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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 HAFEI AVIATION A SHARES BY HAFEI AVIATION;
(2) DISCLOSEABLE AND CONNECTED TRANSACTIONS: PROPOSED SUBSCRIPTION
OF NEW HAFEI AVIATION A SHARES BY AVIC HELICOPTER AND AVIC HAFEI IN
CONSIDERATION OF AVIC HELICOPTER INTEREST AND
AVIC HAFEI ASSETS RESPECTIVELY; AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Independent financial adviser to the Independent Board Committee and Independent Shareholders



A letter from the Independent Board Committee is set out on page 21 of this circular. A letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 40 of this circular.

A notice convening the extraordinary general meeting (“EGM”) of AviChina Industry & Technology Company Limited to be held at 9:00 a.m. on Friday, 21 September 2012 at Grand Skylight CATIC Hotel, Beijing, No. 18 Bei Chen East Road, Chaoyang District, Beijing, the People’s Republic of China is set out on pages 44 to 46 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed and are also published on the website of the Stock Exchange (<http://www.hkexnews.hk/>). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before 1 September 2012. 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.

20 July 2012

* For identification purpose only

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DEFINITIONS

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

“AMES”	AVIC Electromechanical Systems Company Limited (中航機電系統有限公司), a wholly-owned subsidiary of AVIC and holding 3.35% equity interest in the Company as at the Latest Practicable Date
“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
“Articles of Association”	the articles of association of the Company, as amended from time to time
“AVIC”	China Aviation Industry Corporation (中國航空工業集團公司), a controlling shareholder of the Company holding 51.26% equity interest in the Company as at the Latest Practicable Date
“AVIC Hafei”	Harbin Aircraft Industry Group Limited (哈爾濱飛機工業集團有限責任公司), which is held as to 81.12% by and a subsidiary of AVIC Helicopter as at the Latest Practicable Date
“AVIC Hafei Assets”	the related helicopter business assets of AVIC Hafei proposed to be transferred to Hafei Aviation as consideration of AVIC Hafei Subscription
“AVIC Hafei Subscription”	the proposed subscription of approximately 47,341,165 new Hafei Aviation A Shares by AVIC Hafei at the Subscription Price pursuant to the Subscription Agreement for a consideration to be satisfied by the transfer of the AVIC Hafei Assets to Hafei Aviation
“AVIC Helicopter”	AVIC Helicopter Limited (中航直升機有限責任公司), which is held as to 68.75% by and a subsidiary of AVIC as at the Latest Practicable Date
“AVIC Helicopter Interest”	100% equity interest in Changfei Parts and Components, Helicopter Tianjin and AVIC Huiyang to be transferred by AVIC Helicopter to Hafei Aviation as consideration for the AVIC Helicopter Subscription

DEFINITIONS

“AVIC Helicopter Subscription”	the proposed subscription of approximately 107,510,979 new Hafei Aviation A Shares by AVIC Helicopter at the Subscription Price pursuant to the Subscription Agreement for a consideration to be satisfied by the transfer of the AVIC Helicopter Interest to Hafei Aviation
“AVIC Huiyang”	Huiyang Aviation Propeller Limited (惠陽航空螺旋槳有限責任公司), a wholly-owned subsidiary of AVIC Helicopter as at the Latest Practicable Date
“Board”	the board of Directors of the Company
“Cash Subscription”	the proposed subscription of an original number of approximately 63,222,400 new Hafei Aviation A Shares by not more than ten independent qualified investors at the Cash Subscription Price in cash (the number of Cash Subscription has been adjusted to approximately 64,039,696 new Hafei Aviation A Shares according to the Valuation Results)
“Cash Subscription Price”	the subscription price of the Cash Subscription which is not less than RMB17.13 per new Hafei Aviation A Share, being the average trading price of Hafei Aviation A Shares quoted on the Shanghai Stock Exchange for the 20 trading days immediately preceding the Price Determination Date. The final Cash Subscription Price will be determined through the book building exercise
“Changfei Parts and Components”	Jingdezhen Changfei Aviation Parts and Components Co., Ltd. (景德鎮昌飛航空零部件有限公司), a wholly-owned subsidiary of AVIC Helicopter as at the Latest Practicable Date
“Changhe Aviation”	Jiangxi Changhe Aviation Industry Co., Ltd. (江西昌河航空工業有限公司), a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Changhe Aviation Interest”	100% equity interest of Changhe Aviation to be transferred by the Company to Hafei Aviation as consideration for the Company’s Subscription
“Company”	AviChina Industry & Technology Company Limited
“Company’s Subscription”	the proposed subscription of approximately 37,409,221 new Hafei Aviation A Shares by the Company at the Subscription Price pursuant to the Subscription Agreement for a consideration to be satisfied by the transfer of the Changhe Aviation Interest to Hafei Aviation
“CSRC”	China Securities Regulatory Commission

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“Directors”	the director(s) of the Company
“Domestic Shares”	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for in Renminbi by PRC nationals and/or PRC incorporated entities
“EGM”	the extraordinary general meeting of the Company to be held on Friday, 21 September 2012
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign invested shares with a nominal value of RMB1.00 each in the ordinary share capital of the Company, which are traded in HK dollars and listed on the Stock Exchange
“Hafei Aviation”	Hafei Aviation Industry Co., Ltd. (哈飛航空工業股份有限公司), a joint stock limited company whose A shares are listed on the Shanghai Stock Exchange and is indirectly owned as to 50.05% equity interests by the Company as at the Latest Practicable Date
“Hafei Aviation A Share(s)”	A share(s) of Hafei Aviation listed on the Shanghai Stock Exchange
“Helicopter Tianjin”	Tianjin Helicopter Company Limited (天津直升機有限責任公司), a wholly-owned subsidiary of AVIC Helicopter as at the Latest Practicable Date
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Shareholders”	Shareholders (other than AVIC and its associates) who are not required to abstain from voting on the resolutions to be proposed at the general meeting of the Company to approve the connected transactions relating to the AVIC Helicopter Subscription and AVIC Hafei Subscription pursuant to the Subscription Agreement
“Independent Valuer”	Beijing Sinotop Appraisal Co., Ltd (北京中鋒資產評估有限責任公司), an independent valuer, a corporation licensed to carry out the securities-related and futures-related appraisal business approved by CSRC and Ministry of Finance of the People’s Republic of China
“Latest Practicable Date”	17 July 2012, 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 (as amended from time to time)
“PRC”	the People’s Republic of China

DEFINITIONS

“Price Determination Date”	28 May 2012
“Proposed Placing of Hafei Aviation”	the proposed placing of an original number of approximately 252,894,000 new Hafei Aviation A Shares to AVIC Helicopter, AVIC Hafei, the Company and not more than ten independent qualified investors for subscription, including the AVIC Helicopter Subscription, the AVIC Hafei Subscription, the Company’s Subscription and the Cash Subscription (the number of Proposed Placing has been adjusted to approximately 256,301,061 new Hafei Aviation A Shares according to the Valuation Results)
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	Stated-owned Assets Supervision and Administration Commission of the State Council
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) as amended from time to time
“Shareholders”	holders of Domestic Shares and holders of H Shares
“Shares”	Domestic Shares and H Shares
“Subscription Agreement”	the subscription agreement entered into between Hafei Aviation on the one side and the Company, AVIC Helicopter and AVIC Hafei on the other side on 25 May 2012, as amended by the Supplementary Agreement, pursuant to which Hafei Aviation agrees to issue and the Company, AVIC Helicopter and AVIC Hafei agree to subscribe for a total of approximately 192,261,365 (subject to adjustments) new Hafei Aviation A Shares
“Subscription Price”	the subscription price at which the Company, AVIC Helicopter and AVIC Hafei will subscribe for the new Hafei Aviation A Shares pursuant to the Subscription Agreement. The Subscription Price shall be RMB17.13 per new Hafei Aviation A Share, being the average trading price of Hafei Aviation A Shares quoted on the Shanghai Stock Exchange for the 20 trading days immediately preceding the Price Determination Date. The Subscription Price will be subject to the approval of the shareholders of Hafei Aviation at its general meeting after the same is approved by the competent government authorities

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“Supplementary Agreement”	a supplementary agreement to the Subscription Agreement entered into among the parties to the Subscription Agreement on 11 July 2012, pursuant to which, among others, the Valuation Results were recognized by the parties and the number of new Hafei Aviation A Shares to be subscribed for by each relevant party under the AVIC Helicopter Subscription, AVIC Hafei Subscription and the Company’s Subscription has been adjusted by reference to the Valuation Results
“Valuation Date”	31 March 2012
“Valuation Results”	the valuation results in the final valuation report dated 15 June 2012 prepared by the Independent Valuer using the cost method on the AVIC Helicopter Interest, AVIC Hafei Assets and Changhe Aviation Interest

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

Non-executive Directors:

Mr. Gu Huizhong

Mr. Gao Jianshe

Mr. Sheng Mingchuan

Mr. Maurice Savart

Independent non-executive Directors:

Mr. Guo Chongqing

Mr. Li Xianzong

Mr. Lau Chung Man, Louis

Registered Office:

8th Floor, Tower 2

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Beijing Economic-Technological

Development Area

Beijing, PRC

Principal place of business in

Hong Kong:

Unit B, 15/F, United Centre

Queensway 95

Hong Kong

20 July 2012

To the Shareholders:

Dear Sir or Madam,

(1) PROPOSED PLACING OF NEW HAFEI AVIATION A SHARES BY HAFEI AVIATION;

(2) DISCLOSEABLE AND CONNECTED TRANSACTIONS: PROPOSED SUBSCRIPTION OF NEW HAFEI AVIATION A SHARES BY AVIC HELICOPTER AND AVIC HAFEI IN CONSIDERATION OF AVIC HELICOPTER INTEREST AND AVIC HAFEI ASSETS RESPECTIVELY; AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Reference is made to the announcement of the Company dated 6 February 2012 in relation to a significant project of Hafei Aviation and the announcement of the Company dated 25 May 2012 in relation to (1) proposed placing of new Hafei Aviation A Shares by Hafei Aviation; (2) proposed subscription of new Hafei Aviation A Shares by AVIC Helicopter and AVIC Hafei in consideration of AVIC Helicopter Interest and AVIC Hafei Assets respectively; (3) proposed subscription of new Hafei Aviation A Shares by the

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Company in consideration of Changhe Aviation Interest; and (4) deemed disposal of equity interest in Hafei Aviation held by the Company. Reference is also made to the announcement of the Company dated 11 July 2012 in relation to the entering into the Supplementary Agreement, pursuant to which, among others, the Valuation Results were recognized by the parties and the number of new Hafei Aviation A Shares to be subscribed for by each relevant party under the AVIC Helicopter Subscription, AVIC Hafei Subscription and the Company's Subscription has been adjusted by reference to the Valuation Results.

The purpose of this circular is to provide you with more information relating to, among other things, (1) further details of the Proposed Placing of Hafei Aviation; (2) the Valuation Results of the Changhe Aviation Interest, AVIC Helicopter Interest and AVIC Hafei Assets; and (3) the letter from the independent board committee of the Company and the recommendation from the independent financial adviser on the connected transactions relating to the proposed subscription of new Hafei Aviation A Shares by AVIC Helicopter and AVIC Hafei in consideration of AVIC Helicopter Interest and AVIC Hafei Assets, respectively.

A. INTRODUCTION

On 25 May 2012, the Board and the board of directors of Hafei Aviation respectively resolved the issue of approximately 252,894,000 new Hafei Aviation A Shares for subscription by AVIC Helicopter, AVIC Hafei, the Company and not more than ten independent qualified investors. Upon completion of the Proposed Placing of Hafei Aviation, the newly issued Hafei Aviation A Shares will be listed on the Shanghai Stock Exchange. On 25 May 2012, Hafei Aviation entered into the Subscription Agreement with AVIC Helicopter, AVIC Hafei and the Company respectively, for the subscription, subject to fulfillment (or adjustments) of certain conditions, of new Hafei Aviation A Shares. On 11 July 2012, Hafei Aviation entered into the Supplementary Agreement with AVIC Helicopter, AVIC Hafei and the Company, respectively, to adjust the number of new Hafei Aviation A Shares to be subscribed for by each relevant party under the AVIC Helicopter Subscription, AVIC Hafei Subscription and the Company's Subscription by reference to the Valuation Results.

B. MAJOR TERMS

Details of the plan of the Proposed Placing of Hafei Aviation are set out below:

1. Nominal value of the new Hafei Aviation A Shares:

RMB1 per new Hafei Aviation A Share.

2. Placing methods:

Private placement of new Hafei Aviation A Shares at an appropriate time within six months from the date of approval by CSRC.

3. Placing targets:

AVIC Helicopter, AVIC Hafei, the Company and not more than ten independent qualified investors.

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4. Total number of new Hafei Aviation A Shares to be issued:

256,301,061 new Hafei Aviation A Shares, out of which, 192,261,365 new Hafei Aviation A Shares proposed to be issued to and subscribed by AVIC Helicopter, AVIC Hafei and the Company pursuant to the Subscription Agreement (as amended by the Supplementary Agreement) and the remainder of 64,039,696 (as adjusted from an original of 63,222,400 by reference to the Valuation Results) new Hafei Aviation A Shares will be issued to and subscribed by not more than ten independent qualified investors under the Cash Subscription.

The final valuation report prepared by the Independent Valuer has been obtained on 15 June 2012. However, as the Valuation Results were yet to be confirmed by nor filed with the competent state-owned assets supervision and administration authority or its authorized representatives at the Latest Practicable Date, the final total number of new Hafei Aviation A Shares to be issued may still be subject to further adjustment according to the view of such state-owned assets supervision and administration authority or its authorized representatives on the Valuation Results.

5. Subscription price:

For AVIC Helicopter Subscription, AVIC Hafei Subscription and the Company's Subscription, the Subscription Price is RMB17.13 per new Hafei Aviation A Share, being the average trading price of Hafei Aviation A Shares quoted on the Shanghai Stock Exchange for the 20 trading days immediately preceding the Price Determination Date. The Subscription Price was determined in accordance with the relevant provisions under the Administrative Measures on Major Assets Re-organization of Listed Companies (《上市公司重大資產重組管理辦法》) promulgated by the CSRC. The Subscription Price will not be subject to adjustment except for the adjustment to be made pursuant to the occurrence of any ex-dividend or ex-entitlement event as disclosed below. The Subscription Price will be subject to the approval of the shareholders of Hafei Aviation at its general meeting after the same is approved by the competent government authorities, including but not limited to SASAC and CSRC.

For the Cash Subscription by independent qualified investors, the Cash Subscription Price shall be not less than RMB17.13 per new Hafei Aviation A Share, being the average trading price of Hafei Aviation A Shares quoted on the Shanghai Stock Exchange for the 20 trading days immediately preceding the Price Determination Date. The Cash Subscription Price will be finally determined through book building exercise.

If any ex-dividend or ex-entitlement event occurs during the period between the Price Determination Date and the issue date of the new Hafei Aviation A Shares, the Subscription Price and total number of Hafei Aviation A Shares to be issued shall be adjusted according to certain pre-determined formulas as set out in the Subscription Agreement.

6. Lock-up period:

Pursuant to the Subscription Agreement, the new Hafei Aviation A Shares to be subscribed by AVIC Helicopter, AVIC Hafei and the Company shall be subject to a lock-up period of 36 months commencing from the date upon which completion of the issue of the relevant new Hafei Aviation A Shares takes place.

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The new Hafei Aviation A Shares to be issued to not more than ten independent qualified investors shall be subject to a lock-up period of 12 months commencing from the date upon which completion of the issue of the relevant Hafei Aviation A Shares takes place.

7. Conditions of Completion:

Completion of the Proposed Placing of Hafei Aviation is subject to, among other things, the following matters:

- (i) all conditions to the Subscription Agreement having been fulfilled;
- (ii) the new Hafei Aviation A Shares to be subscribed by AVIC Helicopter, AVIC Hafei and the Company having been issued to and registered in their respective names; and
- (iii) the title to AVIC Helicopter Interest, AVIC Hafei Assets and Changhe Aviation Interest having been registered in the name of Hafei Aviation.

8. Use of proceeds under the Cash Subscription:

The proceeds under the Cash Subscription has been proposed to be not more than RMB1.097 billion and will be primarily used to develop the helicopter business and supplement the working capital.

C. THE SUBSCRIPTION AGREEMENT AND THE SUPPLEMENTARY AGREEMENT

1. Date

Subscription Agreement: 25 May 2012

Supplementary Agreement: 11 July 2012

2. Parties

- (1) Hafei Aviation as the issuer;
- (2) AVIC Helicopter, AVIC Hafei and the Company, each as a subscriber.

3. Principal Terms

(1) AVIC Helicopter Subscription

Pursuant to the Subscription Agreement (as amended by the Supplementary Agreement), Hafei Aviation agrees to issue and AVIC Helicopter agrees to subscribe for, subject to fulfillment (or adjustments) of certain conditions, 107,510,979 new Hafei Aviation A Shares at the Subscription Price, for a consideration to be satisfied by the transfer of the AVIC Helicopter Interest to Hafei Aviation. According to the final valuation report dated 15 June 2012 issued by the Independent Valuer, the Valuation Results of AVIC Helicopter Interest was approximately

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RMB1,842 million as at the Valuation Date. However, as the Valuation Results were yet to be confirmed by nor filed with the competent state-owned assets supervision and administration authority or its authorized representatives at the Latest Practicable Date, such amount may still be subject to adjustment according to the view of such state-owned assets supervision and administration authority or its authorized representatives on the Valuation Results. Therefore, the final number of the new Hafei Aviation A Shares to be subscribed for by AVIC Helicopter may be subject to further adjustment according to the final valuation results of AVIC Helicopter Interest as confirmed by the state-owned assets supervision and administration authority or its authorized representatives and the Subscription Price.

Assuming that AVIC Helicopter will subscribe for 107,510,979 new Hafei Aviation A Shares, upon completion of AVIC Helicopter Subscription, AVIC Helicopter will hold 107,510,979 Hafei Aviation A Shares, accounting for approximately 18.11% of the total enlarged issued share capital of Hafei Aviation upon completion of the Proposed Placing of Hafei Aviation.

(2) *AVIC Hafei Subscription*

Pursuant to the Subscription Agreement (as amended by the Supplementary Agreement), Hafei Aviation agrees to issue and AVIC Hafei agrees to subscribe for, subject to fulfillment (or adjustments) of certain conditions, 47,341,165 new Hafei Aviation A Shares at the Subscription Price, for a consideration to be satisfied by the transfer of the AVIC Hafei Assets to Hafei Aviation. According to the final valuation report dated 15 June 2012 issued by the Independent Valuer, the Valuation Results of AVIC Hafei Assets was approximately RMB811 million as at the Valuation Date. However, as the Valuation Results were yet to be confirmed by nor filed with the competent state-owned assets supervision and administration authority or its authorized representatives at the Latest Practicable Date, such amount may still be subject to adjustment according to the view of such state-owned assets supervision and administration authority or its authorized representatives on the Valuation Results. Therefore, the final number of the new Hafei Aviation A Shares to be subscribed for by AVIC Hafei may be subject to further adjustment according to the final valuation results of AVIC Hafei Assets as confirmed by the state-owned assets supervision and administration authority or its authorized representatives and the Subscription Price.

Assuming that AVIC Hafei will subscribe for 47,341,165 new Hafei Aviation A Shares, upon completion of AVIC Hafei Subscription, AVIC Hafei will hold 47,341,165 Hafei Aviation A Shares, accounting for approximately 7.97% of the total enlarged issued share capital of Hafei Aviation upon completion of the Proposed Placing of Hafei Aviation.

(3) *Company's Subscription*

Pursuant to the Subscription Agreement (as amended by the Supplementary Agreement), Hafei Aviation agrees to issue and the Company agrees to subscribe for, subject to fulfillment (or adjustments) of certain conditions, the original number of 37,409,221 new Hafei Aviation A Shares at the Subscription Price, for a consideration to be satisfied by the transfer of the Changhe Aviation Interest to Hafei Aviation. According to the final valuation report dated 15 June 2012 issued by the Independent Valuer, the Valuation Results of Changhe Aviation

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Interest as at the date of the Subscription Agreement was approximately RMB641 million as at the Valuation Date. However, as the Valuation Results were yet to be confirmed by nor filed with the competent state-owned assets supervision and administration authority or its authorized representatives at the Latest Practicable Date, such amount may still be subject to adjustment according to the view of such state-owned assets supervision and administration authority or its authorized representatives on the Valuation Results. Therefore, the final number of the new Hafei Aviation A Shares to be subscribed for by the Company may be subject to further adjustment according to the final valuation results of Changhe Aviation Interest as confirmed by the state-owned assets supervision and administration authority or its authorized representatives and the Subscription Price.

Assuming that the Company will subscribe for 37,409,221 new Hafei Aviation A Shares (which will account for approximately 6.30% of the enlarged share capital of Hafei Aviation upon completion of the Proposed Placing of Hafei Aviation), upon completion of the Company's Subscription, the Hafei Aviation A Shares held by the Group will be increased from 168,856,523 to 206,265,744 Hafei Aviation A Shares. However, the equity interest held by the Group in Hafei Aviation is expected to be diluted from 50.05% to approximately 34.75% of the total enlarged issued share capital of Hafei Aviation upon completion of the Proposed Placing of Hafei Aviation.

Completion of AVIC Helicopter Subscription, AVIC Hafei Subscription and Company Subscription under the Subscription Agreement are inter-conditional with each other.

4. Subscription Price

Pursuant to the Subscription Agreement, the Subscription Price for the AVIC Helicopter Subscription, AVIC Hafei Subscription and Company's Subscription is RMB17.13, being the average trading price of Hafei Aviation A Shares quoted on the Shanghai Stock Exchange for the 20 trading days immediately preceding the Price Determination Date. The Subscription Price will be subject to the approval of the shareholders of Hafei Aviation at its general meeting after the same is approved by the competent government authorities, including but not limited to SASAC and CSRC.

5. Conditions precedent to the Subscription Agreement becoming effective

The Subscription Agreement shall become effective upon fulfilment of, among other things, the following conditions:

- (1) the Subscription Agreement having been executed by the legal representative or authorized person(s) of each party;
- (2) Hafei Aviation having held a board meeting and a general meeting to approve the transactions contemplated under the Subscription Agreement;
- (3) each of the Company, AVIC Helicopter and AVIC Hafei 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 (as applicable to the Company). Such necessary corporate procedures include, but not limited to, the board

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approvals and shareholder approvals by each of AVIC Helicopter and AVIC Hafei (where required under their respective articles of association) and the approval by the Independent Shareholders of the Company on the Subscription Agreement and the connected transactions contemplated under the Subscription Agreement;

- (4) the transactions contemplated under the Subscription Agreement having been approved by the State Administration for Science, Technology and Industry for National Defense;
- (5) the transactions contemplated under the Subscription Agreement having been approved by SASAC and the final valuation results of the equity interests and assets to be transferred to Hafei Aviation (including (i) the AVIC Helicopter Equity Interest; (ii) the AVIC Hafei Assets and (iii) the Changhe Aviation Interest) as the consideration for the subscription having been registered with SASAC; and
- (6) the transactions contemplated under the Subscription Agreement having been approved by CSRC.

No party to the Subscription Agreement has the right to waive any of the above conditions. As at the Latest Practicable Date, except for condition (1) which has been fulfilled, all other conditions were not yet fulfilled.

D. THE VALUATION RESULTS OF AVIC HELICOPTER INTEREST, AVIC HAFEI ASSETS AND CHANGHE AVIATION INTEREST

According to the final valuation report dated 15 June 2012 issued by the Independent Valuer, the Valuation Results of AVIC Helicopter Interest, AVIC Hafei Assets and Changhe Aviation Interest calculated using the cost method are approximately RMB1,842 million, RMB811 million and RMB641 million, respectively. However, the Valuation Results are still subject to the final confirmation by and filed with the state-owned assets supervision and administration authority or its authorized representatives. Total assets of AVIC Helicopter Interest and AVIC Hafei Assets under their respective audited financial information prepared in accordance with the PRC accounting standards as at the Valuation Date were approximately RMB3.339 billion in total, among which construction in progress is expected to incur depreciation expensed after completion and transferred to fixed assets in the future.

E. INFORMATION RELATING TO CHANGHE AVIATION

Changhe Aviation was established as a limited liability company in the PRC in 2002. As at the Latest Practicable Date, Changhe Aviation was 100% directly owned by the Company. The registered capital of Changhe Aviation is RMB430,422,696. Changhe Aviation is mainly engaged in the business of research, manufacturing and sale of helicopters.

Based on the audited financial statements prepared in accordance with the PRC accounting standards, as at 31 March 2012, the total assets and net assets of Changhe Aviation amounted to RMB7,285.92 million and RMB502.68 million, respectively. For the financial year ended 31 December 2011, the revenue and net profits (before and after tax and extraordinary items) of Changhe Aviation amounted to RMB4,076.93

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million, RMB58.31 million and RMB50.95 million, respectively. For the financial year ended 31 December 2010, the revenue and net profits (before and after tax and extraordinary items) of Changhe Aviation amounted to RMB2,522.69 million, RMB69.79 million and RMB63.76 million, respectively.

F. INFORMATION RELATING TO CHANGFEI PARTS AND COMPONENTS, HELICOPTER TIANJIN, AVIC HUIYANG AND AVIC HAFEI ASSETS

Information relating to Changfei Parts and Components

Changfei Parts and Components is a limited liability company established in the PRC in April 2012. As at the Latest Practicable Date, Changfei Parts and Components was 100% owned by AVIC Helicopter. The registered capital of Changfei Parts and Components is RMB200 million. Changfei Parts and Components is mainly engaged in the business of manufacturing and sale of aviation parts and components. Upon the Completion of the Proposed Placing of Hafei Aviation, Changfei Parts and Components will merge with Changhe Aviation when appropriate, and the revenue of Changfei Parts and Components during the transition period will mainly come from Changhe Aviation.

Based on the audited pro forma financial information of Changfei Parts and Components prepared in accordance with the PRC accounting standards, as at 31 March 2012, the pro forma total assets and net assets of Changfei Parts and Components amounted to RMB923.98 million and RMB619.79 million, respectively.

Information relating to Helicopter Tianjin

Helicopter Tianjin is a limited liability company established in the PRC in May 2012. As at the Latest Practicable Date, Helicopter Tianjin was 100% owned by AVIC Helicopter. The registered capital of Helicopter Tianjin is RMB250 million. Helicopter Tianjin is still under construction at this stage and has not commenced any business. Helicopter Tianjin will be mainly engaged in the design, research and development, manufacturing, sale, maintenance and customization of helicopters.

Based on the audited pro forma financial information of Helicopter Tianjin prepared in accordance with the PRC accounting standards, as at 31 March 2012, the pro forma total assets and net assets of Helicopter Tianjin amounted to RMB843.42 million and RMB793.84 million, respectively.

Information relating to AVIC Huiyang

AVIC Huiyang was restructured as a limited liability company in 2010. As at the Latest Practicable Date, AVIC Huiyang was 100% owned by AVIC Helicopter. The registered capital of AVIC Huiyang is approximately RMB86.84 million. AVIC Huiyang is mainly engaged in the business of manufacturing and sale of aviation products such as propellers, helicopter rotor heads and tail rotors.

Based on the audited financial statements of AVIC Huiyang prepared in accordance with the PRC accounting standards, as at 31 March 2012, the total assets and net assets of AVIC Huiyang amounted to RMB915.02 million and RMB147.45 million, respectively. For the financial year ended 31 December 2011, the revenue and net profits (before and after tax and extraordinary items) of AVIC

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Huiyang amounted to RMB380.90 million, RMB8.93 million and RMB5.36 million, respectively. For the financial year ended 31 December 2010, the revenue and net profits (before and after tax and extraordinary items) of AVIC Huiyang amounted to RMB344.23 million, RMB5.51 million and RMB1.19 million, respectively.

Information relating to AVIC Hafei Assets

AVIC Hafei Assets are mainly the assets of AVIC Hafei relating to the manufacturing of helicopter parts and components, including a total of 7 plants, 14 pieces of land using rights and 234 pieces of equipment, all located in Harbin, Heilongjiang Province of PRC. Based on the audited financial statements of AVIC Hafei prepared in accordance with the PRC accounting standards, as at 31 March 2012, the carrying amount of the total assets of AVIC Hafei Assets amounted to RMB656.61 million.

G. DEEMED DISPOSAL OF EQUITY INTEREST IN HAFEI AVIATION, DISPOSAL OF CHANGHE AVIATION INTEREST AND THE FINANCIAL IMPLICATIONS

As at the Latest Practicable Date, the Group held approximately 50.05% equity interest in Hafei Aviation. Upon completion of the Proposed Placing of Hafei Aviation, the equity interest held by the Group in Hafei Aviation will be diluted for approximately 15.30% from 50.05% to approximately 34.75%. To ensure that Hafei Aviation will continue to remain as a subsidiary of the Company, the Company, AVIC Helicopter and AVIC Hafei entered into an agreement on 25 May 2012, pursuant to which AVIC Helicopter and AVIC Hafei have undertaken that they will, after completion of the Proposed Placing of Hafei Aviation, exercise their respective voting rights at all general meetings of Hafei Aviation in accordance with the instructions of the Company. Therefore, the Company will then have control, directly or indirectly, over the exercise of approximately 60.83% of the voting rights at the general meetings of Hafei Aviation. On this basis, the Directors confirm, after consulting with the auditors of the Company, that the accounts of Hafei Aviation will continue to be consolidated in the group accounts of the Company and Hafei Aviation will remain to be a subsidiary of the Company following completion of the Proposed Placing of Hafei Aviation.

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As Hafei Aviation will remain as a subsidiary of the Company upon completion of the Proposed Placing of Hafei Aviation, the Proposed Placing of Hafei Aviation will constitute a deemed disposal of approximately 15.30% equity interest in Hafei Aviation by the Company. The changes in the shareholding structure of Hafei Aviation before and after completion of the Proposed Placing of Hafei Aviation are set out in the following table:

Name of shareholder of Hafei Aviation	Before completion of the Proposed Placing of Hafei Aviation		After completion of the Proposed Placing of Hafei Aviation	
	Number of Hafei Aviation A Shares held	Approximate % of the issued share capital held	Number of Hafei Aviation A Shares held	Approximate % of the issued share capital held
The Group	168,856,523	50.05	206,265,744	34.75
AVIC Helicopter	0	0	107,510,979	18.11
AVIC Hafei	<u>0</u>	<u>0</u>	<u>47,341,165</u>	<u>7.97</u>
Sub-total:	<u>168,856,523</u>	<u>50.05</u>	<u>361,117,888</u>	<u>60.83</u>
Independent qualified investors under the Cash Subscription	0	0	64,039,696	10.79
Other shareholders	<u>168,493,477</u>	<u>49.95</u>	<u>168,493,477</u>	<u>28.38</u>
Total	<u>337,350,000</u>	<u>100</u>	<u>593,651,061</u>	<u>100</u>

Based on the audited financial statements of Hafei Aviation, as at 31 March 2012, the total assets and net assets of Hafei Aviation amounted to RMB3,362,032,300 and RMB1,517,766,900, respectively.

Based on the audited financial statements of Hafei Aviation prepared in accordance with the PRC accounting standards, for the two financial years ended 31 December 2011, the revenue and net profits (before and after tax and extraordinary items) of Hafei Aviation are as follows:

	Revenue <i>RMB</i>	Net profit before tax and extraordinary items <i>RMB</i>	Net profit after tax and extraordinary items <i>RMB</i>
2010	2,270,035,700	131,939,600	119,647,900
2011	2,769,433,700	123,299,400	109,809,200

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The gain arising from the deemed disposal of Hafei Aviation is expected to be approximately RMB0.8 billion as at the Valuation Date. Such gain arising from the deemed disposal is calculated based on the change in the net asset values (“NAV”) of Hafei Aviation attributable to the Company before and after completion of the Proposed Placing of Hafei Aviation, being the difference between the NAV of Hafei Aviation attributable to the Company before the Proposed Placing of Hafei Aviation (which is 50.05% X the NAV of Hafei Aviation at the Valuation Date) and the NAV of Hafei Aviation attributable to the Company after completion of the Proposed Placing of Hafei Aviation without taking into account of the Company’s Subscription (which is 28.44 (being the percentage of the number of Hafei Aviation A Shares held by the Company as at the Latest Practicable Date as divided by the enlarged share capital of Hafei Aviation after completion of the Proposed Placing of Hafei Aviation) X the NAV of Hafei Aviation after completion of the Proposed Placing of Hafei Aviation). The gain will be reflected as a credit/debit movement to reserves and will not be included in the consolidated income statements of the Group.

The audited NAV of Hafei Aviation as at the Valuation Date was approximately RMB1.518 billion. The NAV of Hafei Aviation after completion of the Proposed Placing of Hafei Aviation is approximately RMB 5,436 million which is calculated by using the sum of (i) the NAV of Hafei Aviation by reference to the pro forma financial information on the enlarged Hafei Aviation as at the Valuation Date, which is approximately RMB4,339 million, and (ii) RMB1,097 million, being the estimated proceeds under the Cash Subscription. As such, the gain of the deemed disposal is expected to be approximately RMB0.8 billion. However, the above calculations are for information only as the actual gain or loss cannot be ascertained at this stage as Hafei Aviation’s NAV can only be determined upon completion of the Proposed Placing of Hafei Aviation. There will be no proceed to be raised in such deemed disposal.

The loss arising from the disposal of Changhe Aviation Interest is expected to be approximately RMB0.2 billion as at the Valuation Date, which represents the difference between 6.30% (being the percentage of the number of Hafei Aviation A Shares to be subscribed for by the Company under the Company’s Subscription as divided by the enlarged share capital of Hafei Aviation after completion of the Proposed Placing of Hafei Aviation) of the NAV of Hafei Aviation after completion of the Proposed Placing of Hafei Aviation (being approximately RMB342 million) and RMB503 million, being the NAV of Changhe Aviation attributable to the Group as at the Valuation Date. However, the above calculations are for information only as the actual gain or loss can only be ascertained on the date upon which the Company’s Subscription is completed. The disposal of Changhe Aviation Interest will not raise any proceeds.

Taking the above analysis on a consolidated basis, a gain of approximately RMB0.6 billion is expected to accrue to the Group upon completion of the Proposed Placing of Hafei Aviation.

As the respective equity interest held by the Group in Changhe Aviation and Hafei Aviation is expected to be, after completion of the Proposed Placing of Hafei Aviation, diluted from 100% to 34.75% and from 50.05% to 34.75%, respectively, the net profits of Changhe Aviation and Hafei Aviation attributable to the Group will be diluted accordingly. Taking the audited net profits of Changhe Aviation and Hafei Aviation attributable to the Group for the year ended 31 December 2011 (being an aggregate of approximately RMB106 million) as an illustration, as the net profits attributable to the Group by the 34.75% equity interest of Hafei Aviation by reference to the pro forma financial information on the enlarged Hafei Aviation for the year ended 31 December 2011 were approximately RMB48 million, the dilution percentage to the net profits of Changhe Aviation and Hafei Aviation attributable to the Group as a result of completion of the Proposed Placing of Hafei Aviation would be equivalent to approximately 55%. The above calculation

LETTER FROM THE BOARD

is for illustration purposes only, and shall not be interpreted to indicate any actual or intended adjustment to the net profits attributable to the Company for the year ended 31 December 2011 as a result of the completion of the Proposed Placing of Hafei Aviation.

H. REASONS FOR AND BENEFITS OF THE PROPOSED PLACING OF HAFEI AVIATION AND THE TRANSACTIONS CONTEMPLATED UNDER THE SUBSCRIPTION AGREEMENT

Upon completion of the Proposed Placing of Hafei Aviation, Hafei Aviation will become a platform for industrialization and integration of helicopter assets in the Group. Through the AVIC Helicopter Subscription, the AVIC Hafei Subscription and the Company's Subscription, AVIC and the Company will inject their respective helicopter-related businesses and assets into Hafei Aviation. After such injection, Hafei Aviation may be able to achieve the sharing and optimized distribution of helicopter manufacturing technologies, R&D experience and manufacturing capacity, so as to bring the synergy effect into full play. Further, as helicopter-related businesses and assets, such as the R&D capabilities and the manufacturing facilities for key helicopter parts and components, are newly injected, Hafei Aviation's helicopter business industry chain will be substantially strengthened and supplemented following such consolidation. Such consolidation may also expect to expand its assets scale and sales volume, unify the planning of products and decrease repetitive investments. The Company, as the holding company of Hafei Aviation, is also able to take advantage from such consolidation of its helicopter business platform. As such, the market competition capabilities of the Group's helicopter business may be improved.

I. HONG KONG LISTING RULES IMPLICATIONS

Discloseable and connected transactions: AVIC Helicopter Subscription and AVIC Hafei Subscription

As at the Latest Practicable Date, AVIC Helicopter was a wholly-owned subsidiary of AVIC and AVIC Hafei was held as to 81.12% by and a subsidiary of AVIC Helicopter. As AVIC was the controlling shareholder holding 51.26% equity interest in the Company as at the Latest Practicable Date, it is a connected person of the Company, and AVIC Helicopter and AVIC Hafei are associates of AVIC. Pursuant to the AVIC Helicopter Subscription and AVIC Hafei Subscription, AVIC Helicopter and AVIC Hafei will transfer the AVIC Helicopter Interest and the AVIC Hafei Assets to Hafei Aviation respectively for the subscription of new Hafei Aviation A Shares. Therefore, pursuant to Chapter 14A of the Listing Rules, the AVIC Helicopter Subscription and AVIC Hafei Subscription will constitute connected transactions of the Company. As the highest applicable size test percentage ratio in relation to the AVIC Helicopter Subscription and AVIC Hafei Subscription (calculated on an aggregated basis) exceeds 5% but is less than 25%, the AVIC Helicopter Subscription and AVIC Hafei Subscription shall comply with the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules and will also constitute discloseable transactions of the Company.

LETTER FROM THE BOARD

Discloseable transaction: the disposal of Changhe Aviation Interest under the Company's Subscription

As at the Latest Practicable Date, the Company held the entire issued shares of Changhe Aviation. The Company will subscribe for the new Hafei Aviation A Shares for a consideration to be satisfied by the transfer of its equity interest in Changehe Aviation to Hafei Aviation. Following completion of the Proposed Placing of Hafei Aviation, the Company will indirectly hold equity interest in Changehe Aviation through its subsidiary, Hafei Aviation, and Changehe Aviation will continue to be a subsidiary of the Company, where the Company's equity interest in Changhe Aviation will be diluted accordingly. Pursuant to Chapter 14 of the Listing Rules, as the highest applicable size test percentage ratio in relation to the disposal of the equity interest held by the Company in Changhe Aviation exceeds 5% but is less than 25%, the transfer of Changhe Aviation Interest by the Company to Hafei Aviation as the consideration for the Company's Subscription will constitute a discloseable transaction of the Company.

Discloseable transaction: Deemed disposal of approximately 15.30% equity interest in Hafei Aviation by the Company

As at the Latest Practicable Date, the Company held approximately 50.05% equity interest in Hafei Aviation. Upon completion of the Proposed Placing of Hafei Aviation, the equity interest to be held by the Company in Hafei Aviation will be diluted by approximately 15.30% from 50.05% to approximately 34.75%. Whereas Hafei Aviation will remain to be a subsidiary of the Company following completion of the Proposed Placing of Hafei Aviation, such dilution will constitute a deemed disposal by the Company of approximately 15.30% equity interest in Hafei Aviation. Pursuant to Chapter 14 of the Listing Rules, as the highest applicable size test percentage ratio in relation to the deemed disposal exceeds 5% but is less than 25%, such deemed disposal will constitute a discloseable transaction of the Company.

J. GENERAL

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 was held as to 51.26% by AVIC, being the controlling shareholder of the Company. The Company is mainly engaged in the research and development, manufacture and sales of civilian aviation products.

Information on Hafei Aviation

Hafei Aviation 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, Hafei Aviation was held as to 50.05% equity interest by the Company. Hafei Aviation is mainly engaged in the development and manufacture of helicopter products.

LETTER FROM THE BOARD

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 Helicopter

AVIC Helicopter is held as to 68.75% by and a subsidiary of AVIC and is mainly engaged in the business of development and manufacturing of helicopter and other aviation products.

Information on AVIC Hafei

AVIC Hafei was established in the PRC and is held as to 81.12% by and a subsidiary of AVIC Helicopter. AVIC Hafei is mainly engaged in the business of manufacturing and sale of aviation products.

K. DIRECTORS' INTEREST IN THE SUBSCRIPTION AGREEMENT

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

L. EGM

The notice of the EGM to be held at 9:00 a.m. on Friday, 21 September 2012 at Grand Skylight CATIC Hotel Beijing, No. 18 Bei Chen East Road, Chaoyang District, Beijing, the People's Republic of China is set out on pages 44 to 46 of this circular, at which an ordinary resolution will be proposed to approve, among other things, the terms and conditions of the Subscription Agreement, and the connected transactions contemplated under the Subscription 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 so wish.

AVIC and its associate(s) are connected persons of the Company as defined under the Listing Rules, therefore, AVIC and AMES shall 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 AMES owned an aggregate of 2,989,492,900 Shares, representing approximately 54.61% 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.

LETTER FROM THE BOARD

M. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 21 of this circular. The Directors and the Independent Board Committee, having taken into account the advice of Anglo Chinese, consider that the Proposed Placing of Hafei Aviation, the Company Subscription and the connected transactions relating to the AVIC Helicopter Subscription and the AVIC Hafei Subscription under the Subscription Agreement are conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Although the completion of the Proposed Placing of Hafei Aviation will dilute the profit of the Company, the Group will enhance its assets size and manufacture capabilities of its helicopter business through the Proposed Placing of Hafei Aviation. Accordingly, the Directors (including the independent Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolution relating to the Subscription 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)

20 July 2012

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company (the “**Circular**”) dated 20 July 2012 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 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.

We wish to draw your attention to the letter from the Board set out on pages 6 to 20 of the Circular and the letter from Anglo Chinese set out on pages 22 to 40 of the Circular.

Having considered the advice given by Anglo Chinese, we are of the opinion that the terms of the Subscription 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 is in the interests of the Company and the Shareholders as a whole. Although the completion of Proposed Placing of Hafei Aviation will dilute the profit of the Company, the Group will enhance its assets size and manufacture capabilities of its helicopter business through the Proposed Placing of Hafei Aviation. 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
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www.anglochinesegroup.com

英高
財務顧問有限公司

*To the Independent Board Committee
and the Independent Shareholders*

20 July 2012

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION: PROPOSED SUBSCRIPTION OF NEW HAFEI AVIATION A SHARES BY AVIC HELICOPTER AND AVIC HAFEI IN CONSIDERATION OF AVIC HELICOPTER INTEREST AND AVIC HAFEI ASSETS RESPECTIVELY

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the connected transactions relating to the AVIC Helicopter Subscription and AVIC Hafei Subscription. Details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 20 July 2012, 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 25 May 2012 and 11 July 2012. On 25 May 2012 and 11 July 2012, AVIC Helicopter, AVIC Hafei and the Company entered into the Subscription Agreement and Supplemental Agreement with Hafei Aviation, a 50.05% non-wholly owned subsidiary of the Company whose A shares are listed on the Shanghai Stock Exchange, pursuant to which Hafei Aviation agreed to issue and AVIC Helicopter, AVIC Hafei and the Company collectively agreed to subscribe for approximately 192 million new Hafei Aviation A Shares based on the Subscription Price of RMB17.13 per Hafei Aviation A Share. The consideration for the subscription will be satisfied by the transfer of the AVIC Helicopter Interest, the AVIC Hafei Assets and the Changhe Aviation Interest (together the “**Incoming Assets**”) to Hafei Aviation. The estimated appraised value of the Incoming Assets to be transferred to Hafei Aviation aggregated to approximately RMB3,293 million. The final number of new Hafei Aviation A 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 Subscription Price. The issuance and allotment of new Hafei Aviation A Shares under the Subscription Agreement is also subject to approval by the relevant PRC government authorities including CSRC. Upon the completion of the Proposed Placing of Hafei Aviation,

LETTER FROM ANGLO CHINESE

AVIC Helicopter, AVIC Hafei and the Company will be respectively interested in approximately 18.11%, 7.97% and 34.75% of the total issued share capital of Hafei Aviation, as enlarged by the issue of new Hafei Aviation A Shares.

As at the Latest Practicable Date, AVIC Hafei is held as to 81.12% by and a subsidiary of AVIC Helicopter, which is held as to 68.75% by and a subsidiary of AVIC, the controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, AVIC is a connected person of the Company, and AVIC Helicopter and AVIC Hafei are associates of AVIC. Therefore, the AVIC Helicopter Subscription and AVIC Hafei Subscription will constitute connected transactions of the Company. As the highest applicable size test percentage ratio in relation to the AVIC Helicopter Subscription and AVIC Hafei Subscription exceeds 5% but is less than 25%, such subscription will also constitute discloseable transactions of the Company. The AVIC Helicopter Subscription and AVIC Hafei Subscription will be subject to, among other things, approval by the Independent Shareholders.

An Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the connected transactions relating to the AVIC Helicopter Subscription and AVIC Hafei Subscription. Apart from the AVIC Helicopter Subscription and the AVIC Hafei Subscription, the Proposed Placing of Hafei Aviation also comprise of the Company's Subscription and the Cash Subscription. Further details about the Proposed Placing of Hafei Aviation are set in the letter from the Board in this circular.

Votes of the Independent Shareholders at the EGM shall be taken by poll. As AVIC has material interest in the AVIC Helicopter Subscription and AVIC Hafei Subscription, AVIC and AMES will abstain from voting at the EGM. Save for the approval from the Independent Shareholders at the EGM, the Subscription Agreement is also subject to the conditions precedent as set out on 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

LETTER FROM ANGLO CHINESE

any form of independent in-depth investigation on the Incoming Assets or into the business and affairs or the prospects of AVIC, the Company, Hafei Aviation, AVIC Helicopter, AVIC Hafei 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.

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 relating to the AVIC Helicopter Subscription and AVIC Hafei Subscription, and the proposed transfer of the relevant Incoming Assets as consideration under the Subscription Agreement, we have taken into account the following principal factors:

Background of the Subscription Agreement

Business and financial information of the Group

The Company is held as to 51.26% 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 engaged in the research, development, manufacture and sales of civilian aviation products, such as helicopters, trainers, general-purpose aircraft and regional jets as well as aviation parts. Pursuant to the Subscription Agreement, Hafei Aviation, being a 50.05% non-wholly owned subsidiary of the Company listed on the Shanghai Stock Exchange, will issue new Hafei Aviation A Shares in exchange for the Incoming Assets which in substance can be viewed a reorganisation exercise among AVIC Helicopter and AVIC Hafei and the Company, for the purpose of consolidating their respective helicopter related businesses under Hafei Aviation. Such reorganisation will result in a deemed disposal of equity interest in Hafei Aviation by the Company and reduce its equity interest by approximately 15.30% to approximately 34.75% but Hafei Aviation will remain as a non-wholly owned subsidiary of the Company upon the completion of the Proposed Placing of Hafei Aviation due to the voting rights arrangement between AVIC Helicopter and AVIC Hafei and the Company.

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 focus on the aviation segment, and the Group ceased to hold material controlling interest in any automobile business after such reorganisation. To further extend its aviation manufacture industry chain and to seek new focus for business growth, the Company continued to acquire aviation business assets from AVIC, resulting in a growing number of subsidiaries and rapid growth of revenue of its aviation product business.

LETTER FROM ANGLO CHINESE

Tabularised below is a summary of the audited consolidated financial results of the Group as extracted from the Company's annual report 2011:

Consolidated Income Statement	For the year ended		Year on year change
	31 December		
	2011	2010	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
		(restated)	
Revenue from continuing operations	12,900,623	10,973,380	17.56%
Gross profit from continuing operations	2,573,275	2,486,830	3.48%
Gross profit margin	19.95%	22.66%	
Profit attributable to the equity holders of the Company from continuing operations	348,286	503,371	-30.81%

Consolidated Balance Sheet	As at 31 December		Year on year change
	2011		
	2011	2010	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
		(restated)	
Total assets	29,578,060	34,035,409	-13.10%
Net asset value (excluding minority interest)	6,772,377	8,415,798	-19.53%
Cash and cash equivalents	6,187,823	6,417,910	-3.59%
Total borrowings	3,058,384	3,030,380	0.92%
Gearing ratio (total borrowings/total assets)	10.34%	8.90%	

The revenue of the Group's continuing operations in 2011 was approximately RMB12,901 million, representing an increase of approximately 17.56% as compared with that in 2010. Among that, the revenue of the Group's entire aircraft business amounted to approximately RMB6,555 million, representing an increase of approximately 24.43% as compared with that in 2010 and accounting for 50.81% of the total revenue of the aviation segment which is mainly due to the rapid increase of helicopter business. The revenue of the Group's aviation parts and components business amounted to approximately RMB6,346 million, representing an increase of approximately 11.24% as compared with that in 2010 and accounting for 49.19% of the total revenue of the aviation segment which is mainly due to the increase in the avionics business.

The continuing operations of the Group recorded a profit attributable to the equity holders of the Company of approximately RMB348 million in 2011, representing a decrease of approximately 30.81% as compared with that in 2010. The main reasons include (1) trainer aircraft business of the Group saw a decrease in profit during the transition period where the demand for the existing products of the Group appeared to be decreasing while the new upgraded products of the Group have not achieved mass production; (2) the increase of the costs, such as price for raw materials and labour costs, resulted in the decrease in the comprehensive gross profit margin; and (3) Harbin Embraer Aircraft Industry Co., Ltd. (哈爾濱安博威飛機工業有限公司), an associated company of the Group suffered a loss due to its lack of orders for its existing product ERJ145 while its planned executive jet failed to put into production.

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Business and financial information of Hafei Aviation

Hafei Aviation 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, Hafei Aviation is held as to 50.05% by the Company and 49.95% by other shareholders. Hafei Aviation is mainly engaged in the development and manufacture of helicopter products.

Tabularised below is a summary of the audited consolidated financial results of Hafei Aviation as extracted from Hafei Aviation' annual report 2011 and the financial statements for the three months ended 31 March 2012 audited by RSM China Certified Public Accountants (中瑞岳華會計師事務所):

Consolidated Income Statement	For 3 months ended 31 March 2012	For the year ended 31 December		Year on year change %
	<i>RMB'000</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>	
Revenue	262,975	2,769,434	2,270,036	22.00%
Operating profit	15,051	114,777	132,243	-13.21%
Operating profit margin	5.72%	4.14%	5.83%	
Net profit before tax	15,052	123,299	131,940	-6.55%
Net profit after tax	12,388	109,809	119,648	-8.22%
Net profit attributable to the equity holders of Hafei Aviation	12,388	109,809	119,648	-8.22%
Consolidated Balance Sheet				
	As at 31 March 2012	As at 31 December		Year on year change %
	<i>RMB'000</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>	
Total assets	3,362,032	3,130,135	2,785,270	12.38%
Net asset value (excluding minority interest)	1,517,767	1,505,379	1,429,305	5.32%
Cash and cash equivalents	155,636	151,445	131,903	14.82%
Total borrowings	0	0	0	N/A
Gearing ratio (total borrowings/ total assets)	0	0	0	N/A

According to Hafei Aviation's annual report 2011, the decrease in the operating profit for the year ended 31 December 2011 was mainly because the investment in Harbin Embraer Aircraft Industry Co., Ltd. recorded a loss of approximately RMB6.9 million due to its lack of orders for its existing product ERJ145 while its planned executive jet failed to put into production. For the year ended 31 December 2010, the investment in Harbin Embraer Aircraft Industry Co., Ltd. recorded a gain of approximately RMB16.5 million. In addition, the increase in the raw material price and labour cost also contributed to the decrease in the operating profit for the year ended 31 December 2011.

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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 information of Changhe Aviation, Changfei Parts and Components, Helicopter Tianjin, AVIC Huiyang and AVIC Hafei Assets according to their respective financial information audited by RSM China Certified Public Accountants (中瑞岳華會計師事務所), an independent qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, for the two years ended 31 December 2011 and the three months ended 31 March 2012. The figures below are only an arithmetic summation of the financial information of 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 3 months ended 31 March 2012	For the year ended 31 December		Year on year change %
	<i>RMB'000</i>	2011	2010	
Aggregate revenue	1,550,824	4,457,837	2,866,921	55.49%
Aggregate operating profit	-1,811	68,367	69,730	-1.96%
Operating profit margin	-0.12%	1.53%	2.43%	
Aggregate net profit before tax	-1,536	67,235	75,300	-10.71%
Aggregate net profit/(loss) after tax	-5,010	54,393	63,784	-14.72%
Aggregate net profit/(loss) attributable to the equity holders	-4,590	56,312	64,951	-13.30%

Balance Sheet	As at 31 March 2012	As at 31 December		Year on year change %
	<i>RMB'000</i>	2011	2010	
Aggregate total assets	10,624,954	9,228,241	6,790,807	35.89%
Aggregate net asset value (excluding minority interest)	2,720,370	724,712	663,600	9.21%
Aggregate cash and cash equivalents	2,624,082	3,209,590	2,379,926	34.86%
Aggregate total borrowings	932,450	960,450	1,217,450	-21.11%
Gearing ratio (total borrowings/ total assets)	8.78%	10.41%	17.93%	

As shown above, the operation of the Incoming Assets as a whole remained profitable for each of the two years ended 31 December 2010 and 2011 and the size of operation is much bigger than that of Hafei Aviation in terms of turnover and net asset value. Among the Incoming Assets, Changhe Aviation, currently a wholly owned subsidiary of the Company, contributed the majority of the revenue and profit; Changfei Parts and Components, Helicopter Tianjin and AVIC Hafei Assets do not have operating track record for the year ended 31 December 2010 and 2011. For the year ended 31 December 2011, the aggregate turnover of

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the companies comprising the Incoming Assets amounted to some RMB4,458 million, which was 60.97% more than that of Hafei Aviation for the same year; the net profit attributable to Hafei Aviation from the Incoming Assets was approximately RMB54 million in 2012, which was about 49.53% of the net profit attributable to equity holder of Hafei Aviation for the same year.

Further financial information and background of the Incoming Assets are summarised below:

Changhe Aviation

Changhe Aviation is a limited liability company established in the PRC in 2002. As at the Latest Practicable Date, Changhe Aviation is a directly wholly owned subsidiary of the Company. Changhe Aviation is mainly engaged in the research, manufacturing and sales of helicopters.

Tabularised below is a summary of the financial results of Changhe Aviation as extracted from the audited financial statements for the years ended 31 December 2011 and 2010 and the three months ended 31 March 2012:

Consolidated Income Statement	For 3 months ended 31 March 2012	For the year ended 31 December		Year on year change %
	<i>RMB'000</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>	
Revenue	1,520,421	4,076,935	2,522,686	61.61%
Operating profit	20,273	59,079	70,022	-15.63%
Operating profit margin	1.33%	1.45%	2.78%	
Net profit before tax	19,939	58,307	69,791	-16.45%
Net profit after tax	16,484	49,035	62,591	-21.66%
Net profit attributable to the equity holders	16,903	50,954	63,757	-20.08%

Consolidated Balance Sheet	As at 31 March 2012	As at 31 December		Year on year change %
	<i>RMB'000</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>	
Total assets	7,285,923	8,283,324	6,001,617	38.02%
Net asset value (excluding minority interest)	502,677	555,774	504,820	10.09%
Cash and cash equivalents	2,203,231	2,974,795	2,218,213	34.11%
Total borrowings	601,800	629,800	1,016,800	-38.06%
Gearing ratio (total borrowings/ total assets)	8.26%	7.6%	16.94%	

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According to the circular dated 25 May 2012 published on the website of Shanghai Stock Exchange by Hafei Aviation, the decline in the operating profit margin for the year ended 31 December 2011 was mainly caused by the increase of raw materials price and labour costs.

Changfei Parts and Components

Changfei Parts and Components is a limited liability company established in the PRC in April 2012. As at the Latest Practicable Date, Changfei Parts and Components is a wholly owned subsidiary of AVIC Helicopter. Changfei Parts and Components is mainly engaged in manufacturing and sale of aviation parts and components.

Tabularised below is a summary of the financial results of Changfei Parts and Components as extracted from the audited pro forma balance sheet as at 31 March 2012:

Consolidated Balance Sheet	As at 31 March 2012 RMB'000
Total assets	923,983
Net asset value (excluding minority interest)	619,793
Cash and cash equivalents	68,983
Total borrowings	0
Gearing ratio (total borrowings/total assets)	0

Helicopter Tianjin

Helicopter Tianjin is a limited liability company established in the PRC in May 2012. As at the Latest Practicable Date, Helicopter Tianjin is a wholly owned subsidiary of AVIC Helicopter. Helicopter Tianjin is still under construction at this stage and has not commenced any business. Helicopter Tianjin will be mainly engaged in the design, research and development, manufacturing, sale, maintenance and customisation of helicopters.

Tabularised below is a summary of the financial results of Helicopter Tianjin as extracted from the audited pro forma balance sheet as at 31 March 2012:

Consolidated Balance Sheet	As at 31 March 2012 RMB'000
Total assets	843,418
Net asset value (excluding minority interest)	793,844
Cash and cash equivalents	250,000
Total borrowings	0
Gearing ratio (total borrowings/total assets)	0

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AVIC Huiyang

AVIC Huiyang was restructured as a limited liability company in the PRC in 2010. As at the Latest Practicable Date, AVIC Huiyang is a wholly owned subsidiary of AVIC Helicopter. AVIC Huiyang is mainly engaged in the business of manufacturing and sale of aviation products such as propellers, helicopter rotor heads and tail rotors.

Tabularised below is a summary of the financial results of AVIC Huiyang as extracted from the audited financial statements for the years ended 31 December 2011 and 2010 and the three months ended 31 March 2012:

Consolidated Income Statement	For 3 months	For the year ended		Year on year
	ended	31 December		
	31 March	2011	2010	change
	2012	2011	2010	%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	30,403	380,902	344,235	10.65%
Operating profit/(loss)	-22,084	9,288	-292	N/A
Operating profit margin	-72.64%	2.44%	-0.08%	
Net profit/(loss) before tax	-21,475	8,928	5,509	62.07%
Net profit/(loss) after tax	-21,493	5,358	1,193	349.08%
Net profit(loss) attributable to the equity holders	-21,493	5,358	1,193	349.08%

Consolidated Balance Sheet	As at	As at 31 December		Year on year
	31 March	2011	2010	
	2012	2011	2010	change
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	%
Total assets	915,020	944,917	789,190	19.73%
Net asset value (excluding minority interest)	147,445	168,939	158,781	6.40%
Cash and cash equivalents	101,868	234,795	161,713	45.19%
Total borrowings	330,650	330,650	200,650	64.79%
Gearing ratio (total borrowings/total assets)	36.14%	34.99%	25.42%	

According to the circular dated 25 May 2012 published on the website of Shanghai Stock Exchange by Hafei Aviation, the significant increase of net profit of AVIC Huiyang for the year ended 31 December 2011 was mainly contributed by the sophistication of the technology of the new products and the loss for the first three months of 2012 was temporary and mainly caused by seasonal factor.

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AVIC Hafei Assets

AVIC Hafei is a limited liability company established in the PRC. As at the Latest Practicable Date, AVIC Hafei is an 81.12% owned subsidiary of AVIC Helicopter. AVIC Hafei Assets are mainly the assets of AVIC Hafei relating to the manufacturing of helicopter parts and components, including 7 plants, 14 land using rights and 234 pieces of equipments.

Based on the audited financial statement prepared in accordance with the PRC accounting standards, as at 31 March 2012, the carrying amount of the total assets of AVIC Hafei Assets amounted to approximately RMB656.61 million.

Principal terms of the Subscription Agreement

As AVIC Helicopter Subscription, the AVIC Hafei Subscription and the Company's Subscription are inter-conditional, the transactions contemplated under the Subscription Agreement are effectively an asset swap exercise whereby the Group, through issuance of new Hafei Aviation A Shares as consideration, acquires the Incoming Assets other than Changhe Aviation that is a subsidiary of the Company prior to the completion of the Proposed Placing of Hafei Aviation. The Subscription will constitute a deemed disposal of approximately 15.30% equity interest in Hafei Aviation while the Company's effective equity interest in Changhe Aviation will also be reduced by 65.25%. The financial results of the Incoming Assets will be consolidated under the Group through its non-wholly owned subsidiary Hafei Aviation upon the completion of the Proposed Placing of Hafei Aviation.

The consideration

Pursuant to the Subscription Agreement, as amended by the Supplemental Agreement, Hafei Aviation agrees to issue and AVIC Helicopter and AVIC Hafei and the Company agree to subscribe 107,510,979, 47,341,165 and 37,409,221 new Hafei Aviation A Shares, respectively. It is expected that approximately 192 million new Hafei Aviation A Shares will be issued at the Subscription Price of RMB17.13 per Hafei Aviation A Share, subject to adjustment to be made pursuant to the occurrence of any ex-dividend or ex-entitlement event, which translated into an implied share consideration of approximately RMB3,293 million for the exchange of the Incoming Assets with estimated valuation of approximately RMB3,293 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 as at 31 March 2012 prepared by an independent qualified valuer in the PRC.

ii. Valuation methodology

We have reviewed the valuation reports dated 15 June 2012 prepared by the Independent Valuer on the methodology adopted and the assumptions used in arriving at the valuation of the Incoming Assets. The Independent Valuer has considered cost replacement method and income method to determine the value of the Incoming Assets. As stated in such valuation report, there are too many uncertain factors such as the

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confidentiality of aviation products business and the influence of the industry policy and the major clients that could affect the valuation model using income method, cost replacement method was adopted by the Independent Valuer as an appropriate valuation methodology. We understand that the Independent Valuer has carried out its work in seven procedures, namely defining valuation scope, signing engagement letter, preparing valuation plan, site visit, data collection, assessment, report submission and filing. We have also inspected the license of the Independent Valuer as being a qualified valuer in the PRC. As the valuation reports were prepared according to the valuation standard in the PRC and the Independent Valuer was appointed by Hafei Aviation, we have not relied on such valuation reports to form our opinion and recommendation given in this letter.

iii. Payment method

The total consideration payable by AVIC Helicopter under the Subscription Agreement, as amended by the Supplemental Agreement, is estimated to be approximately RMB1,842 million, which will be satisfied by AVIC Helicopter transferring the AVIC Helicopter Interest to Hafei Aviation. The total consideration payable by AVIC Hafei under the Subscription Agreement, as amended by the Supplemental Agreement, is estimated to be approximately RMB811 million, which will be satisfied by AVIC Hafei transferring the AVIC Hafei Assets to Hafei Aviation. The total consideration payable by the Company under the Subscription Agreement, as amended by the Supplemental Agreement, is estimated to be approximately RMB641 million, which will be satisfied by the Company transferring the Changhe Aviation Interest to Hafei Aviation.

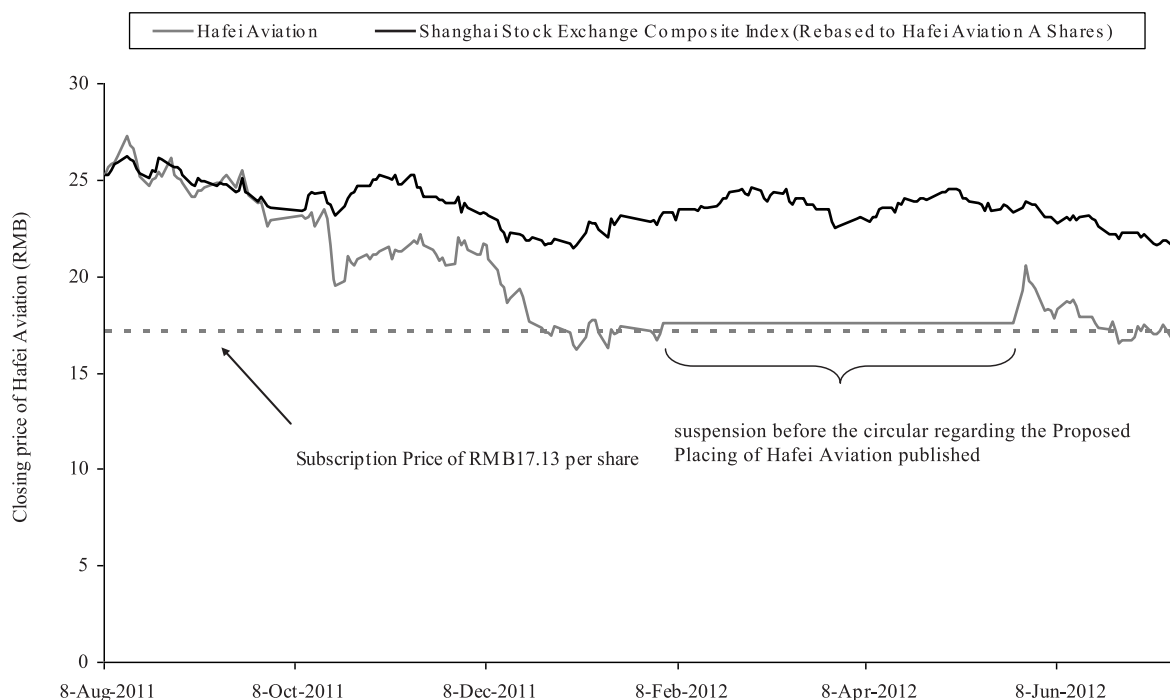
The Subscription Price

The Subscription Price under the Subscription Agreement is RMB17.13 per new Hafei Aviation A Share, being the average trading price of Hafei Aviation A Shares quoted on the Shanghai Stock Exchange for the 20 trading days immediately preceding the Price Determination Date and the minimum subscription price allowed under the Articles 44 of the Administrative Measures for the Major Assets Re-organisation of Listed Companies 【Order of CSRC No. 73】 (中國證券監督管理委員會令第73號《上市公司重大資產重組管理辦法》) effective 1 September 2011. The trading of Hafei Aviation A Shares had been suspended from 7 February 2012 to 25 May 2012 before the circular regarding the Proposed Placing of Hafei Aviation published on the website of Shanghai Stock Exchange by Hafei Aviation.

The Subscription Price will not be subject to adjustment except for the adjustment to be made pursuant to the occurrence of any ex-dividend or ex-entitlement event. The Subscription Price will be subject to the approval of the shareholders of Hafei Aviation at its general meeting after the same is approved by the competent government authorities. If any ex-dividend or ex-entitlement event occurs during the period between the Price Determination Date and the issue date of the new Hafei Aviation A Shares, the Subscription Price and the number of new Hafei Aviation A Shares to be subscribed by each of AVIC Helicopter, AVIC Hafei and the Company, will be adjusted accordingly.

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The chart below illustrates the movement of the daily closing prices of the Hafei Aviation A Shares during a period starting from 7 August 2011, being six months prior to the last trading date before the signing of the Acquisition Agreement, up to and including 6 February 2012 (the “Review Period”), up to the Latest Practicable Date:



Source: Bloomberg

During the Review Period, the closing prices of the Hafei Aviation A Shares ranged from RMB16.17 to RMB27.23 per share. The average closing price of the Hafei Aviation A Shares for the period was approximately RMB21.50 per share. The Subscription Price of RMB17.13 per share lies within the range of the closing price and is approximately 20.33% below the average closing price of the Hafei Aviation A Shares for the Review Period. However, as shown in the chart above, the price performance of the Hafei Aviation A Shares is broadly in line with that of the Shanghai Stock Exchange Composite Index, we are of the view that the basis of determining the Subscription Price is fair and reasonable.

Lock-up arrangement

The new Hafei Aviation A Shares proposed to be subscribed by AVIC Helicopter, AVIC Hafei and the Company pursuant to the Subscription Agreement will be subject to a lock-up period of 36 months commencing from the date upon which completion of the issue of the relevant new Hafei Aviation A Shares takes place. The lock-up arrangement was set pursuant to the Articles 45 of the Administrative Measures for the Major Assets Re-organisation of Listed Companies 【Order of CSRC No. 73】 (中國證券監督管理委員會令第73號《上市公司重大資產重組管理辦法》) effective 1 September 2011. The lock-up arrangement with the Company and the associates of AVIC also indicated that they are strategic investors who will participate in the long term development of Hafei Aviation. We are of the view that the lock-up arrangement is fair and reasonable.

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Comparable Companies

As mentioned above, the transactions contemplated under the Subscription Agreement are effectively an asset swap exercise whereby the Group will issue new Hafei Aviation A Shares as consideration for acquiring the Incoming Assets. The net profit attributable to Hafei Aviation from the Incoming Assets was approximately RMB56 million for the year ended 31 December 2011 and the net asset value of the Incoming Assets attributable to Hafei Aviation was approximately RMB2,720 million as at 31 March 2012. Given there are no financial figures for Changfei Parts and Components, Tianjin Helicopter and AVIC Hafei Assets as at 31 December 2011, we used the net assets value of the Incoming Assets attributable to Hafei Aviation as at 31 March 2012 to calculate the price to book ratio implied by the Incoming Assets. Based on the implied share consideration payable by Hafei Aviation of approximately RMB3,293 million, the price to earning ratio and the price to book ratio implied by the Incoming Assets was approximately 58.49 times and 1.21 times, respectively.

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 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 6 comparable companies which is an exhaustive list of companies that engage principally in the manufacturing of aviation products which are similar with the products manufactured by the Incoming Assets. The Independent Shareholders should note that the information of the comparable companies below is for information and reference only.

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We have reviewed commonly used valuation ratios implied by the closing prices of the comparable companies on 25 May 2012, being the date of the Subscription Agreement, including price to earning ratio and price to book ratio, as tabularised below:

Company name	Stock code	Market capitalisation as at 25 May 2012 <i>RMB</i>	Net profit attributable to equity holders for the year ended 31 December 2011 <i>RMB</i>	Net asset value excluding minority interest as at 31 December 2011 <i>RMB</i>	Price to earning ratio	Price to book ratio
Xi'an Aircraft International Corporation	000768	20,985	108	9,407	194.53	2.23
Guizhou Space Appliance Co., Ltd.	002025	4,303	136	1,386	31.59	3.10
Jiangxi Hongdu Aviation Industry Co., Ltd.	600316	11,546	83	4,547	138.49	2.54
Sichuan Chengfa Aero-science & Technology Co., Ltd.	600391	3,331	47	1,600	70.71	2.08
China Aerospace Times Electronic Technology Co., Ltd.	600879	6,813	168	3,269	40.45	2.08
Xi'an Aero-Engine Plc	600893	16,246	259	3,995	62.69	4.07
				Maximum	194.53	4.07
				Minimum	31.59	2.08
				Average	89.74	2.68
				Median	66.70	2.38
Incoming Assets					58.49	1.21

Source: Bloomberg

i. Price to earning ratio analysis

As illustrated above, the comparable companies have average and median price to earning ratios of approximately 89.74 times and 66.70 times, respectively, which are much higher than the implied price to earning ratio of the Incoming Assets of approximately 58.49 times. Given Changfei Parts and Components, Helicopter Tianjin and AVIC Hafei Assets have not commenced operation for the year ended 31 December 2011 and thus implied price to earning ratio may not serve as a meaningful benchmark for comparison.

ii. Price to book ratio analysis

As illustrated above, the comparable companies have average and median price to book ratios of approximately 2.68 times and 2.38 times, respectively, which are much higher than the implied price to book ratio of the Incoming Assets of approximately 1.21 times. We are of the view that the implied consideration is fair and reasonable to Hafei Aviation and the Company as a whole.

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Conclusion

Based on the above, we consider that the implied consideration represented by new Hafei Aviation A Shares with value of approximately RMB3,293 million for the Incoming Assets is fair and reasonable to Hafei Aviation and the Company as a whole. We have also analysed the financial impacts to the Company before and after the completion of the Proposed Placing of Hafei Aviation under the section headed “POSSIBLE FINANCIAL EFFECTS” below.

Changes in shareholding structure of Hafei Aviation

Upon the completion of the Proposed Placing of Hafei Aviation, the equity interest held by the Company in Hafei Aviation will be diluted by approximately 15.30% from 50.05% to approximately 34.75%. AVIC Helicopter, AVIC Hafei and the Company entered into an agreement on 25 May 2012, pursuant to which AVIC Helicopter and AVIC Hafei have undertaken that they will, subsequent to the completion of the Proposed Placing of Hafei Aviation, exercise their respective voting rights at all general meetings of Hafei Aviation in accordance with the instructions of the Company. Accordingly, the Directors confirm, after consulting with the auditors of the Company, that Hafei Aviation will remain to be a subsidiary of the Company and the accounts of Hafei Aviation will continue to be consolidated under the Group following the completion of the Proposed Placing of Hafei Aviation.

Reasons for the asset swap constituted under the Subscription Agreement

On 14 November 2010, the State Council and the Central Military Commission issued Opinions on Deepening the Reform of China’s Low-altitude Airspace Management (關於深化我國低空空域管理改革的意見), in which it indicated “the average annual growth of China’s general aviation is expected to reach 15% or higher in the next 10 years and there is increasing demand for low-altitude airspace” and “the low-altitude airspace management reform is expected to cover the whole country by 2015”.

As mentioned in the Company’s annual report 2011, by fully utilising the advantages of the PRC government’s policy support for the aviation industry, the Company will speed up the acquisition of aviation business assets, further expand the scale of revenue from aviation products and speed up its growth. By grasping the new market opportunities brought by the opening up of low altitude airspace for development of general aviation, the Company will extend the quantity and scale of orders from non-government customers.

As a flagship manufacturer in China’s aviation industry, in 2011, the Company continued to adhere to the strategy formulated by the Board, actively pushed forward business reorganisation and capital operations. The equity swap of the Company’s equity interest in Harbin Dongan Automotive Engine Manufacturing Co., Ltd. (哈爾濱東安汽車發動機製造有限公司) for equity interest of AVIC in China Aviation Optical-Electrical Technology Co., Ltd. (中航光電科技股份有限公司) was completed, following which the Company has disposed of its automobile business and will focus on the development of its aviation business. The issue of new shares and the acquisition of avionics assets of China AVIC Avionics Equipment Co., Ltd. (中航航空電子設備股份有限公司) were also completed in the first half of 2011 and the issue of new domestic shares to acquire Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司) has also been completed in January 2012, following which the Company’s business expanded to include aviation mechanical and electrical business. We are of the view that the transactions contemplated under the

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Subscription Agreement 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 assets scale and manufacturing capabilities of the Company's helicopter related business.

Upon the completion of the Proposed Placing of Hafei Aviation, all helicopter business under AVIC and the Company in relation to the manufacturing of helicopter parts and components and entire civil helicopters will be injected into Hafei Aviation. The rest of the helicopter business under AVIC is military helicopter related business and there will be no helicopter related business under the Company other than that under Hafei Aviation. In order to avoid potential competition with Hafei Aviation in the future, AVIC and the Company also committed that they will ensure none of their members other than Hafei Aviation and its members will involve in business similar with the current business of Hafei Aviation and its members, and will provide the priority to Hafei Aviation and its members to involve in any new business which may constitute competition. Such consolidation of assets that principally engaged in the research and development, design, manufacturing and sale of helicopter related business will further enhance the product mix of the Group's aviation business, enlarge the operation scale, unify the products planning and avoid overlapping investments. We also concur with the view of the Directors that through centralisation of helicopter related business in one platform, the Group will be able to achieve synergy in terms of sharing and optimising distribution of helicopter manufacturing technologies, research and development experience and manufacturing capacity. In addition, we are of the view that by consolidating the Group's helicopter 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 Hafei Aviation. Besides, given Hafei Aviation is also a listed company, potential coverage by research analysts may improve the investor's awareness for the shares of both Hafei Aviation and the Company. By means of issuing new A Shares of Hafei Aviation for the Incoming Assets, the Group will be able to strengthen its position and capacity on helicopter segment without incur substantial cash outflow.

The Board considered that the Company, as a controlling shareholder of Hafei Aviation, will continue to benefit from the future development of Hafei Aviation and the transactions contemplated under the Subscription 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 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, maintain the 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 are in the interests of the Company and its shareholders as a whole.

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POSSIBLE FINANCIAL EFFECTS

Tabularised below is a summary of the audited pro forma consolidated financial information of the enlarged Hafei Aviation after completion of the Subscription Agreement as extracted from the audited pro forma consolidated financial statements of the enlarged Hafei Aviation audited by RSM China Certified Public Accountants (中瑞岳華會計師事務所) based on the Generally Accepted Accounting Principles in the PRC:

	For 3 months ended 31 March 2012	For the year ended 31 December 2011
	<i>RMB'000</i>	<i>RMB'000</i>
Pro Forma Consolidated Income Statement		
Revenue	1,809,929	6,941,820
Net profit attributable to the equity holders	25,621	139,159
	As at 31 March 2012	As at 31 December 2011
	<i>RMB'000</i>	<i>RMB'000</i>
Pro Forma Consolidated Balance Sheet		
Total assets	13,947,739	12,198,276
Net asset value (excluding minority interest)	4,339,315	2,159,648
Cash and cash equivalents	2,779,719	3,361,035
Total borrowings	932,450	960,450
Gearing ratio (total borrowings/total assets)	6.69%	7.87%

The following analysis is based on the audited consolidated financial statements of the Company for the financial year ended 31 December 2011 and the audited financial information of Hafei Aviation and the Incoming Assets and the audited pro forma consolidated financial statement of the enlarged Hafei Aviation for the financial year ended 31 December 2011 and the three months ended 31 March 2012. The completion of the Proposed Placing of Hafei Aviation will result in a deemed disposal of approximately 15.30% equity interest in Hafei Aviation while the Company's effective equity interest in Changhe Aviation will also be reduced by 65.25%. Upon the completion of the Proposed Placing of Hafei Aviation, financial results of the Incoming Assets will be consolidated under the financial statements of Hafei Aviation and the financial results of the enlarged Hafei Aviation will be consolidated under the financial statements of the Company. Changhe Aviation, Changfei Parts and Components, Helicopter Tianjin and AVIC Huiyang will become wholly owned subsidiaries of Hafei Aviation, and Hafei Aviation will become non-wholly owned subsidiary of the Company.

Effects on net asset value

According to the Company's annual report 2011, the audited consolidated net asset value of the Group excluding minority interests was approximately RMB6,772 million as at 31 December 2011. The net asset value attributable to the Company by the Changhe Aviation (being 100% of the audited net asset value excluding minority interest of Changhe Aviation as at 31 March 2012) and Hafei Aviation (being 50.05% of the audited net asset value excluding minority interest of Hafei Aviation as at 31 March 2012) prior to the Proposed Placing of Hafei Aviation aggregated to approximately RMB1,262 million as at 31 March 2012.

LETTER FROM ANGLO CHINESE

After the completion of the Proposed Placing of Hafei Aviation, the net asset value attributed to the Company by the approximately 34.75% equity interest in the enlarged Hafei Aviation would be approximately RMB1,889 million as at 31 March 2012 (being 34.75% of the sum of the audited pro forma net asset value excluding minority interest of the enlarged Hafei Aviation after completion of the Subscription Agreement as at 31 March 2012 and the proceeds under the Cash Subscription), representing an increase of approximately 49.65% comparing with current contribution from the Changhe Aviation Interest and the approximately 50.05% equity interest in Hafei Aviation.

Effects on earnings

The Group recorded net profit attributable to shareholders of RMB348 million for the year ended 31 December 2011. The net profit attributed to the Company by Changhe Aviation (being 100% of the audited net profit attributable to equity holders of Changhe Aviation for the year ended 31 December 2011) and Hafei Aviation (being 50.05% of the audited net profit attributable to equity holders of Hafei Aviation for the year ended 31 December 2011) prior to the Proposed Placing of Hafei Aviation aggregated to approximately RMB106 million for the year ended 31 December 2011. After the completion of the Proposed Placing of Hafei Aviation, the net profit attributed to the Company by the approximately 34.75% equity interest in the enlarged Hafei Aviation would be approximately RMB48 million for the year ended 31 December 2011 (being 34.75% of the audited pro forma net profit attributable to equity holders of the enlarged Hafei Aviation after completion of the Subscription Agreement for the year ended 31 December 2011), representing a decrease of approximately RMB58 million or 54.34% comparing with current contribution from the Changhe Aviation Interest and the approximately 50.05% equity interest in Hafei Aviation and such decrease representing approximately 16.53% of the audited net profit attributable to equity holders of the Company from continuing operations for the year ended 31 December 2011.

Effects on gearing and working capital

As at 31 December 2011, the Group's total borrowings was approximately RMB3,058 million and the gearing ratio, being calculated as total borrowings divided by the total assets, was approximately 10.34%. As at 31 March 2012, the total borrowings of the AVIC Helicopter Interest and AVIC Hafei Interest was approximately RMB331 million and the gearing ratio was approximately 9.90%. We are of the view that the asset swap constituted by the AVIC Helicopter Subscription and AVIC Hafei Subscription would decrease the gearing ratio of the Group after the completion of the Proposed Placing of Hafei Aviation.

The Company had cash and cash equivalents of approximately RMB6,188 million as at 31 December 2011. The Group will not incur any cash outflow pursuant to the Subscription Agreement. Given the cash and cash equivalent under the AVIC Helicopter Interest and AVIC Hafei Assets was approximately RMB421 million as at 31 March 2012 and the Company confirms that the proceeds under the Cash Subscription of not more than RMB1,097 million will be primarily used to develop the helicopter business and supplement the working capital, we are of the view that the asset swap constituted under the Subscription Agreement will increase the working capital position of the Group after the completion of the Proposed Placing of Hafei Aviation.

LETTER FROM ANGLO CHINESE

RECOMMENDATION

We have considered the above principal factors and reasons and particularly (i) the strategic rationale of consolidating the Incoming Assets under Hafei Aviation; (ii) the terms and the consideration of the Subscription Agreement, as amended by the Supplemental Agreement; and (iii) the possible financial effects to the Group. Due to the inter-conditional term of the Subscription Agreement, AVIC Helicopter Subscription, the AVIC Hafei Subscription and the Company's Subscription are effectively an asset swap exercise through which the Company could remain control of Hafei Aviation and expand its helicopter business without any cash outflow, although the earnings of Company would be diluted upon completion of the Proposed Placing of Hafei Aviation. Based on the above principal factors and reasons, we consider that the AVIC Helicopter Subscription and the AVIC Hafei Subscription are on normal commercial terms, and the entering of the AVIC Helicopter Subscription and the AVIC Hafei Subscription is in the ordinary course of business, 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 AVIC Helicopter Subscription and the AVIC Hafei Subscription.

Yours faithfully,

for and on behalf of

Anglo Chinese Corporate Finance, Limited

Michael Fok

Director

1. RESPONSIBILITY STATEMENT

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

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

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors and Chief Executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required: (i) 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 deemed or taken to have under such provisions of the SFO); or (ii) to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange are set out below:

Name of Director	Class of Shares	Capacity	Number of Restricted Shares granted	Approximate percentage of shareholdings to the same class of Shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares hold
Lin Zuoming	H Share	Beneficial owner	708,590	0.03%	0.01%	Long position
Tan Ruisong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Gu Huizhong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Gao Jianshe	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or Chief Executive of the Company had any interests or short positions: (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) which were required to be notified to the Company and the Stock Exchange; or (ii) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, required to be notified to the Company and the Stock Exchange.

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

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 2011, 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 2011, 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 had 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 2011, 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 21 September 2012:

- (a) the letter dated 20 July 2012 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 21 of this circular;
- (b) the letter of advice dated 20 July 2012 from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 22 to 40 of this circular;
- (c) the written consent of Anglo Chinese referred to in paragraph 5 of this Appendix; and
- (d) Subscription 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 9:00 a.m. on Friday, 21 September 2012, at Grand Skylight CATIC Hotel Beijing, No.18 Bei Chen East Road, Chaoyang District, Beijing, the PRC to consider and approve the following resolutions. Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 20 July 2012 (the “**Circular**”):

ORDINARY RESOLUTIONS

1. “**THAT**:
 - (a) the terms and conditions of the Subscription Agreement entered into between Hafei Aviation, the Company, AVIC Helicopter and AVIC Hafei (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’s Subscription; (2) AVIC Helicopter Subscription; and (3) AVIC Hafei Subscription, subject to fulfillment of the conditions as set out in the Subscription Agreement, be and are hereby approved, ratified and confirmed; and
 - (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, including, without limitation, to obtain all necessary approvals from the relevant PRC government

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

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 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, 20 July 2012

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, the H Share register of the Company will be closed from Saturday, 1 September 2012 to Friday, 21 September 2012 (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 Friday, 21 September 2012 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 Friday, 31 August 2012 at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens’ Road East, Wanchai, Hong Kong.

(2) REGISTRATION PROCEDURES FOR ATTENDING THE EGM

- (a) The shareholder or its proxies shall produce his identification proof. If a corporation shareholder’s legal representative or any other person authorized by the board of directors or other governing body of such corporate shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.
- (b) Holders of H Shares or Domestic Shares who wish to attend the EGM must complete the reply slip to confirm the attendance, and return the same to the correspondence address designated by the Company not later than 20 days before the date of the EGM, i.e. before Saturday, 1 September 2012.
- (c) Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.

(3) PROXIES

- (a) Any shareholder who is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his behalf at the EGM. A proxy need not be a shareholder of the Company. Any shareholder who wishes to appoint a proxy should first review the form of proxy for use in the EGM.
- (b) Any shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the

NOTICE OF EXTRAORDINARY GENERAL MEETING

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
Facsimile No.: 86-10-58354310
Attention: Mr. Xu Bin

- (5) **ORDINARY RESOLUTIONS 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 non-executive directors Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Sheng Mingchuan, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.

* *For identification purpose only*