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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 and reply slip 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).

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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) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS, DISCLOSEABLE
TRANSACTIONS AND MAJOR TRANSACTIONS:**

**RENEWAL OF CERTAIN CONTINUING CONNECTED TRANSACTIONS AND
CAPS THEREOF FOR 2018 TO 2020; AND**

**REVISION OF THE CAPS FOR CERTAIN EXISTING CONTINUING CONNECTED
TRANSACTIONS FOR 2017;**

**(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND
THE RULES GOVERNING THE OPERATION OF SHAREHOLDERS' GENERAL MEETINGS;
AND**

(3) NOTICE OF EGM

**Independent Financial Adviser to the Independent Board Committee and
Independent Shareholders with respect to the Non-exempt Continuing Connected Transactions**



A letter from the Board is set out on pages 7 to 54 of this circular. A letter from the Independent Board Committee is set out on page 55 of this circular. A letter from Somerley to the Independent Board Committee and the Independent Shareholders is set out on pages 56 to 76 of this circular.

A notice convening the EGM of AviChina Industry & Technology Company Limited to be held at 9:00 a.m. on Wednesday, 20 December 2017 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People's Republic of China is set out on pages 85 to 89 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed and are also published on the website of the Hong Kong Stock Exchange (www.hkexnews.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 Wednesday, 29 November 2017. 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.

Thursday, 16 November 2017

* For identification purpose only

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DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“associates”	has the same meaning ascribed thereto under the Hong Kong Listing Rules
“AVIC”	Aviation Industry Corporation of China* (中國航空工業集團公司), the controlling shareholder of the Company holding directly and indirectly 58.57% equity interest 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 and a connected subsidiary of the Company as at the Latest Practicable Date
“AVIC Avionics Group”	AVIC Avionics and its subsidiaries
“AVIC Finance”	Aviation Industry Corporation Finance Company Limited* (中航工業集團財務有限責任公司), a limited liability company established in the PRC and a subsidiary of AVIC as at the Latest Practicable Date
“AVIC Group”	AVIC and its subsidiaries
“AVICOPTER”	AVICOPTER PLC* (中航直升機股份有限公司), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange and a connected subsidiary of the Company as at the Latest Practicable Date
“AVICOPTER Group”	AVICOPTER and its subsidiaries
“AVIC Planning”	China Aviation Planning and Design Institute (Group) Co., Ltd.* (中國航空規劃設計研究總院有限公司), a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Board”	the board of directors of the Company
“CAGR”	compound annual growth rate
“CBRC”	China Banking Regulatory Commission

DEFINITIONS

“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 established in the PRC, whose H shares are listed on the Hong Kong Stock Exchange
“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% 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 relevant continuing connected transactions agreements and specific prices will be determined under separate agreements in each transaction
“Deposit Services”	the deposit services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 9:00 a.m. on Wednesday, 20 December 2017 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC for the purposes of considering and, if thought fit, approving, among other things, (i) the terms of the Proposed Renewed Continuing Connected Transactions, and the proposed caps in respect thereof for the three financial years ending 31 December 2020; (ii) the Proposed Revised Caps for the year ending 31 December 2017; (iii) the proposed amendments to the Articles of Association; and (iv) the proposed amendments to the Rules Governing the Operation of Shareholders’ General Meeting
“Existing Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and AVIC Finance on 26 August 2014, for a term of three years commencing from the effective date of 1 January 2015
“Existing Mutual Supply of Products Agreement”	the mutual supply of products agreement entered into between the Company and AVIC on 26 August 2014, for a term of three years commencing from the effective date of 1 January 2015

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“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 the effective date of 1 January 2015, and as amended by the supplemental agreement dated 19 October 2015
“Existing Products and Services Mutual Supply and Guarantee Agreement”	the products and services mutual supply and guarantee agreement entered into among the Company, AVIC Avionics and AVICOPTER on 26 August 2014, for a term of three years commencing from the effective date of 1 January 2015, and as amended by the supplemental agreement dated 19 October 2015
“Financial Services Framework Agreement”	the financial services framework agreement entered into between AVIC Finance and the Company on 30 August 2017, details of which are set out in paragraph 2.4 under Section I of the letter from the Board of this circular
“Government-prescribed Price”	the 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 comprises the relevant costs plus a profit margin of approximately 5%. 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
“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
“Group”	the Company and its subsidiaries
“Guarantee Services”	the guarantee services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“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

DEFINITIONS

“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 Chi Wai, to advise the Independent Shareholders on (i) the terms of the Proposed Renewed Continuing Connected Transactions, and the proposed caps in respect thereof for the three financial years ending 31 December 2020; and (ii) the Proposed Revised Caps for the year ending 31 December 2017
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, to advise the Independent Board Committee and Independent Shareholders on (i) the terms of the Proposed Renewed Continuing Connected Transactions, and the proposed caps in respect thereof for the three financial years ending 31 December 2020; and (ii) the Proposed Revised Caps for the year ending 31 December 2017
“Independent Third Parties”	independent third parties (to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries), including the ultimate beneficial owners of such party, not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates (within the meaning of the Hong Kong Listing Rules)
“Independent Shareholders”	Shareholders (other than AVIC and its associates) who are not required to abstain from voting on the resolutions to be proposed at the EGM to approve (i) the terms of the Proposed Renewed Continuing Connected Transactions, and the proposed caps in respect thereof for the three financial years ending 31 December 2020; and (ii) the Proposed Revised Caps for the year ending 31 December 2017
“Latest Practicable Date”	10 November 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
“Loan Services”	the loan services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement

DEFINITIONS

“Market Price”	(i) where there are comparable market prices or charging rates standards determined by independent third parties under normal commercial terms for the transaction, the transaction price shall be determined 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 two to three 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 (i.e. the departments/persons who are responsible for procurement or sales in the specific operating subsidiary of the Company)
“Mutual Provision of Services Agreement”	the mutual provision of services agreement entered into between AVIC and the Company on 30 August 2017, details of which are set out in paragraph 2.2 under Section I of the letter from the Board of this circular
“Mutual Supply of Products Agreement”	the mutual supply of products agreement entered into between AVIC and the Company on 30 August 2017, details of which are set out in paragraph 2.1 under Section I of the letter from the Board of this circular
“Non-exempt Continuing Connected Transactions”	the Proposed Renewed Continuing Connected Transactions and the Proposed Revised Caps
“Other Financial Services”	apart from deposit, loan, settlement and guarantee services, other financial services AVIC Finance has agreed to provide to the Group under the Financial Services Framework Agreement (subject to the terms and conditions provided therein)
“PBOC”	the People’s Bank of China
“percentage ratios”	has the same meaning ascribed thereto under the Hong Kong Listing Rules

DEFINITIONS

“PRC”	the People’s Republic of China
“Products and Services Mutual Supply and Guarantee Agreement”	the products and services mutual supply and guarantee agreement entered into among the Company, AVIC Avionics and AVICOPTER on 30 August 2017, details of which are set out in paragraph 2.3 under Section I of the letter from the Board of this circular
“Proposed Renewed Continuing Connected Transactions”	the continuing connected transactions of the Company contemplated under (i) the Mutual Supply of Products Agreement with AVIC, (ii) the Mutual Provision of Services Agreement with AVIC, (iii) the Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics and AVICOPTER and (iv) the Financial Services Framework Agreement with AVIC Finance (for the Deposit Services and the Other Financial Services only), which are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules
“Proposed Revised Caps”	the revised annual cap for 2017 for the expenditure transactions under the Existing Mutual Provision of Services Agreement as well as the revised caps for 2017 for the Deposit Services and the Other Financial Services under the Existing Financial Services Framework Agreement, which are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules
“Reasonable Costs”	the costs confirmed by the parties to the agreements after arm’s length negotiation and as permitted by the relevant accounting system/principles of the PRC (inclusive of sales tax and surcharges)
“RMB”	Renminbi, the lawful currency of the PRC
“Rules Governing the Operation of Shareholders’ General Meeting”	the rules governing the operation of Shareholders’ general meeting of the Company
“Settlement Services”	the settlement services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“Shareholders”	the holders of shares of RMB1.00 each in the capital of the Company

LETTER FROM THE BOARD



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 Director:

Mr. Lin Zuoming

Non-executive Directors:

Mr. Tan Ruisong

Mr. Wu Xiandong

Mr. Li Yao

Mr. He Zhiping

Mr. Patrick de Castelbajac

Independent non-executive Directors:

Mr. Lau Chung Man, Louis

Mr. Liu Renhuai

Mr. Yeung Chi Wai

Registered Office:

8th Floor, Tower 2

No. 5A Rongchang East Street

Beijing Economic-Technological

Development Area

Beijing, PRC

Place of business in Hong Kong:

Unit 2202A, 22th Floor

Fairmont House

8 Cotton Tree Drive

Central

Hong Kong

Thursday, 16 November 2017

To the Shareholders:

Dear Sir or Madam,

- (1) NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS, DISCLOSEABLE TRANSACTIONS AND MAJOR TRANSACTIONS:
RENEWAL OF CERTAIN CONTINUING CONNECTED TRANSACTIONS AND
CAPS THEREOF FOR 2018 TO 2020; AND
REVISION OF THE CAPS FOR CERTAIN EXISTING CONTINUING CONNECTED
TRANSACTIONS FOR 2017;**
- (2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND
THE RULES GOVERNING THE OPERATION OF SHAREHOLDERS' GENERAL MEETINGS;
AND**
- (3) NOTICE OF EGM**

Reference is made to the announcement of the Company dated 30 August 2017 in relation to, among others, the Non-exempt Continuing Connected Transactions. Reference is also made to the announcement of the Company on the same date in relation to the proposed amendments to the Articles of Association and the Rules Governing the Operation of Shareholders' General Meeting.

* For identification purpose only

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The Non-exempt Continuing Connected Transactions, including the Proposed Renewed Continuing Connected Transactions and the Proposed Revised Caps, are subject to the Independent Shareholders' approval. The proposed amendments to the Articles of Association and the Rules Governing the Operation of Shareholders' General Meeting are subject to the Shareholders' approval.

The purposes of this circular are to provide you with, among other things,

- (1) (i) details relating to the Proposed Renewed Continuing Connected Transactions and the proposed caps in respect thereof for the three financial years ending 31 December 2020; (ii) details relating to the Proposed Revised Caps for the financial year ending 31 December 2017; (iii) details relating to the proposed amendments to the Articles of Association; and (iv) details relating to the proposed amendments to the Rules Governing the Operation of Shareholders' General Meeting;
- (2) a letter of recommendation from the Independent Board Committee on the Non-exempt Continuing Connected Transactions to the Independent Shareholders; and
- (3) a letter of advice from Somerley on the Non-exempt Continuing Connected Transactions to the Independent Shareholders and the Independent Board Committee.

I. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

A. Proposed Renewed Continuing Connected Transactions

1. Background

References are made to the announcement of the Company dated 26 August 2014 and the circular dated 26 September 2014 in relation to, among other things, the continuing connected transactions of the Group contemplated under (1) the Existing Mutual Supply of Products Agreement, (2) the Existing Mutual Provision of Services Agreement, (3) the Existing Products and Services Mutual Supply and Guarantee Agreement, and (4) the Existing Financial Services Framework Agreement.

Reference is made to the announcement of the Company dated 26 August 2015 in relation to the revision of the annual caps for the expenditure transactions under the Existing Mutual Provision of Services Agreement for the three financial years ending 31 December 2017.

References are also made to the announcement of the Company dated 19 October 2015 and the circular dated 10 May 2016 in relation to, among other things, the revision of the annual caps for the continuing connected transactions contemplated 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 upon acquisition of AVIC Planning.

As the caps for each of the aforementioned existing continuing connected transactions will expire on 31 December 2017, the Company proposes to enter into new framework agreements to govern such existing continuing connected transactions for the three financial years ending 31 December 2020 and set the respective caps thereof, which are subject to the Independent Shareholders' approval.

LETTER FROM THE BOARD

2. *The Framework Agreements*

2.1 *Mutual Supply of Products Agreement*

As the Existing Mutual Supply of Products Agreement is due to expire on 31 December 2017, the Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the Existing Mutual Supply of Products Agreement. As such, the Board proposes to renew the continuing connected transactions under the Existing Mutual Supply of Products Agreement.

Principal terms of the Mutual Supply of Products Agreement are summarized as follows:

Parties	:	AVIC The Company
Date	:	30 August 2017
Mutual supply of products	:	AVIC Group and the Group to mutually provide manufacturing raw materials, parts and components, finished and semi-finished aviation products (including but not limited to aviation entire aircraft and aviation parts and components) involved in the production and operations of their respective aviation products as well as the sales and ancillary services related thereto.

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

Term	:	Three years, commencing from 1 January 2018 to 31 December 2020
Pricing	:	The price of the products and ancillary services will be determined as follows: (i) as most products under the Mutual Supply of Products Agreement are aviation products peculiar to the industry, the Government-prescribed Price will apply; (ii) if there is no Government-prescribed Price, then apply the Market Price by tender procedures or other means (as the case may be); and (iii) if there is no Market Price, then apply the Contractual Price.

Note: please refer to detailed definitions of “Government-prescribed Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular.

Payment	:	Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into the specific products agreement under each transaction.
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LETTER FROM THE BOARD

2.2 *Mutual Provision of Services Agreement*

As the Existing Mutual Provision of Services Agreement is due to expire on 31 December 2017, the Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the Existing Mutual Provision of Services Agreement. As such, the Board proposes to renew the continuing connected transactions under the Existing Mutual Provision of Services Agreement.

Principal terms of the Mutual Provision of Services Agreement are summarized as follows:

Parties	:	AVIC The Company
Date	:	30 August 2017
Mutual provision of services	:	AVIC Group to provide certain services relating to the production and business operations of the Group including, without limitation, (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, consultation and network related services; (vii) cultural, hygienic, social security and logistic services; (viii) import and export agency services; (ix) test flight and information and quality monitoring services; (x) engineering and equipment subcontracting services; and (xi) other relevant services.

The Group to provide certain services relating to the production and business operations of AVIC Group including, without limitation, (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, consultation and network related services; (vii) enterprise entrustment services; (viii) engineering technology (including but not limited to planning, consultation, design and supervision), project engineering general contracting and equipment general contracting services; and (ix) other relevant services.

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

Term	:	Three years, commencing from 1 January 2018 to 31 December 2020
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Pricing : The price of the services under the agreement will be determined as follows:

- (i) for power supply services such as the provision of electricity, water, steam, etc., if such supply of power was originally obtained at the Government-prescribed Price or the Government-guidance Price, then apply the Government-prescribed Price or the Government-guidance Price;
- (ii) for services such as construction, transportation, network design and other services where the Market Price is available, apply the Market Price determined by tender procedures or other means (as the case may be);
- (iii) for the engineering technology services to be provided by the Group to AVIC Group (including design, consultation and supervision services), and the engineering and equipment subcontracting services provided by AVIC Group to the Group, apply Market Price or Market Price determined by tender procedures (where applicable). Such tender procedures shall be in compliance 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); and
- (iv) if there is no Market Price, apply Contractual Price (applicable to the provision of property management and maintenance services; equipment maintenance, repair and leasing services; cultural, hygienic, social security and logistic services; import and export agency services; test flight and related information technology and quality monitoring services; and entrustment services).

Note: please refer to detailed definitions of “Government-prescribed Price”, “Government-guidance Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular.

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

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2.3 *Products and Services Mutual Supply and Guarantee Agreement*

The Existing Products and Services Mutual Supply and Guarantee Agreement entered into by the Company, AVIC Avionics and AVICOPTER is due to expire on 31 December 2017. The Board considers that it is in the interest of the Company to renew the continuing connected transactions contemplated under the Existing Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics Group and AVICOPTER Group. As such, the Board proposes to renew the continuing connected transactions under the Existing Products and Services Mutual Supply and Guarantee Agreement.

Principal terms of the Products and Services Mutual Supply and Guarantee Agreement are summarized as follows:

Parties	:	The Company AVIC Avionics and AVICOPTER
Date	:	30 August 2017
Scope	:	(1) The Group (including AVICOPTER Group) to provide aviation parts and components, raw materials, related manufacturing, labour and guarantee services, and engineering technology (including but not limited to 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, aviation parts and components, related manufacturing and labour services, and engineering and equipment subcontracting services to the Group (including AVICOPTER Group). (2) The Group (including AVIC Avionics Group) to provide aviation parts and components, raw materials, related manufacturing, labour, supply of power such as electricity, water and steam, leasing and guarantee services, and engineering technology (including but not limited to planning, consultation, design and supervision), project engineering general contracting and equipment general contracting services to AVICOPTER Group. Meanwhile, AVICOPTER Group to provide aviation products, aviation parts and components, related manufacturing and labour services, equipment purchase and engineering and equipment subcontracting services to the Group (including AVIC Avionics Group).
Term	:	Three years, commencing from 1 January 2018 to 31 December 2020

LETTER FROM THE BOARD

Pricing : The price of products and/or services under the agreement 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; if there is no Government-prescribed Price, apply Market Price determined through tender procedures or other means (as the case may be); if there is no Market Price, apply Contractual Price;
- (ii) for power supply services such as the provision of electricity, water, steam, etc., if such supply of power was originally obtained at the Government-prescribed Price or the Government-guidance Price, then apply the Government-prescribed Price or the Government-guidance Price;
- (iii) for production, labour, leasing and guarantee services where Market Price is available, apply Market Price determined through tender procedures or other means (as the case may be); if there is no Market Price, apply Contractual Price; and
- (iv) for engineering technology services (including design, consultation and supervision services), project engineering general contracting and equipment general contracting services, and engineering and equipment subcontracting services, apply Market Price or Market Price determined by tender procedures (where applicable). Such tender procedures shall be in compliance 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: please refer to detailed definitions of “Government-prescribed Price”, “Government-guidance Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular.

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 Products and Services Mutual Supply and Guarantee Agreement.

LETTER FROM THE BOARD

2.4 Financial Services Framework Agreement

The Existing Financial Services Framework Agreement entered into by the Company and AVIC Finance are due to expire on 31 December 2017. The Board considers that it is in the interest of the Company to renew the continuing connected transactions contemplated under the Existing Financial Services Framework Agreement with AVIC Finance. As such, the Board proposes to renew the continuing connected transactions under the Existing Financial Services Framework Agreement.

Principal terms of the Financial Services Framework Agreement are summarized as follows:

Parties	:	The Company AVIC Finance
Date	:	30 August 2017
Effective Date and Term	:	Three years, commencing from 1 January 2018 to 31 December 2020
Major Terms	:	Pursuant to the Financial Services Framework Agreement, AVIC Finance has agreed to provide the Group with the Deposit Services, the Loan Services, the Settlement Services, the Guarantee Services and the Other Financial Services as follows:

(1) Deposit Services

- (i) Interest rates for the Group's deposits with AVIC Finance shall not be lower than (a) the minimum interest rates promulgated by the PBOC for the same type of deposit services; (b) the interest rates for the same type of deposits offered by major commercial banks in the PRC to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other group member of AVIC Group;
- (ii) The maximum daily outstanding balance of deposit amount (including accrued interests) placed by the Group with AVIC Finance shall not be more than RMB11 billion; and
- (iii) If AVIC Finance is unable to repay the Group's deposits, the Company has the right to terminate the Financial Services Framework Agreement and to offset the deposit due to the Group from AVIC Finance against the outstanding loan due to AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall

LETTER FROM THE BOARD

compensate the Group for the full amount of the loss suffered by the Group and the Group is entitled to terminate the Financial Services Framework Agreement.

(2) Loan Services

- (i) Loan services are provided by AVIC Finance to the Group on normal commercial terms. For Loan Services application which fulfills the credit conditions imposed by AVIC Finance, no security over the assets of the Group or pledge of rights or other guarantee will be required by AVIC Finance. For Loan Services applications which do not fulfill the credit conditions imposed by AVIC Finance, the parties shall enter into separate agreements regarding the provision of the aforesaid Loan Services, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the stock exchanges on which they are listed; and
- (ii) Interest rates charged by AVIC Finance for the provision of the Loan Services to the Group shall not be higher than (a) the maximum loan interest rates promulgated by the PBOC for the same type of loan services; (b) the interest rates for the same type of loans provided by AVIC Finance to any other group member of AVIC Group with the same credit rating; and (c) the interest rates offered by major commercial banks in the PRC for the same type of loan services.

(3) Settlement Services

- (i) Settlement Services mean the services provided by AVIC Finance to the Group in relation to effecting any payment out of any fund held by AVIC Finance or accepting payment of fund to the Group, in both cases on the Group's behalf and to the order of the Group; and
- (ii) The fees for the Settlement Services shall not be higher than (a) the fees then charged by major commercial banks in the PRC for the same type of services provided to the Group; and (b) the fees then charged by AVIC Finance for the same type of services provided to any other group member of AVIC Group.

LETTER FROM THE BOARD

(4) Guarantee Services

Guarantee Services mean the services provided by AVIC Finance to the Group in relation to the financing, financial leasing, tender, contract performance of the Group and no counter-guarantee is required. In the event that a counter-guarantee is required from the Group, the parties shall enter into separate agreements, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the stock exchanges on which they are listed.

(5) Other Financial Services

(i) AVIC Finance will, in accordance with the Company's instructions and requests, provide to the Group the Other Financial Services including but not limited to bill acceptance, discount services and factoring services of accounts receivable. Before AVIC Finance providing to the Group the Other Financial Services, AVIC Finance and the relevant member of the Group are required to negotiate and enter into separate agreement(s); and

(ii) The fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than (a) the maximum fees promulgated by PBOC for the same type of financial services (if applicable); (b) the fees charged by major commercial banks in the PRC for the same type of services; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other group member of AVIC Group with the same credit rating.

(6) The Group may obtain financial services from other financial institutions in addition to those provided by AVIC Finance pursuant to the Financial Services Framework Agreement.

The major commercial banks in the PRC referred in this paragraph include but not limited to China Construction Bank, Industrial and Commercial Bank of China, Bank Of Communications and China Minsheng Bank.

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3. *Historical Amounts of the Proposed Renewed Continuing Connected Transactions for the Two Financial Years Ended 31 December 2016 and the Six Months Ended 30 June 2017*

Set out below are the historical amounts of the Proposed Renewed Continuing Connected Transactions for the two years ended 31 December 2016 and the six months ended 30 June 2017.

	Actual amount for the year ended 31 December 2015	Actual amount for the year ended 31 December 2016	Actual amount for the six months ended 30 June 2017	<i>RMB million</i> Annual caps for the year ending 31 December 2017
Agreements				
Expenditure of the Group				
Existing Mutual Supply of Products Agreement with AVIC	9,050	7,353	3,480	21,023
Existing Mutual Provision of Services Agreement with AVIC	803	585	245	1,250*
Existing Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics and AVICOPTER	661	630	247	1,700
Revenue of the Group				
Existing Mutual Supply of Products Agreement with AVIC	16,602	20,200	7,780	38,347
Existing Mutual Provision of Services Agreement with AVIC	127	2,686	1,209	9,200
Existing Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics and AVICOPTER	810	942	354	3,200

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	Actual amount for the year ended 31 December 2015	Actual amount for the year ended 31 December 2016	Actual amount for the six months ended 30 June 2017	Caps for the year ending 31 December 2017
Existing Financial Services Framework Agreement				
Maximum daily outstanding balances of deposits (including accrued interests) placed by the Group with AVIC Finance	1,424	2,985	2,287	3,000*
Other Financial Services provided by AVIC Finance to the Group	541	667	687	1,000*

* The caps for the year 2017 are proposed to be revised. Please refer to Part B in this section for details.

4. Proposed Caps for the Proposed Renewed Continuing Connected Transactions

4.1 Proposed caps for the Proposed Renewed Continuing Connected Transactions for the three financial years ending 31 December 2020

Based on the factors set out in paragraph 4.2 under this section below, the Directors have estimated the caps for each of the Proposed Renewed Continuing Connected Transactions for each of the three financial years ending 31 December 2018, 2019 and 2020.

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	Propose annual caps			<i>RMB million</i>
	for the year ending 31 December			Cross-reference
Continuing Connected Transactions	2018	2019	2020	to this circular
Expenditure of the Group				
Mutual Supply of Products Agreement	17,200	22,100	26,000	Paragraph 2.1 under Section I
Mutual Provision of Services Agreement	2,400	2,900	3,800	Paragraph 2.2 under Section I
Products and Services Mutual Supply and Guarantee Agreement	1,300	1,700	2,100	Paragraph 2.3 under Section I
Revenue of the Group				
Mutual Supply of Products Agreement	35,000	44,000	53,900	Paragraph 2.1 under Section I
Mutual Provision of Services Agreement	9,500	10,500	12,000	Paragraph 2.2 under Section I
Products and Services Mutual Supply and Guarantee Agreement	2,000	2,600	3,200	Paragraph 2.3 under Section I
Financial Services Framework Agreement				
	Year ending 31 December 2018	Year ending 31 December 2019	Year ending 31 December 2020	Cross-reference to this circular
Maximum daily outstanding balances of deposits (including accrued interests) placed by the Group with AVIC Finance	11,000	11,000	11,000	Paragraph 2.4 under Section I
Other Financial Services provided by AVIC Finance to the Group	4,000	4,000	4,000	Paragraph 2.4 under Section I

4.2 *Basis of determination of the proposed annual caps*

(1) Mutual Supply of Products Agreement

Under the Mutual Supply of Products Agreement, the Group primarily provides the aviation entire aircraft and avionics products to AVIC Group, and AVIC Group primarily provides the relevant parts and components to the Company which are necessary for the manufacturing of the aforesaid aviation entire aircraft and avionics products.

The proposed annual caps for the revenue transactions for the three years ending 31 December 2020 are determined with reference to, among other things, the following factors:

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(i) historical transaction amount and annual growth trend

The historical transaction amounts for 2015 and 2016 were approximately RMB16.6 billion and RMB20.2 billion, representing an annual growth of approximately 22%.

The historical amount for the first half of 2017 was approximately RMB7.8 billion. It is expected that the total transaction amounts for 2017 will increase by approximately 15% as compared with those for 2016, after taking into account the orders received from AVIC Group and the current commercial negotiations with AVIC Group on the potential orders. The estimated growth rate slows down in 2017 as the Group's entire aircraft is at the stage of products upgrading.

(ii) bulk sales of new products

It is expected that certain helicopters and major trainers may be released for bulk sales in the year 2018 as a result of products upgrading, which may bring a potential significant increase in the revenue transactions between the Group and AVIC Group for the year 2018 as compared with those for 2017, the estimated growth rate of which is calculated to be approximately 45% based on the current operation plan.

Further, in anticipation of orders from sales of these new products and the historical growth trend as elaborated in paragraph (i) above, it is estimated that there will be an increase of over 20% in the revenue transactions for 2019 and 2020.

(iii) adequate buffer for potential demands of AVIC Group

The Company also set a 5% to 10% buffer for the proposed annual caps to cover the potential product demands of AVIC Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, the research, development and manufacturing of the Group's possible new products, and the potential business development and expansion of AVIC Group in the future.

The proposed annual caps for the expenditure transactions for the three years ending 31 December 2020 are determined with reference to, among other things, the following factors:

(i) the amount of the revenue transactions

The purchase of the relevant parts and components by the Group from AVIC Group under the expenditure transactions is for the purpose of manufacturing aviation entire aircraft and avionics products as demanded by AVIC Group. Based on the historical figures for the two years ended 31 December 2016 and the six months ended 30 June 2017, the expenditure transactions accounted for approximately 45% of the revenue transactions on an average basis.

The Company estimated that the above trend may continue for the coming three years, i.e. the corresponding expenditure transactions may account for 45% to 50% of the revenue transactions of the same period.

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- (ii) adequate buffer for potential demands of the Group

The Company also set a 5% to 10% buffer for the proposed annual caps to cover the potential products demands of the Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, the research, development and manufacturing of the Group's possible new products, and the potential business development and expansion of the Group in the future.

The production period of aviation products is long and the relevant supply system is complicated. According to the business operation nature of the Group as stated above, most of the orders for aviation products are received by the Group in the early of the year, and the production of aviation products of the Group, in particular the entire aircraft, is normally completed in the end of the year. Therefore, the revenues from most of aviation products under the Mutual Supply of Products Agreement are normally recognized in the second half of the year. As such, the Group's annual amounts on expenditure and revenue transactions in 2017 are expected to be more than those for the six months ended 30 June 2017.

- (2) Mutual Provision of Services Agreement

The proposed annual caps for the revenue transactions for the three years ending 31 December 2020 are determined with reference to, among other things, the following factors:

- (i) provision of aviation engineering services by AVIC Planning to AVIC Group

The historical transaction amounts for 2015 and 2016 were approximately RMB0.1 billion and RMB2.7 billion. The main reason for the significant increase in 2016 was that the Company completed the acquisition of AVIC Planning in June 2016, and the aviation engineering construction transactions between AVIC Planning and AVIC Group became continuing connected transactions and formed a substantial part of the transaction amounts after June 2016 and onwards.

For the second half of 2016 and the first half of 2017, each of the transaction amounts of aviation engineering services provided by AVIC Planning to AVIC Group accounted for over 90% of the aggregate amounts under the revenue transactions during the corresponding periods, respectively.

The annual caps for the three financial years ending 31 December 2020 represent an annual growth of 15%, which is determined after taking into account the steady annual growth of the aviation engineering services. The revenue of AVIC Planning in 2016 was approximately RMB8,600 million with a CAGR of approximately 18% from 2014.

- (ii) adequate buffer for potential demands of AVIC Group

The Company also set a 5% to 10% buffer for the proposed annual caps to cover the potential services demands of AVIC Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, and the potential business development and expansion of AVIC Group in the future.

The proposed annual caps for the three years ending 31 December 2020 for the expenditure transactions are determined with reference to, among other things, the following factors:

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(i) provision of sub-contracting services by AVIC Group

Upon completion of the acquisition of AVIC Planning in June 2016, the Company estimated that the amounts of the sub-contracting services provided by AVIC Group for the three years ending 31 December 2020 are RMB1.2 billion, RMB1.7 billion and RMB2.5 billion, respectively, based on the signed contracts and ongoing commercial negotiations between the parties on the potential contracts at the current stage, and the aviation construction projects to be undertaken by AVIC Planning in the coming future.

(ii) provision of other services by AVIC Group

Apart from the sub-contracting services, AVIC Group also provides labor services such as corresponding outsourcing and comprehensive services to the Group. Along with the business development and sales volume increase of the Group, the labor expenditures (such as outsourcing labour services) will increase accordingly, and it is expected that the transaction amounts of such services will be approximately RMB0.9 billion for each of 2018 to 2020 based on the signed contracts, orders, historical amounts and the Group's manufacturing plan.

(iii) adequate buffer for potential demands of the Group

The Company also set a 5% to 10% buffer for the proposed annual caps to cover the potential services demands of the Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry and the potential business development and expansion of the Group in the future.

According to the nature of the construction industry, the cycle of an engineering general contracting project is relatively long, and most of these projects are accepted and settled in the end of the year. Therefore, the revenues from engineering projects under the Mutual Provision of Services Agreement are generally settled in late of the year. As such, the Group's annual amounts on expenditure and revenue transactions in 2017 are expected to be more than those for the six months ended 30 June 2017.

(3) Products and Services Mutual Supply and Guarantee Agreement

The transactions under the Products and Services Mutual Supply and Guarantee Agreement are intra-group transactions of the Group. Most of the transactions thereunder are product pairing transactions between the Group's avionics companies (i.e. AVIC Avionics Group) and the Group's entire aircraft companies (i.e. AVICOPTER Group). Avionics products are necessary aviation parts and components for the manufacturing of the aviation entire aircraft. AVIC Avionics Group is the major supplier for the related avionics products in the Group's helicopters and trainers.

As such, when determining the annual caps under the Products and Services Mutual Supply and Guarantee Agreement, the Company also took into account the growth rates of the revenue transactions under the Mutual Supply of Products Agreement.

For the first half of 2017, the amounts of revenue transactions and expenditure transactions were RMB0.4 billion and RMB0.25 billion, respectively. Due to the same reasons as elaborated above in the basis of determination of the proposed annual caps for the Mutual Supply of Products Agreement, the revenues

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from most of aviation products under the Products and Services Mutual Supply and Guarantee Agreement are normally recognized in the second half of the year. As such, the Group's annual amounts on expenditure and revenue transactions in 2017 are expected to be more than those for the six months ended 30 June 2017.

Further, as elaborated above, the entire aircraft is at the stage of upgrading, and certain helicopters and major trainers are expected to release for bulk sales in 2018. It is expected that the transactions under the Products and Services Mutual Supply and Guarantee Agreement will substantially increase accordingly.

(4) Financial Services Framework Agreement

In respect of the maximum daily outstanding balance of the deposits under the Deposit Services, the Company has considered (i) the historical usage of the corresponding cap, in particular, 99.5% of the approved cap in 2016; (ii) the cash and bank balances of the Group of approximately RMB10.4 billion as at 30 June 2017; (iii) the expected growth in the business of the Group and AVIC Group, leading to an increasing demand for Deposit Services with higher level of funds; and (iv) the fund management strategy of the Group of allocating a certain percentage of funds to AVIC Finance for more efficient use of funds available.

In relation to the proposed annual caps for the Other Financial Services, the Company has taken into account (i) due to the Group's business growth in 2017, there has been a stronger demand for Other Financial Services during the period as demonstrated by the historical transaction amount of approximately RMB687 million for the six months ended 30 June 2017; (ii) the potential growth in the Group's business will lead to higher level of accounts receivable and notes receivables, in order to allow the Group to speed up the recovery of cash, demand for factoring services and discount services increases as it improves the efficiency in the use of funds; and (iii) the financing needs of the Group are expected to grow given the future development of the Group and the PRC aviation industry as mentioned in this circular above.

5. Reasons for and Benefits of Proposed Renewed Continuing Connected Transaction

5.1 Mutual Supply of Products Agreement, Mutual Provision of Services Agreement, and Products and Services Mutual Supply and Guarantee Agreement

Aviation industry is a technology intensive and complicated industry. The manufacturing of an entire aircraft (including the Group's helicopters and trainers) requires different products, parts and components from different enterprises.

The Group is an aviation manufacturing enterprise mainly engaged in the research, development, manufacture and sales of aviation entire aircraft (mainly helicopters and trainer aircraft) and aviation parts and components (mainly avionics products), and the provision of aviation engineering services.

AVIC Group is the sole full-system aviation manufacturer in China, the establishment of which was under the support of the national government. It has the research and development capacities to manufacture aviation products independently, and it is mainly engaged in manufacturing of aircraft (other than helicopters and trainer aircraft), airborne equipment systems and other related pairing products and systems.

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Under the revenue transactions of the Mutual Supply of Products Agreement, the Group primarily provides the aviation entire aircrafts (mainly helicopters and trainers) and aviation parts and components (mainly avionics products and optronics products) to AVIC Group. The Group is the sole production platform of helicopters and main production platform of trainer aircrafts for AVIC Group. Such entire aircrafts are provided by the Group mainly through its subsidiaries, such as AVICOPTER and Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司) (both of which are PRC listed companies). So far are these subsidiaries aware, most of the entire aircrafts provided to AVIC Group are to meet the orders received by AVIC Group from independent third parties. The Group also provides necessary aviation parts and components to meet the production demands of AVIC Group. Due to the high technology barriers in aviation industry, in relation to those aviation parts and components supplied by the Group to AVIC Group, it is difficult for AVIC Group to source substitute products with comparable quality, specifications and value in China from other producers.

Under the expenditure transactions of the Mutual Supply of Products Agreement, the products supplied by AVIC Group to the Group are mainly necessary parts and components for manufacturing helicopters and trainers by the Group (primarily for the helicopters and trainers ordered by AVIC Group), such as control and navigation systems researched and developed by AVIC Group. Due to the high technology barriers in aviation industry and the high quality requirements of customers, in respect of the aviation products provided by AVIC Group to the Group, it is also difficult for the Group to source substitute products with comparable quality, specifications and value in China from other producers.

Under the Mutual Provision of Services Agreement, the Group primarily provides the aviation engineering services to AVIC Group through AVIC Planning, and AVIC Group primarily provides the aviation sub-contracting services and labor services to the Group. The aviation engineering services provided by AVIC Planning to AVIC Group are mainly planning of new aviation manufacturing plants, as well as designing, general contracting and upgrading of old aviation manufacturing plants. Normally, AVIC Planning is the general contractor for the whole engineering projects and undertakes works such as front-end survey, design and management as the profit margin is relatively high. With respect to the specific construction work, AVIC Planning subcontracts it to other parties through bidding process. If AVIC Group is capable for the subcontracting work and wins the bid among other independent third competitors, AVIC Planning will engage AVIC Group as the subcontractor. AVIC Planning, as the general contractor, conducts unified coordination, organization and management over the subcontractors.

The transactions under the Products and Services Mutual Supply and Guarantee Agreement are intra-group transactions of the Group. Most of the transactions thereunder are product pairing transactions between the Group's avionics companies (i.e. AVIC Avionics Group) and the Group's entire aircraft companies (i.e. AVICOPTER Group). Avionics products are necessary aviation parts and components for the manufacturing of the aviation entire aircraft. AVIC Avionics Group is the major supplier for the related avionics products in the Group's helicopters and trainers.

As such, the products and services provided by the relevant party are different from those provided by the counterparty, and are necessary for the business operation of the counterparty. Such business relationship between the Group and AVIC Group have been lasting for quite a long time. Taking the above transaction model between the Group and AVIC Group described above into account, the Company considers that the Group can develop independently in a steady and healthy way, and there is no major reliance risk in this regard.

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The Group has also been proactively expanding its businesses in civil aviation business and overseas market as a focus in its future development. With respect to the entire aircrafts, along with the smooth implementation of the national low altitude airspace management reform, the “One Belt, One Road” and the “Integration of Beijing - Tianjin - Hebei”, in particular the “Guidance on Promoting General Aviation Industry Development” (Guobanfa [2016] No. 38) issued by the General Office of the State Council in May 2016, it is expected that the general aviation industry of the PRC will develop dramatically. As the Company has disclosed in its 2016 annual report, the State Council, through the promulgation of the "Guidance on Promoting General Aviation Industry Development", initiated the overall deployment on the whole-chain development of general aviation for the first time. The government attached importance to the general aviation industry, which will be beneficial for the development, transformation and upgrading of the aviation business of the Company. Accordingly, the Group will proactively adapt to such trend and will promote the development of civil aircraft and expand its industry scale for general aviation and maintenance services.

The above continuing connected transactions are and will be conducted in the ordinary and usual course of business of the Group. Such transactions will continue to be agreed on an arm’s length basis with terms that are fair and reasonable to the Company.

Due to the historical connection and long-term cooperation relationship between the Group and AVIC Group and the Group’s connected subsidiaries AVIC Avionics Group and AVICOPTER Group, the Directors consider that it is beneficial to continue the relevant continuing connected transactions by way of entering into new framework agreements as set out in this section, as these transactions have facilitated and will continue to facilitate the overall operations and growth of the Group’s business.

In addition, AVIC, AVIC Avionics, AVICOPTER and their respective associates generally have better understanding of the Group’s business and can better ensure the standards of technology, quality, delivery and technical support of the products to meet the Group’s requirements.

Further, the transactions contemplated under the new framework agreements will be conducted on normal commercial terms (or favorable to the Group) or on terms not less favorable than those offered to or obtained from the Independent Third Parties under comparable market conditions, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed annual caps are also fair and reasonable.

5.2 Financial Services Framework Agreement

The reasons for the Group to enter into the Financial Services Framework Agreement with AVIC Finance are as follows:

- (a) The terms (including the interest rates) on the Deposit Services, the Loan Services and the Other Financial Services offered by AVIC Finance to the Group will be equal to or more favorable, depending on the case, than those offered to the Group by major commercial banks in the PRC;

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- (b) AVIC Finance is regulated by the PBOC and the CBRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, capital risks are reduced through the introduction of risk control measures;
- (c) AVIC Finance's understanding of the Group's operations will enable it to provide more expedient and efficient services than major commercial banks in the PRC;
- (d) Pursuant to the relevant regulations of the PBOC and the CBRC, the customers of AVIC Finance are limited to the group members of AVIC Group, which will ensure more control by AVIC Finance of the risks that it may be exposed to as compared with other financial entities; and
- (e) The Group could satisfy its demands for financial services in daily business operations from the Financial Services Framework Agreement.

B. Proposed Revised Caps

1. Background

After the acquisition of AVIC Planning, the Group accepts subcontracting services provided by AVIC Group while providing engineering general contract services. Further, along with the development of business of the Group, the labor expenses such as corresponding outsourcing will increase. The Board expects that the expenditure of the Group for purchasing services from AVIC Group under the Existing Mutual Provision of Services Agreement would increase and might exceed the annual cap originally set for 2017. Therefore, the Board proposes to revise the relevant annual cap for 2017.

In addition, in light of the increased monetary funds of the Group due to the acquisition of AVIC Planning as well as the growing demands for funds and financial services as a result of the development of businesses of the Group, the Board expects that the actual amounts of the Deposit Services and the Other Financial Services under the Existing Financial Services Framework Agreement might exceed their respective caps originally set for 2017. Therefore, the Board also proposes to enter into a supplemental agreement to the Existing Financial Services Framework Agreement and to revise the caps for 2017 for the Deposit Services and the Other Financial Services under the Existing Financial Services Framework Agreement.

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2. *Revised Caps for the Above Continuing Connected Transactions*

Details of the proposed revisions to the caps are as follows:

RMB million

Transactions	Actual transaction amount for the six months ended 30 June 2017	Original cap for the year 2017	Revised cap for the year 2017
Expenditure of the Group under the Existing Mutual Provision of Services Agreement	245	1,250	1,900
Maximum daily outstanding balances of deposits (including accrued interests) placed by the Group with AVIC Finance	2,287	3,000	7,000
Other Financial Services provided by AVIC Finance to the Group	687	1,000	2,000

As at the Latest Practicable Date, each of the original caps for the expenditure of the Group under the Existing Mutual Provision of Services Agreement and the Deposit Services and the Other Financial Services under the Existing Financial Services Framework Agreement for the year 2017 had not been exceeded.

3. *Basis for the Revisions*

The revised annual cap for the expenditure transactions of the Group under the Existing Mutual Provision of Services Agreement for 2017 is determined with reference to, among other things, the following factors: (i) along with the development of business of the Group, the estimated expenditure for 2017 of the Group for labor services such as corresponding outsourcing and comprehensive services in 2017 is expected to be approximately RMB1.1 billion based on the signed contracts, orders, historical amounts and the Group's manufacturing plan; and (ii) the acceptance of subcontracting services provided by AVIC Group while the Group provides engineering general contract services after the acquisition of AVIC Planning, the estimated expenditure for 2017 of which is approximately RMB600 million based on the signed contracts, the ongoing commercial negotiations between the parties on the potential contracts at the current stage, and the aviation construction projects to be undertaken by AVIC Planning.

In respect of the maximum daily outstanding balance of the deposits under the Deposit Services, the Company has considered (i) the historical usage of the corresponding cap, in particular, 99.5% of the approved cap in 2016; (ii) the cash and bank balances of the Group of approximately RMB10.4 billion as at 30 June 2017; (iii) the expected growth in the business of the Group and AVIC Group, leading to an increasing demand for Deposit Services with higher level of funds; and (iv) the fund management strategy of the Group of allocating a certain percentage of funds to AVIC Finance for more efficient use of funds available.

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In relation to the proposed caps for the Other Financial Services, the Company has taken into account (i) due to the Group's business growth in 2017, there has been a stronger demand for Other Financial Services during the period as demonstrated by the historical transaction amount of approximately RMB687 million for the six months ended 30 June 2017; (ii) the potential growth in the Group's business will lead to higher level of accounts receivable and notes receivables, in order to allow the Group to speed up the recovery of cash, demand for factoring services and discount services increases as it improves the efficiency in the use of funds; and (iii) the financing needs of the Group are expected to grow given the future development of the Group and the PRC aviation industry as mentioned in this circular above.

C. Financial Effect of The Major Transaction with Respect to Deposit Services

The Company expects more cash will be available for deposit with AVIC Finance in from 2017 to 2020. Therefore, it expects that there will be an increase in interest income to be earned from AVIC Finance in the same period. However, given that the interest income earned from AVIC Finance in the past years only represent a small proportion of its earnings and net assets, the Company anticipates that the interest income to be earned from the deposits under the Deposit Services will not have any material impact on its corresponding earnings and net assets.

D. Internal Control Mechanism

To ensure the implementation of the pricing policies in each of the continuing connected transactions agreements of the Group, the Company has adopted the following control mechanism:

1. The Company has formulated the Administrative Measures for Connected Transactions of AviChina Industry & Technology Company Limited (《中航科工關連交易管理辦法》), requiring its subsidiaries to (i) establish management systems and working procedures for connected transactions; (ii) establish or clarify the responsibilities of the departments and positions in charge of the management of connected transactions; and (iii) keep statistics, analysis and daily monitoring on the various connected transactions conducted by each of the subsidiaries. The Company also requires its subsidiaries not to breach the provisions in the framework agreements signed by the Company and AVIC when entering into their specific continuing connected transactions agreements or contracts;
2. Subsidiaries of the Company have established strict internal control systems, procedures and information systems, such as the Measures for Price Administration of Marketing and International Business Department (《市場營銷與國際業務部價格管理辦法》), the Review and Approval Procedures and Management Measures for Supply Chain Procurement Prices (《供應鏈採購價格審批流程及管理辦法》), etc., in order to ensure the fairness of pricing and safeguard the best interests of the Company. Pursuant to the above measures, the subsidiaries of the Company manage the pricing terms through an internal transparent management system. The selling price is determined with reference to the internal price set by the subsidiary according to the applicable pricing system and after joint approvals from the sales department and the financial departments. Likewise, the purchase price will be determined after seeking and comparing prices offered by the selected suppliers in the pricing system of Market Price and after approvals from relevant departments. If the bidding process applies, the price will be

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determined through the bidding process in accordance with the applicable PRC laws and regulations. The internal audit departments in the subsidiaries of the Company will also audit the various business activities including procurement and sales;

3. The department in charge of connected transactions of the Company is responsible for supervising the daily connected transactions of the Group and reporting the performance of the framework agreements and the relevant data to the management of the Company on a quarterly basis; The internal control department of the Company shall review and evaluate the internal control situation of the Group annually, prepare reports on internal control and submit to the audit committee for review;
4. The independent non-executive Directors of the Company shall conduct annual review of the continuing connected transactions to ensure that the connected transactions agreements are entered into on normal or favorable commercial terms and pursuant to the framework agreements, with fair and reasonable terms and in the interests of the Company and its Shareholders as a whole, and will provide confirmation in the annual reports of the Company; and
5. The auditors of the Company shall also conduct annual review of the pricing and the annual caps of the continuing connected transactions under the framework agreements and provide comfort letters.

E. General Information

1. Information relating to 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 aviation products, and relevant engineering services.

2. Information of 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. AVIC is the controlling shareholder of the Company, holding 58.57% equity interest in the Company directly and indirectly as at the Latest Practicable Date.

3. 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. AVIC Avionics is a 43.22% owned subsidiary of the Company as at the Latest Practicable Date, which is mainly engaged in the manufacture of avionics products and related accessories.

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4. 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. AVICOPTER is a 34.77% owned subsidiary of the Company as at the Latest Practicable Date, which is mainly engaged in development, manufacture and sales of helicopter products.

5. Information of AVIC Finance

AVIC Finance is a limited liability company incorporated in the PRC on 8 April 2007. It is licensed by the CBRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrustment loans and entrustment investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory services, credit certification and other advisory agency services and security to member companies, and other financial services as may be approved by the CBRC.

So far as the Group is aware, AVIC Finance is subject to the following internal control measures, which ensure the safety of the Group's deposits with AVIC Finance:

- a. As a licensed financial institution in the PRC, AVIC Finance is under the supervision of PBOC and CBRC, including the regular examination of the audited financial statements and other relevant materials required to be filed by AVIC Finance, as well as face-to-face review and interview with the senior management of AVIC Finance;
- b. AVIC Finance has established strict internal control measures to ensure effective risk management and compliance with relevant laws and regulations, including the corporate governance structure, internal standards and policies and standard operating procedures, as well as intra-group check and balance mechanism; and
- c. AVIC Finance will adopt the following additional internal control measures in respect of the Deposit Services provided by AVIC Finance under the Financial Services Framework Agreement: (i) The Group shall have the right to use the deposit funds to offset against any accounts payable by the Group to AVIC Finance in the event that the Group is not able to recover its deposits with AVIC Finance; and (ii) AVIC Finance shall submit monthly and annual reports to the Group in respect of the Group's deposits with AVIC Finance during the period of having deposits with AVIC Finance.

F. Hong Kong Listing Rules Implications

As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company holding directly and indirectly 58.57% equity interest in the Company. AVIC Finance is a subsidiary of AVIC. AVIC Avionics and AVICOPTER are connected subsidiaries of the Company by virtue of being directly and

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indirectly owned as to over 10% by AVIC. Accordingly, each of AVIC, AVIC Finance, AVIC Avionics and AVICOPTER is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

1. Proposed Renewed Continuing Connected Transactions

As the highest applicable percentage ratios for the continuing connected transactions contemplated under (i) the Mutual Supply of Products Agreement with AVIC, (ii) the Mutual Provision of Services Agreement with AVIC, (iii) the Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics and AVICOPTER, and (iv) the Financial Services Framework Agreement with AVIC Finance (for the Deposit Services and the Other Financial Services only) exceed 5%, such Proposed Renewed Continuing Connected Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio for the daily outstanding balance for the Deposit Services under the Financial Services Framework Agreement exceeds 25%, the continuing connected transactions contemplated thereunder also constitute a major transaction under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

As the highest applicable percentage ratio for the Other Financial Services under the Financial Services Framework Agreement exceeds 5% but is less than 25%, the continuing connected transactions contemplated thereunder also constitute a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

2. Proposed Revised Caps

As the highest applicable percentage ratios for the proposed revision of the caps for 2017 for the expenditure transactions under the Existing Mutual Provision of Services Agreement, the Deposit Services and the Other Financial Services under the Existing Financial Services Framework Agreement exceed 5%, such proposed revisions are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio for the proposed revision of the daily outstanding balance for the Deposit Services exceeds 25%, such proposed revision also constitutes a major transaction under Chapter 14 of the Hong Kong Listing Rules and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

As the highest applicable percentage ratio for the proposed revision of the annual cap for the Other Financial Services exceeds 5% but is less than 25%, such proposed revision also constitutes a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Wu Xiandong and Mr. Li Yao, Directors of the Company, who is chairman, general manager, vice general manager and chief accountant of AVIC, respectively, have abstained from voting on the relevant board resolutions to approve the renewal of certain continuing connected transactions under the existing framework agreements and caps thereof and the revision of the caps for certain existing continuing connected transactions for 2017 in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save for above, none of the other Directors has or is deemed to have a material interest in the above-mentioned connected transaction.

The Directors consider that the Non-exempt Continuing Connected Transactions are fair and reasonable, the proposed transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Group and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Shareholders should note that all the proposed caps as set out in this circular should not be construed as an assurance or forecast by the Company of the future revenue of the Group.

II. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Board proposed to amend the Articles of Association as follows:

1. To insert new Article 9 after the original Article 8 of the Articles of Association as follows pursuant to the relevant provisions of PRC regulatory authorities:

“Article 9 In accordance with provisions under the Constitution of the Communist Party of China, the Company shall establish an organization for the Communist Party of China. The Party organization shall perform the core leading and political functions. The Company shall establish a working organ for the Party, allocate sufficient personnel to handle Party affairs and guarantee working funds for the Party organization. Prior to making decisions on material issues of the Company, the opinion of the Party organization of the Company shall be considered. When selecting senior managements, the Party organization shall consider and propose opinions and suggestions on the candidates nominated by the Board or managers.”

2. To amend the following original articles in the Articles of Association based on the current situations of the Company:

(1) paragraph 1 and paragraph 2 of Article 1

“AviChina Industry & Technology Company Limited (the “**Company**”) is a company limited by shares established in accordance with the Company Law of the People’s Republic of China (the “**Company Law**”), Special Provisions of the State Council for Companies Limited by Shares Issuing Shares and Seeking a Listing Outside the PRC ~~(the “**Special Provisions**”),~~ Mandatory Provisions for Articles of Association of Companies to be Listed Overseas ~~(the “**Mandatory Provisions**”),~~ Letter of Opinion on Supplements and Amendments to the Articles of Association of the Company Regarding Listing of Shares in Hong Kong ~~(the “**Letter of Opinion on Supplements and Amendments**”)~~ and other relevant laws and administrative regulations of the PRC.

LETTER FROM THE BOARD

Following approval by Document Guozihan Number 2 [2003] of the State-owned Assets Supervision and Administration Commission of the State Council, the Company was established by means of promotion, was registered with the State Administration for Industry and Commerce on April 30, 2003, ~~and obtained a body corporate business license. The registration number of the business license is 100000000037869.~~

(2) *Article 2*

~~“Registered name of the Company:~~

Registered name of the Company in Chinese: 中國航空科技工業股份有限公司

Name of the Company in English: AviChina Industry & Technology Company Limited”

(3) *Article 3*

“Domicile of the Company: 8th floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic Technological Development Area, Beijing.

Postal Code: 100176

~~Telephone: (8610) 64094825 Facsimile: (8610) 64094826”~~

(4) *paragraph 1 of Article 6*

“The Articles of Association shall come into effect after being passed by way of a special resolution at the general meeting ~~and approval by relevant governmental authorities~~, and shall supersede the original Articles of Association registered with the authorities for industry and commerce.”

(5) *Article 8*

“The Company may invest in other limited liability companies and companies limited by shares. It shall be liable for such invested companies to the extent of the amount of investment. The Company could not become a shareholder with unlimited liabilities of any other economic organizations.

~~Subject to approval by the authorities by the authorities that are unauthorized by the State Council to examine and approve companies, the Company may operate as a holding company as described in the second paragraph of Article 12 of the Company Law, according to the needs of operation and management.”~~

(6) *Article 12*

“All the shares issued by the Company shall have a par value which shall be RMB 1.0 for each share.

~~The above mentioned “RMB” refers to the lawful currency of the People’s Republic of China.”~~

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(7) *paragraph 2 of Article 25*

“The Company shall notify its creditors within 10 days of adopting the resolution to reduce its registered capital and shall publish a public announcement of the resolution in newspapers ~~recognized by Hong Kong Stock Exchange~~ at least three times within 30 days of the said date. Creditors shall, within 30 days of receiving a written notice or within 90 days of the date of the first public announcement for those who have not received a written notice, be entitled to require the Company to pay its debts in full or to provide a corresponding guarantee for repayment.”

subparagraph 3 of paragraph 4 of Article 43

Where holders of overseas listed foreign invested shares apply for replacement of their share certificates after losing their certificates, such replacement shall comply with the following requirements:

“3. if the Company decides to issue a replacement share certificate to the applicant, it shall publish a public announcement of its intention to do so in the newspapers or periodicals designated by the Board; the period of the public announcement shall be 90 days, during which such announcement shall be published repeatedly at least once every 30 days. The newspapers designated by the Board shall be Chinese and English newspapers (each at least one) ~~recognized by Hong Kong Stock Exchange;~~”

(8) *subparagraph 13 of paragraph 1 of Article 52*

The shareholders' general meeting shall exercise the following functions and powers

“13. to consider proposals submitted by shareholders holding ~~5%~~3% or more (inclusive) of the shares with voting rights in the Company;”

(9) *paragraph 1 of Article 56*

“When the Company convenes an annual general meeting, shareholders holding ~~5%~~3% or more of the total shares carrying voting rights of the Company separately or jointly shall have the right to submit new proposals in writing, and the Company shall place matters in the proposals within the scope of functions and powers of the shareholders' general meeting on the agenda, provided that such proposals are delivered to the Company within ~~30~~20 days after dispatch of the aforesaid notice of the meeting.”

(10) *paragraph 1 of Article 86*

“Unless otherwise provided by the relevant laws, regulations and listing rules of the place where the securities of the Company are listed and the articles herein regarding means of shareholders communication, when the Company is to hold a class shareholders' meeting, it shall issue a written notice ~~45~~30 days prior to the meeting informing all the registered shareholders of that class of the matters to be considered at and the date and place of the

LETTER FROM THE BOARD

meeting. Shareholders who intend to attend the meeting shall, within 20 days prior to the day on which the meeting is to be held, serve a written reply on the Company stating that they will attend the meeting.”

(11) *Article 89*

“The Company shall have a Board comprising nine Directors. The Board shall include a Chairman and one or two vice-chairman. Of these, more than half of the Board members (including half of the Board members) shall be external Directors (refer to Directors who do not hold any positions in the Company), at least one-third (inclusive) of the Board members shall be independent non-executive Directors and ~~three shall be independent Directors there shall be not less than three independent non-executive Directors.~~”

(12) *subparagraph 9 of paragraph 1 of Article 91*

The Board shall be accountable to the shareholders’ general meeting and exercise the following functions and powers:

“9. to engage or dismiss the Company’s manager, and based on the recommendations of the manager, to engage or dismiss the deputy manager(s) and the chief financial officer(s) of the Company, decide on their remuneration, authorize the manager to determine investment, financing programs, connected transactions and annual guarantee plans for the Company’s subsidiaries, each amount of which shall be within the respective caps as approved by the Board;”

(13) *Article 97*

“The Board meeting or interim Board meeting should be notified via telephone or by fax, e-mail, mail or hand delivery, etc. ~~and within ten days before the meeting.~~”

The time and venue of the Board meetings can be pre-stipulated by the Board and shall be recorded in the meeting minutes. If the meeting minutes have been delivered to all Directors at least ten days before the next Board meeting, no notice is needed for the convening of such meeting.

In the event that the Board has not decided on the time and venue of the Board meeting, or in case of urgent matters, where an extraordinary meeting of the Board should be convened as soon as possible, the Chairman or the Secretary to the Board shall, ~~at least 5 days in advance (but less than 10 days)~~ within reasonable period, notify the Directors of the time and venue of the Board meeting via telephone, fax, e-mail, mail or hand delivery, etc. ~~fax, EMS, or registered mail, or through designated persons.~~

In the event that a Director is present at the meeting and has not raised any objection that he has not received notice of meeting prior to the meeting or at the time of the meeting, it shall be deemed that the meeting notice has been delivered to such Director.

LETTER FROM THE BOARD

The Board meetings may be convened via conference calls or with the help of similar communication equipment. As long as the participating directors can hear clearly the speeches of other Directors and they can communicate, all participating directors shall be deemed to be present at the meeting in person.”

(14) *paragraph 4 of Article 98*

“The written resolution signed by all Directors should be deemed effective as the resolution has been passed at a legitimate Board meeting. The written resolution may consist of more than one copies of the documents, each of which shall be signed by one or more Directors. A resolution signed by Directors or with Directors’ name on it and delivered by fax, e-mail, mail or hand delivery ~~by mail, fax or by hand~~ to the Company shall be deemed a document signed by the Directors themselves for purposes of this Article.”

paragraph 1 of Article 117

“Under appropriate circumstances with justifiable reason, the supervisors shall be entitled to require the chairman of supervisory committee to convene interim meetings of supervisory committee. Notice of every supervisory committee meeting shall be given within 10 days in advance via telephone, fax, e-mail, mail or hand delivery, etc. ~~by means of telephone or fax~~, which shall include the time and venue of the meeting, the matters to be considered at the meeting and the date of such notice.”

(15) *Article 101*

“Meetings of the Board shall in principle be held ~~at the Company’s legal address~~ the place where the Company is located, but it may be held in other places within or outside the PRC by the resolution of the Board.”

(16) *subparagraph 6 of paragraph 1 of Article 105*

The Secretary to the Board shall be a natural person with the necessary professional knowledge and experience and shall be appointed by the Board. His or her main duties shall be as set forth below:

“6. to perform duties and obligations (including other functions authorized by the Board) which are regulated by laws and regulations, regulatory authorities of the place where the Company is listed and/or the Articles of Association on the Secretary to the Board.”

(17) *Article 107*

“The Company shall have one manager and several deputy managers, who shall be appointed or dismissed by the Board. Unless otherwise specified, the manager in the Articles of Association refers to the general manager, and deputy manager refers to the deputy general manager.

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~~The Board will designate a deputy general manager holding the position of chief finance officer to be the person in charge of financial affairs of the Company. all references to The person in charge of financial affairs of the Company (i.e. chief financial officer) shall mean the chief financial officer deputy general manager so designated by the Board.~~

(18) *subparagraph 8 of paragraph 1 of Article 108*

The Company manager shall be accountable to Board and shall exercise the following functions and powers:

“8. to exercise the power to mortgage, lease, sublet or transfer the Company’s assets within the authorization of the Board, approve a certain amount of investment, financing programs, connected transactions and annual guarantee plans for the Company’s subsidiaries;”

(19) *subparagraph 2 of paragraph 1 of Article 116*

The supervisory committee shall be accountable to the shareholders’ general meeting and exercise the following functions and powers in accordance with law:

“2. to supervise the performance of corporate duties by Directors, managers and other senior management staff, and propose to dismiss the aforesaid staff whoever becomes in breach of the laws, administrative regulations, and the Articles of Association or the resolutions of shareholders’ general meetings in the performance of their corporate duties;”

(20) *Article 151*

“The Company may distribute profits in either or both of the following forms:

1. Cash; and/or
2. Shares.

Dividends and other payments by the Company to holders of domestic investment shares and holders of overseas listed foreign investment shares of the Company by transactions in the stock markets trading interconnection mechanism shall be distributed and paid in RMB within three months after the declaration date; whereas those to holders of overseas listed foreign investment shares (except the holders of overseas listed foreign investment shares of the Company by transactions in the stock markets trading interconnection mechanism) shall be denominated and declared in RMB and paid in foreign currency within three months after the declaration date. The exchange rate shall be determined based on the average closing exchange rate between RMB and the relevant foreign currency issued by the People’s Bank of China for the five consecutive working days prior to the date of declaration of dividends or distributions. The foreign currency for the cash dividends and other payments by the Company to holders of overseas listed foreign investment shares ~~and other holders of foreign investment shares~~ (except the holders of overseas listed foreign investment shares of the Company by

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transactions in the stock market trading interconnection mechanism) shall be handled in accordance with state regulations on foreign exchange control. Subject to authorization by the shareholders' general meeting, the Board may decide on distribution of interim dividends.”

(21) *paragraph 1 of Article 163*

“The engagement, dismissal or non-renewal of engagement of an accounting firm shall be decided upon by the shareholders' general meeting ~~and be filed with the securities regulatory authorities of the State Council for record.~~”

(22) *Article 177*

~~“Article 177 The Company may amend the Article of Association in accordance with the requirements of laws, administrative regulations and the Articles of Association.”~~

(23) *Article 178*

~~“If an amendment to the Articles of Association involves matters provided for in the Mandatory Provisions of Articles of Association of Companies to be Listed Overseas (the “Mandatory Provisions”), it shall become effective upon approval by the authority that is authorized by the State Council to examine and approve companies and the relevant securities regulatory authorities of the State Council. The Articles of Association shall be amended in accordance with the relevant decision-making procedures and necessary formalities provided by the relevant laws, administrative regulations and the Articles of Association. If an amendment to the Articles of Association involves a registered particular of the Company, registration of the change shall be carried out in accordance with the law.”~~

(24) *subparagraph 1 of paragraph 1 of Article 181*

The Company shall abide by the following principles for settlement of disputes:

“1. If any dispute or claims concerning the Company's business on the basis of the rights or obligations provided for in the Articles of Association, the Company Law or other relevant laws, or administrative regulations arises between a holder of overseas listed foreign investment shares and the Company, between a holder of overseas listed foreign investment shares and a Director, a supervisor, the manager or other senior management staff of the Company or between a holder of overseas listed foreign investment shares and a holder of domestic investment shares, or between the Company and its Directors or senior management, the parties concerned shall submit such dispute or claim for arbitration.”

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3. To adjust the following definitions in the original Article 183 of the Articles of Association:

(1) To add a new definition:

“independent non-executive directors”

shall have the same meaning as independent directors ascribed thereto under the Company Law and shall have the same meaning as independent non-executive directors ascribed thereto under the Listing Rules;”

(2) To delete two definitions:

~~“overseas listed foreign investment shares”~~

~~any overseas listed foreign investment shares of the Company;”~~

~~“Secretary to the Board”~~

~~the company secretary appointed by the Board;”~~

4. To adjust part of the terms in the following articles of the Articles of Association:

(1) To amend “chief financial officer” to “the person in charge of financial affairs” in original Article 6.

(2) To amend “securities regulatory authorities of the State Council (國務院證券監督管理機構)” to “securities regulatory authorities of the State Council (國務院證券主管機構)” in original Article 15 and Article 16.

(3) To amend “the original authorities for industry and commerce (原工商行政管理機關)” to “the authorities for industry and commerce (工商行政管理機關)” in original Article 22 and Article 29.

(4) To amend “general manager” to “manager” in original Article 53 and Article 106.

(5) To amend “annual general meeting(s) (股東年會)” to “annual general meeting(s) (股東周年大會)” in original Article 54, Article 56, Article 144, Article 145, Article 157 and Article 158.

(6) To amend “a shareholders’ general meeting (股東會議)” to “a shareholders’ general meeting (股東大會)” in original Article 47, Article 58, Article 61, Article 63, Article 75, Article 82, Article 85, Article 86, Article 87 and Article 159.

(7) To amend “other executive Directors” to “other Directors” in the original Article 92.

(8) To amend “by mail (郵件)” and “by mail/by post (郵遞)” to “by mail (郵寄)” in original Article 156, Article 179 and Article 180.

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5. To make corresponding changes in relation to certain terms, punctuations, sequence numbers, cross references and page numbers as a result of the above amendments.

The abovementioned proposed amendments to the Articles of Association are subject to the Shareholders' consideration and approval by way of a special resolution at the EGM, 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 amendments to the Articles of Association are still subject to the approval, registration and/or filing with the relevant regulatory authorities.

III. PROPOSED AMENDMENTS TO THE RULES GOVERNING THE OPERATION OF SHAREHOLDERS' GENERAL MEETINGS

The Board proposed to amend the Rules Governing the Operation of Shareholders' General Meetings as follows:

1. To replace the original Article 12 with the contents as follows:

“Article 12 To ensure and improve the stability and efficiency of the Company’s routine operation, the shareholders’ general meeting shall clearly define the rights for transactions, external guarantees and connected transactions of the Company, and shall authorize part of such rights to the Board as follows:

(I) Transactions

1. According to the provisions of the Listing Rules concerning notifiable transactions, a transaction (including but not limited to purchase and sale of equity interest, physical assets and other property rights, external investments and formation of joint ventures) of the Company shall be considered and approved by the shareholders’ general meeting if the applicable percentage ratio in relation to the transaction equals to or exceeds 25%, and no connected persons or issuance of shares as consideration is involved thereunder. Except for matters which are required by the Listing Rules, the Articles of Association or these Rules to be considered and approved by the shareholders, the shareholders’ general meeting shall authorize the Board to examine and approve all other matters.
2. Without prejudice to paragraph 1 of this subsection of this article, when the Company uses corporate assets for non-principal industry financial investments (including but not limited to financial products and financial derivative instruments), the shareholders’ general meeting shall consider and approve transactions in which the amount of investment is more than 3% (exclusive) of the latest audited net assets value of the Company.

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As to matters described in this paragraph, the shareholders' general meeting shall authorize the Board to consider and approve a transaction in which the amount of investment is not more than 3% (inclusive) of the latest audited net assets value of the Company.

3. Without prejudice to paragraph 1 of this subsection of this article, when disposing of a fixed asset, if the aggregation of the expected value of such fixed asset and the value of all other fixed assets disposed of within four months before the date of the proposed disposal is more than 33% of the value of fixed assets of the Company as indicated in the latest balance sheet approved at the shareholders' general meeting, such proposed disposal shall be considered and approved by the shareholders' general meeting. If the percentage is not more than 33%, the Board shall be authorized to approve such proposed fixed asset disposal.

The disposal of fixed assets referred to in this paragraph does not include the provision of guarantee secured by fixed assets.

(II) *External guarantees*

The following external guarantees of the Company shall be considered and approved by the shareholders' general meeting:

1. any guarantee which is provided after the aggregate amount of the outstanding external guarantees of the Company has been or exceeded 50% of the latest audited net assets value of the Company;
2. any guarantee which is provided after the aggregate amount of the outstanding external guarantees of the Company has been or exceeded 30% of the latest audited total assets value of the Company;
3. a guarantee which is provided to a party whose gearing ratio exceeds 70%;
4. a single guarantee of the Company, whose amount exceeds 3% of the latest audited net assets value of the Company, or exceeds RMB500,000,000 (inclusive);
5. a guarantee provided by the Company for its subsidiary, whose amount exceeds the net asset of the subsidiary taken by the Company based on the shareholding percentage of the Company in that subsidiary; or
6. any other guarantee to be considered by the shareholders' general meeting as required by other laws, administrative regulations and the Listing Rules.

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(III) Connected transactions

According to the provisions of the Listing Rules in relation to connected transactions, transactions and matters which are required by the Listing Rules to be approved by the shareholders' general meeting shall be approved in accordance with the requirements of the Listing Rules. With respect to other transactions and matters, the Board or the managers are authorized to consider and approve in accordance with the requirements of the Listing Rules.

Notwithstanding the provisions set out in these Rules, if the transactions or matters proposed to be carried out by the Company constitute connected transactions pursuant to the regulatory provisions of the place where the Company is listed, they shall be dealt with according to the relevant provisions."

- 2. To adjust original Article 5, Article 23, Article 25, Article 52 and Article 53 unitedly to Articles 61 to 67 under Chapter 7 - Special Procedures for Voting of Class Shareholders as follows:**

"Chapter 7 - Special Procedures for Voting of Class Shareholders

Article 61 Holders of different classes of shares are class shareholders.

Except for other class shareholders, holders of domestic shares and H shares shall be deemed as different class shareholders.

Article 62 If the Company intends to alter or abolish the rights of class shareholders, the proposed resolution shall be approved by way of a special resolution at a shareholders' general meeting in accordance with the provisions of the Articles of Association, and a class meeting shall be called and held. Only class shareholders may attend the class meeting.

Article 63 Unless otherwise required by the relevant laws and regulations, the Listing Rules and the Articles of Association, the notice of class shareholders' meeting shall be issued 30 days before the date of the meeting to notify all registered class shareholders about the matters to be considered at and the date and venue of the meeting. The class shareholders who intend to attend the meeting should return their written replies stating their intention to attend the meeting to the Company 20 days before the date of the meeting.

If the number of shares carrying voting rights represented by the class shareholders who intend to attend the meeting amounts to more than half of the Company's total number of the shares carrying voting rights in this class, the Company may convene the class shareholders' meeting; if not, the Company shall, within five days, notify the shareholders again, by way of a public announcement, about the matters to be considered and the place and date of the meeting. The Company may then convene the class shareholders' meeting after such announcement.

Article 64 The notice for class shareholders' general meeting shall only be served on shareholders with the right to vote at such meetings.

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Article 65 The procedures to which class shareholders' meetings are convened shall, to the extent possible, be identical to the procedures which shareholders' general meetings are convened. The articles in the Rules which are in relation to the procedures of shareholders' general meetings shall apply to class shareholders' meetings.

Article 66 Resolutions to be proposed involving the following conditions will be deemed as altering or abolishing the rights of certain class shareholders. The Board shall submit the same to be considered and discussed at a separate class meeting.

1. the increase or decrease of the number of shares of such class, or increase or decrease of the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
2. the conversion of all or part of the shares of such class into shares of another class, or the conversion of all or part of the shares of another class into shares of such class or the grant of the right to such change;
3. the removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such class;
4. the reduction or removal of a dividend preference, or a property distribution preference during liquidation of the Company, attached to shares of such class;
5. the addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, pre-emptive rights to rights issues or rights to acquire securities of the Company attached to shares of such class;
6. the removal or reduction of rights to receive amounts payable by the Company in particular currencies attached to shares of such class;
7. the creation of a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of that class;
8. the imposition of restrictions or additional restrictions on the transfer or ownership of shares of such class;
9. the issuance of rights to subscribe for, or convert into, shares of such class or another class;
10. the increase of the rights and privileges of shares of another class;
11. such restructuring of the Company as would cause shareholders of different classes to bear disproportionate liabilities under the restructuring; or
12. the amendment or deletion of the provisions under Chapter 9 of the Articles of Associates in relation to "Special Procedures for Voting of Class Shareholders".

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Article 67 Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall have right to vote at class shareholders' meetings in respect of any of the matters referred to in subparagraphs 2 to 8 and subparagraphs 11 to 12 of Article 66 of these Rules, except that interested shareholders shall not have the right to vote at class shareholders' meetings. For the purposes of the preceding paragraph, the term "interested shareholders" shall have the following meaning:

1. if the Company is to issue a buyback offer to all of the shareholders in the same proportion or is to buy back its own shares through open transactions on a stock exchange in accordance with Article 26 of the Articles of Association, the controlling shareholder as defined in Article 51 of the Articles of Association shall be an "interested shareholder";
2. if the Company is to buy back its own shares by agreements outside a stock exchange in accordance with Article 26 of the Articles of Association, holders of shares to which such agreements relate shall be "interested shareholders";
3. shareholders that, under a proposed restructuring of the Company, would bear liabilities in a proportion smaller than that of the liabilities borne by other shareholders of the same class, and shareholders that have an interest in a proposed restructuring of the Company that is different from the interest in such proposed restructuring of other shareholders of the same class, shall be "interested shareholders".

Article 68 Resolutions of a class shareholders' meeting may be passed only by two-thirds or more of the equity interests carrying voting rights that are represented at the meeting in accordance with the preceding Article.

The special procedures for voting of class shareholders shall not apply to the following situations:

1. where, as approved by way of a special resolution at the shareholders' general meeting, the Company issues, either separately or concurrently, domestic invested shares and overseas listed foreign invested shares every 12 months, and the number of the domestic invested shares and overseas listed foreign invested shares intended to be issued does not exceed 20 percent of the issued and outstanding shares of the respective classes;
2. where the plan for issuance of domestic invested shares and overseas listed foreign invested shares upon the establishment of the Company is completed within 15 months of being approved by the securities regulatory authorities of the State Council; and
3. where, upon approval from the securities regulatory authorities of the State Council, domestic shareholders of the Company transfer the shares held by them to overseas investors and such shares could be listed and traded on the overseas stock exchanges as set out in Article 16 of the Articles of Association; and where, upon approval from the securities regulatory authorities of the State Council, the domestic invested shares be converted to overseas listed foreign invested shares, and listed and traded on the overseas stock exchanges as set out in Article 17 of the Articles of Association."

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3. To amend the original paragraph 1 of Article 17 as follows:

“Before the convention of the AGM, shareholders individually or jointly holding 5% 3% or more of the total number of shares of the Company carrying voting rights are entitled to register with the Company new resolutions they proposed, provided that such proposal shall be delivered to the Company within 20 days after the date on which the notice of the AGM is issued. The Company shall, within reasonable time after receipt of the proposal, issue the supplementary notice of shareholders’ general meeting, to announce the details of the temporary proposal and submit the temporary proposal to the shareholders’ general meeting for consideration. The Company should include the items within the duties of the shareholders’ general meeting into the agenda of this meeting. The Company will not accept registration of a new resolution during the course of an extraordinary general meeting and the chairman of the meeting shall not include new resolution in the agenda of that meeting. Where other forms are prescribed in the listing rules of the jurisdiction where securities of the Company are listed, the requirements shall be complied with at the same time.”

4. To add new Article 5, Article 25, Article 47, Article 55 and Article 57 as follows:

“Article 5 An extraordinary general meeting shall be convened by the Board within two months in any of the following events:

1. when the number of directors is less than the number stipulated in the Company Law or less than two-thirds of the number required by the Articles of Association;
2. when the unrecovered loss of the Company amounts to one-third of the Company’s total share capital;
3. upon request in writing to convene an extraordinary general meeting by shareholders holding 10% or more of shares carrying voting rights issued by the Company;
4. when the Board considers it necessary or upon the proposal by the supervisory committee; or
5. upon the proposal by two or more independent non-executive directors.

Article 25 Except as prescribed in relevant laws, regulations, listing rules of the jurisdictions where securities of the Company are listed, the Articles of Association and these Rules in relation to the Board and the form of communication to shareholders, the notice, communication or any other written materials of the Company may be issued in the following manners:

1. delivered by hand;
2. delivered by post;
3. delivered by fax, email, or other electronic format or information carrier;

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4. issued on the website of the Company and the Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) provided that the laws, administrative regulations and listing rules of the jurisdiction where securities of the Company are listed are complied with;
5. delivered by way of announcement;
6. other forms previously agreed by the Company or the notified personnel, or approved by the notified personnel after receiving the notice; or
7. other forms approved by the relevant local regulatory authorities where securities of the Company are listed or prescribed by the Articles of Association.

Even if these Rules provide otherwise for the delivery of any form of notice, communication or any other written materials, the Company may choose to issue the Company’s communication in the form prescribed in subparagraph 4 of paragraph 1 of this article in lieu of sending the written documents to each holder of overseas listed foreign invested shares by hand or prepaid post, provided that the relevant rules of the securities regulatory authorities where securities of the Company are listed are complied with. The aforesaid notice, communication or any other written materials of the Company refer to any document issued or will be issued by the Company for reference or taking action by the shareholders, including but not limited to the reports of the Board (including the balance sheet and profit and loss account), annual reports (including annual financial reports), interim reports (including interim financial reports), meeting notices, listing documents, circulars, proxy forms and reply slips and other communication documents.

Article 47 Except for the rules made from time to time by the Hong Kong Stock Exchange or any related stock exchanges, the shareholders’ general meeting shall vote by a show of hands, unless (before or after the announcement to show of hands) the following persons request a written vote:

1. the chairman of the meeting;
2. at least two shareholders with voting right or proxies with voting right;
3. shareholders individually or jointly holding 10% or more of shares carrying voting rights at the meeting.

Unless somebody proposes to vote by way of poll, the chairman of the meeting will announce the result of the proposal on the basis of the result of the show of hands, and record it in the minutes of the meeting as a final basis. There is no need to prove the number of votes or proportions supporting or objecting the resolution passed at the meeting.

The request for voting by way of poll can be withdrawn by the proposer.

Article 55 If the chairman of the meeting has any doubt on the poll results, he may arrange for vote counting. If the chairman of the meeting does not arrange for vote counting and the shareholders or their proxies attending the meeting object to the results announced by the chairman, they shall have the right to demand vote counting immediately after the announcement, and the chairman of the meeting shall arrange for vote counting immediately.

LETTER FROM THE BOARD

If counting of votes is held at a shareholders' general meeting, the result of the counting shall be recorded in the minutes of the meeting.

Article 57 Shareholders can inspect copies of meeting minutes during office hours of the Company free of charge. If any shareholder requests for copies of relevant meeting minutes, the Company shall distribute the copies within 7 days after receiving a reasonable fee."

5. To amend the following original articles of the Rules Governing the Operation of Shareholders' General Meetings:

(1) subparagraph 13 of paragraph 1 of Article 10

The shareholders general meeting is the organ with supreme authority in the Company and shall exercise the following functions and powers pursuant to the law:

"13. to consider proposals submitted by shareholders holding ~~5%~~3% or more (inclusive) of the shares with voting rights in the Company;"

(2) Article 24

~~"Notice of shareholders' general meeting shall be issued 30 days before the proposed date of the meeting to notify all registered shareholders about the agenda to be discussed and the date and venue of the meeting. Notice of a shareholders' general meeting shall be delivered to each shareholder (whether or not such shareholder is entitled to vote at the meeting) by hand or prepaid airmail to the address of the shareholder as shown in the register of shareholders. For the promoter shareholders, notice of the meeting may also be issued by way of a public announcement (the public announcement referred to in the preceding sentence shall be published in one or more national newspapers designated by the securities regulatory authority of the State Council within the interval between 45 days and 50 days before the date of the meeting). Once such announcement is published, the promoter shareholders will be deemed to have received the notice of the relevant shareholders' general meeting. If the Company fails to issue notice of the meeting according to the scheduled time, which results in the failure of convention of an AGM within six months after the preceding accounting year, the Company shall promptly report to the stock exchange of the place where the Company is listed and state the reasons for such failure and publish the same in an announcement accordingly.~~

Except as prescribed in the relevant laws, regulations, the Listing Rules and the Articles of Association in relation to the form of communication to shareholders, or all shareholders agree to waive the written notice, when the Company convenes a shareholders' general meeting, a written notice shall be issued 30 days prior to the meeting to all the shareholders whose names are recorded on the register stating therein the matters proposed to be considered at the meeting as well as the time and venue of the meeting. Shareholders who intend to attend the shareholders' general meeting shall, within 20 days prior to the day on which the meeting is to be held, serve a written reply on the Company stating that they will attend the meeting.

LETTER FROM THE BOARD

When calculating the time to issue a notice, the date of the meeting and the date of issue of the notice shall not be included.

In respect of the notices issued under this article, the date of issue shall be the date on which the relevant notices are posted to the post office by the Company or the share registrar appointed by the Company.”

(3) *subparagraph 1 of paragraph 1 of Article 26*

The notice of a shareholders’ general meeting shall meet the following requirements:

“1. to be issued in writing, unless otherwise required by the relevant laws and regulations, the Listing Rules and the Articles of Association;”

(4) *Article 27*

“The Board shall issue notice of the shareholders’ general meeting within 4530 days after the receipt of the written proposal (which satisfy the requirements) from the supervisory committee requesting the convention of a shareholders’ general meeting.”

(5) *Article 29*

“If the Board fails to issue the meeting notice within 30 days after receiving the written requirement from shareholders who individually or jointly holding 10% or more of the total number of shares of the Company carrying voting rights requesting convening a shareholders’ general meeting, the proposing shareholders may propose in writing to the supervisory committee to convene an extraordinary general meeting. The supervisory committee shall, as soon as possible (but in any event within 30 days of receipt of the written proposal), issue a notice of convening a shareholders’ general meeting.

If the supervisory committee fails to issue a notice of convening a shareholders’ general meeting within 30 days after having received the aforesaid requirement, the shareholders individually or jointly holding 10% or more of the total number of shares of the Company carrying voting rights may convene the meeting by themselves. The procedures according to which such shareholders’ general meetings are convened, to the extent possible, shall be identical to the procedures according to which the shareholders’ general meetings are to be convened by the Board.

Reasonable expenses incurred from the aforesaid situation where shareholders convene the meeting by themselves due to the failure of the Board to convene the meeting shall be borne by the Company, and shall be deducted from the payment to those directors who failed to perform their duties. ~~convene an extraordinary meeting on their own within four months after the Board receives such request.”~~

LETTER FROM THE BOARD

(6) *Article 31*

“After the notice of a shareholders’ general meeting has been sent, the meeting shall not be convened in advance, delayed or cancelled without a proper reason. The proposals stated in the notice of the shareholders’ general meeting shall not be cancelled. If the meeting must be delayed or cancelled, or part of the proposals must be cancelled for specific reasons, a notice to postpone or ~~cancel the meeting~~ shall be sent at least 5 days before the scheduled date for convening the meeting. Such notice shall explain the reasons, and notice of the postponement shall also announce the new date to hold the meeting.

The shareholders’ general meeting and the resolutions of the meeting shall not become invalid even if there has been any accidental omission to deliver the notice of shareholders’ general meeting to a person having the right to receive the notice or that such person fails to receive the notice.”

(7) *Article 32*

“A shareholder may attend the shareholders’ general meeting in person, or appoint an authorized proxy to attend and vote on the meeting on his behalf. Such proxy may exercise the following rights in accordance with the shareholder’s authorisation according to his/her entrustment by the shareholder:

1. the shareholder’s right to speak at the shareholders’ general meeting;
2. the right to request to vote by poll by himself/herself or in conjunction with others; and
3. the right to vote by show of hands or by poll, except that if a shareholder has appointed more than one proxy, the proxy may only exercise the voting rights by poll.

Directors, supervisors and the Board Secretary shall attend the meeting in person. ~~General~~ The manager, deputy-general manager, chief financial officer the person in charge of financial affairs and other personnel invited by the Board may also attend the meeting.”

(8) *Article 36*

“Shareholders attending the shareholders’ general meeting shall be registered. Shareholders shall provide the following documents for registration:

1. a natural person shareholder shall produce his own identity card, and provide evidence of shareholding. Authorized proxy attending the meeting shall produce his own identity card, the instrument appointing the proxy and evidence of shareholding of the appointer;
2. the legal representative of a shareholder that is a legal entity shall produce his own identity card, valid evidence for their qualification as legal representative and evidence of shareholding of the legal entity represented thereby. The proxy attending the meeting shall produce his own identity card, the instrument appointing the proxy in writing by

LETTER FROM THE BOARD

the legal representative of the legal entity pursuant to law, or the certified copy of the authorization by the board or other decision-making institution of the legal entity and evidence of shareholding.

If the shareholder is a clearing house recognized by the laws and regulations of the places where the shares of the Company are listed (the “Recognized Clearing House”) or its proxies, the shareholder may authorize one or more persons whom it/he/she deems appropriate to be its/his/her representative at any shareholders’ general meeting or any class shareholders’ meeting. However, if more than one person is authorized, the power of attorney shall specify the number and class of shares to which each such person is authorized. The authorized person could exercise rights on behalf of the Recognized Clearing House (or its proxies), as if the person was an individual shareholder of the Company.”

(9) *Article 40*

“The Chairman of the Board shall preside over the shareholders’ general meeting and be the chairman of meeting. If the Chairman of the Board cannot attend the meeting for any special reason, the Deputy Chairman shall be the chairman of the meeting.

If both the Chairman and Deputy Chairman cannot attend the meeting, a director jointly chosen by more than half of the directors shall act as chairman of the meeting.

If a shareholders’ general meeting is convened by the supervisory committee, the meeting shall be presided over by the chairman of the supervisory committee. If the chairman of the supervisory committee cannot preside over the meeting, a supervisor jointly chosen by more than half of the supervisors shall preside over the meeting.

If a shareholders’ general meeting is convened by the shareholders, the convenor shall choose a representative to preside over the meeting.

~~and the chairman fails to designate another director to chair the meeting, the Board shall designate a director to chair the meeting. If the Board fails to designate the chair of the meeting, shareholders present at the meeting shall elect one person to chair the meeting. If the shareholders cannot elect a chairman of the meeting for any reasons, the shareholder holding the greatest number of shares carrying voting rights present at the meeting (including the authorized proxy of shareholder) shall be the chairman.”~~

(10) *Article 47*

“An extraordinary shareholders’ general meeting shall not vote on matters not contained in the meeting notice.

All proposals to be included in the agenda of the shareholders’ general meeting shall be voted on an individual basis and unless the shareholders’ general meeting is suspended or that a resolution cannot be made due to special reasons such as force majeure, shall not be suspended or aborted

LETTER FROM THE BOARD

without a valid reason. If there are more than one proposals on the same business to be discussed at the AGM, the voting will be conducted in a sequence in accordance with the time each of such proposals is proposed.”

(11) Article 48

“The chairman of the meeting is obligated to propose the adoption of vote by poll for the resolutions of the shareholders’ general meeting. Each shareholder or proxy authorized by shareholder when voting at a shareholders’ general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote. Except for vote by cumulative voting method, which is provided by the Articles of Association for the resolutions concerning the election of directors, each share shall have one vote.

The shares of the Company held by the Company itself do not have any voting right and such shares shall not be counted in the total number of shares with voting rights at the shareholders’ general meeting.

During the voting by poll, shareholders (including their proxies) with two or more voting rights do not have to use all their voting rights to vote for or against a proposal.

Where any shareholder (including his proxy) is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast in contravention of such requirement or restriction shall not be valid, and shares held or represented by such shareholder with voting rights shall not be included into the total number of shares with voting rights.”

(12) paragraph 1 of Article 56

“In addition to the requirements in relation to the scrutinizing of ballot under the Listing Rules, subject to the provisions of the Listing Rules, before voting starts, shareholders attending the meeting shall elect at least one supervisor and representative of the shareholders the Board Secretary to be the person responsible for tallying the votes. He shall tally up the votes on the spot and shall sign on the statistical information concerning the voting. When the numbers of votes in favour and against are equal, the chairman of the meeting is entitled to cast one extra vote.”

(13) Article 61

“In the event that the shareholders’ general meeting, due to any force majeure event or other extraordinary reasons, is adjourned for more than one working day, is unable to convene as scheduled or is unable to come up with any resolution, the Board shall explain the reasons to the stock exchange where the shares of the Company are listed and publish an announcement accordingly (if so required by laws or the Listing Rules). The Board shall adopt necessary measures to the shareholders’ general meeting as soon as possible.”

LETTER FROM THE BOARD

(14) Article 63

“The number of shareholders (or the proxies) attending the shareholders’ general meeting, the percentage of the number of shares represented by the attending shareholders to the total number of shares of the Company carrying voting rights, the way the voting is conducted and the result on the poll for each resolution shall be stated in the published announcement of the shareholders’ general meeting. ~~The decision on the resolution proposed by a shareholder shall list the name of the proposing shareholder, his proportion of shareholding and the content of the resolution being proposed.~~ Resolutions proposed but not passed in the meeting or there is a resolution in the present meeting to change a resolution passed at the previous shareholders’ general meeting, the Board shall state such fact in the results announcement. The announcement for the resolutions of the shareholders’ general meeting shall, as required, be published ~~in the newspapers and~~ on the website of the Company or the website designated by the Hong Kong Stock Exchange.”

(15) Article 64

“The Board Secretary is responsible for keeping the written materials such as name list and attendance book of persons attending the meeting, instrument appointing proxy, information of the poll, minutes of the meeting and resolution announcement.”

6. To adjust part of the terms in the following articles:

- (1) To amend “annual general meeting(s) (年度股東大會 or 股東年會)” to “annual general meeting(s) (股東周年大會)” in the original Article 2, Article 3, Article 4, Article 20, Article 21 and Article 34.
- (2) To amend “10% or more (10%以上)” to “10% or more (10%以上(含10%))” in the original Article 22.
- (3) To amend “chairman of the meeting (大會主席)” to “chairman of the meeting (會議主席)” in the original Article 41, Article 42, Article 43, Article 45, Article 56, Article 57 and Article 60.

7. To make corresponding changes in relation to the chapters, punctuations, sequence numbers, cross references and page numbers as a result of the above amendments.

The abovementioned proposed amendments to the Rules Governing the Operation of Shareholders’ General Meetings are subject to the Shareholders’ consideration and approval by way of a special resolution at the EGM.

LETTER FROM THE BOARD

IV. EGM

The EGM will be held at 9:00 a.m. on Wednesday, 20 December 2017 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 85 to 89 of this circular. A reply slip and a form of proxy for use at the EGM are also enclosed.

Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon on or before Wednesday, 29 November 2017. 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 as soon as possible and in any event no later 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).

As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company, holding directly and indirectly 3,481,185,569 domestic shares and 13,076,000 H shares in the Company, representing 58.57% equity interest in the Company. AVIC and its associate(s), if any, will abstain from voting at the EGM in respect of the ordinary resolutions to be proposed in relation to (i) the terms of the Proposed Renewed Continuing Connected Transactions, and the proposed caps in respect thereof for the three financial years ending 31 December 2020; and (ii) the Proposed Revised Caps for the financial year ending 31 December 2017.

To the best knowledge of the Directors after having made all reasonable enquiries, apart from AVIC and its associates, no other Shareholder has a material interest in the Non-exempt Continuing Connected Transactions and therefore no other Shareholder will be required to abstain from voting at the EGM in respect of the ordinary resolutions to be proposed in relation to (i) the terms of the Proposed Renewed Continuing Connected Transactions, and the proposed caps in respect thereof for the three financial years ending 31 December 2020; and (ii) the Proposed Revised Caps for the financial year ending 31 December 2017.

Further, with respect to the proposed amendments to the Articles of Association and the Rules Governing the Operation of Shareholders' General Meetings, to the best knowledge of the Directors after having made all reasonable enquiries, no Shareholder will be required to abstain from voting 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.

LETTER FROM THE BOARD

V. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 55 of this circular which contains the recommendation of the Independent Board Committee on the Non-exempt Continuing Connected Transactions to the Independent Shareholders; (ii) the letter from Somerley, the Independent Financial Adviser, set out on pages 56 to 76 of this circular which contains its advice on the Non-exempt Continuing Connected Transactions (together with the principal factors and reasons considered in arriving at such advice) to the Independent Board Committee and the Independent Shareholders; and (iii) additional information set out in the appendices to this circular.

The Directors and the Independent Board Committee, having taken into account the advice of Somerley, consider that the ordinary resolutions as set out in the notice of the EGM, in relation to (i) the terms of the Proposed Renewed Continuing Connected Transactions, and the proposed caps in respect thereof for the three financial years ending 31 December 2020; and (ii) the Proposed Revised Caps for the financial year ending 31 December 2017 are in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

The Directors also consider that the special resolutions as set out in the notice of the EGM, in relation to the proposed amendments to the Articles of Association and the Rules Governing the Operation of Shareholders' General Meeting are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the special resolutions 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

16 November 2017

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) of the Company dated 16 November 2017 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, capitalised terms and expressions used in this letter shall have the same meanings as those defined in the Circular.

We have been appointed to advise the Independent Shareholders on whether (i) the terms of the Proposed Renewed Continuing Connected Transactions, and the proposed caps in respect thereof for the three financial years ending 31 December 2020; and (ii) the Proposed Revised Caps for the financial year ending 31 December 2017 are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Somerley 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 7 to 54 of the Circular and the letter from Somerley set out on pages 56 to 76 of the Circular.

Having considered the advice given by Somerley, we are of the opinion that (i) the terms of the Proposed Renewed Continuing Connected Transactions, and the proposed caps in respect thereof for the three financial years ending 31 December 2020; and (ii) the Proposed Revised Caps for the financial year ending 31 December 2017 are in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider (i) the terms of the Proposed Renewed Continuing Connected Transactions, and the proposed caps in respect thereof for the three financial years ending 31 December 2020; and (ii) the Proposed Revised Caps for the financial year ending 31 December 2017 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 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 Chi Wai

Independent Non-executive Directors

* For identification purpose only

LETTER FROM SOMERLEY

The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

16 November 2017

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS, DISCLOSEABLE
TRANSACTION AND MAJOR TRANSACTION:**

**I. RENEWAL OF CERTAIN CONTINUING CONNECTED TRANSACTIONS
FOR 2018 TO 2020; AND
II. REVISIONS OF THE CAPS FOR CERTAIN EXISTING CONTINUING
CONNECTED TRANSACTIONS FOR 2017**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on (i) the proposed terms of the Non-exempt Continuing Connected Transactions and the proposed annual caps for the three years ending 31 December 2020 (the “**Proposed Annual Caps**”); and (ii) the revision of the annual cap in respect of the expenditure to be incurred under the Existing Mutual Provision of Services Agreement, the revisions of the maximum daily outstanding balance of deposits for the Deposit Services and the annual cap for the Other Financial Services under the Existing Financial Services Framework Agreement, for the year ending 31 December 2017 (the “**Revised Caps**”). Details of the above are set out in the “Letter from the Board” contained in the circular of the Company to the Shareholders dated 16 November 2017 (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

The Company has been conducting the Non-exempt Continuing Connected Transactions with AVIC Group, which will expire on 31 December 2017. In order to continue the above transactions and the established business relationship with AVIC Group, the Company and AVIC Group entered into new agreements in relation to the Non-exempt Continuing Connected Transactions on 30 August 2017, each for a term of three years commencing on 1 January 2018 and ending on 31 December 2020 (both days inclusive).

LETTER FROM SOMERLEY

As at the Latest Practicable Date, given (i) AVIC is the controlling shareholder of the Company holding approximately 58.57% equity interest in the Company; (ii) AVIC Avionics and AVICOPTER are connected subsidiaries of the Company by virtue of being directly and indirectly owned as to over 10% by AVIC; and (iii) AVIC Finance is a subsidiary of AVIC; each of AVIC, AVIC Avionics, AVICOPTER and AVIC Finance is connected person of the Company under Chapter 14A of the Listing Rules.

As (a) the highest of the applicable percentage ratios for the continuing connected transactions contemplated under each of the new framework agreements, namely, (i) the Mutual Supply of Products Agreement with AVIC, (ii) the Mutual Provision of Services Agreement with AVIC, (iii) the Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics and AVICOPTER, and (iv) the Financial Services Framework Agreement with AVIC Finance in respect of the Deposits Services and the Other Financial Services exceeds 5%; and (b) the highest applicable percentage ratios for the proposed revisions of the caps for 2017 with respect to (i) the expenditure transactions under the Existing Mutual Provision of Services Agreement; and (ii) each of the Deposit Services and the Other Financial Services under the Existing Financial Services Framework Agreement exceeds 5%, such transactions and proposed revisions of caps are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest of the applicable percentage ratios for the Deposit Services exceeds 25%, the continuing connected transaction contemplated under the Financial Services Framework Agreement also constitutes a major transaction under Chapter 14 of the Hong Kong Listing Rules and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

As the highest applicable percentage ratio for the Other Financial Services exceeds 5% but is less than 25%, the continuing connected transaction contemplated under the Financial Services Framework Agreement also constitutes a discloseable transaction under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting and announcement requirements but are exempt from the Shareholders' approval requirement under Chapter 14 of the Hong Kong Listing Rules.

AVIC and its associates shall abstain from voting on the resolutions in relation to renewal of the Non-exempt Continuing Connected Transactions (i.e. the proposed terms of the Non-exempt Continuing Connected Transactions and the Proposed Annual Caps) and the Revised Caps at the EGM.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai, has been established to make a recommendation to the Independent Shareholders as to whether the terms of the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps and the Revised Caps are fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in these regards.

LETTER FROM SOMERLEY

In formulating our advice, we have reviewed, among other things, the Mutual Supply of Products Agreement, the Mutual Supply of Services Agreement, the Products and Services Mutual Supply and Guarantee Agreement, the Financial Services Framework Agreement, the annual reports of the Company for the financial year ended 31 December 2016 and 31 December 2015 (the “**Annual Reports**”), the interim report of the Company for the six months ended 30 June 2017 (the “**Interim Report**”), and the information contained in the Circular. We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group, and have assumed that they are true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors, that all material relevant information has been supplied to us and that no material facts have been omitted or withheld from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group, AVIC, AVIC Avionics, AVICOPTER, AVIC Finance or any of their respective associates, nor have we carried out any independent verification of the information supplied.

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Somerley Capital Limited. In the last two years, there has been no engagement between the Group and Somerley Capital Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangement exists whereby we will receive any fees or benefits from the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation on whether the terms of the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps and the Revised Caps are fair and reasonable so far as the Independent Shareholders are concerned, we have taken the following principal factors and reasons into consideration:

1. Background of the Group and AVIC Group

The Company

As a subsidiary of AVIC Group, the Company is mainly engaged in research, development, manufacturing and sales of aviation products and relevant engineering services. Set out below is a summary of the consolidated income statement and consolidated statement of financial position of the Group for each of the five years ended 31 December 2016 and for the six months ended 30 June 2017, as extracted from the Annual Reports and the Interim Report.

LETTER FROM SOMERLEY

For the year ended 31 December

Consolidated Income Statement	2012	2013	2014	2015	2016	Compound annual growth rate ("CAGR")	For the six months ended 30 June 2017
	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	%	<i>RMB million</i> (unaudited)
Revenue	18,368	22,193	25,710	34,424	36,628	19%	13,842
Cost of sales	14,444	17,885	20,811	27,736	29,664	20%	10,917
Gross profit margin	21%	19%	19%	19%	19%		21.13%
Profit attributable to the equity holders of the Company	664	713	781	1,143	1,119	14%	550

Consolidated Balance Sheet	As at 31 December 2012	As at 31 December 2013	As at 31 December 2014	As at 31 December 2015	As at 31 December 2016	CAGR	As at 30 June 2017
	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	%	<i>RMB million</i> (unaudited)
Total assets	41,665	50,928	54,722	67,112	69,509	14%	73,021
Net asset value (net of minority interest)	10,156	10,123	10,815	12,660	13,400	7%	13,779
Cash and cash equivalents	5,606	6,726	5,798	9,535	8,773	12%	7,527
Total borrowings	4,597	6,118	7,418	7,901	8,711	17%	10,109
Gearing ratio (total borrowings/total assets)	11%	12%	14%	12%	13%		13.84%

As shown in the table above, there has been continual growth in the Group's business over the years. The CAGR of the revenue and cost of sales of the Group from 2012 to 2016 are approximately 20%. As at 30 June 2017, total assets and cash and cash equivalents of the Group amounted to approximately RMB73 billion and RMB7.5 billion respectively.

AVIC Group

AVIC is held and controlled by the State Council of the PRC, through its subsidiaries, AVIC Group is mainly engaged in development and manufacturing of aviation products, shipping products, automobile products and other services, including but not limited to, financial services, engineering and construction services.

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on Shanghai Stock Exchange. As at the Latest Practicable Date, AVIC Avionics is held as to approximately 43.22% by the Company. AVIC Avionics and its subsidiaries are mainly engaged in manufacturing of avionics products and related accessories.

LETTER FROM SOMERLEY

AVICOPTER is a joint stock limited liability company whose A shares are listed on Shanghai Stock Exchange and is a subsidiary of the Company. It is mainly engaged in development, manufacturing and sale of helicopter products.

AVIC Finance

AVIC Finance is a limited liability company incorporated in the PRC. It is licensed by the CBRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrustment loans and entrustment investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory services, credit certification and other advisory agency services and security to member companies, and other financial services as may be approved by the CBRC.

We have reviewed the financial information of AVIC Finance based on its audited accounts prepared in accordance with PRC accounting principles for each of the three years ended 31 December 2014, 2015 and 2016 and the unaudited management accounts for the six months ended 30 June 2017. It is noted that AVIC Finance has recorded profit after taxation for each of the three years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2017. The capital adequacy ratios, a measurement of capital position of a financial institution in respect of its exposure to risks such as credit risk, market risk and operational risk, and is defined as the financial institution's capital base divided by its risk-weighted assets, as at 31 December 2014, 2015 and 2016 and 30 June 2017 were higher than the minimum requirement of 10% as imposed by CBRC.

As a licensed financial institution in the PRC, AVIC Finance is subject to supervisions by PBOC and CBRC, which includes regular examination of the audited financial statements and other relevant materials required to be filed by AVIC Finance as well as on-site inspections and interviews with the senior management of AVIC Finance. According to the Measures for Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法) issued by CBRC, AVIC Finance is required to make deposit reserve funds in accordance with the relevant regulations of PBOC. As advised by the management of the Group, the mandatory proportions of deposits denominated in RMB and other currencies are 7% and 5% respectively. In addition, it must comply with, among others, the following ratio requirements:

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	Requirements on PRC licensed finance companies	AVIC Finance			
		As at 31 December			As at 30
		2014	2015	2016	June 2017
Capital adequacy ratio	Not lower than 10%	13.31%	12.65%	14.11%	15.88%
Inter-bank borrowing balances to total capital ratio	Not higher than 100%	2.97%	0%	0%	28.87%
Outstanding guarantee amounts to total capital ratio	Not higher than 100%	2.93%	3.54%	1.46%	3.67%
Total amount of investments to total capital ratio	Not higher than 70%	65.85%	63.54%	64.82%	37.56%
Self-owned fixed assets to total capital ratio	Not higher than 20%	0.07%	0.10%	0.08%	0.06%

We have reviewed the relevant regulations and as shown in the table above, AVIC Finance complied with all the ratio requirements as at the relevant dates. Up to the Latest Practicable Date, as advised by the management of the Company, there is no material non-compliance with relevant laws, rules and regulations of the PRC on AVIC Finance.

AVIC Finance has established stringent internal control measures to ensure effective risk management and compliance with the relevant laws and regulations including corporate governance structure, internal rules and policies and standard operation procedures, as well as intra-group check-and-balance mechanisms. We understand that AVIC Finance has implemented regular internal audit procedures to review the execution and compliance with the internal rules and policies. In addition, Beijing office of CBRC performs regular on-spot inspections on finance companies of enterprises groups to check the implementation of their internal control and risk management systems. Since its establishment, there were no penalties imposed on AVIC Finance by CBRC as a result of regulatory non-compliance.

In addition, the following additional internal control measures would be adopted by AVIC Finance in relation to the Deposit Services provided by AVIC Finance pursuant to the Financial Services Framework Agreement:

- (i) in the event which results in the Group failing to recover deposits placed with AVIC Finance, the Group will be entitled to use such deposit funds to set off any amounts payable to AVIC Finance by the Group; and
- (ii) during the period where deposits are placed with AVIC Finance, AVIC Finance needs to submit monthly reports and annual reports to the Group on the status of the Group's deposits.

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We have reviewed the corporate governance structure, internal rules and policies and standard operation procedures, taking into account the additional internal control measures discussed above and those disclosed in the section headed “D. Internal control mechanism” in the “Letter from the Board” contained in the Circular, we consider there exists appropriate internal control measures in AVIC Finance to safeguard the interests of the Independent Shareholders.

2. Background to and reasons for the Non-exempt Continuing Connected Transactions

Mutual Supply of Products Agreement, Mutual Provision of Services Agreement and Products and Services Mutual Supply and Guarantee Agreement

The businesses of the Company were carried out by the group companies of predecessor of AVIC, prior to the reorganisation carried out for the purpose of facilitating listing of the Company’s Shares on the main board of the Stock Exchange in 2003 (the “**Listing**”). After the Listing, there has been cross-provision of products and services between the Group and predecessor of AVIC, which is not uncommon for a business which was spun off from a much bigger group.

Due to the historical connection and long-term cooperation relationship between the Group and AVIC Group, and the Group’s connected subsidiaries AVIC Avionics Group and AVICOPTER Group, the Directors consider that it is necessary and beneficial to continue the relevant continuing connected transactions by way of entering into new framework agreements, as these transactions have facilitated and will continue to facilitate the overall operations and growth of the Group’s business.

In addition, AVIC, AVIC Avionics, AVICOPTER and their respective associates generally have better understanding of the Group’s business, allowing them to be more likely to meet the Group’s requirements by maintaining standards of products and services in terms of technology, quality, products delivery and technical support.

Financial Services Framework Agreement

In respect of the Financial Services Framework Agreement, as stated in the Circular, the terms on the services offered by AVIC Finance to the Group will be equal to or more favorable, depending on the case, than those offered to the Group by major commercial banks in the PRC. AVIC Finance, with appropriate internal control and risk management measures, is regulated by the PBOC and the CBRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities.

AVIC Finance is to provide its services under the Financial Services Framework Agreement on a non-exclusive basis, indicating that AVIC Finance provides an additional choice of financial services for the Group to choose from. With more stringent regulatory control on PRC financial institutions in relation to credit approvals, new credit facilities are becoming more difficult to obtain. As such, AVIC Finance, as a strategic partner to the Group, would be able to provide an important source of funding in addition to the Group’s existing credit facilities from other PRC financial institutions. Pursuant to the relevant regulations of the PBOC and the CBRC, the customers of AVIC

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Finance are limited to the group members of AVIC Group, AVIC Finance's understanding of the Group's businesses and operations enables it to provide more expedient and efficient services than major commercial banks in the PRC which is beneficial to the Group.

Having considered the above, we concur with the Directors that the continuation of the Non-exempt Continuing Connected Transactions is in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

3. Principal terms for the Non-exempt Continuing Connected Transactions

Mutual Supply of Products Agreement, Mutual Provision of Services Agreement and Products and Services Mutual Supply and Guarantee Agreement

On 30 August 2017, the Company and AVIC entered into the Mutual Supply of Products Agreement pursuant to which AVIC Group and the Group mutually to provide raw materials, parts and components, finished and semi-finished aviation products (including but not limited to entire aircraft and aviation parts and components) to be utilised in production of their respective aviation products and the corresponding sales and ancillary services for a term of three years ending 31 December 2020.

On 30 August 2017, the Company and AVIC entered into the Mutual Provision of Services Agreement pursuant to which AVIC Group and the Group mutually to provide certain services relating to production and business operations of the Group and AVIC Group, including but not limited to, (i) supply of 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; and (vii) other relevant services, for a term of three years ending 31 December 2020.

On 30 August 2017, AVIC Avionics, AVICOPTER and the Company entered into the Products and Services Mutual Supply and Guarantee Agreement pursuant to which:

- (1) the Group (including AVICOPTER Group) agrees to (i) supply raw materials, aviation parts and components; and (ii) provide services including manufacturing, labour, guarantee, engineering technology, project contracting and equipment contracting services to AVIC Avionics Group. AVIC Avionics Group agrees to (i) supply aviation products, aviation parts and components; and (ii) provide services including manufacturing, labour, project subcontracting and equipment subcontracting services to the Group (including AVICOPTER Group) for a term of three years ending 31 December 2020; and
- (2) the Group (including AVIC Avionics Group) agrees to (i) supply raw materials, aviation parts and components; and (ii) provide services including manufacturing, labour, supply of electricity, water and steam, leasing and guarantee, engineering technology, project contracting and equipment contracting services to AVICOPTER Group. AVICOPTER Group agrees to (i) supply aviation products, aviation parts and components; and (ii)

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provide services including manufacturing, labour, equipment purchase, project subcontracting and equipment subcontracting services to the Group (including AVIC Avionics Group) for a term of three years ending 31 December 2020.

Pricing basis

The pricing basis for transactions under the Mutual Supply of Products Agreement, Mutual Provision of Services Agreement and the Products and Services Mutual Supply and Guarantee Agreement will be determined as follows:

- (i) the Government-prescribed Price or the Government-guidance Price;
- (ii) if there is no Government-prescribed Price or the Government-guidance Price, then apply the Market Price (if it is available) or determining the Market Price by tender procedures, which, if applicable, shall be in compliance 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), or other means (as the case may be); and
- (iii) if there is no Market Price, then apply the Contractual Price.

Assessment

Government-prescribed Price

Government-prescribed Price is 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 comprises the relevant costs plus a profit margin of approximately 5%. 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.

Market Price

Market Price is (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 two to three 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

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account the transaction volumes and business relationship between the Company and purchasers. The Market Price will be determined or approved by the authorised departments/persons of the specific entities under the Group in particular transactions (i.e. the departments/persons who are responsible for procurement or sales in the specific operating subsidiary of the Company).

As advised by the management of the Company (the “**Management**”), the Group strictly follows the relevant PRC laws and regulations in relation to tender procedures in determining the Market Price. We also understand from the Management that the internal procurement and sales policies apply to both connected parties and independent third parties. We have reviewed the Law of the People’s Republic of China on Tenders and Bids (中華人民共和國招標投標法) and consider that the tender procedures would ensure the fairness and reasonableness of the transactions by determining the Market Price.

Contractual Price

Contractual Price is the price to be agreed between the relevant parties for provision of 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 made 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 and specific price will be determined under separate agreement in each transaction.

In respect of the mark-up of not more than 8.0% on the Reasonable Costs, taking into account the (i) profit margins of the Group of approximately 8% and 7% in 2015 and 2016 based on the Annual Reports; (ii) the average profit margin of approximately 7% among industrial enterprises as indicated by the statistics of the State Administration of Taxation in the PRC (https://www.tax.sh.gov.cn/pub/ssxc/szpd/qysds/node5310/200912/t20091217_291100.html); and (iii) each party of the Mutual Supply of Products Agreement, the Mutual Provision of Services Agreement and the Products and Services Mutual Supply and Guarantee Agreement is allowed to charge to counter parties on the same basis, it is considered that such term is on normal commercial term and fair and reasonable.

As disclosed in the section headed “D. Internal control mechanism” in the “Letter from the Board” contained in the Circular, it is noted that the Group has adopted certain internal control procedures to monitor that the continuing connected transactions are conducted in accordance with the terms of the respective agreements. Furthermore, it is noted in the Annual Reports that the independent non-executive Directors have confirmed that the Non-exempt Continuing Connected Transactions entered into during the two financial years ended 31 December 2015 and 2016 were in accordance with the respective framework agreements on terms that were fair and reasonable. The confirmations of the Company’s auditor also stated that such transactions had been entered into in accordance with the respective framework agreements and had not exceeded the relevant annual caps. In light of the above, it is considered that the internal control measures of the Company are effective in governing the conduct of the transactions to be carried out pursuant to the relevant framework agreements.

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Based on the above, given that (i) the Government-prescribed Price is determined, or subject to approval, by the relevant price control authorities and the industry regulators in the PRC; (ii) the Market Price is determined with reference to the terms of comparable transactions with independent third parties or by tender procedures in accordance with the relevant PRC laws and regulations or other means; and (iii) the Contractual Price is determined with reference to the historical profit margin of the Group and the average profit margin of industrial enterprises, we are of the view that the pricing mechanism is on normal commercial terms, fair and reasonable and in line with the industry practice.

Financial Services Framework Agreement – Deposit Services and Other Financial Services

On 30 August 2017, the Company and AVIC Finance entered into the Financial Services Framework Agreement with a three-year term commencing from 1 January 2018 to 31 December 2020. Summarised below are the major terms of the Financial Services Framework Agreement in relation to the Deposit Services and the Other Financial Services.

Pricing basis

– Deposit Services

- (i) interest rates for the Group's deposits with AVIC Finance shall not be lower than (a) the minimum interest rate promulgated by the PBOC for the same type of deposit services; (b) the interest rates for the same type of deposits offered by major commercial banks of the PRC to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other group member of AVIC Group;
- (ii) the maximum outstanding daily balance of deposit amount (including accrued interests) placed by the Group with AVIC Finance shall not be more than RMB11 billion; and
- (iii) if AVIC Finance is unable to repay the Group's deposits, the Company has the right to terminate the Financial Services Framework Agreement and to offset the deposit due to the Group from AVIC Finance against the outstanding loan due to AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall compensate the Group for the full amount of the loss suffered by the Group and the Group is entitled to terminate the Financial Services Framework Agreement.

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- Other Financial Services
 - (i) AVIC Finance will, in accordance with the Company's instructions and requests, provide to the Group the Other Financial Services including but not limited to bill acceptance, discount services and factoring services of accounts receivable; and
 - (ii) the fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than (a) the maximum fee promulgated by PBOC for the same type of financial services (if applicable); (b) the fees charged by major commercial banks in the PRC for the same type of services; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other group member of AVIC Group with the same credit rating.

Assessment

The services provided by AVIC Finance will be on a non-exclusive basis, which offers the Group alternative choice of financial services and the Company is not obliged to engage AVIC Finance for any particular services. As a subsidiary of AVIC, AVIC Finance has better understanding of the PRC aviation industry and the Group's operation and financial needs. Therefore, the Group is expected to benefit from more expedient, efficient and/or customised service provision by AVIC Finance than the commercial banks in the PRC.

In addition, pursuant to the Financial Services Framework Agreement, the interest rates on the Deposit Services and the Other Financial Services offered by AVIC Finance will be equal to or more favourable to the Group than those offered by major commercial banks in the PRC and those offered by AVIC Finance to any other group member of AVIC Group. As advised by the Management, the Group would compare the interest rates granted and fees charged by two to three major commercial banks, which are independent to the Group, and make reference to the interest rates offered by AVIC Finance to any other group member of AVIC Group to ensure that the Group does not obtain less favorable terms comparing with other group members of AVIC Group.

Based on the above, we are of the view that the terms of the Deposit Services and the Other Financial Services under the Financial Services Framework Agreement are on normal commercial terms and are fair and reasonable.

4. The Proposed Annual Caps and the Revised Caps

Overall assessment of the Proposed Annual Caps and the Revised Caps

Given the nature of the principal activities and the industry the Group is engaged in, it is necessary, in our view, to take into account the latest development of the PRC aviation industry with the intentions of the PRC government to promote the aviation industry in determining the Proposed Annual Caps and the Revised Caps.

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The development of the civil aviation industry in future years is strongly supported by the PRC government, given the Guidance on Promoting the Development of General Aviation Industry released by the General Office of the State Council in the PRC in May 2016 (the “**Guidance**”). According to the Guidance, it is set to build a general aviation industry that has more than 500 general aviation airports, 5,000 aircrafts and a group of competitive enterprises in the PRC by the end of 2020. Ultimately, the PRC government intends to put more efforts in providing diversified general aviation services and stimulating aviation innovation and to improve manufacturing capabilities in key aviation technologies. Further, as stated in the Guidance, aviation consumption is encouraged to be integrated with the Internet, tourism and other creative industries. Also, the PRC government intends to strengthen international cooperation in aviation manufacturing, operations management and pilot training. As stated in the 2016 annual report of the Company, the aviation industry is likely to benefit from speeding up of structural reform, improving manufacturing efficiency and promoting productivity in all aspects, which are also suggested in the Guidance.

Moreover, it is further emphasised in the 13th Five-year Plan for China’s Civil Aviation Development (中國民用航空發展第十三個五年規劃), released jointly by CAAC, National Development and Reform Commission of the PRC and the Ministry of Transport of the PRC in December 2016, that the PRC government is supporting the implementation of the Guidance, stating that there are plans on building more infrastructure, putting in place a standard system and continuously improving the operating environment and expanding service areas.

As demonstrated in the analysis above, it is considered that, going forward, there are still plenty of opportunities for the PRC aviation market arising from supportive policies and regulations to be introduced by the PRC government and the Company’s aviation business is highly likely to benefit from such development.

In view of the above and given the Group’s business activities would be correlated with the PRC aviation industry and the relevant government policies and regulations on such industry, it is justified for the Group to determine the Proposed Annual Caps and the Revised Caps based on not only the historical amounts and the latest development of the Group, but also the latest changes in the PRC government policies on the aviation industry, in order to allow sufficient room to capture business opportunities from the expected market growth and to build in enough buffer to cater for further growth.

(a) *Mutual Supply of Products Agreement, Mutual Provision of Services Agreement and Products and Services Mutual Supply and Guarantee Agreement*

Set out below are the (i) revenues and expenditures of the Group under the (a) Mutual Supply of Products Agreement; (b) Mutual Provision of Services Agreement; and (c) Products and Services Mutual Supply and Guarantee Agreement, during each of the two financial years ended 31 December 2015, 2016, and the six months ended 30 June 2017; (ii) the proposed annual caps for each of the three financial years ending 31 December 2020; and (iii) the revised annual cap for expenditures of the Group under the Mutual Provision of Services Agreement for the year ending 31 December 2017.

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	Historical transaction amounts			Existing cap	Revised Cap	Proposed Annual Caps		
	For the year ended 31 December			For the year ending 31 December	For the year ending 31 December	For the year ending 31 December		
	For the six months ended 30 June							
2015	2016	2017	2017	2017	2018	2019	2020	
<i>(approximate amount in RMB million)</i>								
Expenditure of the Group:								
Mutual Supply of Products								
Agreement	9,050	7,353	3,480	21,023	N/A	17,200	22,100	26,000
Mutual Provision of Services								
Agreement	803	585	245	1,250	1,900	2,400	2,900	3,800
Products and Services Mutual Supply and Guarantee								
Agreements	661	630	247	1,700	N/A	1,300	1,700	2,100
Revenue of the Group:								
Mutual Supply of Products								
Agreement	16,602	20,200	7,780	38,347	N/A	35,000	44,000	53,900
Mutual Provision of Services								
Agreement	127	2,686	1,209	9,200	N/A	9,500	10,500	12,000
Products and Services Mutual Supply and Guarantee								
Agreements	810	942	354	3,200	N/A	2,000	2,600	3,200

Assessment of the Proposed Annual Caps and the Revised Cap

– Mutual Supply of Products Agreement

In assessing the reasonableness and fairness of the proposed caps, we have reviewed summary of the estimated amounts for the proposed annual caps and noted that the revenue is expected to be generated from sales of parts and components and sales of aircrafts. Revenue from parts and components business is estimated to have a more stable growth in future years, ranging from 15% to 20%. On the other hand, a higher increment in the revenue to be generated from expected sales of aircrafts in 2018 as compared to the expected sales in 2017 is noted. As advised by the Management, it is primarily due to the upgrade of existing models of certain aircrafts, in particular, helicopters and trainer aircrafts. As certain helicopters and trainer aircrafts are intended to be introduced in 2018, the growth in revenue from sales of existing models is expected to slow down in 2017. In order to cope with the upcoming potential demand for these aircrafts, the Management considers that it is necessary to set a higher cap for 2018. The subsequent annual growth rates in the proposed annual caps for 2019 and 2020 are approximately 26% and 22% respectively.

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As mentioned above, it is expected that the sales of aircrafts will slow down in 2017 given that the Group is at the stage of product upgrading. Having said that, it is noted from the historical financial information of the Group that it has been able to achieve a CAGR of approximately 20% from 2012 to 2016 despite a relatively lower growth in certain years, indicating that the Group's performance is likely to recover from slowdown in sales in future years and hence continues to maintain its growth trend. Taking into account the latest business development of the Group as discussed above and the Group's business growth over the years, we have considered the historical growth rates in respect of the revenue transaction amounts from 2015 to the proposed annual cap in 2018 and noted a CAGR of approximately 28%. The annual growth rates in the proposed annual caps for 2019 and 2020 are approximately 26% and 23% respectively. As such, the proposed annual caps are considered to be reasonable given the CAGR of the Group's revenue of approximately 20% from 2012 to 2016 and taking into account a reasonable buffer given the latest development of the Group and the PRC aviation industry.

In respect of the proposed annual caps for expenditure of the Group, we have reviewed the summary of the estimated amounts for the proposed annual caps. As advised by the Management, it has taken into account the budget for production of various types of aviation products in estimating the expenditure transaction amounts as the Group is required to purchase relevant parts and components from members of AVIC Group for its aircraft business. In particular, the Group has pre-production plans for certain helicopters and trainer aircrafts to be released.

In assessing the reasonableness of the proposed annual caps, we have considered the historical business growth of the Group as discussed above given its latest products development and it is necessary for the Group to incur relevant expenditures to generate such revenue from sales of products. We have therefore taken into account (i) the CAGR of the Group's cost of sales from 2012 to 2016 of approximately 20%; (ii) the CAGR of the expenditure transaction amounts from 2015 to the proposed annual cap for expenditure transaction amounts in 2018 of approximately 24%; and (iii) the annual growth rates in the proposed annual caps for expenditure transaction amounts in 2019 and 2020 are approximately 28% and 18% respectively, the growth rates applied in estimating the proposed annual caps are considered to be reasonable, with a buffer to accommodate the development of the Group's business.

Furthermore, given the purchase of parts and components from members of AVIC Group is necessary for aircraft business under the Mutual Supply of Products Agreement, we have also considered the proportion between the expenditures incurred and revenue generated. Based on historical revenue and expenditure transactions amounts in 2015, 2016 and 2017, the expenditure transaction amounts account for approximately 45% of the revenue transaction amounts on average. Given the proposed annual caps for expenditure transactions are maintained at a range from 45% to 50% of the proposed annual caps for revenue transactions, it is considered that the proposed annual caps for expenditure transactions are reasonable.

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– Mutual Provision of Services Agreement

In assessing the fairness and reasonableness of the proposed annual caps, we have reviewed summary of the estimated amounts for the proposed annual caps, discussed with the Management and understand that the proposed annual caps for revenue transactions have been estimated based on the expected transaction amounts in 2017. Also, it is noted that majority of the estimated revenue under the Mutual Provision of Services Agreement is contributed by transactions between AVIC Planning and AVIC Group. As advised by the Management, the number of projects and amounts involved are expected to have a steady growth in the coming three years given the development of the PRC aviation industry and therefore a growth of approximately 15% was applied in estimating the transaction amounts for AVIC Planning in 2018 to 2020. Taking into account that the annual growth rate of the estimated transaction amounts for AVIC Planning from 2018 to 2020 is referenced to the historical revenue growth of AVIC Planning, which is represented by a CAGR of approximately 18% from 2014 to 2016, we consider the estimation of the proposed annual caps of revenue transactions is reasonable.

In respect of the revised cap for expenditure transactions in 2017, the approved cap for 2017 was determined prior to the acquisition of AVIC Planning in 2016. With reference to the circular of the Company dated 10 May 2016, the annual caps for revenue transactions in 2016 and 2017 have been revised due to the increase in revenue from project contracting, equipment contracting, consultation and design services etc., resulting from the acquisition of AVIC Planning. Since there is additional demand for sub-contracting services from AVIC Group subsequent to the acquisition of AVIC Planning as the Group began to provide engineering and equipment contracting services, a revision of the annual cap for expenditure transactions is also considered to be necessary. The annual cap for 2017 is proposed to revise from RMB1,250 million to RMB1,900 million, representing an increment of RMB650 million. Such revision is mainly attributable to the demand for sub-contracting services from AVIC Group. Taking into consideration that the relevant amount is estimated mainly based on (i) the historical proportion of expenditures on sub-contracting services to revenue from engineering contracting services; and (ii) the expected revenue transaction amount in 2017, the revision of the annual cap for expenditure transactions in 2017 is considered reasonable.

In relation to the proposed annual caps for expenditure transactions, as advised by the Management, the proposed annual caps have been determined after considering the potential demand for labour services and sub-contracting services from members of AVIC Group. In assessing the fairness and reasonableness of the proposed annual caps for expenditure transactions, we have considered the CAGR of the proposed annual caps from 2017 to 2020, which is approximately 26%. Taking into account that the CAGR of the Group's cost of sales from 2012 to 2016 is approximately 20%, it is considered that the proposed annual caps are reasonable, with a buffer to accommodate development of the Group's business.

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– Products and Services Mutual Supply and Guarantee Agreement

In assessing the fairness and reasonableness of the proposed annual caps, we have reviewed the revenue and expenditure projection for the years of 2018 to 2020, it is noted that the proposed annual caps for revenue and expenditure transactions for 2018 to 2020 are determined mainly based on the expected transaction amounts in 2017. As stated in the Circular, the transactions under the Products and Services Mutual Supply and Guarantee Agreement are intra-group transactions. AVICOPTER Group is mainly engaged in the manufacturing and sale of helicopters and related parts and components. AVIC Avionics Group is principally engaged in the production of aero-mechanical and electrical products and related accessories such as automation control system and flight instruments. We understand from the Management that the transactions involved in the Products and Services Mutual Supply and Guarantee Agreement are closely related to the transactions conducted under the Mutual Supply of Products Agreement as most of the products and services involved in the Products and Services Mutual Supply and Guarantee Agreement are mainly aviation electrical systems and other instruments, such as flight data recorders and air data computers etc., to be used on aircrafts and the relevant labour services to be involved. These products and services are essential to the manufacturing of aircrafts. As such, the proposed annual caps are arrived at mainly with reference to the expected growth in revenue transactions in respect of the sales of aircrafts under the Mutual Supply of Products Agreement, which is considered to be reasonable taking into account the business development of the Group in 2018 with certain helicopters and trainer aircrafts to be released and the ongoing development in future years with the latest development of the PRC aviation industry.

(b) *Financial Services Framework Agreement – Deposit Services and Other Financial Services*

Set out below are the (i) the maximum daily outstanding balances of deposits (including interests accrued thereon) for the Deposit Services, and the historical transaction amounts for the Other Financial Services, during each of the two financial years ended 31 December 2015, 2016, and the six months ended 30 June 2017; (ii) the revised caps for the Deposit Services and the Other Financial Services for the year ending 31 December 2017; and (iii) the proposed annual caps for each of the three financial years ending 31 December 2020.

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	Historical transaction amounts			Revised Cap	Proposed Annual Caps		
				For the six			
	For the year ended		For the six	For the year	For the year ending		
	31 December	31 December	months	ending	31 December	31 December	31 December
2015	2016	ended	30 June	31 December	2018	2019	2020
2015	2016	2017	2017	2017	2018	2019	2020
<i>(approximate amount in RMB million)</i>							
Deposit Services:							
Maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance for the year/period ended	1,424	2,985	2,287	-	-	-	-
Existing caps/revised cap/proposed annual caps	3,000	3,000	3,000	7,000	11,000	11,000	11,000
Percentage of use of the corresponding existing caps	47.5%	99.5%	76.2%	-	-	-	-
Other Financial Services:							
Historical transaction amounts for the Other Financial Services	541	667	687	-	-	-	-
Existing caps/revised cap/proposed annual caps	1,000	1,000	1,000	2,000	4,000	4,000	4,000
Percentage of use of the corresponding existing caps	54.1%	66.7%	68.7%	-	-	-	-

Assessment of the Revised Caps

In respect of the revised maximum daily outstanding balance of deposits for 2017, we have considered (i) the historical usage of the corresponding cap, in particular, 99.5% of the cap in 2016; (ii) the cash and bank balances of the Group, including the balance of cash and cash equivalents, pledged deposits and term deposits with initial terms of over three months as disclosed in the Interim Report, of approximately RMB10.4 billion as at 30 June 2017; (iii) the expected growth in the business of the Group and AVIC Group, leading to an increasing demand for Deposit Services with higher level of funds; and (iv) the fund management strategy of the Group of allocating a certain percentage of funds to AVIC Finance for more efficient use of funds. The revised maximum daily outstanding balance of deposits has been arrived at mainly with reference to the latest cash and bank balances of the Group and the certain percentage of funds to be deposited with AVIC Finance in accordance with the Group's fund management strategy. In light of the above, it is considered that the revised maximum daily outstanding balance of RMB7,000 million is reasonable.

LETTER FROM SOMERLEY

In relation to the revised cap for the Other Financial Services for 2017, we have discussed with the Management and understand that due to the business growth in 2017, there has been a stronger demand for the Other Financial Services during the period as demonstrated by the historical transaction amounts of approximately RMB687 million for the six months ended 30 June 2017. Taking into account that the transaction amounts for half of the year in 2017 has already exceeded the historical transaction amounts for the full year in 2016, we consider it is necessary for the Company to revise the relevant annual cap for 2017. Given (i) the rapid growth in the relevant transaction amounts as compared to 2016, based on the historical amounts for the six months ended 30 June 2017; and (ii) as advised by the Management, there is an increasing demand for the Other Financial Services with the growth in the Group's business as it can provide further cash inflow, if needed, in a more flexible way, we are of the view that the revised cap for the Other Financial Services for 2017 is reasonable.

Assessment of the Proposed Annual Caps

In assessing the fairness and reasonableness of the proposed annual caps for the Deposit Services, we have considered mainly (i) the historical maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance; (ii) the cash and bank balances of the Group, including the balance of cash and cash equivalents, pledged deposits and term deposits with initial terms of over three months as disclosed in the Interim Report, of approximately RMB10.4 billion as at 30 June 2017; and (iii) the expected demand for the Deposit Services with potential business growth, given the continuous growth of the Group's business as indicated by a CAGR of approximately 20% of the Group's revenue from 2012 to 2016, leading to increasing level of funds available. Taking into account that the proposed annual cap of RMB11,000 million represents a CAGR of approximately 16% from 2017 to 2020 and the increment in level of cash and cash equivalents of the Group with a CAGR of approximately 12% from 2012 to 2016, we concur with the Director's view that it is reasonable to have sufficient maximum daily outstanding balances of deposits to accommodate the potential demand for the Deposit Services.

In relation to the proposed caps for the Other Financial Services, we have discussed with the Management the considerations involved in determining the proposed annual caps and taking into account that (i) the potential growth in the Group's business will lead to a higher level of accounts receivables and notes receivables, which could lead to more demand for factoring services and discount services in order to allow the Group to improve the efficiency in use of funds; (ii) the financing needs of the Group are expected to grow as the level of purchase for raw materials, parts, components and relevant services would increase with development of the Group's operations; and (iii) the significant increment in the transaction amounts involved in the Other Financial Services for the six months ended 30 June 2017, we agree with the Directors that it is in the interests of the Group and the Shareholders to approve proposed annual caps in respect of the Other Financial Services. Given (i) the growth rate of the historical transaction amounts from 2015 to 2016 of approximately 23%; and (ii) the proposed annual caps of RMB4,000 million representing a CAGR of approximately 26% from the revised cap for 2017 to 2020, the proposed annual caps is considered reasonable.

LETTER FROM SOMERLEY

Conclusion

Generally speaking, in our opinion, it is in the interest of the Group for the Proposed Annual Caps and the Revised Caps to be as accommodating to the Group as possible. Provided that the terms for the Non-exempt Continuing Connected Transactions, including the pricing terms, are fair and reasonable and that the conduct of the Non-exempt Continuing Connected Transactions is subject to annual review by independent non-executive Directors and auditors of the Company (as discussed below) as required under the Listing Rules, the Group would have flexibility in conducting its businesses if the Proposed Annual Caps and the Revised Caps are tailored to future business and market growth. If the Proposed Annual Caps and the Revised Caps are set without considering sufficient room for future business and market growth and the Company has to revise the annual caps upward at a general meeting before conducting additional transactions, the Company's business may be restricted and it will have to incur additional administrative costs and resources to obtain approval from the Independent Shareholders.

Having reviewed the bases and assumptions considered in determining the Proposed Annual Caps and the Revised Caps as discussed above, we consider that the Proposed Annual Caps and the Revised Caps have been set by the Company with due care and are fair and reasonable. Shareholders should note that that the Proposed Annual Caps and the Revised Caps should not be construed as an assurance or forecast by the Company of the future revenue of the Group.

5. Annual review of the Non-exempt Continuing Connected Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Listing Rules, the Non-exempt Continuing Connected Transactions are subject to the following annual review requirements:

- a) each year, the independent non-executive Directors must review the Non-exempt Continuing Connected Transactions and confirm in the annual report whether the Non-exempt Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms or better; and
 - (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- b) each year, the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days before the bulk printing of the Company's annual report), confirming whether anything has come to their attention that causes them to believe that the Non-exempt Continuing Connected Transactions:
 - (i) have not been approved by the Board;

LETTER FROM SOMERLEY

- (ii) were not, in all material aspects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - (iii) were not entered into, in all material aspects, in accordance with the relevant agreement governing the Non-exempt Continuing Connected Transactions; and
 - (iv) have exceeded the Proposed Annual Caps and the Revised Caps;
- c) the Company must allow, and ensure that the counterparties to the Non-exempt Continuing Connected Transactions allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Non-exempt Continuing Connected Transactions as set out in paragraph (b). The Board must state in the annual report whether the Company's auditors have confirmed the matters set out in Listing Rule 14A.56; and
- d) the Company shall promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors of the Company cannot confirm the matters set out in paragraphs (a) and/or (b) respectively.

In light of the reporting requirements for the Non-exempt Continuing Connected Transactions, in particular, (a) the restriction of the values of the Non-exempt Continuing Connected Transactions by way of the Proposed Annual Caps and the Revised Caps; and (b) the requirements under the Listing Rules for ongoing review by the independent non-executive directors and the auditors of the Company of the terms of the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps and the Revised Caps, we are of the view that there exist appropriate measures to govern the conduct of the Non-exempt Continuing Connected Transactions and to safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that the Non-exempt Continuing Connected Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. We also consider that the terms of the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps and the Revised Caps are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves 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
SOMERLEY CAPITAL LIMITED
David Ching
Director

Mr. David Ching is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over fifteen years of experience in the corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The unaudited consolidated financial statements of the Company for the six months ended 30 June 2017 and the audited consolidated financial statements of the Company for the three years ended 31 December 2016 together with the relevant notes to the financial statements of the Company can be found on pages 13 to 44 of the interim report of the Company for the six months ended 30 June 2017, pages 85 to 193 of the annual report of the Company for the year ended 31 December 2016, pages 58 to 156 of the annual report of the Company for the year ended 31 December 2015 and pages 58 to 151 of the annual report of the Company for the year ended 31 December 2014.

Please also see below the hyperlinks to the interim report for the six months ended 30 June 2017 and the annual reports for the three financial years ended 31 December 2016 of the Company, respectively.

<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0915/LTN20170915251.pdf>

<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0412/LTN20170412283.pdf>

<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0421/LTN20160421873.pdf>

<http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0426/LTN20150426039.pdf>

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at 30 September 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB7,866 million, comprising secured borrowings of approximately RMB1,232 million and unsecured borrowings of approximately RMB6,634 million. Among the secured borrowings, borrowings of approximately RMB536 million was guaranteed by related parties, and RMB349 million was cross-guaranteed amongst the subsidiaries of the Group.

Medium-term notes and corporate bonds

As at 30 September 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding medium-term notes and corporate bonds of approximately RMB1,892 million and RMB500 million respectively. The corporate bonds were guaranteed by the Company.

Obligations under finance leases

As at 30 September 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding obligations under finance leases of approximately RMB12 million.

Contingent liabilities

As at 30 September 2017, the Group had no significant contingent liabilities.

Pledge of assets

As at 30 September 2017, the Group's secured bank and other borrowings, obligations under finance leases and banking facilities were secured by the Group's accounts receivables, notes receivables, pledged deposits and properties, plant and equipment amounting to approximately RMB278 million, RMB36 million, RMB1,039 million and RMB39 million respectively.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on the Latest Practicable Date.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group since the Latest Practicable Date.

3. SUFFICIENCY OF WORKING CAPITAL

As at the Latest Practicable Date, after due enquiry and taking into account the Deposit Services, the Directors are of the opinion that the Group will have sufficient working capital for its present requirement, that is for at least the next 12 months from the date of publication of this circular.

4. FINANCIAL AND TRADING PROSPECTS

2017 is an important connecting year to implement the 13th Five-Year Plan for National Economic and Social Development and also a year to deepen the supply-side structural reform. In the second half of 2017, the Company will continue to proactively push forward the initiatives of "leaner and healthier" and implement the requirements of supply-side structural reform, enhance the specialized integration of aviation industry to improve the core competitiveness. The Company will consistently carry reform through to the end, stimulate the vitality of working and starting businesses and speed up all reforms. Following the strategy of civil-military integration in aviation industry, the Company will create new model of industry development to set the business of civil-military integration as a new strategic increasing point of the Company, continue to explore new aviation manufacturing business and create core competitiveness of the aviation products.

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 Company. 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. (A) 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 of Director	Class of		Number of Shares	Approximate	Approximate	Nature of Shares held
	Shares	Capacity		percentage of shareholdings to the same class of shares	percentage of shareholdings to share capital in issue	
Lin Zuoming	H Share	Beneficial owner	462,005	0.020%	0.008%	Long position
Tan Ruisong	H Share	Beneficial owner	563,811	0.024%	0.009%	Long position
Wu Xiandong	H Share	Beneficial owner	191,811	0.008%	0.003%	Long position
Li Yao	H Share	Beneficial owner	174,910	0.007%	0.003%	Long position
Yeung Chi Wai	H Share	Beneficial owner	248,000	0.011%	0.004%	Long position

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interests or short positions: (i) 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) which were required to be notified to the Company and the Hong Kong Stock Exchange; or (ii) which were required 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, required to be notified to the Company and the Hong Kong Stock Exchange.

(B) THE INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY'S ASSOCIATED CORPORATIONS

AVICOPTER

Name of Director	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Lin Zuoming	H Share	Beneficial owner	2,000	0.0003%	0.0003%	Long position

AVIC Avionics

Name of Director	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Lin Zuoming	H Share	Beneficial owner	5,000	0.0003%	0.0003%	Long position

*AVIC Capital Co., Ltd.**

Name of Director	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Li Yao	A Share	Beneficial owner	10,000	0.0001%	0.0001%	Long position

*AVIC Sanxin Co., Ltd.**

Name of General Manager	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Qu Jingwen	A Share	Interest of his child under 18 or spouse	11,100	0.0014%	0.0014%	Long position

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of any associated corporation (within the meaning of Part XV of the SFO) of the Company which were (i) required 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) required to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) required 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.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as was known to any Directors or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
AVIC ^{Note 1}	Domestic Share	Beneficial owner; interest in controlled corporation	3,481,185,569	96.44%	58.35%	Long position
	H Share	Interest in controlled corporation	13,076,000	0.55%	0.22%	Long position
Airbus Group ^{Note 2}	H Share	Beneficial owner	274,909,827	11.67%	4.61%	Long position

Notes:

1. Among the 3,481,185,569 domestic shares held by AVIC, 3,297,780,902 domestic shares were directly held by it as beneficial owner and 183,404,667 domestic shares were held through AVIC Electromechanical Systems Company Limited*, its wholly-owned subsidiary. Meanwhile, AVIC held 13,076,000 H shares in the Company through China Aviation Industry (HK) Co. Ltd.*, its wholly-owned subsidiary.
2. European Aeronautic Defence and Space Company – EADS N.V. officially changed its name to Airbus Group on 1 January 2014.

Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Wu Xiandong and Mr. Li Yao, Directors of the Company, are chairman, general manager, vice general manager and chief accountant of AVIC, respectively. Mr. Patrick de Castelbajac, Director of the Company, is an employee of Airbus Group.

4. 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).

5. 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 asset which had been, since 31 December 2016, 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.

6. CONSENT AND QUALIFICATION OF EXPERT

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

Name	Qualification
Sommerley	A corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Non-exempt Continuing Connected Transactions

As at the Latest Practicable Date, Somerley 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, Somerley did not have any direct or indirect interest in any assets which has been, since 31 December 2016, 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.

Somerley 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 it is included.

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

The Directors are of the opinion that since 31 December 2016, being the date to which the latest published audited accounts of the Group have been made up, there have been no material adverse changes in the financial or trading position of the Group.

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

10. MISCELLANEOUS

- (a) Mr. Xu Bin, the company secretary of the Company, is a master degree holder and a senior economist. Mr. Xu graduated from Nanchang University in 2000 majoring in law, and then obtained an MBA degree in 2012 from Beijing University of Aeronautics and Astronautics. Mr. Xu served as a lawyer at Jiangxi Ganxing Law Firm since June 2000, and in-house legal counsel at Jiangxi Hongdu Aviation Industry Group since October 2001. He also successively served as senior manager, head assistant, and deputy head of the Securities and Legal Department of the Company from February 2003 to June 2014. Mr. Xu has been serving as director of Chengdu CAIC Electronics Co., Ltd. since 1 December 2013 and the head of the Compliance Department of the Company since June 2014.
- (b) The registered address of the Company is situated at 8th Floor, Tower 2, No. 5A Rongchang East Street, Beijing Economic-Technological Development Area, Beijing, PRC. The registrar of the Company is Computershare Hong Kong Investor Services Limited, whose address is at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- (c) The principal place of business of the Company in Hong Kong is at Unit 2202A, 22th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

11. 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 in Hong Kong up to and including 20 December 2017:

- (a) the letter from the Board dated 16 November 2017, the text of which is set out on pages 7 to 54 of this circular;
- (b) the letter of recommendation dated 16 November 2017 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 55 of this circular;
- (c) the letter of advice dated 16 November 2017 from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 56 to 76 of this circular;
- (d) the agreements in connection with the Non-exempt Continuing Connected Transactions referred to in this circular;
- (e) the written consent from the expert referred to in section 6 of this Appendix;
- (f) the annual reports of the Company for the three financial years ended 31 December 2016 and the interim report of the Company for the six months ended 30 June 2017;
- (g) the Articles of Association;
- (h) the Rules Governing the Operation of Shareholders' General Meeting; and
- (i) this circular.

NOTICE OF THE EGM



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 9:00 a.m. on Wednesday, 20 December 2017, 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 16 November 2017 (the “**Circular**”):

ORDINARY RESOLUTIONS

1. “**THAT** the terms of the Mutual Supply of Products Agreement and the proposed annual caps in respect thereof for the three financial years ending 31 December 2020 be and are hereby approved, ratified and confirmed; and 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 continuing connected transactions contemplated thereunder 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 to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”
2. “**THAT** the terms of the Mutual Provision of Services Agreement and the proposed annual caps in respect thereof for the three financial years ending 31 December 2020 be and are hereby approved, ratified and confirmed; and 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 continuing connected transactions contemplated thereunder 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 to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”

* For identification purpose only

NOTICE OF THE EGM

3. “**THAT** the terms of the Products and Services Mutual Supply and Guarantee Agreement and the proposed annual caps in respect thereof for the three financial years ending 31 December 2020 be and are hereby approved, ratified and confirmed; and 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 continuing connected transactions contemplated thereunder 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 to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”
4. “**THAT** the terms of the Financial Services Framework Agreement and the proposed caps in respect thereof for the three financial years ending 31 December 2020 be and are hereby approved, ratified and confirmed; and 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 continuing connected transactions contemplated thereunder 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 to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”
5. “**THAT** the revision of the proposed annual cap for 2017 for the expenditure transactions under the Existing Mutual Provision of Services Agreement, be and are hereby approved, ratified and confirmed; and 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 continuing connected transactions contemplated thereunder 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 to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”
6. “**THAT** the revision of the maximum outstanding daily balance of Deposit Services and the annual cap for 2017 of Other Financial Services under the Existing Financial Services Framework Agreement (including the supplemental agreement thereto), be and are hereby approved, ratified and confirmed; and 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 continuing connected transactions contemplated thereunder 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 to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”

NOTICE OF THE EGM

SPECIAL RESOLUTIONS

7. **“THAT:**

- (1) subject to the required approval or endorsement from or registration with the relevant regulatory authorities in the PRC, the proposed amendments to the Articles of Association (details of which are set out in the paragraph headed “Proposed Amendments to the Articles of Association” in the letter from the Board contained in the Circular) be and are hereby approved and confirmed;
- (2) 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 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
- (3) 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 amendments to the Articles of Association as may be required by the relevant regulatory authorities in the PRC.”

8. **“THAT:**

- (1) subject to the required approval or endorsement from or registration with the relevant regulatory authorities in the PRC, the proposed amendments to the Rules Governing the Operation of Shareholders’ General Meeting (details of which are set out in the paragraph headed “Proposed Amendments to the Rules Governing the Operation of Shareholders’ General Meeting” in the letter from the Board contained in the Circular) be and are hereby approved and confirmed;
- (2) 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 amendments to the Rules Governing the Operation of Shareholders’ General Meeting, 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

NOTICE OF THE EGM

- (3) 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 amendments to the Rules Governing the Operation of Shareholders' General Meeting as may be required by the relevant regulatory authorities in the PRC.”

By Order of the Board
AviChina Industry & Technology Company Limited*
Xu Bin
Company Secretary

Beijing, 16 November 2017

Notes:

(1) CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY TO ATTEND AND VOTE AT THE EGM

Pursuant to Article 41 of the amended Articles of Association of the Company, the H Share register of members of the Company will be closed from Thursday, 30 November 2017 to Wednesday, 20 December 2017 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of the Company's H Shares and Domestic Shares whose names appear on the Company's Register of Members at the opening of business on Wednesday, 20 December 2017 are entitled to attend and vote at the EGM.

In order to be eligible to attend and vote at the EGM, holders of the Company's H Shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H Shares Registrar, not later than 4:30 p.m. on Wednesday, 29 November 2017 at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong.

(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 Wednesday, 29 November 2017.
- c Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.

* For identification purpose only

NOTICE OF THE EGM

(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 needs not be a Shareholder. 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, the Company's H Shares registrar, at the address of 17M Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong 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 the EGM or any adjournment thereof (as the case may be) 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:

Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the PRC

(Postal code: 100029)

Telephone No.: 86-10-58354335/4313

Facsimile No.: 86-10-58354310

Attention: Mr. Liu Kai/Mr. Hao Weidi

(5) RESOLUTIONS ABOVE WILL BE VOTED BY POLL BY THE INDEPENDENT SHAREHOLDERS.

As at the date of this notice, the Board comprises executive Director Mr. Lin Zuoming, non-executive Directors Mr. Tan Ruisong, Mr. Wu Xiandong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai.