approximately 2.53% to the average closing price of approximately HK\$5.53 per H Share as quoted on the Stock exchange for the 30 consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 10.61% to the average closing price of approximately HK\$6.03 per H Share as quoted on the Stock exchange for the 60 consecutive trading days up to and including the Last Trading Day;
- (f) a premium of approximately 2.08% over the closing price of HK\$5.28 per H Share as quoted on the Stock exchange on the Latest Practicable Date;
- (g) a premium of approximately 157.89% over the Group's unaudited equity per Share attributable to equity holders of the Company of approximately RMB2.09, calculated based on the Group's unaudited consolidated equity attributable to equity holders of the Company of approximately RMB11,430 million and approximately 5,474 million outstanding Shares as at 30 June 2015; and
- (h) a premium of approximately 146.11% over the Group's audited equity per Share attributable to equity holders of the Company of approximately RMB2.19, calculated based on the Group's audited consolidated equity attributable to equity holders of the Company of approximately RMB12,001 million and approximately 5,474 million outstanding Shares as at 31 December 2015.

Based on the above, we note that the Issue Price, which represents a slight discount to the prevailing closing price of H Shares prior to the Last Trading Day, a slight premium over the closing price of H Shares as at the Latest Practicable Date and a substantial premium over the equity per Share. Given the Consideration Shares are Domestic Shares which are not listed in any stock exchange and hence have lower liquidity, we consider the Issue Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### *Comparable Companies*

The consideration for the Acquisition is RMB2,173 million which implies that the historic price to earnings ratio and the price to book ratio for AVIC Planning are approximately 10.25 times and 4.10 times respectively given the audited net profit attributable to equity holders of approximately RMB212 million for the year ended 31 December 2014 and the audited net asset value (excluding minority interest) of RMB530 million as at 30 June 2015.

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AVIC Planning is engaged in planning, design, consultation, construction and operation of fixed asset investment for engineering customers mainly in aviation, aerospace and civil aviation industries. To assess the fairness and reasonableness of the consideration for the Acquisition, we have searched for companies listed on the Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange, which are principally engaged in the engineering design and consultation services with over 50% of its revenue generated from the PRC and over 50% of its gross profit generated by providing design, consultancy or research services to heavy machinery equipment or large scale infrastructure companies for the fiscal year 2014. To the best of our knowledge and as far as we are aware of, there are 6 comparable companies which form an exhaustive list. We did not include Shanghai Lengguang Industrial Co., Ltd as a comparable company because it was not mainly engaged in the engineering design and consultation services before its acquisition of a private Shanghai architectural design and research institute which was completed in 2015, whereas our analysis on the comparable companies' price to earnings ratio was based on their respective net profit attributable to equity holders for the fiscal year 2014. We noted such comparable companies do not have an aviation focused customer base and the market capitalisation and operation scales of such comparable companies in terms of are in a relative large range. Since no directly comparable company exists, such comparable companies are selected to be most comparable in terms of the business nature, asset structure and geographical region, and we consider such comparable companies are fair and representative samples.



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We have reviewed commonly-used valuation ratios implied by the closing prices of the comparable companies on the Latest Practicable Date, including price to earnings ratio and price to book ratio, which we consider appropriate for this comparison and are tabularised as follows:

Comparable company	Related industry <sup>1</sup>	Stock code (Stock exchange)	Market capitalisation <sup>2</sup> (RMB million)	Price to earnings ratio <sup>3</sup> (times)	Price to book ratio <sup>4</sup> (times)
Beijing Urban Construction Design & Development Group Co., Ltd	Construction & engineering	1599 (Hong Kong)	4,780.20	13.66	1.80
China Haisum Engineering Co., Ltd.	Construction & engineering	002116 (Shanghai)	5,539.68	27.81	5.75
JSTI Group	Construction & engineering	300284 (Shenzhen)	10,979.37	43.48	4.50
Sichuan Cendes Architectural Design Co., Ltd.	Research & consulting	300492 (Shenzhen)	3,243.97	126.67	18.92
ARTS Group Co., Ltd.	Research & consulting	603017 (Shenzhen)	4,378.55	47.89	5.04
Jiangsu Province Communications Planning And Design Institute Ltd Co.	Research & consulting	603018 (Shenzhen)	6,476.08	39.03	3.90
			Maximum	126.67	18.92
			Minimum	13.66	1.80
			Average	49.76	6.65
			Median	41.25	4.77
<b>The Acquisition</b>				<b>10.25</b>	<b>4.10</b>

*Notes:*

1. The industry classification is according to Global Industry Classification Standard (GICS).
2. The market capitalisation is calculated based on their respective closing price as at the Latest Practicable Date.
3. The price to earnings ratios of the comparable companies are calculated as their respective market capitalisation as at the Latest Practicable Date divided by their respective net profit attributable to equity holders for the year 2014. Since the audited financial statements of AVIC Planning for the year ended 31 December 2015 are not yet available as at the Latest Practicable Date, we consider it appropriate to use net profit attributable to equity holders of the comparable companies for the fiscal year 2014 to calculate their price to earnings ratios on a like-for-like basis.
4. The price to book ratios of the comparable companies are calculated as their respective market capitalisation as at the Latest Practicable Date divided by their respective net asset value attributable to equity holders as at 30 June 2015. Since the audited financial statements of AVIC Planning for the year

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ended 31 December 2015 are not yet available as at the Latest Practicable Date, we consider it appropriate to use net asset value attributable to equity holders of the comparable companies as at 30 June 2015 to calculate their price to book ratios on a like-for-like basis.

*Source: Bloomberg*

*i. Price to earnings ratio analysis*

As illustrated above, the comparable companies have average and median price to earnings ratios of approximately 49.76 times and 41.25 times respectively, which are much higher than the price to earnings ratio of AVIC Planning of 10.25 times.

*ii. Price to book ratio analysis*

As illustrated above, the comparable companies have average and median price to book ratios of approximately 6.65 times and 4.77 times respectively, which is higher than the price to book ratio of AVIC Planning of approximately 4.10 times.

*Conclusion*

We consider the multiples of publicly traded comparable companies provide a relevant benchmark for the purpose of valuation. In this case, both the average and median of the price to earnings ratios and price to book ratios of comparable companies are higher than that of AVIC Planning. Based on the above, we consider that the consideration for the Acquisition is fair and reasonable to the Company and the Independent Shareholders as a whole.

***Changes in shareholding structure of the Company***

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date other than the issue of the Consideration Shares immediately after the Completion, AVIC will be interested in approximately 58.57% of the issued share capital of the Company, as enlarged by the issue of Consideration Shares, and the public float will decrease from 42.77% as at the Latest Practicable Date to 39.25% immediately after the Completion.

***Reasons for the Acquisition***

The Directors consider that: i) the Acquisition will be beneficial to the Company in further extending its aviation manufacturing business to the front-end engineering services, such as planning, design and consultation services at a preliminary stage, of the aviation manufacturing business, and will further complete the aviation industry chain of the Company; ii) the Acquisition will help increase the revenue and enhance the profitability of the Group; iii) the Acquisition will help the Company to extend into and develop new businesses and new markets and benefit from the national development strategy of “One Belt One Road” and the “Going-Global” policy, the expansion in the domestic aviation industry scale, the opening of low altitude air space, the development of general aviation market and the growth of fixed asset investments in China; iv) the Acquisition will be beneficial to the Company in maximising the synergies among its businesses by applying the

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experience and capabilities of AVIC Planning in the relevant areas, optimising the industrial layout for the aviation manufacturing businesses of the Company, and raising its manufacturing capabilities; and v) the Acquisition is the first attempt in China of an injection of a company being restructured from a public institution in the aviation industry being acquired by an overseas listed company and it paves the way to probe into the Company's future mergers and acquisitions.

We concur with the views of the Directors and consider that the Acquisition will help the Group to extend and complete its aviation industry chain, enhance its revenue and profitability, enter into international aviation engineering market, consolidate its market position in the aviation industry and further improve its investment value through operating synergies. We are of the view that the Acquisition is in the interests of the Company and its shareholders as a whole.

### *Possible financial effects*

The following analysis is based on the audited consolidated financial statements of the Group for the year ended 31 December 2014, the unaudited consolidated financial statements of the Group for the six months ended 30 June 2015, and the audited pro forma consolidated financial statements of AVIC Planning for the year ended 31 December 2014 and for the six months ended 30 June 2015. Upon completion of the Acquisition, AVIC Planning will become a wholly-owned subsidiary of the Company and it will be consolidated into the Group's accounts for the purpose of preparing financial statements.

#### *i. Effects on net asset value*

According to the Company's interim report 2015, the unaudited consolidated net asset value of the Group excluding minority interests was approximately RMB11,430 million as at 30 June 2015. The net asset value (net minority interest) of AVIC Planning was approximately RMB530 million as at 30 June 2015. The consideration of the Acquisition will be satisfied by issue of Consideration Shares. The Acquisition will have positive impact on the Group's net asset value.

#### *ii. Effects on earnings*

The Group recorded profits attributable to shareholders of approximately RMB781 million and RMB360 million for the year ended 31 December 2014 and for the six months ended 30 June 2015 respectively. AVIC Planning booked profits attributable to shareholders of approximately RMB212 million and RMB127 million for the year ended 31 December 2014 and for the six months ended 30 June 2015 respectively. The Acquisition would therefore improve the Group's profitability if they were consolidated under the Group's financial statements.

#### *iii. Effects on gearing*

As at 30 June 2015, the Group's gearing level, calculated as total borrowings divided by the total assets, was approximately 14.53%. The gearing ratio of AVIC Planning as at 30 June 2015 was merely 2.23% given the total borrowings amount of RMB157 million and total assets of RMB7,074 million. We are of the view that the Acquisition will have positive impact on the gearing ratio of the Group upon Completion.

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## LETTER FROM ANGLO CHINESE

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*iv. Effects on working capital*

The Group had cash and cash equivalents of approximately RMB4,246 million and working capital of RMB12,097 million as at 30 June 2015. AVIC Planning had cash and cash equivalents of approximately RMB1,085 million and working capital of RMB410 million as at 30 June 2015. Upon Completion, the Group will not incur any material cash outflow since the consideration of the Acquisition will be satisfied by Consideration Shares. We are of the view that the Acquisition will have positive impact on the cash and working capital position of the Group following the Completion.

***Business non-competition arrangement***

Prior to the Acquisition, due to defects such as unclear titles of certain land and properties, the Entrusted Assets have been transferred from AVIC Planning to and be held by AVIC Construction and Development, a limited company established by AVIC to hold the Entrusted Assets. AVIC entered into an entrustment agreement with AVIC Planning on 30 September 2015 by entrusting the 100% of equity interest in AVIC Construction and Development to AVIC Planning. Pursuant to such entrustment agreement, AVIC Planning (i) is entrusted with all shareholder's rights of AVIC in AVIC Construction and Development, save for the rights relating to request for distribution of profits, rights to share in the distribution of remaining assets and the rights to dispose the equity interest are reserved with AVIC; (ii) shall be responsible for all management functions of AVIC Construction and Development and its subsidiaries, such as development strategies and long term planning, operational and investment planning, appointment of directors and supervisors (other than employee representatives) and senior management, financial budgets, material restructurings; and (iii) is entrusted with all decision making rights on the management operations and development of AVIC Construction and Development and its subsidiaries, subject to the policy wishes of AVIC.

We understood the purpose of such arrangement is to avoid business competition between AVIC Planning and the Entrusted Assets and to comply with the relevant PRC regulations. Since under such arrangement, AVIC Planning would be able to manage AVIC Construction and Development and its subsidiaries and receive management fees which can cover the actual management costs and have an incentive payment linked with the performance of AVIC Construction and Development, while would not be exposed to the defects of the Entrusted Assets, we are of the view that such arrangement is on normal commercial terms and in the interests of the Company and its shareholders.

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## LETTER FROM ANGLO CHINESE

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### II. Continuing Connected Transactions

#### *Background of the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement*

##### *Information of AVIC Avionics*

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, AVIC Avionics is held as to 43.22% equity interest by the Company, and is mainly engaged in the manufacturing of avionics and electrical products and accessories. Its accounts have been consolidated into that of the Company and therefore it is a subsidiary of the Company.

##### *Information of AVICOPTER*

AVICOPTER is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, AVICOPTER is held as to 28.21% equity interest by Harbin Aviation Industry (Group) Co., Ltd., a subsidiary of the Company, and as to 6.45% equity interest by the Company. It is mainly engaged in the development, research and manufacturing of helicopter products. Its accounts have been consolidated into that of the Company and therefore it is a subsidiary of the Company.

##### *Background*

References are made to the announcement of the Company dated 26 August 2014 and the circular dated 26 September 2014 in relation to the continuing connected transactions of the Company, and in particular, among other things, the principal terms of the Existing Mutual Provision of Services Agreement and the Existing Products and Services Mutual Supply and Guarantee Agreement and the annual caps of relevant transactions for the three financial years ending 31 December 2017.

In the ordinary and usual course of business, AVIC Planning Group and AVIC Group from time to time enter into transactions upon normal commercial terms, including: (i) provision of engineering technology (including planning, consultation, design and supervision), project engineering general contracting and equipment general contracting services by AVIC Planning Group to AVIC Group; and (ii) provision of labour services, engineering and equipment subcontracting services by AVIC Group to AVIC Planning Group. Upon completion of the Acquisition, AVIC Planning will become a wholly-owned subsidiary of the Company, and as AVIC is the controlling shareholder of the Company and therefore a connected person of the Company under the Hong Kong Listing Rules, such continuing transactions between AVIC Planning Group and AVIC Group will become the New Continuing Connected Transactions of the Company. In this regard, the Company proposes to amend the Existing Mutual Provision of Services Agreement by entering into a supplementary agreement, incorporating the New Continuing Connected Transactions into the

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## LETTER FROM ANGLO CHINESE

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Existing Mutual Provision of Services Agreement (as amended) for unified management, and revising the annual caps of the relevant revenue transactions for the two financial years ending 31 December 2017.

In the ordinary and usual course of business, AVIC Planning Group and the connected subsidiaries of the Company, AVIC Avionics Group and AVICOPTER Group from time to time enter into transactions upon normal commercial terms, including: (i) provision of engineering technology (including planning, consultation, design and supervision), project engineering general contracting and equipment general contracting services by AVIC Planning Group to AVIC Avionics Group and AVICOPTER Group respectively; and (ii) provision of engineering and equipment subcontracting services by AVIC Avionics Group and AVICOPTER Group to AVIC Planning Group respectively. Upon completion of the Acquisition, AVIC Planning will become a wholly-owned subsidiary of the Company, and as both AVIC Avionics and AVICOPTER are connected subsidiaries of the Company and therefore connected persons of the Company under the Hong Kong Listing Rules (by virtue of AVIC, as the controlling shareholder of the Company, holds more than 10% equity interest in each of AVIC Avionics and AVICOPTER), the continuing transactions between AVIC Planning Group and AVIC Avionics Group and AVICOPTER Group will become the New Intragroup Continuing Connected Transactions of the Company. Therefore, the Company proposes to amend the Existing Products and Services Mutual Supply and Guarantee Agreement by entering into a supplementary agreement, incorporating the New Intragroup Continuing Connected Transactions into the Existing Products and Services Mutual Supply and Guarantee Agreement (as amended) for unified management, and revising the annual caps of the relevant revenue transactions for the two financial years ending 31 December 2017.

***Principal terms of the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement***

On 19 October 2015, the Company entered into the Supplementary Agreement to the Existing Mutual Provision of Services Agreement with AVIC, and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics and AVICOPTER, to amend their respective service scope in order to incorporate the New Continuing Connected Transactions and the New Intragroup Continuing Connected Transactions for unified management upon completion of the Acquisition. Please refer to the letter of the Board for further details of the amended service scope under the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement. The other terms, including the pricing and payment, will remain unchanged and applicable.

***Term***

The term of each of the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement is from the completion date of the Acquisition up to 31 December 2017.

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## LETTER FROM ANGLO CHINESE

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### *Pricing*

Under the Existing Mutual Provision of Services Agreement (as amended), the services will be provided: (i) to one party according to the Government-prescribed Price or the Government-guidance Price if the supply of power such as electricity, water and steam was originally obtained by the other party at the Government-prescribed Price or the Government-guidance Price; (ii) according to the Market Price by tender procedure or other means (as the case may be) for services where the Market Price is available, such as engineering technology services (including planning, consultation, design and supervision), project engineering general contracting, equipment general contracting services, engineering and equipment subcontracting services, construction, transportation, design, consultancy and network related services, and some labour services; and (iii) if none of the above is applicable, then according to the Contractual Price, such as property management and maintenance, equipment purchase, maintenance, repair and leasing, cultural, hygienic, social security and logistic services, import and export agency services, test flight and related information technology and quality monitoring services, enterprise entrustment management service, and some labour services.

Under the Existing Products and Services Mutual Supply and Guarantee Agreement (as amended), the price of products and/or services will be determined as follows: (i) as most products under the Products and Services Mutual Supply and Guarantee Agreement are aviation products, parts and components peculiar to the industry, the Government-prescribed Price will apply; (ii) for services such as engineering technology services (including planning, consultation, design and supervision), some manufacturing and labour services, project engineering general contracting, equipment general contracting services, engineering and equipment subcontracting services, if the price is not prescribed by the government, exercise Market Price by tender procedure or other means (as the case maybe) and; (iii) for services such as guarantee service, some manufacturing and labour services, if there is no Market Price, exercise the Contractual Price.

Given i) the Government-prescribed Price or the Government-guidance Price will be determined in accordance with the laws, regulations, decisions or orders promulgated by the central government, provincial government or other regulatory authorities in the PRC; ii) the Market Price will be decided with reference to the terms of comparable transaction with independent third parties by tender procedures or other means; iii) the Contractual Price will be decided with reference to historical profit margin of the Group and industry profit margin, we are of the view that the pricing mechanism is in line with the industry practice, on normal commercial terms and in the interests of the Company and its shareholders as a whole.

### *Payment*

Specific payment terms are to be agreed between the parties in each specific transaction contemplated under the Existing Mutual Provision of Services Agreement (as amended) and the Existing Products and Services Mutual Supply and Guarantee Agreement (as amended).

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## LETTER FROM ANGLO CHINESE

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### *Historical amounts and proposed revised annual caps*

#### *Historical amounts and estimated amounts*

Set out below are the historical annual amounts of transactions between AVIC Planning and AVIC Group, and between AVIC Planning and AVIC Avionics Group and AVICOPTER Group for the preceding three financial years ended 31 December 2015 and the estimated amounts for the New Continuing Connected Transactions and the New Intragroup Continuing Connected Transactions for the two years ending 31 December 2017:

<i>(RMB million)</i>	<b>Historical</b>			<b>Estimated</b>	
	<b>Year</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>
	<b>ended 31 December 2013</b>	<b>ended 31 December 2014</b>	<b>ended 31 December 2015</b>	<b>ending 31 December 2016</b>	<b>ending 31 December 2017</b>
Revenue of AVIC Planning Group from provision of services to AVIC Group	3,522	4,178	6,278	7,400	8,500
Revenue of AVIC Planning Group from provision of services to AVIC Avionics Group and AVICOPTER Group	7	73	114	870	980



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## LETTER FROM ANGLO CHINESE

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*Proposed revised annual caps*

Set out below are the proposed revised annual caps of the relevant revenue transactions under the Existing Mutual Provision of Services Agreement and the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017:

<i>(RMB million)</i>	<b>Year ending 31 December 2016</b>	<b>Year ending 31 December 2017</b>
<b>Existing Mutual Provision of Services Agreement</b>		
Existing annual caps	281	318
Estimated amount for the New Continuing Connected Transactions	7,400	8,500
Subtotal	7,681	8,818
<b>Proposed revised annual caps</b>	<b>8,000</b>	<b>9,200</b>
<b>Existing Products and Services Mutual Supply and Guarantee Agreement</b>		
Existing annual caps	1,800	2,200
Estimated amount for the New Intragroup Continuing Connected Transactions	870	980
Subtotal	2,670	3,180
<b>Proposed revised annual caps</b>	<b>2,700</b>	<b>3,200</b>

*Basis of determination of the proposed annual caps*

The proposed revised annual caps of the relevant revenue transactions under the Existing Mutual Provision of Services Agreement (as amended) for the two financial years ending 31 December 2017 are determined based on, among other things, the following factors: (i) the existing annual caps for the relevant revenue transactions under the Existing Mutual Provision of Services Agreement; (ii) the estimated amount of the New Continuing Connected Transactions upon completion of the Acquisition for the two financial years ending 31 December 2017; (iii) a buffer of 4% increase, taking into account uncertain factors caused by inflation and future business development.

When estimating the amounts of the New Continuing Connected Transactions for the two financial years ending 31 December 2017, the Company has taken into the industry and policy factors relating to fixed asset investments and development of the aviation industry in the PRC as set out on pages 30 and 31 of the circular. Further, the Company has considered the following specific factors: (i) the historical transactions, transaction amounts and relevant growth trend and growth range of the services provided by AVIC Planning Group to AVIC Group, including the historical transaction amounts for the three financial years ended 31 December 2015; (ii) the estimated revenue for the two financial years ending 31 December 2017 based on the contract value of approximately RMB11 billion of the engineering contracts which have been signed between AVIC Planning Group and AVIC Group but not yet executed as at 30 June 2015; (iii) during the 13th Five-year Planning period,

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## LETTER FROM ANGLO CHINESE

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the aviation industry of China will embrace even greater development, which will bring corresponding increases in demands for aviation engineering construction, which, in accordance with the future business development plan of AVIC Planning, is estimated to bring an estimated 15% annual increase in the services to be provided by AVIC Planning Group to AVIC Group; and (iv) the single design service model will be progressively superseded by EPC (engineering procurement construction, i.e. project engineering general contracting) model, which will result in an increase in revenue for the provision of the relevant services.

The proposed revised annual caps of the relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement (as amended) for the two financial years ending 31 December 2017 are determined based on, among other things, the following factors: (i) the existing annual caps for the relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement; and (ii) the estimated amount for the New Intragroup Continuing Connected Transactions upon completion of the Acquisition for the two financial years ending 31 December 2017.

When estimating the amounts of the New Intragroup Continuing Connected Transactions, the Company has taken into the industry and policy factors set out on pages 30 and 31 of the circular. Further, the Company has considered the following specific factors: (i) the new investment and construction projects of certain subsidiaries of AVIC Avionics and AVICOPTER, among which, the estimated revenues of project contract value of signed contracts and those with firm intention to sign for the two financial years ending 31 December 2017 amount to approximately RMB270 million and RMB180 million respectively; (ii) the Company estimates that additional potential contracts with an aggregate estimated contract value of over RMB200 million will be awarded to AVIC Avionics Group and AVICOPTER Group in 2016 and 2017 respectively; and (iii) variations and adjustments are common for design and construction contracts for various reasons, including change of plans, unexpected geological conditions, and other unexpected factors arising during the course of construction. Such variations and adjustments could be quite substantial. A sum of 30% to 40% is added to the estimates to allow for variations and adjustments which are likely to occur.

In assessing the reasonableness of the proposed caps, we have: (i) reviewed the calculation of the estimated amounts for the New Continuing Connected Transactions and the New Intragroup Continuing Connected Transactions for the two years ending 31 December 2017; (ii) reviewed the summary of estimated revenues of project contract value of signed contracts and those with firm intention to sign for the two financial years ending 31 December 2017; and (iii) discussed with the Company the basis and assumptions of such estimation, which we consider reasonable and consistent with the market conditions and trends. Based on the above analysis, we are of the view that the proposed caps for each of the continuing connected transactions under the Existing Mutual Provision of Services Agreement (as amended) and the Existing Products and Services Mutual Supply and Guarantee Agreement (as amended) are fair and reasonable and given the conduct of those transactions would be subject to annual review by the independent non-executive Directors and auditors of the Company as required under the Hong Kong Listing Rules, the Group would have flexibility in conducting its business if the proposed caps are tailored to future business growth. This is particularly so for transactions conducted with AVIC, AVIC Avionics and AVICOPTER, which involve aviation parts and products and aviation related services as it is unlikely that the Group can

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## LETTER FROM ANGLO CHINESE

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secure orders of this type directly from other suppliers and customers in the PRC. Shareholders should note that the proposed caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group.

### *Internal control*

The Company has established internal administrative measures for connected transactions. We have reviewed such measures and noted there are sufficient internal controls at place to ensure the continuing connected transaction will be conducted in accordance with the terms of the relevant agreement; the continuing connected transactions will be conducted in accordance with the Company's pricing policy; the continuing connected transaction will be on normal commercial terms (or terms more favourable than terms available to independent parties); and the annual caps are not exceeded.

In addition, pursuant to the requirements under chapter 14A of the Hong Kong Listing Rules, the independent non-executive Directors and the auditors of the Company will conduct annual review and issue confirmations regarding the non-exempted continuing connected transactions each year. We have reviewed the annual reports of the Company for the three financial years ended 31 December 2014 whereby the independent non-executive Directors of the Company confirmed that the non-exempted continuing connected transactions conducted during such period were entered into in accordance with the relevant framework agreements on terms that are fair and reasonable and in the interest of the Shareholders as a whole. We also noted in the annual reports that the Company's auditor has also confirmed that such transactions have been entered into in accordance with the relevant agreements and have not exceeded the relevant annual caps. Based on such compliance record, we are of the view that the Company's internal control measures are effective.

### **RECOMMENDATION**

We have considered the above principal factors and reasons and particularly: (i) the terms of the Equity Acquisition and Share Issuance Agreement and its supplementary agreement, the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement; (ii) the proposed revision of the annual caps for relevant revenue transactions under the Existing Mutual Provision of Services Agreement (as amended) and the Existing Products and Services Mutual Supply and Guarantee Agreement (as amended) for the two financial years ending 31 December 2017; (iii) the rationale of entering into such agreements; and (iv) the potential financial effects of the Acquisition. Based on the above principal factors and reasons, we consider that the terms of the Equity Acquisition and Share Issuance Agreement and its supplementary agreement, the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and the revised relevant annual caps are fair and reasonable, entering into such agreements and the revisions of the relevant annual caps are on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interest of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition, the Supplementary

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## LETTER FROM ANGLO CHINESE

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Agreement to the Existing Mutual Provision of Services Agreement and the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and the revision of the relevant annual caps for two financial years ending 31 December 2017.

Yours faithfully,  
for and on behalf of  
**Anglo Chinese Corporate Finance, Limited**  
**Dian Deng**  
*Director*

*Note:* Ms Dian Deng is a licensed person registered with the SFC and a responsible officer of Anglo Chinese Corporate Finance, Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over eight years of experience in corporate finance industry.

*The following is the full text of the Valuation Report dated 2 December 2015 prepared for, amongst other purposes, incorporation in this circular. In the event of any inconsistency between the English version and the Chinese version of the text below, the Chinese version shall prevail to the extent of such inconsistency.*

## **Asset Appraisal Report**

for

the Issue of Domestic Shares by  
AviChina Industry & Technology Company Limited  
as the Consideration for the Acquisition of 100% Equity held by  
Aviation Industry Corporation of China  
in China Aviation Planning and Design Institute (Group) Co., Ltd.

**ZHONG LIAN PING BAO ZI. NO. 1320 OF [2015]**

**China United Assets Appraisal Group Co., Ltd.  
December 2, 2015**

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### **Declaration by Certified Asset Appraisers**

- I. We perform our asset appraisal service in accordance with the relevant laws and regulations as well as the asset appraisal standards and in adherence with the principle of independence, objectiveness and fairness. We believe that the statements made in the appraisal report are subjective based on the information collected in performing our service, and will assume legal responsibilities for the reasonableness of the appraisal conclusions given herein.
- II. The list of assets and liabilities involving the subject of appraisal is submitted and confirmed through signature and seal by the Client and the Target. It is the responsibility of the Client and related parties to ensure the truth, legality, completeness and proper use of the appraisal report.
- III. We have no existing or potential interest in the appraisal subject under this Report, and we have no existing or potential interest in or bias against the related parties.
- IV. We have conducted on-site inspection of the subject of appraisal under this Report and the related assets. We have paid due attention to the legal titles of the appraisal subject and the related assets, verified the materials related to such legal titles, made truthful disclosures of the problems we have discovered and requested the Client and the related parties to improve the title to meet the requirements for the issuance of this Report.
- V. The analyses, judgments and conclusions made in this Report are subject to the assumptions and restrictions herein. Users of this Report are required to take into full consideration of the assumptions, restrictions and explanatory notes to special matters specified herein as well as their impact on the conclusion of appraisal.

## Asset Appraisal Report

for

the Issue of Domestic Shares by  
AviChina Industry & Technology Company Limited  
as the Consideration for the Acquisition of 100% Equity held by  
Aviation Industry Corporation of China  
in China Aviation Planning and Design Institute (Group) Co., Ltd.

**ZHONG LIAN PING BAO ZI. NO. 1320 OF [2015]**

### Abstract

As engaged by Aviation Industry Corporation of China (hereinafter referred to as “AVIC”) and AviChina Industry & Technology Company Limited (hereinafter referred to as “AviChina”), China United Assets Appraisal Group Co., Ltd. appraised the market value of all shareholders’ equities on the Reference Date, in respect of the economic activity of acquiring all equities of China Aviation Planning and Design Institute (Group) Co., Ltd. by AviChina.

The appraisal target is all shareholders’ equities in China Aviation Planning and Design Institute (Group) Co., Ltd. and the scope of appraisal covers the assets and related liabilities of China Aviation Planning and Design Institute (Group) Co., Ltd. included in this appraisal, including current assets, non-current assets and related liabilities.

Reference Date: June 30, 2015

The type of value under appraisal is the market value.

An overall appraisal was conducted on China Aviation Planning and Design Institute (Group) Co., Ltd. taking continuous use and open market as premises, in conjunction with the actual situation of the appraisal subject, taking all factors in comprehensive consideration and by adopting the asset-based approach and the income approach, and then making a comparison of these approach results. Considering the applicability of the appraisal approaches and the satisfaction of the appraisal purpose, we use the appraisal result obtained using the income approach as the final conclusion.

Following the procedures of counting and verification, site visit, market investigation and inquiry, assessment and estimation, the appraisal conclusion on all shareholders’ equities of China Aviation Planning and Design Institute (Group) Co., Ltd. on June 30, 2015, the Reference Date, is as follows:

The market value of all shareholders’ equities of China Aviation Planning and Design Institute (Group) Co., Ltd. is RMB2.1732816 billion, which is higher than the carrying value of RMB531.4674 million by RMB1.6418142 billion, representing an increase of 308.92%.



When using this conclusion, the report users are hereby reminded to pay attention to the special matters and post-balance-sheet events in the use of this report.

According to the relevant administrative provisions of the state-owned assets appraisal, the asset appraisal report shall not be used until it is approved (registered), and the approved (registered) appraisal result shall have a term of one year from June 30, 2015, the Reference Date, till June 29, 2016. After the said term expires, re-appraisal shall be required.

**The said content is abstracted from the text of the Asset Appraisal Report. If you wish to know details about the appraisal project and have a reasonable understanding of the appraisal conclusion, please have a full reading of the Asset Appraisal Report.**

**Asset Appraisal Report**

for

the Issue of Domestic Shares by  
AviChina Industry & Technology Company Limited  
as the Consideration for the Acquisition of 100% Equity held by  
Aviation Industry Corporation of China  
in China Aviation Planning and Design Institute (Group) Co., Ltd.

**ZHONG LIAN PING BAO ZI. NO. 1320 OF [2015]****To Aviation Industry Corporation of China and AviChina Industry & Technology Co., Ltd.**

As engaged by you, China United Assets Appraisal Group Co., Ltd. appraised the market value of all shareholders' equities on June 30, 2015, the Reference Date in respect of the economic activity of acquiring all equities of China Aviation Planning and Design Institute (Group) Co., Ltd. by AviChina using the asset-based approach and the income approach in accordance with the relevant laws, regulations and asset appraisal standards and in conjunction with necessary appraisal procedures. Now, we hereby report the particulars in respect of this appraisal.

**I. CLIENT, TARGET COMPANY AND OTHER REPORT USERS**

The clients are Aviation Industry Corporation of China (hereinafter referred to as "AVIC") and AviChina Industry & Technology Company Limited (hereinafter referred to as "AviChina"), and the target company is China Aviation Planning and Design Institute (Group) Co., Ltd. (hereinafter referred to as "CAPDI")

**(1) Client I – Aviation Industry Corporation of China**

Name of Company:	Aviation Industry Corporation of China
Ownership:	Ownership by the whole people
Address:	No. 128 Jianguo Road, Chaoyang District, Beijing
Legal Representative:	Lin Zuoming
Registered Capital:	RMB sixty four billion yuan
Business License No.:	100000000041923 (4-1)

Business Scope:

Licensed Business Items: research, design, manufacture, production, sales, maintenance, guarantee and services of warcraft, guided weapons, military gas turbine, supporting systems and products for weapons

General Business Items: investments and management of industries including finance, leasing, general-purpose aviation services, transport, medical services, engineering survey and design, contracting and construction, real estate development; design, research, development, test, production, sales and repair services of civil aircrafts and engines, mechanical equipment and systems, gas turbines, automobiles and engines (including parts and components), refrigeration equipment, electronic products, environmental protection equipment and new-energy equipment; equipment leasing, engineering survey and design; protect contracting and construction; real estate development and operation; technology transfer, and technical services relating to the above items; import and export.

**(II) Client II – AviChina Industry and Technology Co., Ltd.**

Name of Company: AviChina Industry and Technology Co., Ltd.

Nature of Company: joint stock limited company (listed company controlled by the State)

Legal Representative: Lin Zuoming

Registered Capital: RMB5.474429167 billion

Date of Establishment: April 30, 2003

Term of Operation: April 30, 2003 till long term

Business License No.: 100000000037869

Business Scope: Design, research, development, production and sales of helicopters, regional aircraft, training airplanes, general-purpose airplanes, aircraft parts, avionics and other aviation products; design, research, development and production of automobile, auto engines, transmission, auto parts; sales of automobiles (excluding cars); leasing of automobiles, aircrafts and mechanical & electronic equipment; design, development, production and sales of medical packaging machinery, textile machinery, food processing machinery and other machinery and electronic products; installation, commissioning, repair and other after-sales services of the above products; investment and operation of industrial projects; import and export of commodities (excluding those restricted or prohibited by the state). (For items requiring approval in accordance with law, no business activity shall be conduct until such approval is obtained.)

**(III) Target Company – China Aviation Planning and Design Institute (Group) Co., Ltd.**

**1. Company Overview**

Name of Company:	China Aviation Planning and Design Institute (Group) Co., Ltd.
Business Nature:	Limited liability company (wholly owned by legal person)
Address:	No. 12 Deshengmenwai Street, Xicheng District, Beijing
Legal Representative:	Lian Dawei
Registered Capital:	RMB450 million
Business License No.:	100000000011182
Date of Establishment:	July 19, 1991
Term of Operation:	July 19, 1991 till long term

Business Scope: Dispatched workers required for overseas projects whose strength, scale and performance are consistent with the company; construction engineering planning and design; engineering design for environmental pollution prevention; smart building system engineering design; planning consulting, appraisal consulting, engineering consulting, cost consulting; engineering design, environmental impact assessment of construction projects, urban planning and design, investigation and construction; risk assessment survey, design and construction, and control of geological disasters; research, development, manufacture and sales of aviation test equipment, non-standard equipment, environmental protection equipment and engineering machinery, computer hardware and software, building materials, electromechanical products, tooling and spare parts; contracting of complete equipment as general contractor; general contracting of construction projects and equipment; acting as a tendering agent, construction supervisor, project manager; leasing of properties, and property management; contracting of overseas projects, and international/domestic projects; survey, consulting, design and supervision of contracted projects; import and export; investment management, technical consulting, information consulting, technological development, technical services. (For items requiring approval in accordance with law, no business activity shall be conducted until such approval is obtained.)

## 2. *History*

China Aviation Planning and Design Institute (Group) Co., Ltd. is formerly known as the Design Section of the Aviation Industry Administration of the Ministry of Heavy Industries established in 1951.

On July 19, 1991, China Aviation Industry Planning & Design Institute was established with the Business License issued in the State Administration for Industry and Commerce and the registered capital of RMB26.07 million, which was an enterprise owned by whole people.

On October 25, 2003, the paid-up capital of China Aviation Industry Planning & Design Institute was changed to RMB45.5010 million according to the Form of Registration of Changes in State-owned Assets of Enterprises completed and submitted by China Aviation Industry Planning & Design Institute and approved by the State-owned Assets Supervision and Administration Commission under the State Council.

On November 23, 2004, the paid-up capital of China Aviation Industry Planning & Design Institute was changed to RMB48.401 million in accordance with the Reply to the Amendment of Articles of Association of China Aviation Industry Planning & Design Institute (HANG KONG ZI NO. 722 OF 2004) issued by China Aviation Industry Corporation II.

On April 16, 2006, the registered capital of China Aviation Industry Planning & Design Institute was changed from RMB48.401 million to RMB68 million after approved by the State Administration for Industry and Commerce.

According to the Notice of Urging the Change of Capital Contributor (HANG KONG ZI NO. 11 OF 2009) issued by China Aviation Industry Corporation, the capital contributor of China Aviation Planning & Design Institute was changed from China Aviation Industry Corporation II to Aviation Industry Corporation of China on March 12, 2009.

In September 2009, according to the Reply to the Transformation of China Aviation Industry Planning & Design Institute to a Limited Liability Company (HANG KONG ZI NO. 816 OF 2009) issued by Aviation Industry Corporation of China, Aviation Industry Corporation of China transformed China Aviation Industry Planning & Design Institute to a one-person liability limited company with the registered capital of RMB450 million contributed by Aviation Industry Corporation of China with net assets of China Aviation Industry Planning and Design Institute, which was verified by Zhongrui Yuhua CPA Firm under the Capital Verification Report (ZHONG RUI YUE HUA YAN ZI NO. 177 OF 2009), and its name was changed to China Aviation Planning and Construction Development Co., Ltd. (hereinafter referred to as "CAPCD").

According to the Reply to the Name Change of China Aviation Planning and Construction Development Co., Ltd. and the Amendment to Articles of Association (HANG KONG ZHAN LUE NO. 819 OF 2015) issued by Aviation Industry Corporation of China on June 26, 2015, the name of China Aviation Planning and Construction Development Co., Ltd. was changed to China Aviation Planning and Design Institute (Group) Co., Ltd. and the Business License (No. 100000000011182) was issued by Beijing Administration for Industry and Commerce on July 14, 2015.

As of June 30, 2015, the Reference Date, China Aviation Planning and Design Institute (Group) Co., Ltd. has a registered capital of RMB450 million and a paid-up capital of RMB450 million. The amounts and proportions contributed by the shareholder are as follows:

**Table 1 Name of Shareholder, Amount and Proportion of Contribution**

<b>Name of Shareholder</b>	<b>Amount of Contribution (RMB10,000)</b>	<b>Shareholding Percentage %</b>
Aviation Industry Corporation of China	45,000	100
Total	<u>45,000</u>	<u>100</u>

### 3. *Assets, Liabilities and Financial Position of the Company*

As of June 30, 2015, the Reference Date, China Aviation Planning and Design Institute (Group) Co., Ltd. has the total assets of RMB6,272.7758 million, the total liabilities of RMB5,741.3084 million, the net assets of RMB531.4674 million, prime operating revenue of RMB3,796.0617 million, and the net profit of RMB122.9807 million. The assets and financial position of China Aviation Planning and Design Institute (Group) Co., Ltd. are shown in the following table:

**Table 2: Assets, Liabilities and Financial Position of the Company**

<b>Item</b>	<i>Monetary Unit: RMB10,000</i>	
	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Total Assets	627,277.58	494,143.33
Liabilities	574,130.84	452,826.32
Net Assets	53,146.74	41,317.01
	<b>January-June, 2015</b>	<b>2014</b>
Prime operating revenue:	379,606.17	585,763.07
Total Profit	14,199.23	23,614.86
Net Profit	12,298.07	21,888.50
Auditor	Ernst & Young	Ernst & Young

#### **(IV) Relationship between the Client and the Target Company**

AviChina Industry and Technology Co., Ltd. is a subsidiary controlled by Aviation Industry Corporation of China, and the target company China Aviation Planning and Design Institute (Group) Co., Ltd. is a subsidiary wholly owned by Aviation Industry Corporation of China.

**(V) The Client and other Report Users Stipulated in the Engagement Letter**

The report users are the Client, the Target Company, parties relating to the economic activity and the related regulatory bodies to which the report shall be submitted for approval (registration) in accordance with the relevant provisions on the administration of state-owned assets.

Unless otherwise specified by laws and regulations, no organization or individual shall become a report user due to the obtainment of this report without the consent of the appraisal company and the client.

**II. PURPOSE**

According to the Minutes of the Special Meeting of Aviation Industry Corporation of China on the Listing of China Aviation Planning and Construction Development Co., Ltd. in July 2015, AviChina Industry and Technology Co., Ltd. plans to issue domestic shares as the consideration for the acquisition of 100% equity held by Aviation Industry Corporation of China in China Aviation Planning and Design Institute (Group) Co., Ltd.

The purpose of appraisal is to reflect the market value of all equities in China Aviation Planning and Design Institute (Group) Co., Ltd. on the Reference Date and to provide a reference basis for the economic activity of issuing domestic shares by AviChina Industry & Technology Co., Ltd as the consideration for the acquisition of 100% equity held by Aviation Industry Corporation of China in China Aviation Planning and Design Institute (Group) Co., Ltd.

**III. SUBJECT AND SCOPE OF APPRAISAL**

The subject of appraisal is the value of all equities owned by the shareholder in China Aviation Planning and Design Institute (Group) Co., Ltd. The scope of appraisal covers all assets and liabilities of China Aviation Planning and Design Institute (Group) Co., Ltd. on the Reference Date: the total carrying amount of assets is RMB6,272.7758 million, the amount of liabilities is RMB5,741.3084 million and the amount of net assets is RMB531.4674 million. In details, this appraisal covers current assets of RMB5,530.7924 million, non-current assets of RMB741.9834 million, current liabilities of RMB5,301.5171 million and non-current liabilities of RMB439.7913 million.

The above assets and liabilities data are from the audit report of China Aviation Planning and Design Institute (Group) Co., Ltd. issued by Ernst & Young, and the audit is conducted on the audited basis.

The subject of appraisal and scope under the entrustment are consistent with the subject and scope relating to the economic activity.



**(I) Information on Main Assets to be Appraised**

The main assets covered by the appraisal mainly include current assets, long-term equity investments, work-in-progress, fixed assets, intangible assets and deferred income tax assets.

1. Current assets mainly include cash and cash equivalents, notes receivable, accounts receivable, accounts prepaid, other receivables, inventories and other current assets. The inventories include raw materials and completed works for which the payment is pending. The raw materials include equipment and auxiliary materials such as HV/LV distribution cabinets for engineering purpose, complete elevator equipment, water pumps and elevators; the completed works for which payment is pending include Guizhou Liyang EPC Research Building and Power Station 157ZB, Phase I of Shanghai Avionic Industry Park, Nanchang Aviation City Project, Bohai Branch Project.
2. There are six long-term equity investments all in controlled enterprises. See the following table for details:

The carrying amount of long-term investments covered by the appraisal is RMB242.50610499 million, including six items of long-term equity investments. See the following table for details about the overall position of the long-term investments.

**Table 3: List of Long-term Equity Investments**

					<i>Unit: Yuan</i>
S/N	Name of Invested Company	Date of Investment	Term of Investment	Investment Percentage %	Carrying Value
1	AVIC Construction Project Management (Beijing) Co., Ltd.	1995/10/23	Long term	100	3,755,491.01
2	AVIC Aviation Equipment Co., Ltd.	2002/4/3	Long term	100	74,443,704.50
3	Beijing Zhonghang Feifan Equipment Engineering Co., Ltd.	2006/9/10	Long term	100	12,808,237.37
4	AVIC Design & Consulting (Macau) Co., Ltd.	1995/6/12	Long term	100	6,616,191.17
5	China Aviation International Construction and Investment Co., Ltd.	1985/5/16	Long term	100	143,382,480.94
6	APC Engineering & Consulting (Beijing) Co., Ltd.	2014/12/11	Long term	100	1,500,000.00
Total					242,506,104.99
Less: Provisions for impairment of long-term equity investments					-
Net Amount					<u>242,506,104.99</u>

3. The works-in-progress is the comprehensive research building located at No. 12 Deshengmenwai Street, Beijing. The appraisal staff appraised the project under construction for which the employer make payment according to the progress and the contractual provisions based on the investigation and verification of the construction progress and under the premise that the reasonableness of the project budget is confirmed, and take the project cost plus the cost of funds as the appraised value based on the reasonable construction period.

4. Fixed assets are properties, buildings and equipment. The properties and buildings are the office building located at No. 12 Deshengmenwai Street, Beijing, the residential buildings located at Nos 584 and 586 Xiangyin Road, Shanghai, and the office rooms at 7/F, North End, Zhonghang Building, No. 15 Kunbei Road, Haikou City, Hainan. These buildings and supporting facilities are in use as of the Reference Date.

The equipment assets include machines and equipment, vehicles and electronic equipment; machines and equipment include access controllers, boilers, power distribution cabinet, HV switch gear, etc; vehicles include Buick Wagon, Audi SUV, Passat, Santana, etc.; electronic equipment include desktop computers, laptops, air conditioners, TV sets, copying machine, humidifiers, projectors, etc. The equipment assets are all in good working conditions with high utilization rate.

5. Intangible assets are rights to use land, patent rights, software copyright, trademarks and management software. The intangible assets – other intangible assets reported by China Aviation Planning and Design Institute (Group) Co., Ltd. include 109 items of the construction engineering pricing management software, Glodon project budget software, building structure analysis and design software, ARS2009 full version, Civil King general structure analysis and design software and management software, which are all in use as of the Reference Date.

The 50 patents included in the scope of the appraisal are obtained upon application and within the patent protection period, including 28 patents solely owned by China Aviation Planning and Design Institute (Group) Co., Ltd. and 22 patents co-owned with other entities. These patents include inventions, utility models and national defense patents, and involve areas including building structure design, shockproof design of cultural relics, test bench design for aviation engines, etc. There are six software copyrights which are all originally obtained and whose copyright holder is China Aviation Planning and Design Institute (Group) Co., Ltd. Up to the Reference Date, the said 50 patents and 6 software copyrights are all in use.

There are 98 trademark rights included in the appraisal, which are all obtained by independent applications. These trademarks are all in use as of the Reference Date.

6. The deferred income tax assets mainly include tax adjustments due to the timing difference arising from the making of provisions for impairments.

**(II) Information on Intangible Assets Recorded or Unrecorded in Book**

The recorded intangible assets include rights to use land, patent rights and management software. There is 1 lot of land of transfer nature with an area of 17,170.37 square meters reported by China Aviation Planning and Design Institute (Group) Co., Ltd., for which the state-owned land use right certificate has been granted in which China Aviation Planning and Construction Development Co., Ltd. is registered as the right holder. The recorded intangible assets reported by the Company are 109 items of application software recently purchased.

**(III) Type and Number of Off-the-Book Assets**

Based on the onsite due diligence, the off-the-book assets reported by China Aviation Planning and Design Institute (Group) Co., Ltd. include 50 national defense patents, invention patents and utility models, 6 software copyrights and 98 trademarks up to June 30, 2015.

**(IV) Type, Number and Carrying Amount of Assets in Reports issued by other Organizations**

In the appraisal, we referred to the audit report issued by Ernst & Young for the carrying amounts of assets and liabilities.

There is nothing more quoted in this appraisal.

**IV. TYPE AND DEFINITION OF VALUE**

The type of value is determined as the market value according to the purpose of appraisal.

The term “market value” refers to the estimated amount for which the subject of appraisal should exchange on the Reference Date between a willing buyer and a willing seller in an arm’s-length transaction wherein the parties have each acted rationally and without compulsion.

**V. REFERENCE DATE**

The Reference Date of this appraisal is June 30, 2015.

The Reference Date has been determined by the Client based on the following considerations: asset size, workload, expected time and compliance.

**VI. APPRAISAL BASES**

The appraisal is conducted in accordance with the Appraisal Bases which mainly include economic bases, legal bases, appraisal standards, asset ownership bases, and price determination bases used in estimation and other references. See the following for details:

**(I) Basis of Economic Activity**

1. Minutes of the Special Meeting of Aviation Industry Corporation of China on the Listing of China Aviation Planning and Construction Development Co., Ltd. issued in July 2015.

**(II) Legal Bases**

1. Company Law of the People's Republic of China (Revised and Adopted at the 6th Session of the Standing Committee of the Twelfth National People's Congress on December 28, 2013);
2. Securities Law of the People's Republic of China (Adopted by the NPC Standing Committee);
3. Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
4. Notice on Several Issues Concerning Strengthening Management of Appraisal on Capital Contributions Made in Non-monetary Properties (Cai Qi No. 46 of 2009);
5. Measures for the Administration of Appraisal of State-owned Assets (Order of the State Council No. 91 of 1991)
6. Interim Measures for the Administration of Appraisal of State-owned Assets (Order No. 12 issued by the State-owned Assets Supervision and Administration Commission under the State Council on August 25, 2005);
7. Notice on Issues on Enhancing the Administration of Appraisal of State-owned Assets of Enterprises (GUO ZI WEI CHAN QUAN NO. 274 of 2006);
8. Law of the People's Republic of China on the Administration of Land (Revised for the first time at 11th Session of the Standing Committee of the Tenth National People's Congress);
9. Law of the People's Republic of China on the Administration of Urban Real Properties (Revised in 2007);
10. Guidelines for the Filing for Recordation of the Assessment Projects of State-owned Assets of Enterprises (GUO ZI FA CHAN QUAN NO. 64 OF 2013);

11. Interim Measures for the Administration of the Transfer of State-owned Assets of Enterprises (Order No. 3 of the State-owned Assets Supervision and Administration Commission under the State Council and Ministry of Finance);
12. Enterprise Income Tax Law of the People's Republic of China (Adopted at 5th Session of the Standing Committee of the Tenth National People's Congress on March 16, 2007);
13. Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (Adopted by the State Council at the 197th Executive Meeting on November 28, 2007);
14. Interim Regulation of the People's Republic of China on Value-added Tax (Order No. 538 of the State Council of the People's Republic of China);
15. Other laws, regulations and rules relating to the appraisal.

**(III) Appraisal standards**

1. Assets Appraisal Standards-Basic Standards (Cai Qi No 20 of 2004);
2. Professional Ethics Standards for Assets Appraisal – Basic Standards (Cai Qi No. 20 of 2004);
3. Assets Appraisal Standards-Appraisal Report (Zhong Ping Xie No. 189 of 2007);
4. Assets Appraisal Standards-Appraisal Procures (Zhong Ping Xie No. 189 of 2007);
5. Assets Appraisal Standards-Machinery and Equipment (Zhong Ping Xie No. 189 of 2007);
6. Assets Appraisal Standards-Real Estate (Zhong Ping Xie No. 189 of 2007);
7. Assets Appraisal Standards-Value of Enterprise (Zhong Ping Xie No. 227 of 2011);
8. Assets Appraisal Standards-Intangible Assets (Zhong Ping Xie No. 217 of 2008);
9. Assets Appraisal Standards-Use of Experts (Zhong Ping Xie No. 244 of 2012);
10. Professional Ethics Standards for Assets Appraisal-Independence (Zhong Ping Xie No. 248 of 2012);
11. Guiding Opinions on Types of Asset Appraisal Value (Zhong Ping Xie No. 189 of 2007);

12. Guidance on Appraisal Report of State-owned Assets of Enterprises (Zhong Ping Xie No. 218 of 2008);
13. Notice of China Appraisal Society on Amending the Signature and Seal Clause in Appraisal Report Standards (Zhong Ping Xie No. 230 of 2011);
14. Guiding Opinions for Certified Public Appraisers on the Legal Ownership of Subject of Appraisal (Hui Xie No. 18 of 2003);
15. Accounting Standards for Business Enterprises – Basic Standards (No. 33 Order of Ministry of Finance);
16. 38 Standards in the Accounting Standards for Business Enterprises No. 1 – Inventories (Cai Kuai No. 3 of 2006);
17. Accounting Standards for Business Enterprises – Guidance on Application (Cai Kui No. 18 of 2006);
18. Assets Appraisal Standards – Use of Experts (Zhong Ping Xie No. 244 of 2012);
19. Professional Ethics Standards for Assets Appraisal-Independence (Zhong Ping Xie No. 248 of 2012)

**(IV) Ownership Bases of Assets**

1. Property Title Certificate;
2. Certificates of Right to Use Land;
3. Motor Vehicle Registration Certificates;
4. Patent Right Certificates, Software Copyright Certificates and Trademark Certificates;
5. Purchase Contracts Certificates of Major Assets;
6. Other references

**(V) Price Determination Bases**

1. Budget Quota of Beijing on Construction Works (2012);
2. Pricing Quota of Beijing on Decoration Works (Version 2012);
3. Pricing Quota of Beijing on Installation Works (Version 2012);
4. Pricing Quota of Beijing on Municipal Works (Version 2012);

5. Project Cost Information of Beijing (June 2015);
6. Interim Regulation of the People's Republic of China on Vehicle Purchase Tax (Order of State Council No. 294 of 2000);
7. Provisions on the Standards for Compulsory Retirement of Motor Vehicles (Order No. 12 of 2012 issued by Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection);
8. Quotation Manual for Electromechanical Products 2015 (Machinery Industry Information Research Institute);
9. Notice Concerning Several Issues on VAT Reform (Cai Shui No. 170 of 2008);
10. List of Loan Interest Rates of the People's Bank of China implemented from June 28, 2015;
11. Purchase Contracts of Major Equipment;
12. Data from Price Information Database of China United Assets Appraisal Group Co., Ltd.;
13. Other references.

**(VI) Other References**

1. Audit Reports for 2014 and the period ended on the Reference Date;
2. Wind Financial Terminal
3. Investment Valuation (written by (U.S) Damodaran and translated by (Canada) Lin Qian; Tsinghua University Press);
4. Valuation: Measuring and Managing the Value of Companies (3rd Edition) (written by (US) Copeland, T. et.al and translated by He Shaolun and Xie Guanping; Electronic Industry Press);
5. Market Review and Prospect of Related Listed Companies 2014;
6. Statistical Communique of the People's Republic of China on the 2014 National Economic and Social Development;
7. Other references.

**VII. APPRAISAL APPROACHES****(I) Selection of Appraisal Approaches**

There are three approaches available for the enterprise valuation according to the provisions of the Assets Appraisal Standards: income approach, market approach and asset-based approach. The income approach is to qualify and value the expected profitability of the overall assets of an enterprise, highlighting the expected overall profitability of an enterprise. The market approach is used to appraise the present fair market value of a subject of value by referring to the comparable items in the market, and has a feature that the valuation data is directly collected from the market, whose result is highly persuasive. The asset-backed approach is to determine the value of a subject of appraisal based on the value of assets and liabilities of the enterprise.

The purpose of appraisal is to provide a reference basis for the economic activity of issuing domestic shares by AviChina Industry & Technology Co., Ltd as the consideration for the acquisition of 100% equity held by Aviation Industry Corporation of China in China Aviation Planning and Design Institute (Group) Co., Ltd. The asset-based approach can reflect the value of China Aviation Planning and Design Institute (Group) Co., Ltd. involved in the economic activity in terms of the purchase and construction of the Company, so the asset-based approach can be used for this appraisal.

As the Target Company has stable revenues historically and the expected income and risks can be reasonably estimated, the income approach can be also used for this appraisal.

According to the characteristics of the assets under appraisal, and the lack of similar transactions regarding large-scale comprehensive building design and research institutes in China, it is difficult to obtain sufficient number of transaction example, the market approach is not suitable for this appraisal.

In general, we determine to use the asset-based approach and the income approach to conduct the appraisal.

**(II) Introduction to Asset-based Approach**

The asset-based approach is to take the amount of investment required to re-establish an enterprise or independent entity which is same with the subject of appraisal as the basis for judging the value of entire assets, and in particular refers to a method of obtaining the value of an enterprise by using the total value of all elements of assets less the value of liabilities.

The appraisal methods of assets and liabilities are as follows:



1. *Current Assets*

- (1) *Cash and Cash Equivalents: including cash at hand, bank deposits and other monetary funds.*

For cash and cash equivalents denominated in RMB, their carrying amounts after verified are taken as the appraised value; for those denominated in foreign currencies, they shall be converted into RMB at the exchange rates prevailing on the Reference Date.

- (2) *Notes Receivable*

With respect to the notes receivable, the appraisers verify the par value, time of occurrence, transaction and coupon interest rates. The verified carrying amount shall be taken as the appraised value.

- (3) *Accounts Receivable*

For the appraisal of accounts receivable, appraisers will analyze the amount, debt time and reason, recovery, and current situation on funds, credit and operations of the debtor based on the verification of accounts receivable and in accordance with the historical information and current investigation and knowledge. According to the specific situation of each debtor, use the specific identification approach and age analysis approach to estimate the loss; if there is conclusive evidence showing that any account receivable is not recoverable or its age is too old, the risk of loss will be 100%; for any account receivable part of which may be unrecoverable and it is difficult to determine the recoverable amount, the risk and loss shall be estimated by using the method for the calculation of provisions for bad debts in accounting. The appraised value shall be determined by the sum of accounts receivable less the amount at risk, and the provisions for bad debts shall be appraised as zero.

- (4) *Accounts Prepaid*

The accounts prepaid mainly include prepayments for equipment and projects. The appraisers checked the relevant purchase orders, purchase plans, price inquiries and approval documents, and had an understanding of deliveries of services and goods during the period from the Reference Date to the date on which the site appraisal was conducted. The verified carrying amounts are taken as the appraised value.

(5) *Inventories*

The appraisal methods for appraisal of inventories are as follows:

1) Raw Materials

The carrying amounts of raw materials include the purchase price and reasonable expenses. As most raw materials have a relatively fast turnover period, their unit prices on book approach the market prices on the Reference Date. The appraised value is determined by the actual quantities multiplying the book unit prices.

2) Amounts due from Customers for Completed Works

The carrying costs of amounts due from customers for completed works are the balance of the sum of incurred construction cost and recognized gross profit less the recognized payment for the works and provisions for expected contractual loss. Verify the reasonableness of compositions of the carrying amounts on the Reference Date. The appraised value is determined by the sum of verified construction cost and gross profit less the recognized payments and the provisions for expected contractual losses.

(6) *Other Current Assets*

Other current assets are loans to Changsha Institute and AVIC Institute of Geotechnical Engineering Co., Ltd. Our appraisers were provided with the relevant contracts, and checked whether the accounting treatment was correct. The verified carrying amounts shall be determined as the appraised value.

## 2. Non-current Assets

### Long-term Equity Investments

See the following table for details about the main long-term equity investments

**Table 4: Long-term Investments as of the Reference Date**

					<i>Unit: RMB10,000</i>
S/N	Name of Invested Company	Date of Investment	Term of Investment	Investment Percentage %	Carrying Value
1	AVIC Construction Project Management (Beijing) Co., Ltd.	1995/10/23	Long term	100	3,755,491.01
2	AVIC Aviation Equipment Co., Ltd.	2002/4/3	Long term	100	74,443,704.50
3	Beijing Zhonghang Feifan Equipment Engineering Co., Ltd.	2006/9/10	Long term	100	12,808,237.37
4	AVIC Design & Consulting (Macau) Co., Ltd.	1995/6/12	Long term	100	6,616,191.17
5	China Aviation International Construction and Investment Co., Ltd.	1985/5/16	Long term	100	143,382,480.94
6	APC Engineering & Consulting (Beijing) Co., Ltd.	2014/12/11	Long term	100	1,500,000.00
Total					242,506,104.99
Less: Provisions for impairment of long-term equity investments					-
Net Amount					242,506,104.99

Our appraisers verified the reasons, carrying amount and actual situation of these long-term investment, and checked the relevant investment agreements, resolutions of shareholders' meetings, articles of association and accounting records to confirm the truth and completeness of long-term investments, and appraised the invested companies based on the above actions. Proper appraisal methods were used according to the specific situations of long-term investments.

Firstly, there are 6 invested companies included into the appraisal, which are all subsidiaries wholly owned by the Company. According to the current laws and regulations as well as the relevant industrial standards, the asset-based approach and the income approach were used to make an overall appraisal, and then the price determination result was obtained from the asset-based approach and the income approach by taking the following factors into comprehensive considerations: current industrial situations, historical performance and future profitability. The appraised values of long-term investments were calculated according to the proportion of shares in the invested companies.

Appraised Value of Long-term Investment = Net Assets of Invested Companies after Overall Appraisal × Proportion of Shares

As the Reference Date, AVIC Design & Consulting (Macau) Co., Ltd. has no substantial activities and its revenue mainly comes from the lease of properties and buildings. APC Engineering & Consulting (Beijing) Co., Ltd. is a company established in December 2014, and may encounter many uncertainties on market and income because there is no historical data available for reference. China Aviation International Construction and Investment Co., Ltd. changed its principal activities from general contract to investment business due to the strategic transformation. As its investment activities haven't been carried out extensively, and the company is in transition, the historical data may not be used for reference, and the future revenue, costs and expenses can't be quantified. As the asset-based approach can better reflect the value of invested companies, the appraisal results obtained from the asset-based approach are used.

For AVIC Construction Project Management (Beijing) Co., Ltd. and AVIC Aviation Equipment Co., Ltd., an overall appraisal was conducted by adopting the asset-based approach and the income approach in accordance with the requirements of current laws, regulations and the relevant industrial standards, and then the conclusion drawn from the income approach is taken as the price determination result by considering the industries in which the invested companies engage and the current situations, historical performance and future profitability.

According to the Reply to Issues concerning the Merger of AVIC Aviation Equipment Co., Ltd. with Beijing Zhonghang Feifan Equipment Engineering Co., Ltd. (HANG KONG ZI NO. 587 OF 2012) issued by Aviation Industry Corporation of China on May 2, 2012 and the Decision on the Merger of AVIC Aviation Equipment Co., Ltd. with Beijing Zhonghang Feifan Equipment Engineering Co., Ltd. (GUI HUA JIAN SHE ZONG NO. 163 OF 2012) issued by China Aviation Planning and Construction Development Co., Ltd., AVIC Aviation Equipment Co., Ltd. merged with Beijing Zhonghang Feifan Equipment Engineering Co., Ltd., through which AVIC Aviation Equipment Co., Ltd. will survive and Beijing Zhonghang Feifan Equipment Engineering Co., Ltd. will be deregistered. As of the Reference Date, Beijing Zhonghang Feifan Equipment Engineering Co., Ltd. is still in the process of deregistration. The income approach is used on the assumption that the merger has been completed, and the enterprise value is determined by using the income approach.

(2) *Fixed Assets*

1) *Buildings*

According to the purpose of appraisal and the features of assets, we used the asset-based approach to determine the appraised value of buildings located at the place where China Aviation Planning & Design Institute (Group) Co., Ltd. is based, and use the market comparison approach to determine the market value of the office space used by Shanghai Branch and Hainan Haikou Zhonghang Building.

(1) Asset-based Approach

For main buildings, the replacement value of the buildings is calculated in accordance with the structural features of buildings, decoration criteria and use of materials and by analyzing the project budget and settlement materials based on the shop drawings, and the full replacement price of buildings is calculated based on current quota, construction charges and loan interest rates, and then the net appraised value of building is calculated by comprehensively considering the usable period and on-site investigation results.

$$\text{Appraised Value} = \text{Full Replacement Price} \times \text{Residue Rate}$$

The analogy method is used based on the site investigation for other buildings, and the replacement unit price is determined and the net amount is calculated by comprehensively considering the appraisal elements.

**Full Replacement Price**

The full replacement price is made up of construction and installation cost, preparation and other expenses and cost of funds.

A. Determination of Construction and Installation Cost

The construction and installation cost is the sum of civil works cost, decoration cost, HVAC cost and electrical works cost. The construction and installation cost of a building is calculated by using the re-budgeting method in accordance with the Budget Quota of Beijing on Construction Works (2012), and Project Cost Information of Beijing (June 2015) and based on the shop drawings and basic information such as preliminary calculation and budget information.

B. Determination of Preparation and other Expenses

The preparation and other expenses are calculated in accordance with the relevant national regulations and based on the size of investments into fixed assets of the invested companies. For this appraisal, the rates are calculated based on the total amount of expenses and the size of investment in fixed assets of the invested company.

### C. Determination of Cost of Funds

The cost of funds is the loan interest incurred from the funds invested in the construction works, which is calculated at the loan interest rate issued by the People's Bank of China on the Reference Date, and construction period is calculated based normal construction progress by considering that the funds have been evenly invested during the construction period:

$$\text{Cost of Funds} = (\text{Construction and Installation Cost} + \text{Preparation and other Expenses}) \times \text{Reasonable Construction Period} \times \text{Loan Interest Rate} \times 50\%$$

#### Residue Ratio:

During the appraisal process, the residue ratio is calculated by estimating the usable period of buildings according to the designed life and onsite investigation of buildings. Its formula is as follows:

$$\text{Residue Ratio} = \text{Usable Period} / (\text{Used Period} + \text{Usable Period}) \times 100\%$$

### (2) Market Comparison Method

The market comparison method is to make comparison with similar real estate transactions occurred or to be occurred during the recent period in terms of transaction conditions, time of price formation, regional factors (external conditions of real estate) and individual factors (conditions of real estate), and obtain a reasonable market value of the appraised real estate by making necessary corrections based on the known prices of similar real estate transactions occurred or to be occurred.

### 2) Equipment Assets

#### ① Full Replacement Price of Equipment

The full replacement price of equipment is determined based on the purchase price of equipment and by considering all kinds of expenses (including purchase price, freight, installation and commissioning fee, other construction expenses and cost of funds) under the normal use”

$$\text{Full Replacement Cost} = \text{Purchase Price (excluding taxes)} + \text{Freight} + \text{Installation \& Commissioning Fee} + \text{Other Construction Expenses and Cost of Funds} + \text{financial expenses.}$$

### Full Replacement Price of Machinery and Equipment

#### A. Purchase Prices

They are determined mainly by inquiring the manufacturers or trading companies, or by referring to the 2015 Quotation Manual for Electromechanical Products and referring to the recent contract prices of the same type of equipment. For equipment for which no purchase prices are obtained, their purchase prices are determined by using the price fluctuation rates of same type of equipment in same period.

The purchase prices of imported equipment are made up of CIF price and incidental expenses. The incidental expenses include import duties, VAT, foreign trade handling charges, bank charges, etc.

For imported equipments which are at a similar technical level with the domestic equipments, their purchase prices are determined by adopting the substitution principle, namely searching for the replacement equipments which have comparable functions and technical parameters and checking the proper market prices of similar domestic equipments.

#### B. Freight and Miscellaneous Charges

Based on tax-excluded purchase prices, the freight and miscellaneous charges are calculated in accordance with the expenses in respect of loading, unloading, transportation, custody, insurance and other expenses incurred from the manufacturers to the delivery place of equipment and based on the freight rates applicable to different transportation distances.

#### C. Installation and Commissioning Fee

The installation and commissioning fees are calculated according to the features, weight and installation difficulty levels and based on the tax-excluded purchase price.

For small equipment not requiring installation, no installation and commissioning fee will be considered.

D. Other Expenses

Other expenses include management fee, feasibility study report and assessment charges, design fee, project supervision fee, etc., which are determined based on the rates applicable at the place where the equipment is installed and in conjunction with the features of equipment and the size of investment.

E. Cost of Funds

The cost of fund refers to the loan interest incurred from the funds invested during the construction period, which is determined by confirming the size of investment in fixed assets, determining a reasonable construction period and at the loan interest rate prevailing at the Reference Date, considering that the funds have been invested evenly during the construction period.

Cost of Funds = (Purchase Price + Freight and Miscellaneous Charges + Installation and Commissioning Fee + Other Expenses) × Loan Interest Rate × Construction Period × 1/2.

**Full Replacement Prices of Vehicles**

The full replacement prices of vehicles are determined after determining the present tax-included prices of vehicles in accordance with the recent vehicle market price information such as local vehicle market sales information and considering the vehicle purchase tax in accordance with the Interim Regulation of the People's Republic of China on Vehicle Purchase Tax and number plate handling charges. The formula is as follows:

Full Replacement Price = Present Tax-excluded Purchase Price + Vehicle Purchase Price + New Vehicle Registration Charges

For vehicles whose production has been shut down or for which there is no substitute products available in the market, the full replacement price of such vehicles shall be determined by referring to the used vehicle market prices.



### Full Replacement Prices of Electronic Equipment

The prices of electronic equipment are determined according to local market information and recent market price information such as HC360 Business Information, and in conjunction with the specific situation. Generally, the manufacturer or the seller will provide free transportation or free installation services, namely:

$$\text{Full Replacement Price} = \text{Purchase Price (Tax Excluded)}$$

For electronic equipment which was bought long time ago and there is no same model of products available in the market, the full replacement price shall be determined by referring to the used electronics market prices.

#### ② Determination of Residue Ratio

During the process of appraisal, the residue ratio is determined by estimating the residual service life according to the economic service life and onsite investigation. Its formula is as follows:

$$\text{Residue Ratio} = \frac{\text{Remaining Service Life}}{\text{Used Service Life} + \text{Remaining Service Life}} \times 100\%$$

The final residue ratio is determined in accordance with the Provisions on the Standards for Compulsory Retirement of Motor Vehicles (Order No. 12 of 2012 issued by Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection), and after the residue ratio is determined by using the following method, namely:

$$\text{Residue Ratio of Service Life} = (1 - \frac{\text{Used Life}}{\text{Specified or Economical Service Life}}) \times 100\%$$

$$\text{Residue Ratio of Driving Mileage} = (1 - \frac{\text{Mileage driven}}{\text{Specified Mileage}}) \times 100\%$$

$$\text{Residue Ratio} = \text{Min}(\text{residue ratio of service life}/\text{residue ratio of driving mileage}) + a$$

In which:

a: represents the adjustment coefficient under special circumstances.

Necessary investigation and identification shall be made on vehicles to be appraised. If the investigation and identification result has a large difference from the residue ratios determined using the above method, proper adjustment should be made, and if the results are same or similar, no adjustment will be made.

For common equipment and electronic equipment with lower value, the residue ratio is determined using the service life approach.

③ Determination of Appraised Value

$$\text{Appraised Value} = \text{Full Replacement Price} \times \text{Residue Ratio}$$

(4) *Intangible Assets*

1) Intangible Assets – Right to Use Land

There is one piece of land of transfer nature with a total area of 17,170.37 square meters, for which the Certificate of Right to Use State-owned Land in which China Aviation Planning and Construction Development Co., Ltd. is registered as the right holder.

According to the Valuation Procedures of Urban Lands, the common land appraisal method include market comparison method, income capitalization method, residual method, cost approaching method, reference land price coefficient correction method, etc. In selecting the method for this appraisal, the analysis is made according to the site investigation and related information collected and based on the Valuation Procedures of Urban Lands considering the scope of application of different appraisal methods, conditions of use and the purpose of appraisal. See the following for details:

a. Reference Land Price Coefficient Correction Method

According to the Notice of the Municipal People's Government of Beijing on Updating the Reference Land Prices for Rights to Use State-owned Lands for Construction Purpose (Jing Zheng Fa No. 26 of 2014), the land on which the subject of appraisal is located is a piece of Level III land for office purpose. The updated reference land prices were implemented on August 26, 2014, rendering a high timeliness. Therefore, it is better to use the reference land price coefficient correction method to conduct the appraisal.

The reference land price coefficient correct method is a method of obtaining the price of subject of appraisal on the reference date by utilizing the appraisal results obtained from the reference urban land prices and the list of reference land price coefficients, following the substitution

principle, comparing the regional conditions and individual conditions of the subject of appraisal with the average conditions of that region, and correcting the reference land prices according to the correction coefficients selected from the list of correction coefficients. The basic calculation formula is:

$$\text{Land Price} = \text{Reference Land Price} \times (1 + \sum K) \times K_i$$

In which,  $\sum K$  – land price correction coefficient;

$K_i$  – other correction coefficients such as date of appraisal, plot ratio and term of land use.

b. Hypothetical Development Method

The hypothetical development method is a method of estimating an objective and reasonable price or value of the subject of appraisal based on the normal transaction price after the development is completed less the estimated normal development cost, taxes and profits.

The basic calculation formula used to obtain the estimated price of works in progress based on the hypothetical development method:

$$V = V' - C$$

In which,  $V$  – represents the current market value of the subject of appraisal

$V'$  – represents the total value of real estate developed

$C$  – represents the cost and sales taxes when the development value is reached.

2) Intangible Assets – Other Intangible Assets

The intangible assets – other intangible assets reported by China Aviation Planning and Design Institute (Group) Co., Ltd. include 109 items of the construction engineering pricing management software, Glodon project budget software, building structure analysis and design software, ARS2009 full version, Civil King general structure analysis and design software and management

software, 2 national defense patents independently developed, 13 invention patents, 35 utility models and 6 software copyrights and 98 trademarks, which are all in use as of the Reference Date.

- a. For the software such as the ItasCAD 3D software V1.2/CFD wind power engineering software V. 2012, our appraisers checked the purchase contracts, invoices and payment certificates, and inquired the present market prices through suppliers or online. There is little change in the market prices of the software and they are in use. The verified carrying amounts are determined as the appraised value.
- b. Patent right, software copyrights and trademarks are appraised using three method, namely the asset-based approach, market comparison method and income method.

The asset-based approach is an appraisal method used to obtain the value of appraised asset by taking all the cost (including the opportunity cost) required to re-create or obtain the appraised asset under existing conditions and the brand new status as the replacement value, and estimating various depreciation factors of the appraised asset and deducting them from the replacement value. For patents, as there is weak relevance between investment and output, the lower R&D cost may bring higher income. On the contrary, although the software R&D cost is higher, the income may be lower. Therefore, the asset-based approach is generally applicable to the appraisal of patents with a short development period which has been put into use or those with back-end support.

The market method is a method used to estimate the value of appraised asset through direct comparison or analogical analysis based on the recent trading prices of same or similar assets in the market. The value of appraised asset is judged and estimated in the substitution principle and by making full use of the price information of similar asset transaction. From the domestic patent transactions, there is a few of transaction cases, so it is difficult to find sufficient number of case available for comparison, restricting the use of market approach. Therefore, it is seldom to use the market method to appraise patents.

The income method is a method of judging the asset value by estimating the present value of future expected income of the appraised asset. With respect to the patents, it has a value because the asset owner can gain income through paid licensed use or by attaching them to the product. If a patent can't bring benefits to the holder, such patent will have no much value.

The patent products reported by China Aviation Planning and Design Institute (Group) Co., Ltd. have been put into market and constitute an important factor for the creation of operating income to the Company, therefore it is

suitable to use the income method. The income method can measure the value of patents owned by China Aviation Planning and Design Institute (Group) Co., Ltd. by using the income sharing method. The basic formula is:

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} \times K$$

In which: P – appraised value of patent to be appraised

$R_i$  – Expected survey and design income at Year t;

K – royalty rate;

n – Future payoff period of appraised asset

i – discounting period;

r – Discount Rate.

To our knowledge, China Aviation Planning and Design Institute (Group) Co., Ltd. has a strong design capacity and is well reputed in the design field. The main factor affecting the operating income during the business process is whether the design provided by the appraised company is optimized and the trademarks only play a protective role. Therefore, the asset-based method is used for the appraisal of trademarks.

(5) *Works-in-process*

For the appraisal of works-in-process, the appraised value is obtained for the works under normal construction according to the construction progress and payment of the Contract Price, based on the investigation and verification of project progress, by confirming the basic unit price under the premise that the project budget is reasonable, in compliance with the installation and construction cost and reasonable construction period and calculating the replacement cost of the works-in-process based on the preparation and other expenses plus the cost of funds.

(6) *Liquidation of Fixed Assets*

After verified, the fixed assets to be liquidated include computers, printers and projects. Our appraisers checked the consistency of detailed accounts with the general ledger and the balance specified in the financial statements and with the breakdown of engagement, inspected the related approvals and replies, certificates and time of occurrence, and contents of transactions to certify the truth and completeness of fixed assets to be disposed. After verified, the liquidation of fixed assets was completed in September 2015, and the verified liquidated amount is taken as the appraised value for the appraisal.

(7) *Deferred Income Tax Assets*

For the appraisal of deferred income tax assets, Our appraisers checked the consistency of detailed accounts with the general ledger and the balance specified in the financial statements and with the breakdown of engagement, inspected accounting records such as the amount, time of occurrence and transaction contents to verify the truth and completeness of the deferred income tax assets. After the verification, the accounts of deferred income tax assets are consistent with the statements, so the carrying amounts are determined as the appraised values.

3. *Liabilities*

The appraised values are determined based on the items and amount of liabilities to be borne by the title owner after the purpose of appraisal is achieved after the real debtor and amount of liabilities are verified after the purpose of appraisal is reached.

**(III) Introduction to the Income Approach**

1. *Overview*

According to the relevant provisions stipulated by the state administration authorities and the Assets Appraisal Standards – Value of Enterprise (Zhong Ping Xie No. 227 of 2011), and the international and domestic appraisal practice on similar transaction, we decided to estimate the equity capital value of the subject of appraisal using the discounted cash flow method (DCF) based on the income channels.

The DCF method is a kind of method of appraising the asset value by discounting the expected future net cash flow into present value. The basic concept is that the appraised value is obtained by converting the future expected net cash flow into the present value at a proper discount value. The basic conditions of application are: the enterprise has the foundation and conditions for continuous operation, there is stable relationship between the operation and the income, and the future income and risks can be forecast and quantified. What is most difficult to use the DCF method lies on the forecast of expected future cash flow, the objectives and reliability of data collection and processing. When the forecast of future expected cash flow is relatively objective and there is a reasonable discount rate, the appraisal result may be more objective.

2. *Appraisal Considerations*

According to the due diligence results, the composition of assets and features of principal activities, the appraisal is to estimate the equity capital value based on the financial statements of the parent company. The basic appraisal considerations are as follows:

- (1) For the assets and principal activities included into the financial statements, estimate their expected income (net cash flow) according to the operation trend and type of business and obtain the value of operational assets by discounting.

- (2) For current assets (liabilities) included into the financial statements, but not considered in estimating the expected income (net cash flow), such as cash and cash equivalents, dividends receivable or payable; for non-current assets (liabilities) including idle equipment, real properties and works in process whose income is not accounted for, they are defined as surplus or non-operational assets (liabilities) which are existing at the Reference Date, and whose values should be measured and calculated separately.
- (3) The value of enterprise is obtained by summing up the values of above assets and liabilities less the value of interest-bearing debts, based on which the shareholders' equity value in the target company is calculated.

3. *Model of Appraisal*

(1) *Basic Model*

The basic model used for the appraisal is:

$$E = B - D \tag{1}$$

In which:

E: represent the value all shareholders' equities (net assets) in the target company;

B: represents the value of enterprise appraised;

$$B = P + I + C \tag{2}$$

P: represents the value of operational assets of the enterprise:

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{r(1+r)^n} \tag{3}$$

In which:

R<sub>i</sub> : represents the expected income to be obtained in Year I (free cash flow);

r: represents discount rate;

n: represents the future operating period of the enterprise appraised;

I: represents the value of long-term investments as of the Reference Date;

C: represents the value of surplus or non-operational assets (liabilities) as of the Reference Date:

$$C = C_1 + C_2 \quad (4)$$

C<sub>1</sub>: represents the value of current surplus or operational assets (liabilities) as of the Reference Date;

C<sub>2</sub>: represents the value of non-current surplus or non-operational assets (liabilities) as of the Reference Date;

D: represents the value of interest-bearing debts of the enterprise appraised;

(2) *Income indicator*

For this appraisal, the free cash flow is used as the income indicator of operational assets, which is basically defined as:

$$R = \text{EBIT} \times (1 - t) + \text{Depreciation Amortization} - \text{Additional Capital} \quad (5)$$

According to the business history of the Company and future market development, estimate the free cash flow generated during future operating term. Discount and sum up the free cash flows during the future operating term to obtain the value of operational assets.

(3) *Discount Rate*

The discount rate  $r$  is determined using the weighted average cost of capital:

$$r = r_d \times w_d + r_e \times w_e \quad (6)$$

In which,  $W_d$  : is the debt ratio;

$$w_d = \frac{D}{(E + D)} \quad (7)$$

$W_e$  : represents the equity ratio of the enterprise appraised'

$$w_e = \frac{E}{(E + D)} \quad (8)$$

$r_d$  : Interest rate applicable to interest-bearing debts after income tax;



$r_e$  : Cost of Equity Capital. The cost of equity capital  $r_e$  is determined using the capital asset pricing model (CAPM):

$$r_e = r_f + \beta_e \times (r_m + r_f) + \varepsilon \quad (9)$$

In which

$r_f$  : represents risk-free return rate;

$r_m$  : represents the expected market rate of return;

$\varepsilon$  : represents the characteristic risk adjustment coefficient of the enterprise appraised;

$\beta_e$  : Expected market risk coefficient of equity capital of the enterprise appraised;

$$\beta_e = \beta_u \times \left(1 + (1 - t) \times \frac{D}{E}\right) \quad (10)$$

$\beta_u$  : Expected leverage-free market risk coefficient of comparable company;

$$\beta_u = \frac{\beta_t}{1 + (1 - t) \frac{D_i}{E_i}} \quad (11)$$

$\beta_t$  : represents the expected average market risk coefficient of comparable company;

$$\beta_t = 34\%K + 66\%\beta_x \quad (12)$$

In which:

$K$ : represents the average risk value of the stock market within a certain period, generally assuming  $K=1$ ;

$\beta_x$ : represents the average historical market risk coefficient of stock (assets) of comparable company;

$D_i$  and  $E_i$  : represents the bearing-interest debts and equity capital of comparable company respectively.

**VIII. IMPLEMENTATION PROCESS AND SITUATION OF APPRAISAL**

The whole appraisal process is divided into four stages:

**(I) Preparation Stage**

1. In late July 2015, AviChina held an intermediary coordination meeting for the Project 708, indicating the commencement of the acquisition by AviChina, and the related parties reached an agreement on the purpose, reference date and scope of the appraisal and worked out an asset appraisal work plan.
2. Preparatory Work Training: In early August 2015, AviChina held the project kickoff and training video meeting. Appraisers made detailed explanations on the requirements for asset appraisal, including the basic concepts of asset appraisal, asset appraisal tasks, plan and arrangement for the asset appraisal, list of documents to be provided by the Client and appraised company, requirements for inspection and verification of assets, notes on the completion of list of assets and asset questionnaire. On this basis, filled in the Breakdown for Appraisal and the Asset Questionnaire, collected and organized the property ownership documents and materials reflecting the performance, technical state, economic and technical indicators of assets.

During the training process, our appraisers explained in detail the theory of income approach and the requirements for the cooperation with respect to the regulatory requirements and possible weak points existing in the company, including the concept of the income approach, application conditions of the income approach, requirements for the preparation and coordination of materials, and requirements for filling in the forms and sheets including items such as income from principal activities, cost, current expenses, intangible assets and deferred assets amortization, personnel composition, wages and benefits, depreciation of fixed assets, estimation of working capital, and financial percentages.

After the training was completed, our appraisers answered questions and provided guidance in different forms including online, multimedia and telephone, with respect to all problems that may occur when submitting the appraisal materials and completing various appraisal forms and sheets, so as to provide a good start.

3. Assisted the appraised companies in checking their assets, completing and submitting the forms and sheets such as the Breakdown of Assets for Appraisal. In the middle of August 2015, the appraisal teams entered the companies included in the appraisal and carries out the due diligence, assisted them in reporting the assets and collecting the document required for the appraisal.

**(III) Onsite Appraisal Stage**

Firstly, guided the concerned company in checking their assets, completing and submitting the breakdown of assets, and collecting the appraisal materials. In early August, 2015, the appraisers made arrangements for the early appraisal stage, and gave detailed explanations on the requirements for assets appraisal, including the basic concepts of asset appraisal, asset appraisal tasks, plan and arrangement for the asset appraisal, list of documents to be provided by the Client and appraised company, requirements for inspection and verification of assets, notes on the completion of list of assets and asset questionnaire. On this basis, filled in the Breakdown for Appraisal and the Asset Questionnaire, collected and organized the property ownership documents and materials reflecting the performance, technical state, economic and technical indicators of assets;

Secondly, onsite survey was conducted on the reported assets according to the breakdown of assets. Different methods were adopted based the types of assets. According to the results, the appraised companies further provided, amended and improved the breakdown of assets so that the “form” was consistent with the real assets.

Thirdly, verified the appraisal materials, especially the asset ownership documents. Based on the consistency of “forms” with “real assets”, checked the property title documents provided. During this process, we focused on the owners and other matters specified in the ownership documents, and paid a high attention to the inconsistency of the owners specified with the Client and related parties and where the ownership documents were not provided. We further had a understanding of the property ownership by inquiring, and asked the Client and related parties to give “Explanations” and “letters of undertaking”.

**(III) Estimation, Summarization, Internal Audit and Communication Stage****1. Evaluation and Estimation**

We conducted evaluation and estimation on all assets of the appraised enterprises covered by the appraisal.

Our appraisers prepared a technical plan according to the features of this engagement, developed a pricing plan for assets based on the specific situation of the appraised companies and defined specific appraisal parameters and price standards of assets. After unified by the project leadership team, they started the evaluation and estimation, and the project teams summarized the preliminary results and analyzed the appraisal conclusions, and prepared the explanatory notes.

**2. Summarization**

After completion of evaluation and estimation drafts, communicated was made with the accountants to ensure the consistency of starting amounts for appraisal, the consistency of buildings and number of lands with the scope of appraisal and the consistency of building ownership.

After the communication with the accountants, appraisal results were summarized.

### **3. *Internal Audit***

After the evaluation and estimation work and the communication with accountants, internal audit process was started. The audit team was made up of experienced professionals who had a complete review of the breakdown of assets, notes on appraisal and working paper provided by the appraised companies, and reported the preliminary appraisal results to the appraised companies for further communication. After the appraisal results were reviewed and revised by our professionals, report was made to our company for double review, and the review results should finally match the results provided by other intermediaries.

### **4. *Communication and Reporting Stage***

The appraisal teams further improved the appraisal according to the review comments given by us, based on which the appraisal results were reported to Aviation Industry Corporation of China and AviChina Industry and Technology Co., Ltd.

## **(IV) Report Submission**

After the final audit data were submitted by the accountant, the appraisal teams exchanged their data with the accountant for the last time, and the appraisers completed the formal appraisal report and submitted the same to the Client.

## **IX. ASSUMPTIONS**

Our appraisers followed the following assumptions during the appraisal process:

### **(I) General Assumptions**

#### **1. *Transaction Assumption***

The transaction assumption is that all assets to be appraised are in the process of transaction, and appraisers will make estimation in a simulated market according to the transaction conditions of assets to be appraised. The transaction assumption is a most basic assumption for the further implementation of the asset appraisal.

#### **2. *Open Market Assumption***

The open market assumption is that with respect to the asset traded or to be traded in the market, the transaction parties are equal and have enough opportunity and time to access the market information so as to make a rational judgement on the function, intended purpose and transaction price of assets. The open market assumption is made on the basis that the assets can be traded openly in the market.

3. *Continuing Operations Assumption*

The continuing operations assumption of assets is an assumption that the assets to be appraised can be used continuously based on the intended purpose, method of operation, scale, frequency and environmental conditions, or can be used on a changed basis. In this case, the corresponding appraisal method, parameters and basis shall be determined accordingly.

(II) **Special Assumptions**

1. It is assumed that the external economic environment remain unchanged and there is no significant change in current macroeconomic policies up to the Reference Date;
2. There is no significant change in the social and economic environment and in the prevailing policies regarding taxation and tax rates;
3. The future management team of the enterprise will act diligently and will continue the existing operation and management mode;
4. It is assumed that the appraised companies will remain its current status in terms of future principal activity, structure of products, composition of income and cost, sales strategy and cost control; any change to the operating capacity caused by any adjustment made to the management and business strategies is not considered.;
5. All assets under appraisal are based on the actual inventories as of the Reference Date, and the domestic effective prices are used as the basis for the present market prices of assets;
6. It is assumed that all basic materials and financial information provided by the Client and the appraised companies are true, correct and complete;
7. On October 30, 2012, China Aviation Planning and Design Institute (Group) Co., Ltd. decided to apply for the high-tech enterprise qualification. In addition, it is assumed that China Aviation Planning and Design Institute (Group) Co., Ltd. can be granted the high-tech enterprise qualification in the future so that the company can pay income tax at the rate of 15%, based on the analysis and judgement on the development plan, technical force and the industry.
8. The scope of appraisal shall be subject to the financial statements provided by the Client and the appraised companies without considering any possible contingent assets or liabilities out of the lists provided by the Client and the appraised companies.

When any of the said conditions changes, the appraisal results will generally become invalid.

## X. CONCLUSION

## (1) Asset-based Appraisal Conclusion

The carrying amount of assets is RMB6.2727758 billion and the appraised value is 7.3493524 billion, representing an increase of RMB1.0765766 billion or 17.16% between the appraised value and the carrying amount;

The carrying amount of liabilities is RMB5.7413084 billion and the appraised value is RMB5.7413230 billion, representing an increase of RMB14600 between the appraised value and the carrying amount.

The carrying amount of net assets is RMB531.4674 million and the appraised value is RMB1.6080294 billion, representing an increase of RMB1.0765620 billion or 202.56% between the appraised value and the carrying amount. See the following table for details.

**Table 5: Asset Appraisal Results Summary Table**

Appraised Company: China Aviation Planning and Design Institute (Group) Co., Ltd.  
Reference Date: June 30, 2015

Unit: RMB10,000

Item	Carrying Amount B	Appraised Value C	Increase/ Decrease D=C-B	Appreciation Rate % E=D/B×100%
1 Current Assets	553,079.24	553,079.24	-	-
2 Non-current Assets	74,198.34	181,856.00	107,657.66	145.09
3 Including: long-term equity investments	24,250.61	43,022.14	18,771.53	77.41
4 Investment Real Estate	-	-	-	-
5 Fixed Assets	5,897.69	9,143.45	3,245.76	55.03
6 Works in process	16,506.60	16,961.23	454.63	2.75
7 Intangible Assets	25,020.99	110,211.96	85,190.97	340.48
8 Liquidation of Fixed Assets	5.59	0.36	-5.23	-93.56
9 Deferred Income Tax Assets	2,516.86	2,516.86	-	-
10 Other non-current Assets	-	-	-	-
11 <b>Total Assets</b>	<b>627,277.58</b>	<b>734,935.24</b>	<b>107,657.66</b>	<b>17.16</b>
12 Current Liabilities	530,151.71	530,153.17	1.46	-
13 Non-current Liabilities	43,979.13	43,979.13	-	-
14 <b>Total Liabilities</b>	<b>574,130.84</b>	<b>574,132.30</b>	<b>1.46</b>	<b>-</b>
15 Net Assets (Owners' Equity)	<b>53,146.74</b>	<b>160,802.94</b>	<b>107,656.20</b>	<b>202.56</b>

**(II) Income Approach Appraisal Conclusions**

After checking, verification, onsite inspection, market investigation and inquiry, evaluation and estimation, the discounted cash flow method (DCF) was adopted to appraise the value of all the shareholders' equities based on the financial statements provided by China Aviation Planning and Design Institute (Group) Co., Ltd. The carrying amount of net assets of China Aviation Planning and Design Institute (Group) Co., Ltd. is RMB531.4674 million and the appraised value is RMB2,173.2816 million as of June 30, 2015, representing an increase of RMB1,641.8142 million or an appreciation rate of 308.92%.

***II. Analysis on Difference between Appraisal Results and Final Choice of Appraisal Results***

There is a significant increase seen from the appraisal results obtained by using the income approach mainly because the company's income has grown continuously. The powers driving the continuous growth of the company come from both externally and internally, especially in respect of the following aspects:

1. The appraised company is mainly engaged in the construction consulting and design and general contracting services, covering the national defense market such as aviation and aerospace, civil aviation market, general aviation market, civil architecture, civil industrial market, energy and environmental protection market, infrastructure and other markets, so the company has a great market development potential.

With the domestic contract modes keeping pace with the international modes, the general contract modes become diversified. The mainstream international modes such as EPC, PCM (Project Management Contract), EPCM (Engineering, Procurement, Construction and Management), BOT, BOO, BOOT (Build-Own-Operation-Transfer), TOT (Transfer-Operation-Transfer), etc. have been introduced gradually into the domestic construction projects. The company has carried out some EPC projects with an increasingly higher profitability level.

2. The appraised company has a wide range of business qualifications which can facilitate the conduct of future businesses.

At present, the Company owns all qualifications to carry out the full-value-chain businesses in the fields of investment consultancy and construction. These qualifications are all at highest levels, including Class A Engineering Design, Class A Engineering Consultancy, Class A Project Cost Consultancy, Class A Tendering Agent, Qualification Certification for Environmental Impact Assessment on Construction Projects, Class A Urban and Rural Planning, Class I Shop Drawing and Design Documentation Review Body, and qualifications of construction enterprises (Class I Building Construction General Contractor and Class I General Contractor for Electromechanical Installation Works).

3. The appraised company has high competitiveness in the industry

(1) Industrial Experience Advantages

As the company has rich experience in the fields of project consultancy and design, has a sufficient understanding and master of the professional technologies applied in the fields of civil aviation, aviation, aerospace, energy and environment, medicine and civil facilities, and rich experience in consultancy and design of various places, and establish a high-quality team of designers. Based on the core technological advantages owned by the technical committee of the company and with the leading and matured technologies accumulated for years, the company is on the top list in terms of comprehensive strength. The company ranks No. 9 in the first batch of survey and design institutes and No. 1 in the military design institutes. The Company has well-established working and production conditions, sound quality implementation system and quality assurance system as well as advanced computer hardware and application software, and design information, laying a solid foundation for the company to enhance its R&D capacity.

(2) High-quality and Professional Team

The appraised company has established high-quality core management team and professional technical teams during years of practice and systematic construction, showing an obvious cohesive advantage. Since its establishment, the core management team has remained stable with rich industrial experiences and enterprise management capacities in terms of engineering survey, consultancy and design and general contract. The appraised company retains its personnel by adhering to the sound corporate culture and personalized management mode.

Based on the above analysis, we chose the income approach to provide a reference basis for the value of the economic activity regarding the Issue of Domestic Shares by AviChina Industry & Technology Company Limited as the Consideration for the Acquisition of 100% Equity held by Aviation Industry Corporation of China in China Aviation Planning and Design Institute (Group) Co., Ltd. Therefore, the value of all shareholders' equities in Chin Aviation Planning and Design Institute (Group) Co., Ltd. is RMB2.1732816 billion at the Reference Date.



**XI. NOTES TO SPECIAL MATTERS**

## 1. Accounting Adjustment due to Transformation

In September 2009, according to the Reply to the Transformation of China Aviation Industry Planning & Design Institute to a Limited Liability Company (HANG KONG ZI NO. 816 OF 2009) issued by Aviation Industry Corporation of China, the appraised company was transformed to a limited liability company, and the accounting adjustments were made according to the appraisal report for transformation.

## 2. Matters on Long-term Equity Investments

(1) According to the Reply to Issues concerning the Merger of AVIC Aviation Equipment Co., Ltd. with Beijing Zhonghang Feifan Equipment Engineering Co., Ltd. (HANG KONG ZI NO. 587 OF 2012) issued by Aviation Industry Corporation of China on May 2, 2012 and the Decision on the Merger of AVIC Aviation Equipment Co., Ltd. with Beijing Zhonghang Feifan Equipment Engineering Co., Ltd. (GUI HUA JIAN SHE ZONG NO. 163 OF 2012) issued by China Aviation Planning and Construction Development Co., Ltd., AVIC Aviation Equipment Co., Ltd. merged with Beijing Zhonghang Feifan Equipment Engineering Co., Ltd., through which AVIC Aviation Equipment Co., Ltd. will survive and Beijing Zhonghang Feifan Equipment Engineering Co., Ltd. will be deregistered. As of the Reference Date, Beijing Zhonghang Feifan Equipment Engineering Co., Ltd. is still in the process of deregistration.

The appraised values of AVIC Aviation Equipment Co., Ltd. and Zhonghang Feifan Equipment Engineering Co., Ltd. are given respectively using the asset-based approach, and we used the income approach to determine prices by simulating the merger has been completed. Therefore, report user shall pay special attention to this issue.

(2) Through the site inspection, the houses and building of AVIC Aviation Equipment Co., Ltd. included into the appraisal-the materials shed-haven't been granted the property title certificate. AVIC Aviation Equipment Co., Ltd. issued a certification and undertook that the materials shed was owned by it, on which there was no dispute over property title, otherwise it would bear all responsibilities.

3. According to Reply to the Name Change of China Aviation Planning and Construction Development Co., Ltd. and the Amendment to Articles of Association (HANG KONG ZHAN LUE NO. 819 OF 2015) issued by Aviation Industry Corporation of China on June 26, 2015, the name of China Aviation Planning and Construction Development Co., Ltd. was changed to China Aviation Planning and Design Institute (Group) Co., Ltd. and the Business License No. 100000000011182 was issued by Beijing Administration for Industry and Commerce on July 14, 2015.

The site check found that the registered owners of vehicles, buildings, certificate of land use right and patents, software copyrights and trademarks are China Aviation Planning and Construction Development Co., Ltd., China Aviation Planning and Design Institute or No. 4

Planning and Design Institute of Ministry of Aviation Industry, which haven't been changed to China Aviation Planning and Design Institute (Group) Co., Ltd. However, it is handling the procedures for the registration of changes, so China Aviation Planning and Design Institute (Group) Co., Ltd. undertakes that it owns the above assets without any dispute over the property title, and that all disputes arising therefrom shall be borne by China Aviation Planning and Design Institute (Group) Co., Ltd.

4. The site check found that vehicles with Plate Nos. HC6742, HH2012 and ER6320 have been retired, so report users should pay attention to this issue.
5. China Aviation Planning and Design Institute (Group) Co., Ltd. has several buildings which were allocated to the living area in 2009 upon transformation. After the new research building was approved in 2012, the property management rooms and related facilities will be removed according to the Planning Permit (GUI JIAN MI ZI NO. 53 OF 2012). At present, there is only one main office building incorporated in the appraisal. Report users should pay attention to this fact.
6. The People's Bank of China announced to cut the benchmark lending rate and deposit rate respectively on August 26, 2015 and October 24, 2015. As the Reference Date is June 30, 2015, the calculating of value of assets is made in accordance with the People's Bank of China List of Lending Rates (effective on March 1, 2015). The asset-based approach didn't consider the effect of the change in interest rates after the Reference Date, however the income approach considered the effect of the change in interest rates. Therefore, report users should pay special attention to this fact.
7. The report conclusion is drawn based on the bases, assumptions, methods and procedures of appraisal. Therefore, the conclusion shall be effective only when the bases, assumptions, methods and procedures of appraisal remain unchanged.
8. Appraisers and the appraisal company have the legal responsibility to make their professional judgement on the value of the appraised company for the purpose of appraisal mentioned in this report, and do not make any judgment on the economic activity relating to the appraisal. Appraisers should pay necessary attention to the financial and accounting materials and property title documents in performing their duties, but in no event shall these appraisers be deemed to make any assurance and undertake any responsibility for any financial items and property titles.
9. During the appraisal, appraisers observed the appearance of the appraised buildings, and tried their best to check the internal decoration and usable conditions without any test on any structure and material. When checking the equipment, our appraisers only rely on their visual inspection and the recent test documents provided by the appraised company and inquired operators on the use of equipment due to the restrictions on test means and the fact that some equipment are being used.

10. As the scope of appraisal and the data, financial statements and related information were provided by the appraised company, so it shall be liable for the truth and completeness of such information.
11. As the property title documents and related information are provided by the appraised company, the Client and the appraised company shall be liable for the truth and legality of such information.
12. Appraisers conducted the appraisal in order to estimate the value of the subject of appraisal and express their professional opinions, so they will not assume any responsibility to make decisions for the related parties. The appraisal conclusion shall not be deemed as an assurance to the realizable price of the subject of appraisal.
13. The profitability forecast obtained by the appraisal company is based on the income approach. Appraisers conducted necessary investigations, analysis and judgment for the profitability forecast. After repeated discussions with the management and main shareholders of the appraised company, the appraisal company accepted the data relating to the profitability forecast after further amended and improved by the appraised company. The use of the profitability forecast by the appraisal company shall not be deemed to assure the future profitability of the company.
14. If there is any change to the number and pricing standards of assets during the term of validity after the Reference Date, the following provisions shall be followed:
  - (1) When there is any change to the number of assets, the number of assets obtained by using the original appraisal method shall be adjusted accordingly;
  - (2) When there is any change of the pricing criteria of the assets and the appraisal result is significantly affected, the Client shall engaged a qualified asset appraisal company to re-determine the appraised value.
  - (3) Where there is any change to both the number of assets and the pricing criteria after the Reference Date, the Client shall take it into full consideration in fixing the price and make any adjustment accordingly.

## **XII. NOTES TO RESTRICTIONS ON USE OF REPORT**

- (I) The Appraisal Report shall be used only for the purpose and applications specified herein. The appraisal conclusions only reflect the current market prices of assets for the purpose hereof and in accordance with the open market principle, and do not consider future pledge and security that may be created, and the effect of additional payments made by special transaction counterparty on the appraised prices. In addition, the report does not consider any change to the national macroeconomic policies and the occurrence of natural disasters and other force majeure events on the prices of assets. When there is any change to the above conditions and

the on-going-concern principle followed during appraisal, the appraisal conclusion may general become invalid. The appraisal company will not assume any legal responsibility for the invalidity of appraisal results due to such changes.

The appraisal report shall become effective on the premise that the economic activity meets the provisions of laws and regulations, and approved by the competent authority.

- (II) This report shall be only used by the report users specified herein. The right to use this report shall vest in the Client, and the appraisal company shall not disclose it to any others without authorization;
- (III) The appraisal report shall not be excerpted, quoted or disclosed in any public media without the consent and review of the appraisal firm, except required by laws and regulations or otherwise agreed by the related parties.
- (V) Term of Use of the Report: According to the relevant administrative provisions of the state-owned assets appraisal, the asset appraisal report shall not be used until it is approved (registered), and the approved (registered) appraisal result shall have a term of one year from June 30, 2015, the Reference Date, till June 29, 2016. After the said term expires, re-appraisal shall be required.

### **XIII. DATE OF REPORT**

The asset appraisal report is dated December 2, 2015.

**China United Assets Appraisal Co., Ltd.**

**Legal Representative:**

**Certified Asset Appraiser (Signature & Seal):**

**Certified Asset Appraiser (Signature & Seal):**

\_\_\_\_\_, 2015

### **List of References**

1. Economic Activities Documents (photocopies);
2. Audit Reports as of the Reference Date (photocopies);
3. Engagement Letter for Asset Appraisal (photocopy);
4. Business Licenses of the Client and Target Company (photocopy);
5. Main Ownership Documents of the Subject of Appraisal (photocopies, See the Appendix);
6. Letters of Undertaking by the Client and the Target Company;
7. Letter of Undertaking signed by Certified Asset Appraisers;
8. Asset Appraisal Qualification Certificate of China United Assets Appraisal Co., Ltd. (photocopy);
9. Qualification Certificate for Appraisal of Securities and Futures of China United Assets Appraisal Co., Ltd.;
10. Business License of China United Assets Appraisal Co., Ltd. (photocopy);
11. Signed Qualification Certificates of Certified Asset Appraisers (photocopies).

10 March 2016

The Directors

AviChina Industry & Technology Company Limited

8/F, Building No.2, No.5A RongChang East Street

Beijing Economic and Technological Development Zone, China

**REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW  
FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN CHINA  
AVIATION PLANNING AND DESIGN INSTITUTE (GROUP) CO., LTD.**

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “Forecast”) on which the valuation dated 2 December 2015 prepared by China United Assets Appraisal Group in respect of China Aviation Planning and Design Institute (Group) Co., Ltd. (the “Target”) as at 30 June 2015 is based. The valuation is set out in the announcement of AviChina Industry & Technology Company Limited (the “Company”) dated 10 March 2016 (the “Announcement”) in connection with the acquisition of the Target. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

**Directors’ responsibilities**

The directors of the Company (the “Directors”) are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “Assumptions”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed “Valuation assumptions” of the Announcement.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' responsibilities**

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

**Opinion**

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully

*Certified Public Accountants*  
Hong Kong

*The following is the text of a letter from Guotai Junan Capital Limited, prepared for the purpose of inclusion in this circular.*



10 March 2016

**The Board of Directors**

**AviChina Industry & Technology Company Limited\***

**中國航空科技工業股份有限公司**

8th Floor, Tower 2  
No. 5A Rongchang East Street  
Beijing Economic-Technological  
Development Area  
Beijing, PRC

Dear Sirs,

We refer to the announcements of AviChina Industry & Technology Company Limited\* 中國航空科技工業股份有限公司 (the “**Company**”) dated 30 September 2015 and 10 March 2016 (the “**Announcements**”) in relation to the acquisition of 100% equity interest (the “**Target Equity**”) in China Aviation Planning and Design Institute Co., Ltd.\* 中國航空規劃設計研究總院有限公司 (“**AVIC Planning**”) and the acquisition referred to as the “**Acquisition**”) which constitutes a discloseable and connected transaction under Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and also the valuation report dated 2 December 2015 prepared by China United Assets Appraisal Group, a qualified and independent PRC valuer (the “**Independent Valuer**”), on the valuation of the Target Equity (the “**Valuation**”). As discounted future estimated cash flows method is used, the Valuation constitutes a profit forecast (“**Forecast**”) under Rule 14.61 of the Listing Rules.

We are engaged to assist the Directors to comply with Rule 14.62 of the Listing Rules. We, from the perspective of financial adviser, have discussed with the management of the Company, the management of AVIC Planning and the Independent Valuer regarding the bases and assumptions adopted in the Forecast. We have also considered the letter dated 10 March 2016 issued by Ernst & Young, the Company’s reporting accountants, regarding the calculations upon which the Forecast has been made.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, we are of the opinion that the bases and assumptions of the Forecast adopted by the Independent Valuer, for which the Directors of the Company are solely responsible for, have been made after due and careful enquiry. Our opinion has been given for the sole purpose of compliance with Rule 14.62(3) of the Listing Rules and for no other purpose.

\* For identification purpose only



We have not independently verified the computations leading to the Independent Valuer's determination of the fair value and market value of the Target Equity. We have had no role or involvement and have not provided and will not provide any assessment of the fair value and market value of the Target Equity. Accordingly, save as expressly stated in this letter, we take no responsibility for and express no views, whether expressly or implicitly, on the fair value, market value or any of the value of the Target Equity.

We further confirm that the assessment, review and discussion carried out by us as described above are primarily based on financial, economic, market and other conditions in effect, and the information made available to us as of the date of this letter and that we have, in arriving at our views, relied on information and materials supplied to us by the Independent Valuer, the Group and the AVIC Planning and opinions expressed by, and representations of, the employees and/or management of the Independent Valuer, the Group and the AVIC Planning. We have assumed that all information, materials and representations so supplied, including all information, materials and representations referred to or contained in the Announcements, for which the Directors are wholly responsible, were true, accurate, complete and not misleading at the time they were supplied or made and that no material fact or information has been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and/or representations. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our respective assessment and review. Further, the qualifications, bases and assumptions adopted by the Independent Valuer are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and the Independent Valuer.

Yours faithfully,  
For and on behalf of  
**Guotai Junan Capital Limited**  
**Iris Leung**  
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. THE INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required: (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, are set out below:

Name	Class of Shares	Capacity	Number of Shares held	Approximate percentage of shareholdings to the same class of Shares	Approximate percentage of shareholdings to share capital in issue	Nature of interests
Lin Zuoming ( <i>note</i> )	H Share	Beneficial owner	462,205	0.020%	0.008%	Long position
Tan Ruisong	H Share	Beneficial owner	563,811	0.024%	0.010%	Long position
Gu Huizhong	H Share	Beneficial owner	239,811	0.010%	0.004%	Long position
Gao Jianshe	H Share	Beneficial owner	231,811	0.010%	0.004%	Long position
Yeung Jason Chi Wai	H Share	Beneficial owner	248,000	0.011%	0.005%	Long position
Chen Guanjun	H Share	Beneficial owner	100,507	0.004%	0.002%	Long position

*Note:* Based on the relevant disclosure of interests filed on the website of the Stock Exchange, as at the Latest Practicable Date, Mr. Lin Zuoming held 2,000 A shares in AVICOPTER (listed on Shanghai Stock Exchange with the stock code: 600038) and 5,000 A shares in AVIC Avionics (listed on Shanghai Stock Exchange with the stock code: 600372), representing approximately 0.0003% and 0.0003% of the total issued share capital of AVICOPTER and AVIC Avionics respectively. AVICOPTER and AVIC Avionics were subsidiaries of the Company, and therefore they were associated corporations (within the meaning of Part XV of the SFO) of the Company.

**3. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or supervisors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

**4. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS**

As at the Latest Practicable Date, none of the Directors or supervisors had any direct or indirect interest in any assets which had been, since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

**5. DIRECTORS' AND SUPERVISORS' POSITIONS IN SUBSTANTIAL SHAREHOLDERS**

As at the Latest Practicable Date, the following Directors and supervisors held the following positions in the following companies which held interests or short positions in the Shares or underlying Shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO:

<b>Name of Director</b>	<b>Position</b>
Lin Zuoming	Chairman of AVIC
Tan Ruisong	General manager of AVIC
Gu Huizhong	Vice general manager of AVIC
Gao Jianshe	Vice general manager of AVIC

**6. CONSENT AND QUALIFICATION OF EXPERTS**

The following are the qualifications of the professional adviser who has given the Company an opinion or provided advice referred to or contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Anglo Chinese	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
China United Assets Appraisal Group Limited	Independent and qualified PRC valuer
Ernst & Young	Certified Public Accountants
Guotai Junan	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, each of the above experts did not have shareholding interest in any member of the Group or any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interest in any assets which has been, since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and references to its name included in this circular in the form and context in which they respectively appear.

**7. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

**8. NO MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Group have been made up.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company up to and including 13 June 2016:

- (a) the letter dated 10 May 2016 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 42 to 43 of this circular;
- (b) the letter of advice dated 10 May 2016 from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 44 to 66 of this circular;
- (c) the valuation report prepared by China United Assets Appraisal Group Limited, the text of which is set out in Appendix I to this circular;
- (d) the letter from Ernst & Young, the text of which is set out in Appendix II to this circular;
- (e) the letter from Guotai Junan, the text of which is set out in Appendix III to this circular;
- (f) the written consent of each of the experts referred to in paragraph 6 of this Appendix;
- (g) the Equity Acquisition and Share Issuance Agreement;
- (h) the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement;
- (i) the Existing Mutual Provision of Services Agreement;
- (j) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement;
- (k) the Existing Products and Services Mutual Supply and Guarantee Agreement;
- (l) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement; and
- (m) the Existing Land Use Rights and Properties Leasing Agreement.

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## NOTICE OF EGM

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### 中國航空科技工業股份有限公司 AviChina Industry & Technology Company Limited\*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2357)

## NOTICE OF EGM

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (“EGM”) of AviChina Industry & Technology Company Limited (the “**Company**”) will be held at 10:00 a.m. on Monday, 13 June 2016, at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC to consider and approve the following resolutions. Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 10 May 2016:

### ORDINARY RESOLUTIONS

1. “**THAT:**

- (1) the Acquisition, the Issuance, and the terms and conditions of the Equity Acquisition and Share Issuance Agreement and the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement entered into between the Company and AVIC, which is subject to the fulfilment of the conditions attached thereto, be and are hereby approved, ratified and confirmed; and
- (2) any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the relevant actions and transactions contemplated under the Equity Acquisition and Share Issuance Agreement and the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement, including but not limited to obtain necessary approval from relevant PRC government authorities, and to sign any further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make administrative or ancillary changes or amendments to the Equity Acquisition and Share Issuance Agreement and the Supplementary Agreement to the Equity Acquisition and Share Issuance Agreement as such Director or authorized representative may in his absolute discretion deem fit.”

\* For identification purpose only

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## NOTICE OF EGM

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2. **“THAT:**

- (1) (a) the Supplementary Agreement to the Existing Mutual Provision of Services Agreement and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Mutual Provision of Services Agreement for the two financial years ending 31 December 2017 be and are hereby approved, ratified and confirmed; and
- (2) any Director or authorized representative of the Chairman of the Board be and is hereby authorized to sign, implement, complete and despatch all the documents, and take all steps and to do all acts and things as may be necessary or desirable to complete the transactions contemplated under the Supplementary Agreement to the Existing Mutual Provision of Services Agreement, the proposed revision of annual caps of relevant revenue transactions thereof for the two financial years ending 31 December 2017 and all other matters ancillary thereto, and to sign and execute such further documents or to do any other matters incidental thereto and/or as contemplated thereunder and/or make administrative or ancillary changes or amendments to the aforesaid agreements, as such Director or authorized representative may in his absolute discretion deem fit.”

3. **“THAT:**

- (1) (a) the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement and (b) the proposed revision of the annual caps of relevant revenue transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement for the two financial years ending 31 December 2017 be and are hereby approved, ratified and confirmed; and
- (2) any Director or authorized representative of the Chairman of the Board be and is hereby authorized to sign, implement, complete and despatch all the documents, and take all steps and to do all acts and things as may be necessary or desirable to complete the transactions contemplated under the Supplementary Agreement to the Existing Products and Services Mutual Supply and Guarantee Agreement, the proposed revision of annual caps of relevant revenue transactions thereof for the two financial years ending 31 December 2017 and all other matters ancillary thereto, and to sign and execute such further documents or to do any other matters incidental thereto and/or as contemplated thereunder and/or make administrative or ancillary changes or amendments to the aforesaid agreements, as such Director or authorized representative may in his absolute discretion deem fit.”

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## NOTICE OF EGM

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### SPECIAL RESOLUTION

4. **“THAT:**
- (a) subject to the required approval or endorsement from or registration with the relevant regulatory authorities in the PRC, the proposed consequential amendments to the Articles of Association (details of which are set out in the paragraph headed “Proposed Consequential Amendments to the Articles of Association” in the letter from the Board contained in the Circular) be and are hereby approved and confirmed;
  - (b) any one of the Directors or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect to the proposed consequential amendments to the Articles of Association, including, without limitation, to obtain all necessary approvals from the relevant regulatory authorities in the PRC, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder, as such Director or authorized representative may in his absolute discretion deem fit; and
  - (c) any one of the Directors or authorized representative of the Chairman of the Board be and is hereby authorised to make such other modifications to the proposed consequential amendments to the Articles of Association as may be required by the relevant regulatory authorities in the PRC.”

By Order of the Board  
**AviChina Industry & Technology Company Limited\***  
**Yan Lingxi**  
*Company Secretary*

Beijing, 10 May 2016

\* *For identification purpose only.*

*Notes:*

**(1) Closure of register of members and eligibility to attend the EGM**

Pursuant to Article 40 of the Articles of Association of the Company, the H Share register of the Company will be closed from Tuesday, 24 May 2016 to Monday, 13 June 2016 (both days inclusive), during which period no transfer of H shares will be effected. Holders of the Company’s H Shares and Domestic Shares whose names appear on the Company’s Register of Members on Monday, 13 June 2016 are entitled to attend the EGM and to vote in the EGM.

In order to qualify to attend and vote in the EGM, holders of the Company’s H shares shall lodge all transfers together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company’s H Shares Registrar, not later than 4:30 p.m. on Monday, 23 May 2016 at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queens’ Road East, WanChai, Hong Kong.



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## NOTICE OF EGM

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**(2) Registration procedures for attending the EGM**

- (a) The shareholder or its proxies shall produce his identification proof. If a corporation shareholder's legal representative or any other person authorized by the board of directors or other governing body of such corporate shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.
- (b) Holders of H Shares or Domestic Shares who wish to attend the EGM must complete the reply slip to confirm the attendance, and return the same to the correspondence address designated by the Company not later than 20 days before the date of the EGM, i.e. on or before Monday, 23 May 2016.
- (c) Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.

**(3) Proxies**

- (a) Any shareholder who is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his behalf at the EGM. A proxy need not be a shareholder of the Company. Any shareholder who wishes to appoint a proxy should first review the form of proxy for use in the EGM.
- (b) Any shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the board of the body corporate or by attorneys duly authorized. If the instrument is signed by an attorney of the appointer, the power of attorney authorizing the attorney to sign or other documents of authorization must be notarially certified. In order to be valid, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered in the case of holders of Domestic Shares, to the correspondence address designated by the Company, and in the case of holders of H Shares, to Computershare Hong Kong Investor Services Limited at the address stated in note 1 above not less than 24 hours before the time for holding the EGM and return of a form of proxy will not preclude a shareholder from attending in person and voting at the EGM if he or she so wishes.

**(4) The EGM is expected to last for half a day. Shareholders attending the meeting are responsible for their own transportation and accommodation expenses.**

Designated address of the Company:

9/F., Easyhome Tower, No. 3A Dongzhimen South Avenue, Dongcheng District, Beijing, the PRC

(Postal code: 100007)

Telephone No.: 86-10-58354335/4752

Facsimile No.: 86-10-58354310

Attention: Mr. Liu Kai/Mr. Hao Weidi

**(5) The resolutions above will be voted by poll by the Independent Shareholders.**

*As at the date of this notice, the Board comprises executive Directors Mr. Lin Zuoming and Mr. Tan Ruisong and non-executive Directors Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Guo Chongqing and Mr. Maurice Savart as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Jason Chi Wai.*