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

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

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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) PROPOSED PLACING OF NEW AVIC AVIONICS SHARES BY AVIC AVIONICS;**
(2) DISCLOSEABLE AND CONNECTED TRANSACTION: PROPOSED SUBSCRIPTION OF NEW AVIC AVIONICS SHARES BY THE COMPANY WITH EQUITY INTERESTS IN AVIC KAITIAN AND AVIC LANFEI;
(3) DISCLOSEABLE AND CONNECTED TRANSACTIONS: PROPOSED SUBSCRIPTION OF NEW AVIC AVIONICS SHARES BY THREE CONNECTED PERSONS WITH AVIC EQUITY INTEREST; AVIC AVIONICS SYSTEMS EQUITY INTERESTS; AND HANZHONG AVIATION EQUITY INTERESTS;
(4) DISCLOSEABLE TRANSACTION: DEEMED DISPOSAL OF INTEREST IN AVIC AVIONICS BY THE COMPANY;
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

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

ANGLO CHINESE 英
CORPORATE FINANCE, LIMITED 高

Anglo Chinese Corporate Finance, Limited

A letter from the Independent Board Committee is set out on page 23 of this circular. A letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 44 of this circular.

A notice convening the extraordinary general meeting ("EGM") of AviChina Industry & Technology Company Limited to be held at 8:30 a.m. on Tuesday, 17 August 2010 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 48 to 50 of this circular.

Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Wednesday, 28 July 2010. 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 and voting in person if you so wish.

* For identification purpose only

12 July 2010

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DEFINITIONS

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

“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“AVIC”	China Aviation Industry Corporation (中國航空工業集團公司), a controlling shareholder of the Company holding 56.70% equity interest in the Company
“AVIC Avionics”	China AVIC Avionics Equipment Co., Ltd. (中航航空電子設備股份有限公司), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange which is held as to 49.93% by the Company, 15.4% by AVIC and as to 34.51 % by the public. The accounts of AVIC Avionics are consolidated in the audited accounts of the Company as a subsidiary
“AVIC Avionics Shares”	the A shares of AVIC Avionics which are listed on the Shanghai Stock Exchange
“AVIC Avionics Systems”	AVIC Avionics Systems Co., Ltd. (中航系統科技有限責任公司), a wholly-owned subsidiary of AVIC
“AVIC Avionics Systems Equity Interests”	100% equity interests in each of Shaanxi Baocheng and Taiyuan Instrument and 12.9% equity interest in Shaanxi Huayan to be transferred by AVIC Avionics Systems to AVIC Avionics as consideration for the AVIC Avionics Systems Subscription
“AVIC Avionics Systems Subscription”	the proposed subscription of 152,749,808 new AVIC Avionics Shares, subject to adjustment, by AVIC Avionics Systems at the Subscription Price pursuant to the Subscription Agreement, as amended by the Supplemental Agreement
“AVIC Equity Interest”	3.56% equity interest in Qianshan Avionics to be transferred by AVIC to AVIC Avionics as consideration for the AVIC Subscription

DEFINITIONS

“AVIC Kaitian”	Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), which is owned as to 86.74% by the Company, 11.70% by AVIC through its subsidiaries and the remaining 1.56% by an independent third party
“AVIC Lanfei”	Lanzhou Flight Control Co., Ltd., (蘭州飛行控制有限責任公司), which is wholly-owned by the Company
“AVIC Subscription”	the proposed subscription of 1,347,093 new AVIC Avionics Shares, subject to adjustment, by AVIC at the Subscription Price pursuant to the Subscription Agreement, as amended by the Supplemental Agreement
“Board”	the board of directors of the Company
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司)
“Company Subscription”	the proposed subscription of 123,602,782 new AVIC Avionics Shares, subject to adjustment, by the Company at the Subscription Price pursuant to the Subscription Agreement, as amended by the Supplemental Agreement
“Completion”	completion of the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Directors”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on Tuesday, 17 August 2010 to approve, among other matters, the terms and the connected transactions constituted under the Subscription Agreement, as amended by the Supplemental Agreement
“Equity Interests in AVIC Kaitian and AVIC Lanfei”	86.74% equity interest in AVIC Kaitian and 100% equity interest in AVIC Lanfei to be transferred by the Company to AVIC Avionics as consideration for the Company Subscription
“Group”	the Company and its subsidiaries

DEFINITIONS

“Hanzhong Aviation”	Hanzhong Aviation Industry (Group) Co., Ltd. (漢中航空工業(集團)有限公司), which is owned as to 70% by AVIC through a non wholly-owned subsidiary of AVIC
“Hanzhong Aviation Equity Interests”	67.10% equity interest in Shaanxi Huayan and 96.44% equity interest in Qianshan Avionics to be transferred by Hanzhong Aviation to AVIC Avionics as consideration for the Hanzhong Aviation Subscription
“Hanzhong Aviation Subscription”	the proposed subscription of 58,584,284 new AVIC Avionics Shares, subject to adjustment, by Hanzhong Aviation at the Subscription Price pursuant to the Subscription Agreement, as amended by the Subscription Agreement
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent board committee comprising independent non-executive Directors, namely, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis
“Independent Shareholders”	Shareholders (other than AVIC and its associates) who are not required by the Listing Rules to abstain from voting on the resolutions to be proposed at the general meeting of the Company to approve the connected transactions to be constituted by the Subscription Agreement, as amended by the Supplemental Agreement
“Initial Price Determination Date”	the date on which the initial issue price of not less than RMB7.58 per new AVIC Avionics Shares was determined (i.e., 1 June 2010, being the date when AVIC Avionics announced its first board meeting results concerning the Proposed Placing)
“Latest Practicable Date”	8 July 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)

DEFINITIONS

“Proposed Placing”	the proposed placing of approximately 336 million new AVIC Avionics Shares, subject to adjustment, to the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation at the Subscription Price pursuant to the Subscription Agreement, as amended by the Subscription Agreement
“PRC”	the People’s Republic of China
“PRC GAAP”	the financial reporting standards of enterprises promulgated by Chinese Accounting Standards Committee under the Ministry of Finance of the PRC and related interpretation bulletins
“Qianshan Avionics”	AVIC Shaanxi Qianshan Avionics Co., Ltd., which is held as to 96.44% and 3.56% by Hanzhong Aviation and AVIC, respectively
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	Stated-owned Assets Supervision and Administration Commission of the State Council (中國國務院國有資產監督管理委員會)
“Shaanxi Baocheng”	Shaanxi Baocheng Aviation Instrument Co., Ltd., a wholly-owned subsidiary of AVIC Avionics Systems
“Shaanxi Huayan”	AVIC Shaanxi Huayan Aero-Instrument Co., Ltd., which is held as to 67.10%, 12.90% and 20% by Hanzhong Aviation, AVIC Avionics Systems and a non wholly-owned subsidiary of AVIC, respectively
“Supplemental Agreement”	the supplemental agreement entered into between AVIC Avionics, AVIC, the Company, AVIC Avionics Systems and Hanzhong Aviation on 5 July 2010 to amend and vary certain terms of Proposed Placing under the Subscription Agreement concerning adjustments to (i) the Subscription Price; (ii) the valuation results in respect of the Equity Interests in AVIC Kaitian and AVIC Lanfei, AVIC Equity Interest, AVIC Avionics Systems Equity Interests and Hanzhong Aviation Equity Interests to be transferred to AVIC Avionics pursuant to the Subscription Agreement and (iii) the number of shares to be issued by AVIC Avionics under the Proposed Placing

DEFINITIONS

“Subscription”	refers to Company Subscription, AVIC Subscription, AVIC Avionics Systems Subscription and Hanzhong Aviation Subscription
“Subscription Agreement”	the subscription agreement entered into between AVIC Avionics, AVIC, the Company, AVIC Avionics Systems and Hanzhong Aviation on 1 June 2010, pursuant to which AVIC Avionics agrees to issue and each of the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation agrees to subscribe for a total of approximately 336 million new AVIC Avionics Shares, subject to adjustment
“Subscription Price”	RMB7.59 per new AVIC Avionics Share, which was determined based on RMB7.58 per new AVIC Avionics Share (being the average trading price of AVIC Avionics Shares on the Shanghai Stock Exchange in the 20 trading days preceding the Initial Price Determination Date), having taken into account the principle of the highest of: (i) RMB7.58 per new AVIC Avionics Share or (ii) the price in premium determined with reference to the increase of the Shanghai Stock Exchange composite index during the period when trading of the shares of AVIC Avionics was suspended (i.e., $RMB7.58 \times (\text{the closing price of the Shanghai Stock Exchange composite index on 2 July 2010} \div \text{the closing price of the Shanghai Stock Exchange composite index on 9 April 2009})$). The Subscription Price will be subject to the approval of its shareholders at the general meeting
“Taiyuan Instrument”	AVIC Taiyuan Aviation Instrument Co., Ltd., a wholly-owned subsidiary of AVIC Avionics Systems
“Valuation Date”	30 April 2010

* *For identification purpose only*

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 Directors:

Mr. Lin Zuoming
Mr. Tan Ruisong
Mr. Wu Xiandong

Non-executive Directors:

Mr. Gu Huizhong
Mr. Xu Zhanbin
Mr. Geng Ruguang
Mr. Zhang Xinguo
Mr. Gao Jianshe
Mr. Li Fangyong
Mr. Chen Yuanxian
Mr. Wang Yong
Mr. Maurice Savart

Independent non-executive Directors:

Mr. Guo Chongqing
Mr. Li Xianzong
Mr. Lau Chung Man, Louis

Registered Office:

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

*Principal place of business
in Hong Kong:*

Unit B, 15/F, United Centre
Queensway 95,
Hong Kong

12 July 2010

To the Shareholders:

Dear Sir or Madam,

- (1) PROPOSED PLACING OF NEW AVIC AVIONICS SHARES BY AVIC AVIONICS;
 - (2) DISCLOSEABLE AND CONNECTED TRANSACTION: PROPOSED SUBSCRIPTION OF NEW AVIC AVIONICS SHARES BY THE COMPANY WITH EQUITY INTERESTS IN AVIC KAITIAN AND AVIC LANFEI;
 - (3) DISCLOSEABLE AND CONNECTED TRANSACTIONS: PROPOSED SUBSCRIPTION OF NEW AVIC AVIONICS SHARES BY THREE CONNECTED PERSONS WITH AVIC EQUITY INTEREST; AVIC AVIONICS SYSTEMS EQUITY INTERESTS; AND HANZHONG AVIATION EQUITY INTERESTS;
 - (4) DISCLOSEABLE TRANSACTION: DEEMED DISPOSAL OF INTEREST IN AVIC AVIONICS BY THE COMPANY;
- AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Reference is made to the announcement of the Company dated 2 June 2010 in relation to (1) the Proposed Placing; (2) the Company Subscription with Equity Interests in AVIC Kaitian and AVIC Lanfei; (3) AVIC Subscription with AVIC Equity Interest; (4) AVIC

* For identification purpose only

LETTER FROM THE BOARD

Avionics Systems Subscription with AVIC Avionics Systems Equity Interests; (5) Hanzhong Aviation Subscription with Hanzhong Aviation Equity Interests; and (6) the deemed disposal of interest in AVIC Avionics by the Company.

Reference is also made to the announcement of the Company dated 6 July 2010 in relation to the Supplemental Agreement.

The purpose of this circular is to provide you with more information relating to, among other things, (1) further details of the proposed issue of new AVIC Avionics Shares by AVIC Avionics including the connected transactions constituted under the Subscription Agreement, as amended by the Supplemental Agreement, and the valuation results in respect of the Equity Interests in AVIC Kaitian and AVIC Lanfei, AVIC Equity Interest, AVIC Avionics Systems Equity Interests and Hanzhong Aviation Equity Interests; and (2) the letter from the Independent Board Committee and the recommendation from Anglo Chinese on the connected transactions constituted under the Subscription Agreement, as amended by the Supplemental Agreement.

A. INTRODUCTION

On 1 June 2010 and 5 July 2010, the board of AVIC Avionics resolved to issue approximately 336 million new AVIC Avionics Shares for subscription by the Company, AVIC and two subsidiaries of AVIC, namely, AVIC Avionics Systems and Hanzhong Aviation. Upon issuance, such new AVIC Avionics Shares will be listed on the Shanghai Stock Exchange. On 1 June 2010 and 5 July 2010, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation entered into the Subscription Agreement and the Supplemental Agreement respectively with AVIC Avionics to subscribe for new AVIC Avionics Shares, subject to conditions and Completion.

B. PROPOSED PLACING PLAN OF AVIC AVIONICS

Details of the Proposed Placing plan of AVIC Avionics are as follows:

1. Nominal value of the new AVIC Avionics Shares:

RMB1 per new AVIC Avionics Share.

2. Placing Methods:

Private placing of new AVIC Avionics Shares at an appropriate time within six months from the date of approval by CSRC.

3. Total number of new AVIC Avionics Shares to be issued:

Approximately 336 million new AVIC Avionics Shares. The final number of new AVIC Avionics Shares to be issued will be dependent on the final valuation of the equity interests to be transferred to AVIC Avionics and the Subscription Price as finally determined.

LETTER FROM THE BOARD

4. Placing Targets:

The Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation.

5. Subscription Price:

RMB7.59 per new AVIC Avionics Share, which was determined based on RMB7.58 per new AVIC Avionics Share (being the average trading price of AVIC Avionics Shares on the Shanghai Stock Exchange in the 20 trading days preceding the Initial Price Determination Date), having taken into account the principle of the highest of: (i) RMB7.58 per new AVIC Avionics Share or (ii) the price in premium determined with reference to the increase of the Shanghai Stock Exchange composite index during the period when trading of the shares of AVIC Avionics was suspended (i.e., $\text{RMB7.58} \times (\text{the closing price of the Shanghai Stock Exchange composite index on 2 July 2010} \div \text{the closing price of the Shanghai Stock Exchange composite index on 9 April 2009})$). The Subscription Price will be finally determined subject to the approval of its shareholders at the general meeting.

The Subscription Price and total number of AVIC Avionics Shares to be issued will be adjusted correspondingly in case of ex-dividend or ex-entitlement during the period between the Initial Price Determination Date and the issue date of the new AVIC Avionics Shares.

6. Lock-up period:

The new AVIC Avionics Shares proposed to be subscribed by the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation pursuant to the Subscription Agreement, as amended by the Supplemental Agreement, will be subject to a lock-up period of 36 months commencing from the date upon which completion of the allotment of the relevant AVIC Avionics Shares takes place.

C. THE SUBSCRIPTION AGREEMENT AND THE SUPPLEMENTAL AGREEMENT

1. Date

1 June 2010 (Subscription Agreement) and 5 July 2010 (Supplemental Agreement)

2. Parties

- (1) AVIC Avionics as the issuer;
- (2) The Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation, each as a subscriber.

LETTER FROM THE BOARD

3. Principal Terms

(a) Subscription of new AVIC Avionics Shares by the Company

Pursuant to the Subscription Agreement, as amended by the Supplemental Agreement, AVIC Avionics agrees to issue and the Company agrees to subscribe, subject to conditions and adjustment, for approximately 123,602,782 new AVIC Avionics Shares at the Subscription Price, subject to adjustment. The total consideration for the Company Subscription is estimated to be approximately RMB938 million, which will be satisfied by the Company transferring the Equity interests in AVIC Kaitian and AVIC Lanfei to AVIC Avionics. The total consideration is determined after the arm's length negotiation by the parties with reference to the valuation results of the Equity Interests in AVIC Kaitian and AVIC Lanfei as at the Valuation Date.

It is expected that the consideration will be finalized before the date of the EGM based on the final valuation results of the Equity Interests in AVIC Kaitian and AVIC Lanfei, which will be subject to adjustments based on the figures finally confirmed by SASAC or its authorized representatives.

Upon Completion, the number of AVIC Avionics Shares held by the Company will increase from 241,987,957 shares to approximately 365,590,739 shares. However, the aggregate shareholding held by the Company in AVIC Avionics will be diluted from 49.93% to approximately 44.54% based on the issued share capital of AVIC Avionics as enlarged by the Proposed Placing. To ensure that AVIC Avionics will continue to remain as a subsidiary of the Company, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation entered into an agreement on 1 June 2010 whereby subsequent to Completion, AVIC, AVIC Avionics Systems and Hanzhong Aviation collectively undertake to exercise their respective voting rights in AVIC Avionics in accordance with the instructions of the Company. Accordingly, the Directors confirm, after consulting with the auditors of the Company, that the accounts of AVIC Avionics will continue to be consolidated in the group accounts of the Company following Completion.

(b) Subscription of new AVIC Avionics Shares by AVIC

Pursuant to the Subscription Agreement, as amended by the Supplemental Agreement, AVIC Avionics agrees to issue and AVIC agrees to subscribe, subject to conditions and adjustment, for approximately 1,347,093 new AVIC Avionics Shares at the Subscription Price, subject to adjustment. The total consideration for the AVIC Subscription is estimated to be approximately RMB10 million, which will be satisfied by AVIC transferring the AVIC Equity Interest. The total consideration is determined after the arm's length negotiation by the parties with reference to the valuation results of the AVIC Equity Interest as at the Valuation Date.

LETTER FROM THE BOARD

It is expected that the consideration will be finalized before the date of the EGM based on the final valuation results of the AVIC Equity Interest, which will be subject to adjustment based on the figure finally confirmed by SASAC or its authorized representatives.

(c) Subscription of new AVIC Avionics Shares by AVIC Avionics Systems

Pursuant to the Subscription Agreement, as amended by the Supplemental Agreement, AVIC Avionics agrees to issue and AVIC Avionics Systems agrees to subscribe, subject to conditions and adjustment, for approximately 152,749,808 new AVIC Avionics Shares at the Subscription Price, subject to adjustment. The total consideration for the AVIC Avionics Systems Subscription is estimated to be approximately RMB1,159 million, which will be satisfied by AVIC Avionics Systems transferring the AVIC Avionics Systems Equity Interests to AVIC Avionics. The total consideration is determined after the arm's length negotiation by the parties with reference to the valuation results of the AVIC Avionics Systems Equity Interests as at the Valuation Date.

It is expected that the consideration will be finalized before the date of the EGM based on the final valuation results of the AVIC Avionics Systems Equity Interests, which will be subject to adjustments based on the figures finally confirmed by SASAC or its authorized representatives.

(d) Subscription of new AVIC Avionics Shares by Hanzhong Aviation

Pursuant to the Subscription Agreement, as amended by the Supplemental Agreement, AVIC Avionics agrees to issue and Hanzhong Aviation agrees to subscribe, subject to conditions and adjustment, for approximately 58,584,284 new AVIC Avionics Shares at the Subscription Price, subject to adjustment. The total consideration for the Hanzhong Aviation Subscription is estimated to be approximately RMB445 million, which will be satisfied by Hanzhong Aviation transferring the Hanzhong Aviation Equity Interests to AVIC Avionics. The total consideration is determined after the arm's length negotiation by the parties with reference to the valuation results of the Hanzhong Aviation Equity Interests as at the Valuation Date.

It is expected that the consideration will be finalized before the date of the EGM based on the final valuation results of the Hanzhong Aviation Equity Interests, which will be subject to adjustments based on the figures finally confirmed by SASAC or its authorized representatives.

4. Subscription Price

The Subscription Price will be RMB7.59 per new AVIC Avionics Share, which was determined based on RMB7.58 per new AVIC Avionics Share (being the average trading price of AVIC Avionics Shares on the Shanghai Stock Exchange in the 20 trading days preceding the Initial Price Determination Date), having taken into account the principle of the highest of: (i) RMB7.58 per new AVIC Avionics Share or (ii) the

LETTER FROM THE BOARD

price in premium determined with reference to the increase of the Shanghai Stock Exchange composite index during the period when trading of the shares of AVIC Avionics was suspended (i.e., $\text{RMB}7.58 \times (\text{the closing price of the Shanghai Stock Exchange composite index on 2 July 2010} \div \text{the closing price of the Shanghai Stock Exchange composite index on 9 April 2009})$). The Subscription Price will be finally determined upon the approval of its shareholders at the general meeting. If the final Subscription Price is higher than RMB7.59, the number of new AVIC Avionics Shares to be subscribed by each of the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation will be adjusted accordingly.

5. Conditions on which the Subscription Agreement, as amended by the Supplemental Agreement, will become effective

The Subscription Agreement, as amended by the Supplemental Agreement, is subject to, among other things, the following conditions:

- (1) the Subscription Agreement, as amended by the Supplemental Agreement, having been executed by the legal representatives or authorized person(s) of the parties;
- (2) AVIC Avionics having convened the board meeting and general meeting to approve the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, and the non-connected shareholders of AVIC Avionics having agreed to waive the Company, AVIC Avionics Systems, Hanzhong Aviation and/or AVIC from the obligations to make a general offer for AVIC Avionics Shares;
- (3) each of the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation having completed and satisfied all the necessary corporate procedures in accordance with the relevant requirements of their respective articles of association and the Listing Rules (in the case of the Company), including but not limited to, the approval by the Independent Shareholders of the Subscription Agreement, as amended by the Supplemental Agreement, and the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement;
- (4) approval by SASAC of the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, and filing of the valuation results of the equity interests to be transferred to AVIC Avionics as consideration for the Subscription including, (i) Equity Interests in AVIC Kaitian and AVIC Lanfei; (ii) AVIC Equity Interest; (iii) AVIC Avionics Systems Equity Interests; and (iv) the Hanzhong Aviation Equity Interests;
- (5) approval by CSRC of the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement; and

LETTER FROM THE BOARD

- (6) a waiver granted by CSRC to the Company, AVIC Avionics Systems and Hanzhong Aviation and/or AVIC, the controlling shareholder of each of the Company, AVIC Avionics Systems and Hanzhong Aviation, waiving their obligations from making a general offer for AVIC Avionics Shares.

6. Completion

Completion of the Subscription Agreement, as amended by the Supplemental Agreement, will take place on the date on which (i) the conditions set out above have been satisfied; (ii) the new AVIC Avionics Shares to be subscribed by the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation have been issued to and registered in the names of the respective parties; and (iii) the title to the equity interests of AVIC Kaitian, AVIC Lanfei, Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics under transfer have been registered in the names of AVIC Avionics.

D. INFORMATION RELATING TO AVIC KAITIAN AND AVIC LANFEI

Information relating to AVIC Kaitian

AVIC Kaitian is a joint stock limited company which was reformed and established in the PRC with the approval from SASAC in 2008. As at the Latest Practicable Date, AVIC Kaitian is owned directly as to 86.74% by the Company. The registered capital of AVIC Kaitian is RMB321.68 million. AVIC Kaitian is mainly engaged in the research, manufacture and sales of air data collection and measurement system and various types of aviation instrument.

The major assets of AVIC Kaitian include plants, equipment, and machineries engaging in the business of air data collection and measurement system, all types of aviation instrument.

The financial information disclosed in the announcement of the Company dated 2 June 2010 in relation to AVIC Kaitian was unaudited. Set out below is the audited financial information in relation to AVIC Kaitian for the two years ended 31 December 2009 and the four months ended 30 April 2010:

Based on the audited financial statements of AVIC Kaitian prepared under PRC GAAP, as at 30 April 2010, the total assets and net assets of AVIC Kaitian amounted to RMB1,124.36 million and RMB565.24 million, respectively. As at 30 April 2010, the revenue, net profit before tax and net profit after tax of AVIC Kaitian amounted to RMB134.84 million, RMB17.09 million and RMB16.35 million, respectively.

Based on the audited financial statements of AVIC Kaitian prepared under PRC GAAP, as at 31 December 2009, the total assets and net assets of AVIC Kaitian amounted to RMB1,097.11 million and RMB497.63 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of AVIC Kaitian amounted to RMB386.48 million, RMB59.84 million and RMB48.84 million, respectively.

LETTER FROM THE BOARD

Based on the audited financial statements of AVIC Kaitian prepared under PRC GAAP, as at 31 December 2008, the total assets and net assets of AVIC Kaitian amounted to RMB961.71 million and RMB457.75 million, respectively. For the financial year ended on 31 December 2008, the revenue, net profit before tax and net profit after tax of AVIC Kaitian amounted to RMB512.25 million, RMB95.17 million and RMB81.37 million, respectively.

There is no qualification or modified opinion for the audited financial statements of AVIC Kaitian for the two years ended 31 December 2009 and the four months ended 30 April 2010.

Information relating to AVIC Lanfei

AVIC Lanfei was reorganized to be a limited company in 2003. As at the Latest Practicable Date, the Company holds 100% equity interest in AVIC Lanfei. The registered capital of AVIA Lanfei is RMB146.77 million. AVIC Lanfei is mainly engaged in the research, manufacture and sales of aviation auto control equipment and instrument.

The major assets of AVIC Lanfei include plant, equipment, and machineries engaging in the business of aviation auto control equipment and instrument.

The financial information disclosed in the announcement of the Company dated 2 June 2010 in relation to AVIC Lanfei was unaudited. Set out below is the audited financial information in relation to AVIC Lanfei for the two years ended 31 December 2009 and the four months ended 30 April 2010:

Based on the audited financial statements of AVIC Lanfei prepared under PRC GAAP, as at 30 April 2010, the total assets and net assets of AVIC Lanfei amounted to RMB627.10 million and RMB278.51 million, respectively. As at 30 April 2010, the revenue, net loss before tax and net loss after tax of AVIC Lanfei amounted to RMB54.85 million, RMB11.76 million and RMB12.79 million, respectively.

Based on the audited financial statements of AVIC Lanfei prepared under PRC GAAP, as at 31 December 2009, the total assets and net assets of AVIC Lanfei amounted to RMB633.62 million and RMB272.29 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of AVIC Lanfei amounted to RMB267.28 million, RMB26.27 million and RMB24.56 million, respectively.

Based on the audited financial statements of AVIC Lanfei prepared under PRC GAAP, as at 31 December 2008, the total assets and net assets of AVIC Lanfei amounted to RMB566.23 million and RMB256.09 million, respectively. For the financial year ended on 31 December 2008, the revenue, net profit before tax and net profit after tax of AVIC Lanfei amounted to RMB250.87 million, RMB28.18 million and RMB26.46 million, respectively.

LETTER FROM THE BOARD

There is no qualification or modified opinion for the audited financial information of AVIC Lanfei for the two years ended 31 December 2009 and the four months ended 30 April 2010.

E. INFORMATION RELATING TO SHAANXI BAOCHENG, TAIYUAN INSTRUMENT, SHAANXI HUAYAN AND QIANSHAN AVIONICS

Information relating to Shaanxi Baocheng

Shaanxi Baocheng was reorganized to be a wholly stated-owned limited company in 2002. As at the Latest Practicable Date, AVIC Avionics Systems, a wholly-owned subsidiary of AVIC, holds 100% equity interest in Shaanxi Baocheng. The registered capital of Shaanxi Baocheng is RMB200 million. Shaanxi Baocheng is mainly engaged in the research, manufacture and sales of navigation system, flight environment supervision system, micromachined rotational gyroscopes and inertia accelerometer.

The major assets of Shaanxi Baocheng include plant, equipment, and machineries engaging in the business of navigation system, flight environment supervision system, micromachined rotational gyroscopes and inertia accelerometer.

The financial information disclosed in the announcement of the Company dated 2 June 2010 in relation to Shaanxi Baocheng was unaudited. Set out below is the audited financial information in relation to Shaanxi Baocheng for the two years ended 31 December 2009 and the four months ended 30 April 2010:

Based on the audited financial statements of Shaanxi Baocheng prepared under PRC GAAP, as at 30 April 2010, the total assets and net assets of Shaanxi Baocheng amounted to RMB1,292.05 million and RMB439.23 million, respectively. As at 30 April 2010, the revenue, net profit before tax and net profit after tax of Shaanxi Baocheng amounted to RMB189.62 million, RMB6.60 million and RMB6.15 million, respectively.

Based on the audited financial statements of Shaanxi Baocheng prepared under the PRC GAAP, as at 31 December 2009, the total assets and net assets of Shaanxi Baocheng amounted to RMB1,234.82 million and RMB410.36 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of Shaanxi Baocheng amounted to RMB662.18 million, RMB79.81 million and RMB70.29 million, respectively.

Based on the audited financial statements of Shaanxi Baocheng prepared under PRC GAAP, as at 31 December 2008, the total assets and net assets of Shaanxi Baocheng amounted to RMB888.26 million and RMB298.51 million, respectively. For the financial year ended on 31 December 2008, the revenue, net profit before tax and net profit after tax of Shaanxi Baocheng amounted to RMB536.60 million, RMB72.51 million and RMB69.14 million, respectively.

LETTER FROM THE BOARD

There is no qualification or modified opinion for the audited financial information of Shaanxi Baocheng for the two years ended 31 December 2009 and the four months ended 30 April 2010.

Information relating to Taiyuan Instrument

Taiyuan Instrument was reorganized to be a wholly stated-owned limited company in 1999. As at the Latest Practicable Date, AVIC Avionics Systems holds 100% equity interest in Taiyuan Instrument. The registered capital of Taiyuan Instrument is RMB41.86 million. Taiyuan Instrument is mainly engaged in the research, manufacture and sales of atmosphere data measurement system, airborne liquid crystal display, airborne warning system, elastic sensitive element, high precision pressure sensor, flight indicator instrument, air pressure sensor.

The major assets of Taiyuan Instrument include plant, equipment and machineries engaging in the business of atmosphere data measurement system, airborne liquid crystal display, airborne warning system, elastic sensitive element, high precision pressure sensor, flight indicator instrument, air pressure sensor.

The financial information disclosed in the announcement of the Company dated 2 June 2010 in relation to Taiyuan Instrument was unaudited. Set out below is the audited financial information in relation to Taiyuan Instrument for the two years ended 31 December 2009 and the four months ended 30 April 2010:

Based on the audited financial statements of Taiyuan Instrument prepared under PRC GAAP, as at 30 April 2010, the total assets and net assets of Taiyuan Instrument amounted to RMB766.96 million and RMB305.72 million, respectively. As at 30 April 2010, the revenue, net profit before tax and net profit after tax of Taiyuan Instrument amounted to RMB87.30 million, RMB12.20 million and RMB10.74 million, respectively.

Based on the audited financial statements of Taiyuan Instrument prepared under PRC GAAP, as at 31 December 2009, the total assets and net assets of Taiyuan Instrument amounted to RMB776.78 million and RMB275.87 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of Taiyuan Instrument amounted to RMB323.33 million, RMB31.90 million and RMB27.75 million, respectively.

Based on the audited financial statements of Taiyuan Instrument prepared under PRC GAAP, as at 31 December 2008, the total assets and net assets of Taiyuan Instrument amounted to RMB720.66 million and RMB234.57 million, respectively. For the financial year ended on 31 December 2008, the revenue, net profit before tax and net profit after tax of Taiyuan Instrument amounted to RMB260.86 million, RMB63.69 million and RMB46.97 million, respectively.

There is no qualification or modified opinion for the audited financial information of Taiyuan Instrument for the two years ended 31 December 2009 and the four months ended 30 April 2010.

LETTER FROM THE BOARD

Information relating to Shaanxi Huayan

Shaanxi Huayan was reorganized to be a wholly stated-owned limited company in 2008. As at the Latest Practicable Date, Hanzhong Aviation and AVIC Avionics Systems holds 67.10% and 12.90% equity interest in Shaanxi Huayan, respectively. The registered capital of Shaanxi Huayan is RMB160 million. Shaanxi Huayan is mainly engaged in the manufacture and sales of strap-down inertial navigation system, strap-down altitude heading reference system, inertial sensor, components, electromagnetic devices and gyroscopes.

The major assets of Shaanxi Huayan include plant, equipment, and machineries engaging in the business of strap-down inertial navigation system, strap-down altitude heading reference system, inertial sensor, components, electromagnetic devices and gyroscopes.

The financial information disclosed in the announcement of the Company dated 2 June 2010 in relation to Shaanxi Huayan was unaudited. Set out below is the audited financial information in relation to Shaanxi Huayan for the two years ended 31 December 2009 and the four months ended 30 April 2010:

Based on the audited financial statements of Shaanxi Huayan prepared under PRC GAAP, as at 30 April 2010, the total assets and net assets of Shaanxi Huayan amounted to RMB401.50 million and RMB189.33 million, respectively. As at 30 April 2010, the revenue, net profit before tax and net profit after tax of Shaanxi Huayan amounted to RMB82.90 million, RMB13.45 million and RMB12.95 million, respectively.

Based on the audited financial statements of Shaanxi Huayan prepared under PRC GAAP, as at 31 December 2009, the total assets and net assets of Shaanxi Huayan amounted to RMB377.67 million and RMB176.40 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of Shaanxi Huayan amounted to RMB233.37 million, RMB27.92 million and RMB27.85 million, respectively.

Based on the audited financial statements of Shaanxi Huayan prepared under PRC GAAP, as at 31 December 2008, the total assets and net assets of Shaanxi Huayan amounted to RMB357.20 million and RMB171.22 million, respectively. For the financial year ended on 31 December 2008, the revenue, net loss before tax and net loss after tax of Shaanxi Huayan amounted to RMB203.35 million, RMB9.14 million and RMB1.58 million, respectively.

There is no qualification or modified opinion for the audited financial information of Shaanxi Huayan for the two years ended 31 December 2009 and the four months ended 30 April 2010.

LETTER FROM THE BOARD

Information relating to Qianshan Avionics

Qianshan Avionics was reorganized to be a wholly stated-owned limited company in 2008. As at the Latest Practicable Date, Qianshan Avionics is held as to 96.44% by Hanzhong Aviation and 3.56% by AVIC. The registered capital of Qianshan Avionics is RMB245.34 million. Qianshan Avionics is mainly engaged in the research, manufacture and sales of airborne data collection and processing, large capacity data memory, flying parameter collection-recorder and embedded high-performance computer.

The major assets of Qianshan Avionics include plant, equipment, and machineries engaging in the business of airborne data collection and processing, large capacity data memory, flying parameter collection-recorder and embedded high-performance computer.

The financial information disclosed in the announcement of the Company dated 2 June 2010 in relation to Qianshan Avionics was unaudited. Set out below is the audited financial information in relation to Qianshan Avionics for the two years ended 31 December 2009 and the four months ended 30 April 2010:

Based on the audited financial statements of Qianshan Avionics prepared under PRC GAAP, as at 30 April 2010, the total assets and net assets of Qianshan Avionics amounted to RMB587.36 million and RMB247.63 million, respectively. As at 30 April 2010, the revenue, net profit before tax and net profit after tax of Qianshan Avionics amounted to RMB60.59 million, RMB4.31 million and RMB3.51 million, respectively.

Based on the audited financial statements of Qianshan Avionics prepared under PRC GAAP, as at 31 December 2009, the total assets and net assets of Qianshan Avionics amounted to RMB579.38 million and RMB230.87 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of Qianshan Avionics amounted to RMB229.77 million, RMB17.16 million and RMB16.57 million, respectively.

Based on audited financial statements of Qianshan Avionics prepared under PRC GAAP, as at 31 December 2008, the total assets and net assets of Qianshan Avionics amounted to RMB549.26 million and RMB232.65 million, respectively. For the financial year ended on 31 December 2008, the revenue, net loss before tax and net loss after tax of Qianshan Avionics amounted to RMB235.19 million, RMB10.24 million and RMB9.29 million, respectively.

There is no qualification or modified opinion for the audited financial information of Qianshan Avionics for the two years ended 31 December 2009 and the four months ended 30 April 2010.

LETTER FROM THE BOARD

F. DEEMED DISPOSAL OF AVIC AVIONICS, EFFECTS OF THE SUBSCRIPTION AND FINANCIAL IMPLICATIONS

The table below sets out the shareholding structure of AVIC Avionics before and upon Completion (on the assumption that the Subscription Price per new AVIC Avionics Share is RMB7.59):

Name of Shareholder of AVIC Avionics	Number of AVIC Avionics Shares held before Completion	Approximate % of the issued share capital held before Completion	Approximate Number of AVIC Avionics Shares held upon Completion	Approximate % of the issued share capital held upon Completion
The Company	241,987,957	49.93	365,590,739	44.54
AVIC	74,625,174	15.40	75,972,267	9.25
AVIC Avionics Systems	0	0	152,749,808	18.61
Hanzhong Aviation	0	0	58,584,284	7.14
China Aviation Industry Supply and Marketing Corporation	571,204	0.12	571,204	0.07
China Civil Aircraft Development Corporation	185,629	0.04	185,629	0.02
Sub-total:	<u>317,369,964</u>	<u>65.49</u>	<u>653,653,931</u>	<u>79.63</u>
Public shareholders	167,255,210	34.51	167,255,210	20.37
Total	<u>484,625,174</u>	<u>100</u>	<u>820,909,141</u>	<u>100</u>

Note:

The gain/loss (*) on the deemed disposal is calculated by the change in the attributable net asset values ("NAV") of AVIC Avionics, AVIC Kaitian and AVIC Lanfei held by the Company before and after the Proposed Placing based on the difference between:

- the NAV of AVIC Avionics, AVIC Kaitian and AVIC Lanfei attributable to the Company before the Proposed Placing (which is 49.93% x NAV of AVIC Avionics + 86.74% x NAV of AVIC Kaitian + 100% of AVIC Lanfei); and
- the NAV of AVIC Avionics attributable to the Company after the Proposed Placing (which is 44.54% x {net asset value of AVIC Avionics after its acquisition of AVIC Kaitian, AVIC Lanfei, Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshen Avionics}).

Pursuant to the NAV of AVIC Avionics of RMB695 million as at 31 December 2009, the disposal gain is expected to be approximately RMB40 million. The actual gain or loss cannot be ascertained at this stage because its NAV can only be determined upon completion of the Proposed Placing.

(*) The gain/loss will be reflected as a credit/debit movement to reserves and will not be included in the consolidated income statement of the Group.

LETTER FROM THE BOARD

G. REASONS FOR THE PROPOSED PLACING AND SUBSCRIPTION OF NEW AVIC AVIONICS SHARES

Upon Completion, the equity interests in Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics together with their relevant assets will be injected into AVIC Avionics, which will further enhance the Company's aviation electronics products business and enlarge the operation scale of AVIC Avionics. In order to centralize the Company's aviation electronics products business, the Directors consider that it is in the interest of the Company to transfer the Equity Interests in AVIC Kaitian and AVIC Lanfei, which are also engaged in aviation electronics products business, to AVIC Avionics through the proposed subscription of new AVIC Avionics Shares, so as to achieve effective management and cost control. In addition, as a result of centralizing its aviation electronics products business, the Directors believe that the Company's research and development capability in aviation electronics products and other ancillary aviation products will be strengthened and therefore, the overall profitability, market competitiveness and sustainable development of the Company will be significantly improved. As a controlling shareholder of AVIC Avionics, the Company will continue to benefit from the future development of AVIC Avionics. Furthermore, the Directors consider that the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, will help the Group to consolidate its market position in the PRC aviation industry and further improve its investment value. The Directors are of the opinion that the terms of the Subscription Agreement, as amended by the Supplemental Agreement, are fair and reasonable and in the interest of the Company and its shareholders as a whole.

H. LISTING RULES IMPLICATIONS

Discloseable and Connected Transaction: Proposed subscription of New AVIC Avionics Shares by the Company with Equity Interests in AVIC Kaitian and AVIC Lanfei

As of the Latest Practicable Date, AVIC holds 15.4% equity interest in AVIC Avionics. Pursuant to Chapter 14A of the Listing Rules, AVIC Avionics is a connected person of the Company. The Company Subscription with the Equity Interests in AVIC Kaitian and AVIC Lanfei will constitute a connected transaction of the Company, which will be subject to, among other things, approval by the Independent Shareholders. As the highest applicable size test percentage ratio in relation to the proposed subscription by the Company is over 5% but less than 25%, the Company Subscription will constitute a discloseable transaction of the Company. The transfer of Equity Interests in AVIC Kaitian and AVIC Lanfei by the Company to AVIC Avionics as consideration for the Company Subscription will also constitute a discloseable transaction of the Company.

LETTER FROM THE BOARD

Discloseable and Connected Transactions: Proposed subscription of New AVIC Avionics Shares by (i) AVIC with AVIC Equity Interest, (ii) AVIC Avionics Systems with AVIC Avionics Systems Equity Interests and (iii) Hanzhong Aviation with Hanzhong Aviation Equity Interests

AVIC Avionics Systems is a wholly-owned subsidiary of AVIC and Hanzhong Aviation is an indirect non wholly-owned subsidiary of AVIC. As AVIC is a controlling shareholder holding 56.7% equity interest in the Company, it is a connected person of the Company and AVIC Avionics Systems and Hanzhong Aviation are associates of AVIC. Therefore, the AVIC Subscription, AVIC Avionics Systems Subscription and Hanzhong Aviation Subscription will constitute connected transactions of the Company, which will be subject to, among other things, approval by the Independent Shareholders. As the highest of the aggregated applicable size test percentage ratio in relation to the proposed subscriptions by AVIC, AVIC Avionics Systems and Hanzhong Aviation is over 5% but less than 25%, the AVIC Subscription, AVIC Avionics Systems Subscription and the Hanzhong Aviation Subscription will in aggregate also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Discloseable Transaction: Deemed disposal of approximately 5.39% equity interest in AVIC Avionics by the Company

Upon Completion, the equity interest held by the Company in AVIC Avionics will be diluted by approximately 5.39% from 49.93% to approximately 44.54%. Such dilution will constitute a deemed disposal by the Company of its approximately 5.39% equity interest in AVIC Avionics. As the highest applicable size test percentage ratio in relation to the deemed disposal is over 5% but less than 25%, the proposed deemed disposal constitutes a discloseable transaction under the Listing Rules. To ensure that AVIC Avionics will continue to remain as a subsidiary of the Company, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation entered into an agreement on 1 June 2010 whereby subsequent to Completion, AVIC, AVIC Avionics Systems and Hanzhong Aviation collectively undertake to exercise their respective rights of proposal and voting rights in AVIC Avionics in accordance with the instructions of the Company. Accordingly, the Directors confirm, after consulting with the auditors of the Company, that the accounts of AVIC Avionics will continue to be consolidated in the group accounts of the Company following Completion.

I. GENERAL

Information on AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC whose A shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, AVIC Avionics is held as to 49.93% by the Company and 15.4% by AVIC. AVIC Avionics is mainly engaged in the manufacturing of aviation electronics engineering products and accessories. AVIC Avionics was formerly known as Jiangxi Changhe Automobile Co., Ltd. (“**Changhe Auto**”) which used to be engaged in the development, manufacture and sale of automobiles. As Changhe Auto suffered severe losses for each of the three consecutive years ended 31 December 2008, under the PRC regulatory

LETTER FROM THE BOARD

regime, trading of the A shares of Changhe Auto has been suspended since 10 April 2009 and the listing of which has been suspended since 11 May 2009. In October 2008, Changhe Auto commenced the reorganization of its business to dispose of its loss-making automobile business. Upon completion of such reorganization in 2009, Changhe Auto has changed its major business to manufacturing of aviation electronics products and accessories and its name has been changed to AVIC Avionics. The operations of AVIC Avionics became profitable for the year ended 31 December 2009. Accordingly, AVIC Avionics submitted an application to Shanghai Stock Exchange on 16 April 2010 for resumption of its listing status. Such application was still in process as at the Latest Practicable Date.

Information on the Company

The Company is a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange. As at the Latest Practicable Date, the Company is held as to 56.7% by AVIC, being the controlling shareholder of the Company. The Company is mainly engaged in the research and development, manufacture and sales of vehicles and civilian aircraft.

Information on AVIC

AVIC is held and controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products such as automobile engine and parts and components.

Information on AVIC Avionics Systems

AVIC Avionics Systems was established in the PRC and is the wholly-owned subsidiary of AVIC. AVIC Avionics Systems is mainly engaged in the research and development, manufacturing and sales of aviation electrical products.

Information on Hanzhong Aviation

Hanzhong Aviation was established in the PRC and is owned as to 70% by AVIC through a non wholly-owned subsidiary. Hanzhong Aviation is mainly engaged in the research and development, manufacturing and sales of aviation products.

J. DIRECTORS' INTEREST IN THE SUBSCRIPTION AGREEMENT, AS AMENDED BY THE SUPPLEMENTAL AGREEMENT

None of the Directors has a material interest in the connected transactions constituted by the Subscription Agreement, as amended by the Supplemental Agreement. Accordingly, none of them is required to abstain from voting on the relevant board resolution(s) to approve the Subscription Agreement, as amended by the Supplemental Agreement, under the articles of association of the Company or the Listing Rules.

LETTER FROM THE BOARD

K. EGM

The notice of the EGM to be held at 8:30 a.m. on Tuesday, 17 August 2010 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 48 to 50 of this circular, at which an ordinary resolution will be proposed to approve, among other matters, the terms and conditions of the Subscription Agreement, as amended by the Supplemental Agreement, and the connected transactions constituted under the Subscription Agreement, as amended by the Supplemental Agreement.

A reply slip and a form of proxy for use at the EGM are enclosed herewith. 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) should you wish.

AVIC and its associate(s), if any, are connected persons of the Company as defined under the Listing Rules and they will abstain from voting at the EGM in respect of the ordinary resolution to be proposed at the EGM. As at the Latest Practicable Date, AVIC and its associate(s), if any, directly owned 2,806,088,233 shares, representing approximately 56.70% of the total issued share capital of the Company. Pursuant to Rule 13.39(4) of the 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 Listing Rules following the EGM.

L. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 23 of this circular. The Directors and the Independent Board Committee, having taken into account the advice of Anglo Chinese, consider that the terms and conditions of the Subscription Agreement, as amended by the Supplemental Agreement, and the connected transactions constituted under the Subscription Agreement, as amended by the Supplemental Agreement, are fair and reasonable and the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, are 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 resolution relating to the Subscription Agreement and the Supplemental Agreement to be proposed at the EGM.

Your attention is also drawn to the additional information set out in the Appendices to this circular.

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)

12 July 2010

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company (the “**Circular**”) dated 12 July 2010 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the terms and conditions of the Subscription Agreement, as amended by the Supplemental Agreement and the connected transactions constituted thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Anglo Chinese has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Subscription Agreement, as amended by the Supplemental Agreement.

We wish to draw your attention to the letter from the Board set out on pages 6 to 22 of the Circular and the letter from Anglo Chinese set out on pages 24 to 44 of the Circular.

Having considered the advice given by Anglo Chinese, we are of the opinion that the terms of the Subscription Agreement, as amended by the Supplemental Agreement, are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider the entering into of the Subscription Agreement, as amended by the Supplemental Agreement, is 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 resolution to be proposed at the EGM.

Yours faithfully,

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

Guo Chongqing,

Li Xianzong,

Lau Chung Man, Louis

Independent Non-executive Directors

* For identification purpose only

LETTER FROM ANGLO CHINESE

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

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.
www.anglochinesegroup.com

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12 July 2010

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

- (1) PROPOSED PLACING OF NEW AVIC AVIONICS SHARES BY AVIC AVIONICS;**
- (2) DISCLOSEABLE AND CONNECTED TRANSACTION: PROPOSED SUBSCRIPTION OF NEW AVIC AVIONICS SHARES BY THE COMPANY WITH EQUITY INTERESTS IN AVIC KAITIAN AND AVIC LANFEI;**
- (3) DISCLOSEABLE AND CONNECTED TRANSACTIONS: PROPOSED SUBSCRIPTION OF NEW AVIC AVIONICS SHARES BY THREE CONNECTED PERSONS WITH AVIC EQUITY INTEREST; AVIC AVIONICS SYSTEMS EQUITY INTERESTS; AND HANZHONG AVIATION EQUITY INTERESTS; AND**
- (4) DISCLOSEABLE TRANSACTION: DEEMED DISPOSAL OF INTEREST IN AVIC AVIONICS BY THE COMPANY**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of Subscription Agreement, as amended by the Supplemental Agreement, and the proposed transfer of the relevant equity interests in AVIC Kaitian, AVIC Lanfei, Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics by the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation as the consideration for the Subscription. Details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 12 July 2010, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context requires otherwise.

Reference is made to the announcements of the Company dated 2 June 2010 and 6 July 2010. On 1 June 2010 and 5 July 2010, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation entered into the Subscription Agreement and the Supplemental Agreement respectively with AVIC Avionics, a 49.93% non-wholly owned subsidiary of the Company whose A shares are listed on the Shanghai Stock Exchange, pursuant to which AVIC Avionics agreed to issue and the Company, AVIC, AVIC Avionics Systems and

LETTER FROM ANGLO CHINESE

Hanzhong Aviation collectively agreed to subscribe for approximately 336 million new AVIC Avionics Shares based on the Subscription Price of RMB7.59 per AVIC Avionics Share. The consideration for the Subscription will be satisfied by the transfer of 86.74% equity interest in AVIC Kaitian, 80% equity interest in Shaanxi Huayan and the entire equity interests in each of AVIC Lanfei, Shaanxi Baocheng, Taiyuan Instrument and Qianshan Avionics (together the “**Incoming Assets**”) to AVIC Avionics. The estimated appraised value of the Incoming Assets to be transferred to AVIC Avionics aggregated to approximately RMB2,552 million. The final number of new AVIC Avionics Shares to be issued will be dependent on the final valuation of the Incoming Assets as confirmed by SASAC or its authorised representatives and the final Subscription Price as finally determined subject to the approval of its shareholders at the general meeting. The issuance and allotment of new AVIC Avionics Shares under the Subscription Agreement, as amended by the Supplemental Agreement, is also subject to approval by the relevant PRC government authorities such as SASAC and CSRC. Upon Completion, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation will be respectively interested in approximately 44.54%, 9.25%, 18.61% and 7.14% of the issued share capital of AVIC Avionics, as enlarged by the issue of new AVIC Avionics Shares.

As at the Latest Practicable Date, AVIC, the controlling shareholder of the Company, holds 15.4% equity interest in AVIC Avionics. Pursuant to Chapter 14A of the Listing Rules, AVIC Avionics is a connected person of the Company. The Company’s participation in the Subscription with its equity interests in AVIC Kaitian and AVIC Lanfei will constitute a connected transaction of the Company, which will be subject to, among other things, approval by the Independent Shareholders. As the highest applicable size test percentage ratio in relation to the proposed subscription of new AVIC Avionics Shares by the Company is over 5% but less than 25%, such subscription will constitute a discloseable transaction of the Company.

AVIC Avionics Systems is a wholly-owned subsidiary of AVIC and Hanzhong Aviation is an indirect non-wholly owned subsidiary of AVIC, both of them are also connected persons of the Company by virtue of being associates of AVIC. Therefore, the participation in the Subscription by AVIC, AVIC Avionics Systems and Hanzhoug Aviation will constitute connected transactions of the Company, which will be subject to, among other things, approval by the Independent Shareholders. As the highest of the aggregated applicable size test percentage ratio in relation to the proposed subscriptions by AVIC, AVIC Avionics Systems and Hanzhong Aviation in aggregate is over 5 % but less than 25 %, such subscriptions will in aggregate also constitute a discloseable transaction of the Company.

Upon Completion, the equity interest held by the Company in AVIC Avionics will be diluted by approximately 5.39% from 49.93% to approximately 44.54%. Such dilution will constitute a deemed disposal by the Company of its approximately 5.39% equity interest in AVIC Avionics. As the highest applicable size test percentage ratio in relation to the deemed disposal is over 5% but less than 25%, the proposed deemed disposal will constitute a discloseable transaction of the Company under the Listing Rules.

LETTER FROM ANGLO CHINESE

An Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the connected transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement.

Votes of the Independent Shareholders at the EGM shall be taken by poll. As AVIC has material interest in the Subscription, AVIC and its associates will abstain from voting at the EGM. Save for the approval from the Independent Shareholders at the EGM, the Subscription is also subject to the conditions precedent as set out on page 11 to page 12 of this circular.

BASIS OF OUR OPINION

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

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

Apart from normal professional fees for our services to the Company in connection with this appointment, no arrangement exists whereby Anglo Chinese will receive any benefits from the Company or any of its associates.

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PRINCIPLE FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the connected transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, and the proposed transfer of the relevant equity interests in the Incoming Assets as consideration for the Subscription, we have taken into account the following principal factors:

Background of the Subscription

Business and financial information of the Group

The Company is held as to 56.70% by AVIC, the controlling shareholder of the Company which is a state-owned enterprise in the PRC specialising in the manufacturing of aviation products and non-aviation products such as automobile engine and parts and components. As a member of AVIC, the Group is also engaged in the research, development, manufacture and sales of aviation products, such as helicopters, trainers, general-purpose aircraft and regional jets as well as aviation parts. Pursuant to the Subscription Agreement, as amended by the Supplemental Agreement, AVIC Avionics, being a 49.93% non-wholly owned subsidiary of the Company listed on the Shanghai Stock Exchange, will issue new AVIC Avionics Shares in exchange for the Incoming Assets which in substance can be viewed a reorganisation exercise among the Company, AVIC and its associates namely AVIC Avionics Systems and Hanzhong Aviation, for the purpose of consolidating their respective aviation electronics products businesses under AVIC Avionics. Such reorganisation will result in a deemed disposal of AVIC Avionics by the Company and reduced its interest by approximately 5.39% to 44.54% but AVIC Avionics will remain as a non-wholly owned subsidiary of the Company upon Completion.

The Group used to be engaged in two key segments namely aviation products and automobile products. Since the second half of 2008, the Group underwent a series of reorganisation to divest its loss making automobile segment and re-allocated its resources and manpower to aviation segment and the Group ceased to hold material controlling interest in any automobile business after such reorganisation.

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Tabularised below is a summary of the audited consolidated financial results of the Group as extracted from the Company's annual report 2009:

Consolidated Income Statement	For the year ended		Year on year change %
	31 December		
	2009	2008	
	<i>RMB'000</i>	<i>RMB'000</i>	
		<i>(restated)</i>	
Revenue from continuing operations	5,098,210	4,979,152	2.39
Gross profit from continuing operations	918,231	881,493	4.17
Gross profit margin	18.01%	17.70%	1.75
Profit/(loss) attributable to the equity holders of the Company	160,946	(1,062,684)	N/A

Consolidated Balance Sheet	As at 31 December		Year on year change %
	2009		
	2009	2008	
	<i>RMB'000</i>	<i>RMB'000</i>	
		<i>(restated)</i>	
Total assets	20,344,338	23,288,894	-12.64
Net asset value (net of minority interest)	4,668,039	2,659,673	75.51
Cash and cash equivalents	1,996,694	2,418,654	-17.45
Total borrowings	2,474,318	6,630,095	-62.68
Gearing ratio (total borrowings/total assets)	12.16%	28.47%	-57.29

Business and financial information of AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC whose A shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, AVIC Avionics is held as to 49.93% by the Company and 15.40% by AVIC. AVIC Avionics was formerly named as Jiangxi Changhe Automobile Co., Ltd. (“**Changhe Auto**”) which used to be engaged in the development, manufacture and sale of automobiles. As Changhe Auto suffered severe losses for each of the three consecutive years ended 31 December 2008, under the regulatory regime in the PRC, the trading of the shares of Changhe Auto has been suspended since 10 April 2009 and the listing of which has been suspended since 11 May 2009. Changhe Auto subsequently announced that on 9 October 2008 it has underwent a business reorganisation whereby Changhe Auto agreed to issue new shares together with all of its automobile business as consideration payable to AVIC, and AVIC agreed to inject to Changhe Auto the entire equity interest in Shanghai Aviation Electric Co., Ltd. and Lanzhou Wanli Aviation Electrical Co., Ltd., both of which are profitable companies engaged in the manufacturing and sale of aviation electronics products and accessories. After such reorganisation completed in 2009, Changhe Auto has changed its major business to manufacturing of aviation electronics products and accessories and its name has been changed to AVIC Avionics. The operation of AVIC Avionics became profitable

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for the year ended 31 December 2009 and it has submitted an application to Shanghai Stock Exchange on 16 April 2010 for the resumption of listing. Such application is still in process as at the Latest Practicable Date.

Tabularised below is a summary of the audited consolidated financial results of AVIC Avionics as extracted from AVIC Avionics' annual report 2009 and the unaudited financial results for the three months ended 31 March 2010 as extracted from its quarterly report:

Consolidated Income Statement	For 3 months ended 31 March 2010	For the year ended 31 December		Year on year change %
	<i>RMB'000</i>	2009	2008	
Revenue	196,133	1,198,716	2,282,461	-47.48
Operating profit/(loss)	36,343	37,590	(374,195)	N/A
Operating profit margin	18.53%	3.14%	N/A	N/A
Net profit/(loss) before tax	36,326	44,275	(331,644)	N/A
Net profit/(loss) after tax	30,877	26,308	(346,632)	N/A
Net profit/(loss) attributable to the equity holders of AVIC Avionics	27,297	25,491	(346,173)	N/A
	As at 31 March 2010	As at 31 December		Year on year change %
	<i>RMB'000</i>	2009	2008	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Total assets	1,004,330	954,059	3,108,996	-69.31
Net asset value (net of minority interest)	722,030	694,733	631,129	10.08
Cash and cash equivalents	127,793	184,643	427,672	-56.83
Total borrowings	56,000	56,000	679,000	-91.75
Gearing ratio (total borrowings/total assets)	5.58%	5.87%	21.84%	-73.12

Since AVIC Avionics has swapped its loss making automobile business for a profitable aviation business in 2009, the operating profit margin showed a strong growth to 18.53% during the first quarter of 2010. As shown above, AVIC Avionics is relatively smaller than the Company in terms of turnover, net profit and net asset value. Deemed disposal of about 5.39% in the interest of AVIC Avionics pursuant to the Subscription Agreement, as amended by the Supplemental Agreement, should not have material impact on the Group.

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Business and financial information of the Incoming Assets

As there is no consolidated financial statements being prepared in respect of the Incoming Assets, tabularised below is the summation of the financial results of AVIC Kaitian, AVIC Lanfei, Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics according to their respective financial statements audited by RSM China Certified Public Accountants, an independent qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, for the two years ended 31 December 2009 and the four months ended 30 April 2010. The figures below are only an arithmetic summation of the financial results of the companies comprising the Incoming Assets for illustration purpose only and should not be viewed as a consolidated financial statement or pro-forma financial information of the Incoming Assets:

Income Statement	For 4 months ended 30 April 2010	For the year ended 31 December		Year on year change
	<i>RMB'000</i>	2009	2008	%
Aggregate revenue	610,116	2,102,410	1,999,125	5.17
Aggregate operating profit	39,142	233,399	227,622	2.54
Operating profit margin	6.42%	11.10%	11.39%	-2.55
Aggregate net profit before tax	41,868	242,910	240,165	1.14
Aggregate net profit after tax	34,012	212,394	210,808	0.75
Aggregate net profit attributable to the equity holders	36,916	215,868	213,079	1.31
Net profit attributable to AVIC Avionics by the Incoming Assets (<i>note</i>)	32,157	203,822	202,604	0.60

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Balance Sheet	As at	As at 31 December		Year on
	30 April	2009	2008	year
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	change
				%
Aggregate total assets	4,799,335	4,699,378	4,043,309	16.23
Aggregate net asset value (net of minority interest)	2,025,655	1,863,412	1,650,784	12.88
Net asset value of the Incoming Assets attributable to AVIC Avionics (<i>note</i>)	1,912,838	1,762,146	1,555,842	13.26
Aggregate cash and cash equivalents	569,113	749,922	458,833	63.44
Aggregate total borrowings	660,000	665,000	336,120	97.85
Gearing ratio (total borrowings/total assets)	13.75%	14.15%	8.31%	70.28

Note: As AVIC Kaitian and Shaanxi Huayan are wholly-owned subsidiary of AVIC Avionics after Completion, 86.74% attributable interest from AVIC Kaitian and 80% attributable interest from Shaanxi Huayan are used for illustration purpose only.

As shown above, the operation of the Incoming Assets as a whole remained profitable for each of the two years ended 31 December 2008 and 2009 and the four months ended 30 April 2010 and the size of operation is much bigger than that of AVIC Avionics in terms of turnover and net asset value. According to the representation of the management, the decline in the profit margin during the first four months of 2010 was temporary and mainly caused by seasonal factors and the increase in research and development expenses. Other than AVIC Lanfei which recorded a temporary loss for the first four months of 2010, the financial performances of the other five companies comprising the Incoming Assets remain relatively stable and were profitable during the same period. For the year ended 31 December 2009, the aggregate turnover of the companies comprising the Incoming Assets amounted to some RMB2,102 million, that was 75.39% more than that of AVIC Avionics for the same year; the net profit attributable to AVIC Avionics from the Incoming Assets was approximately RMB204 million in 2009, that was about 8.00 times of the net profit attributable to equity holder of AVIC Avionics for the same year.

Further financial information and background of the companies comprising the Incoming Assets are listed below and the auditors' reports for these companies did not contain any qualification.

AVIC Kaitian

AVIC Kaitian is a non-listed joint stock limited company which was reformed and established in the PRC with the approval from SASAC in 2008. As at the Latest Practicable Date, AVIC Kaitian is owned directly as to 86.74% by the Company.

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AVIC Kaitian is mainly engaged in the research, manufacture and sales of air data system and various types of aviation instrument. The major assets of AVIC Kaitian include plants, equipments, and machineries engaging in the business of air data system and various types of aviation instrument.

Tabularised below is a summary of the financial results of AVIC Kaitian as extracted from the audited financial statements for the years ended 31 December 2009 and 2008 and the four months ended 30 April 2010:

Consolidated Income Statement	For 4 months ended 30 April 2010	For the year ended 31 December		Year on year change %
	RMB'000	2009	2008	
Revenue	134,840	386,478	512,246	-24.55
Operating profit	15,861	55,137	89,273	-38.24
Operating profit margin	11.76%	14.27%	17.43%	-18.13
Net profit before tax	17,085	59,843	95,170	-37.12
Net profit after tax	14,235	48,865	80,799	-39.52
Net profit attributable to the equity holders	16,350	48,838	81,374	-39.98

Consolidated Balance Sheet	As at 30 April 2010	As at 31 December		Year on year change %
	RMB'000	2009	2008	
Total assets	1,124,362	1,097,109	961,710	14.08
Net asset value (net of minority interest)	565,237	497,631	457,746	8.71
Cash and cash equivalents	135,386	152,946	142,524	7.31
Total borrowings	65,000	50,000	22,000	127.27
Gearing ratio (total borrowings/total assets)	5.78%	4.56%	2.29%	99.13

AVIC Lanfei

AVIC Lanfei was reorganised to be a wholly stated-owned limited company in 2003. As at the Latest Practicable Date, the Company holds 100% equity interest in AVIC Lanfei. AVIC Lanfei is engaged in the research, manufacture and sale of aviation auto control equipment and instrument. The major assets of AVIC Lanfei include plant, equipment, and machineries engaging in the business of aviation auto control equipment and instrument.

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Tabularised below is a summary of the financial results of AVIC Lanfei as extracted from the audited financial statements for the years ended 31 December 2009 and 2008 and the four months ended 30 April 2010:

Consolidated Income Statement	For 4 months ended 30 April 2010	For the year ended 31 December		Year on year change %
	RMB'000	2009	2008	
Revenue	54,852	267,278	250,870	6.54
Operating profit/(loss)	(11,057)	24,276	27,194	-10.73
Operating profit margin	N/A	9.08%	10.84%	-16.24
Net profit/(loss) before tax	(11,763)	26,266	28,176	-6.78
Net profit/(loss) after tax	(12,793)	24,559	26,462	-7.19
Net profit/(loss) attributable to the equity holders	(12,793)	24,559	26,462	-7.19

Consolidated Balance Sheet	As at 30 April 2010	As at 31 December		Year on year change %
	RMB'000	2009	2008	
Total assets	627,100	633,620	566,229	11.90
Net asset value (net of minority interest)	278,506	272,289	256,090	6.33
Cash and cash equivalents	27,846	72,386	80,044	-9.57
Total borrowings	85,000	85,000	71,000	19.72
Gearing ratio (total borrowings/total assets)	13.55%	13.41%	12.54%	6.94

AVIC Lanfei remained profitable for the two years ended 31 December 2010 but recorded a loss for the four months ended 30 April 2010. According to the representation of the management, the loss was temporary and mainly caused by seasonal factors and the increase in research and development expenses.

Shaanxi Baocheng

Shaanxi Baocheng was reorganised to be a wholly stated-owned limited company in 2002. As at the Latest Practicable Date, AVIC Avionics Systems holds 100% equity interest in Shaanxi Baocheng. Shaanxi Baocheng is mainly engaged in the research, manufacture and sales of navigation system, flight environment supervision system, micromachined rotational gyroscopes and inertia accelerometer. The major assets of Shaanxi Baocheng include plant, equipment, and machineries engaging in the business of navigation system, flight environment supervision system, micromachined rotational gyroscopes and inertia accelerometer.

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Tabularised below is a summary of the financial results of Shaanxi Baocheng as extracted from the audited financial statements for the years ended 31 December 2009 and 2008 and the four months ended 30 April 2010:

Consolidated Income Statement	For 4 months ended 30 April 2010	For the year ended 31 December		Year on year change %
	RMB'000	2009	2008	
Revenue	189,623	662,180	536,604	23.40
Operating profit	8,055	80,161	72,257	10.94
Operating profit margin	4.25%	12.11%	13.47%	-10.10
Net profit before tax	6,596	79,814	72,512	10.07
Net profit after tax	5,981	68,856	70,778	-2.72
Net profit attributable to the equity holders	6,152	70,295	69,141	1.67

Consolidated Balance Sheet	As at 30 April 2010	As at 31 December		Year on year change %
	RMB'000	2009	2008	
Total assets	1,292,049	1,234,816	888,256	39.02
Net asset value (net of minority interest)	439,234	410,356	298,511	37.47
Cash and cash equivalents	250,503	297,731	121,168	145.72
Total borrowings	341,000	341,000	87,120	291.41
Gearing ratio (total borrowings/total assets)	26.39%	27.62%	9.81%	181.55

Taiyuan Instrument

Taiyuan Instrument was reorganised to be a wholly stated-owned limited company in 1999. As at the Latest Practicable Date, AVIC Avionics Systems holds 100% equity interest in Taiyuan Instrument. Taiyuan Instrument is mainly engaged in the research, manufacture and sales of atmosphere data measurement system, airborne liquid crystal display, airborne warning system, elastic sensitive element, high precision pressure sensor, flight indicator instrument and air pressure sensor. The major assets of Taiyuan Instrument include plant, equipment and machineries engaging in the business of atmosphere data measurement system, airborne liquid crystal display, airborne warning system, elastic sensitive element, high precision pressure sensor, flight indicator instrument and air pressure sensor.

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Tabularised below is a summary of the financial results of Taiyuan Instrument as extracted from the audited financial statements for the years ended 31 December 2009 and 2008 and the four months ended 30 April 2010:

Consolidated Income Statement	For 4 months ended 30 April 2010	For the year ended 31 December		Year on year change %
	RMB'000	2009	2008	
Revenue	87,305	323,332	260,862	23.95
Operating profit	11,398	28,616	60,720	-52.87
Operating profit margin	13.06%	8.85%	23.28%	-61.98
Net profit before tax	12,199	31,905	63,691	-49.91
Net profit after tax	10,740	27,752	46,967	-40.91
Net profit attributable to the equity holders	10,740	27,752	46,967	-40.91

Consolidated Balance Sheet	As at 30 April 2010	As at 31 December		Year on year change %
	RMB'000	2009	2008	
Total assets	766,964	776,776	720,659	7.79
Net asset value (net of minority interest)	305,716	275,867	234,568	17.61
Cash and cash equivalents	67,859	120,993	81,876	47.78
Total borrowings	77,000	97,000	60,000	61.67
Gearing ratio (total borrowings/total assets)	10.04%	12.49%	8.33%	49.94

Shaanxi Huayan

Shaanxi Huayan was reorganised to be a wholly stated-owned limited company in 2008. As at the Latest Practicable Date, Hanzhong Aviation and AVIC Avionics Systems holds 67.1% and 12.9% equity interest in Shaanxi Huayan, respectively. Shaanxi Huayan is mainly engaged in the research, manufacture and sales of strap-down inertial navigation system, strap-down altitude heading reference system, inertial sensor, components, electromagnetic devices and gyroscopes. The major assets of Shaanxi Huayan include plant, equipment, and machineries engaging in the business of strap-down inertial navigation system, strap-down altitude heading reference system, inertial sensor, components, electromagnetic devices and gyroscopes.

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Tabularised below is a summary of the financial results of Shaanxi Huayan as extracted from the audited financial statements for the years ended 31 December 2009 and 2008 and the four months ended 30 April 2010:

Consolidated Income Statement	For 4 months ended 30 April 2010	For the year ended 31 December		Year on year change %
	RMB'000	2009	2008	
Revenue	82,904	233,368	203,352	14.76
Operating profit/(loss)	9,642	26,943	(11,170)	N/A
Operating profit margin	11.63%	11.55%	N/A	N/A
Net profit/(loss) before tax	13,446	27,924	(9,138)	N/A
Net profit/(loss) after tax	12,336	25,789	(4,905)	N/A
Net profit/(loss) attributable to the equity holders	12,953	27,851	(1,576)	N/A

Consolidated Balance Sheet	As at 30 April 2010	As at 31 December		Year on year change %
	RMB'000	2009	2008	
Total assets	401,502	377,672	357,199	5.73
Net asset value (net of minority interest)	189,334	176,397	171,223	3.02
Cash and cash equivalents	47,035	61,748	7,487	724.74
Total borrowings	36,000	36,000	46,000	-21.74
Gearing ratio (total borrowings/total assets)	8.97%	9.53%	12.88%	-26.01

Qianshan Avionics

Qianshan Avionics was reorganised to be a wholly stated-owned limited company in 2008. As at the Latest Practicable Date, Qianshan Avionics is held as to 96.44% by Hanzhong Aviation and 3.56% by AVIC. Qianshan Avionics is mainly engaged in the research and manufacture of airborne data collection and processing equipment, large capacity data memory, flying parameter collection-recorder and embedded high-performance computer. The major assets of Qianshan Avionics include plant, equipment, and machineries engaging in the business of airborne data collection and processing, large capacity data memory, flying parameter collection-recorder and embedded high-performance computer.

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Tabularised below is a summary of the financial results of Qianshan Avionics as extracted from the audited financial statements for the years ended 31 December 2009 and 2008 and the four months ended 30 April 2010:

Consolidated Income Statement	For 4 months ended 30 April 2010	For the year ended 31 December		Year on year change %
	RMB'000	2009	2008	
Revenue	60,593	229,774	235,191	-2.30
Operating profit/(loss)	5,243	18,265	(10,653)	N/A
Operating profit margin	8.65%	7.95%	N/A	N/A
Net profit/(loss) before tax	4,305	17,159	(10,245)	N/A
Net profit/(loss) after tax	3,513	16,573	(9,293)	N/A
Net profit/(loss) attributable to the equity holders	3,513	16,573	(9,288)	N/A

Consolidated Balance Sheet	As at 30 April 2010	As at 31 December		Year on year change %
	RMB'000	2009	2008	
Total assets	587,359	579,384	549,255	5.49
Net asset value (net of minority interest)	247,629	230,871	232,646	-0.76
Cash and cash equivalents	40,484	44,118	25,735	71.43
Total borrowings	56,000	56,000	50,000	12.00
Gearing ratio (total borrowings/total assets)	9.53%	9.67%	9.10%	6.26

Principal terms of the Subscription Agreement, as amended by the Supplemental Agreement

The transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, are effectively an asset swap exercise whereby the Group, through issuance of new AVIC Avionics Shares as consideration, acquires the Incoming Assets other than AVIC Kaitian and AVIC Lanfei that were subsidiaries of the Company prior to Completion. The Subscription will constitute a deemed disposal of approximately 5.39% equity interest in AVIC Avionics while the Company's effective equity interest in AVIC Kaitian and AVIC Lanfei will also be reduced by 48.11% and 55.46%, respectively. The financial results of the Incoming Assets will be consolidated under the Group through its non-wholly owned subsidiary AVIC Avionics upon Completion.

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The consideration

Pursuant to the Subscription Agreement, as amended by the Supplemental Agreement, AVIC Avionics agrees to issue and the Company, AVIC, AVIC Avionics System and Hanzhong Aviation agree to subscribe 123,602,782, 1,347,093, 152,749,808 and 58,584,284 new AVIC Avionics Shares respectively. It is expected that approximately 336 million new AVIC Avionics Shares will be issued at the Subscription Price of RMB7.59 per AVIC Avionics Share, subject to adjustment, which translated into an implied share consideration of approximately RMB 2,552 million for the exchange of the Incoming Assets with estimated valuation of approximately RMB2,552 million. The final consideration will be based on the valuation results of the Incoming Assets, which will be subject to adjustments based on the figures finally confirmed by SASAC or its authorised representatives.

i. Basis of the consideration

The consideration is determined after the arm's length negotiation by the parties with reference to the valuation results of the Incoming Assets prepared by an independent qualified valuer in the PRC as at 30 April 2010.

ii. Valuation methodology

We have reviewed the valuation reports prepared by China Alliance Appraisal Company Limited on the methodology adopted and the assumptions used in arriving at the valuation of the Incoming Assets. Cost replacement method was adopted as the valuation methodology and we understand that China Alliance Appraisal Company Limited has carried out site visit to gather necessary information to determine such value and we have also inspect the license of China Alliance Appraisal Company Limited as being a qualified valuer in the PRC. As the valuation reports were prepared according to the valuation standard in the PRC, we have not relied on such valuation report to form our opinion and recommendation given in this letter.

iii. Payment method

The total consideration payable by the Company under the Subscription is estimated to be approximately RMB938 million, which will be satisfied by the Company transferring to AVIC Avionics its 86.74% equity interest in AVIC Kaitian and 100% equity interest in AVIC Lanfei. The total consideration payable by AVIC under the Subscription is estimated to be approximately RMB10 million, which will be satisfied by AVIC transferring to AVIC Avionics its 3.56% equity interest in Qianshan Avionics. The total consideration payable by AVIC Avionics Systems under the Subscription is estimated to be approximately RMB1,159 million, which will be satisfied by AVIC Avionics Systems transferring to AVIC Avionics its 100% equity interest in each of Shannxi Baocheng and Taiyuan Instrument and 12.9% equity interest in Shaanxi Huayan. The total consideration payable by Hanzhong Aviation under the Subscription is estimated to be approximately RMB445 million, which will be satisfied by Hanzhong Aviation transferring to AVIC Avionics its 67.1% equity interest in Shaanxi Huayan and 96.44% equity interest in Qianshan Avionics.

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The Subscription Price

Pursuant to the relevant PRC rules and regulations, the Subscription Price should be RMB7.58 per new AVIC Avionics Share, being the average trading price of AVIC Avionics Shares on the Shanghai Stock Exchange in the 20 trading days preceding the Initial Price Determination Date. Under the Supplemental Agreement, such average trading price is adjusted with the difference in the Shanghai Stock Exchange Composite Index since the suspension of trading in AVIC Avionics Shares whereby the Subscription Price was adjusted to RMB7.59. As the trading of AVIC Avionics Shares has been suspended since 10 April 2009, rather than using the share price of AVIC Avionics prior to such prolonged suspension period and compare it with the recent share price of market comparables that is unlikely to give any indicative analysis, we will focus on the comparable analysis for the Incoming Assets in order to access the fairness and reasonableness of the Subscription in the following section of this letter.

The Subscription Price will be subject to the approval of its shareholders at the general meeting. If the final Subscription Price is higher than RMB7.59, the number of new AVIC Avionics Shares to be subscribed by each of the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation will be adjusted accordingly.

Lock-up arrangement

The new AVIC Avionics Shares proposed to be subscribed by the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation pursuant to the Subscription Agreement, as amended by the Supplemental Agreement, will be subject to a lock-up period of 36 months commencing from the date upon which completion of the allotment of the relevant AVIC Avionics Shares takes place. The lock-up arrangement with AVIC and its associates indicated that they are strategic investors who will participate in the long term development of AVIC Avionics.

Comparable Companies

As mentioned above, the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, are effectively an asset swap exercise whereby the Group will issue new AVIC Avionics Shares as consideration for acquiring the Incoming Assets. The net profit attributable to AVIC Avionics by the Incoming Assets was approximately RMB203.82 million for the year ended 31 December 2009 and the net asset value of the Incoming Assets attributable to AVIC Avionics was approximately RMB1,762.15 million as at 31 December 2009. Based on the implied share consideration payable by AVIC Avionics of approximately RMB2,552.40 million, the price to earning ratio and the price to book ratio implied by the Incoming Assets was approximately 12.52 times and 1.45 times, respectively. Such valuation ratios are much lower than the average of the comparable companies as listed below.

To assess the fairness and reasonableness of the considerations for the Subscription, we have searched for companies listed on the Stock Exchange which are principally engaged in the manufacturing for aviation sector but failed to find any

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suitable comparable. Therefore, we have searched for A-share listed companies in the PRC. To the best of our knowledge and as far as we are aware of, there are 7 companies which is an exhaustive list of companies that engage principally in the manufacturing of aviation products. The Independent Shareholders should note that the information of the comparable companies below is for information and reference only.

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

Company name	Stock code	Closing price as at Latest Practicable Date <i>RMB</i>	Basic earnings per share for 2009 <i>RMB</i>	Net asset value per share as at 31 December 2009 <i>RMB</i>	Price to earning ratio	Price to book ratio
Xi'an Aircraft International Corporation	000768	9.50	0.13	3.68	73.08	2.58
Guizhou Space Appliance Co., Ltd.	002025	9.46	0.31	3.63	30.52	2.61
Hafei Aviation Industry Co., Ltd.	600038	21.01	0.24	3.98	87.54	5.28
Jiangxi Hongdu Aviation Industry Co., Ltd.	600316	36.05	0.56	5.64	64.38	6.39
Sichuan Chengfa Aero-science & Technology Co., Ltd.	600391	16.19	0.37	4.28	43.76	3.78
China Aerospace Times Electronic Technology Co., Ltd.	600879	9.26	0.25	3.70	37.04	2.50
Xi'an Aero-Engine Plc	600893	23.04	0.35	6.66	65.83	3.46
				Maximum	87.54	6.39
				Minimum	30.52	2.50
				Average	57.45	3.80
				Median	64.38	3.46
Incoming Assets					12.52	1.45

Source: Bloomberg

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i. Price to earning ratio analysis

As illustrated above, the comparable companies have average and median price to earning ratios of approximately 57.45 times and 64.38 times, respectively, which are much higher than the implied price to earning ratio of the Incoming Assets of approximately 12.52 times.

ii. Price to book ratio analysis

As illustrated above, the comparable companies have average and median price to book ratios of approximately 3.80 times and 3.46 times, respectively, which are much higher than the implied price to book ratio of the Incoming Assets of approximately 1.45 times.

Conclusion

Based on the above, we consider that the implied consideration represented by AVIC Avionics Shares with value of approximately RMB2,552 million for the Incoming Assets is fair and reasonable to AVIC Avionics and the Company as a whole. We have also analysed the financial impacts to the Company before and after Completion under the section headed “POSSIBLE FINANCIAL EFFECTS” below.

Changes in shareholding structure of AVIC Avionics

Upon Completion, the equity interest held by the Company in AVIC Avionics will be diluted by approximately 5.39% from 49.93% to approximately 44.54%. The Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation entered into an agreement on 1 June 2010 whereby subsequent to Completion, AVIC, AVIC Avionics Systems and Hanzhong Aviation collectively undertake to exercise their respective voting rights in AVIC Avionics in accordance with the instructions of the Company. Accordingly, the Directors confirm, after consulting with the auditors of the Company, that AVIC Avionics will continue to remain as a subsidiary of the Company and the accounts of AVIC Avionics will continue to be consolidated under the Group following Completion.

Reasons for the asset swap constituted by the Subscription

According to the statement made by the chairman in the Company’s annual report 2009, the PRC government formulated a series of strategy to rapidly promote the development of the aviation industry, including the release of the prior strict airspace control policy and the reform of low-altitude air space management. According to the statistics from National Development and Reform Commission, the annual production value from aviation and aerospace manufacturing industry (航空航天器製造業) in 2009 amounted to approximately RMB131.6 billion, represents approximately 13% increase compared to prior year. Given the Group is principally engaged in the manufacturing of aviation parts and products, further consolidation of AVIC’s aviation electronics products businesses under AVIC Avionics, a non-wholly owned subsidiary of the

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Company, can further expand the Group's product mix in the aviation segment. We concur with the view of the Board that these strategies will provide the Group with opportunities for continuous development.

As stated in the Company's annual report 2009, the Group will concentrate on becoming a flagship manufacturer in the PRC aviation industry for civil aviation products with a complete value chain and a platform for overseas financing, merger and acquisition. The Directors also believe that this strategy would enable the Group to increase its share in the PRC's growing aviation market.

In 2009, the Group recorded a turnover of approximately RMB5,098 million in its aviation products, representing an increase of about 2.39% from approximately RMB4,979 million in 2008. Out of that, the turnover derived from the manufacturing of aircraft was approximately RMB 3,028 million, representing an increase of about 12.48% from that in 2008. The turnover derived from aviation parts and components for 2009 was approximately RMB1,789 million, representing a decrease of about 8.96% from that in 2008. The turnover derived from other aviation products for 2009 was RMB281 million, representing a decrease of 12.74% from that of 2008. We are of the view that the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, that consolidated the Incoming Assets under the Group are in line with the Company's development strategy to focus on aviation products and further enhance the Company's aviation electronics products business.

Upon Completion, the equity interests in Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics together with their relevant assets will be injected into AVIC Avionics whereas the equity interests in AVIC Kaitian and AVIC Lanfei originally held by the Company will be transferred to AVIC Avionics. Such consolidation of companies that principally engaged in the design and manufacturing of aviation parts will further enhance the product mix of the Group's aviation electronics products business and enlarge the operation scale of AVIC Avionics. We also concur with the view of the Directors that through centralisation of aviation electronics products business in one listing platform, the Group will be able to achieve effective management and cost control. The Company's research and development capability in aviation electronics products and other ancillary aviation products will also be strengthened and therefore improve the overall profitability and market competitiveness. We are also of the view that by consolidating the Group's aviation electronics products business under another listed vehicle, the transparency of such business division will be increased as more information will be given to shareholders and potential investors through regular publication of financial results and other public information. Stringent corporate governance as required by the regulators may also improve the investment value of such business division given most of the companies comprising the Incoming Assets are private companies prior to their injection into AVIC Avionics. Besides, AVIC Avionics is also a listed company and potential coverage by research analysts may improve the investor's awareness for the shares of AVIC Avionics and the Company.

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The Board considered that the Company, as a controlling shareholder of AVIC Avionics, will continue to benefit from the future development of AVIC Avionics and the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, will help the Group to consolidate its market position in the PRC aviation industry and further improve its investment value.

Having considered the above, we agree with the Directors that the asset swap exercise contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, will enable the Group to focus on its aviation business, strengthen its market position in the PRC aviation industry, improve the operations of the Company, enhance the profitability and sustainable development of the Company and further increase the investment value of the Company. We are of the view that the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, are in the interests of the Company and its shareholders as a whole.

POSSIBLE FINANCIAL EFFECTS

The following analysis is based on the audited consolidated financial statements of the Company and AVIC Avionics for the financial year ended 31 December 2009 and the combined financial results of the Incoming Assets for the same period as set out on page 30 to page 31. Completion of the Subscription Agreement, as amended by the Supplemental Agreement, will result in a deemed disposal of approximately 5.39% equity interest in AVIC Avionics while the Company's effective equity interest in AVIC Kaitian and AVIC Lanfei will also be reduced by 48.11% and 55.46%, respectively. Upon Completion, financial results of the Incoming Assets will be consolidated under the financial statements of AVIC Avionics. AVIC Kaitian and Shaanxi Huayan will become non-wholly owned subsidiaries of AVIC Avionics; and AVIC Lanfei, Shaanxi Baocheng, Taiyuan Instrument and Qianshan Avionics will become wholly owned subsidiaries of AVIC Avionics.

Effects on net asset value

According to the Company's annual report 2009, the audited consolidated net asset value of the Group excluding minority interests was approximately RMB4,668 million as at 31 December 2009, which did not include the contribution from AVIC Kaitian and AVIC Lanfei as they were acquired by the Company during 2010. The net asset value attributed to the Group by the Equity Interests in AVIC Kaitian and AVIC Lanfei and 49.93% equity interest in AVIC Avionics aggregated to approximately RMB1,050.81 million for the financial year 2009. After Completion, the net asset value attributed to the Group by approximately 44.54% equity interest in the enlarged AVIC Avionics would be approximately RMB1,094.29 million, represent an increase of approximately 4.14%.

Effects on earnings

The Group recorded net profit attributable to shareholders of RMB161 million for the year ended 31 December 2009. All the companies comprising the Incoming Assets also recorded profit for the year ended 31 December 2009. The net profit attributed to the Group by the Equity Interests in AVIC Kaitian and AVIC Lanfei and 49.93% equity interest in

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AVIC Avionics prior to the Subscription aggregated to approximately RMB79.65 million for the year ended 31 December 2009. After Completion, the net profit attributed to the Group by approximately 44.54% equity interest in the enlarged AVIC Avionics would be approximately RMB102.14 million, represent an improvement of approximately 28.24%.

Effects on gearing and working capital

As at 31 December 2009, the Group's total borrowings was RMB2,474 million and the gearing ratio, being calculated as total borrowings divided by the total assets, was approximately 12.16%. As at 30 April 2010, the total borrowings of the companies comprising the Incoming Assets was RMB660 million and the gearing ratio was 13.75%; the total borrowings and gearing ratio as at 31 December 2009 was RMB665 million and 14.15%, respectively. We are of the view that the asset swap constituted by the Subscription will not have material adverse impact on the gearing ratio of the Group after Completion.

The Company had cash and cash equivalents of approximately RMB1,997 million as at 31 December 2009. The Group will not incur any cash outflow pursuant to the Subscription Agreement. Given the cash and cash equivalent recorded by the companies comprising the Incoming Assets was approximately RMB569 million as at 30 April 2010 and approximately RMB750 million as at 31 December 2009, we are of the view that the asset swap constituted by the Subscription will have positive impact on the working capital position of the Group after Completion.

RECOMMENDATION

We have considered the above principal factors and reasons and particularly (i) the strategic rationale of consolidating the Incoming Assets under AVIC Avionics; (ii) the terms and the consideration of the Subscription Agreement, as amended by the Supplemental Agreement, as discussed above; and (iii) the possible financial effects to the Group. Based on the above principal factors and reasons, we consider that the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, are on normal commercial terms, and the entering of the Subscription Agreement, as amended by the Supplemental Agreement, is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement, as amended by the Supplemental Agreement.

Yours faithfully
for and on behalf of
Anglo Chinese Corporate Finance, Limited
Michael Fok
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained herein misleading.

2. (a) THE INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY

As at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the SFO) which were (1) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (2) required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or (3) required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to the Company and the Stock Exchange.

(b) THE INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY'S ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company has any interests and short positions in the shares, underlying shares and debentures of any associated corporation of the Company (within the meaning of Part XV of the SFO) which were (1) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (2) required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or (3) required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to the Company and the Stock Exchange.

3. DIRECTORS' SERVICE CONTRACTS

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

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

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2009, 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 was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

5. CONSENT AND QUALIFICATION OF EXPERTS

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

Name	Qualifications
Anglo Chinese	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO.

As at the Latest Practicable Date, Anglo Chinese 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, Anglo Chinese did not have any direct or indirect interest in any assets which has been, since 31 December 2009, 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.

Anglo Chinese 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.

6. COMPETING INTERESTS

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

7. NO MATERIAL ADVERSE CHANGE

The Directors are of the opinion that since 31 December 2009, 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.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company up to and including 17 August 2010:

- (a) the letter dated 12 July 2010 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 23 of this circular;
- (b) the letter of advice dated 12 July 2010 from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 24 to 44 of this circular;
- (c) the written consent of Anglo Chinese referred to in paragraph 6 of this Appendix; and
- (d) the Subscription Agreement and the Supplemental Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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 EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting (“EGM”) of AviChina Industry & Technology Company Limited (the “**Company**”) will be held at 8:30 a.m. on Tuesday, 17 August 2010, at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People’s Republic of China to consider and approve the following resolution. 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 12 July 2010 (the “**Circular**”):

ORDINARY RESOLUTION

1. “**THAT**:
 - (a) the terms and conditions of the Subscription Agreement dated 1 June 2010 entered into between AVIC Avionics, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation, as amended by the Supplemental Agreement dated 5 July 2010 (copies of which have been produced to this meeting marked “A” and initialed by the Chairman of the meeting) in relation to, among other matters, (1) the Company Subscription with Equity Interests in AVIC Kaitian and AVIC Lanfei; (2) AVIC Subscription with AVIC Equity Interest; (3) AVIC Avionics Systems Subscription with AVIC Avionics Systems Equity Interests and (4) Hanzhong Aviation Subscription with Hanzhong Aviation Equity Interests, subject to conditions and Completion, be and are hereby approved, ratified and confirmed; and

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) 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 or in connection with the transactions contemplated under the Subscription Agreement, as amended by the Supplemental Agreement, including, without limitation, to obtain all necessary approvals from the relevant PRC government authorities, 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 Subscription Agreement, as amended by the Supplemental Agreement, as such Director or authorized representative may in his absolute discretion deem fit.”

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

Hong Kong, 12 July 2010

Notes:

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

Pursuant to Article 38 of the articles of association of the Company (“Articles of Association”), the H Share register of the Company will be closed from Wednesday, 28 July 2010 to Tuesday, 17 August 2010 (both days inclusive), during which period no transfer of H shares will be effected. Holders of the Company’s H Shares and Domestic Shares whose names appear on the Company’s Register of Members on Tuesday, 17 August 2010 are entitled to attend the EGM and to vote in the EGM.

In order to qualify to attend and vote in the EGM, holders of the Company’s H shares shall lodge all transfers together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company’s H Shares Registrar, not later than 4:30 p.m. on Tuesday, 27 July 2010 at Rooms 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. before Wednesday, 28 July 2010
- (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 EXTRAORDINARY GENERAL MEETING

(3) Proxies

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

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

Designated address of the Company:
P.O. Box 1655, Beijing, the PRC (Postal code: 100009)
Telephone No.: 86-10-58354319/17
Facsimile No.: 86-10-58354310
Attention: Mr. Xu Bin/Mr. Wang Yongzhi

(5) Ordinary resolution 1 will be voted by poll by the Independent Shareholders.

As at the date of this notice, the Board comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and Mr. Wu Xiandong and non-executive directors Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Gao Jianshe, Mr. Li Fangyong, Mr. Chen Yuanxian, Mr. Wang Yong, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.