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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) DISCLOSEABLE AND CONNECTED TRANSACTION:
SUBSCRIPTION OF NEW CITC A SHARES
BY THE COMPANY AND AVIC AVIONICS; AND
(2) NOTICE OF EGM**

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



A letter from the Board is set out on pages 5 to 13 of this circular. A letter from the Independent Board Committee is set out on page 14 of this circular. A letter from Goldin to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 27 of this circular.

A notice convening the EGM to be held at 9:00 a.m. on Tuesday, 22 July 2014 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC is set out on pages 31 to 33 of this circular.

A reply slip and a proxy form for use at the EGM are enclosed hereto and are also published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Tuesday, 1 July 2014. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed proxy form in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the EGM or any adjournment thereof (as the case may be) and voting in person if you so wish.

10 June 2014

* For identification purpose only

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DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“AVIC”	Aviation Industry Corporation of China* (中國航空工業集團公司), the controlling shareholder of the Company holding 51.26% equity interest in the Company
“AVIC Avionics”	China AVIC Electronics Co., Ltd.* (中航機載電子股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange and a non wholly-owned subsidiary of the Company with its 43.22% equity interest being held by the Company
“Board”	the board of directors of the Company
“Chengdu Aircraft Group”	Chengdu Aircraft Industrial (Group) Co., Ltd.* (成都飛機工業(集團)有限責任公司), a wholly-owned subsidiary of AVIC
“CITC”	Sichuan Chengfei Integration Technology Co., Ltd.* (四川成飛集成科技股份有限公司), a joint stock limited liability company incorporated in the PRC whose A shares are listed on the Shenzhen Stock Exchange
“CITC A Shares”	A shares of CITC listed on the Shenzhen Stock Exchange with a par value of RMB1.00 per share
“CITC Placing”	the proposed placing by CITC of not more than 318,217,500 new CITC A Shares to be placed to ten specific investors including the Company and AVIC Avionics to raise liquidity funds for the development of the defense assets to be acquired under the Share Issuance and Asset Purchase Agreement(s), details of which can be referred to in the announcement of CITC made on the Shenzhen Stock Exchange on 19 May 2014
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company established in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Directors”	the director(s) of the Company

* For identification purpose only

DEFINITIONS

“EGM”	an extraordinary general meeting of the Company to be held at 9:00 a.m. on Tuesday, 22 July 2014 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC, for the purposes of considering and, if thought fit, approving, among other things, the Share Subscriptions and the Share Subscription Agreements
“Goldin”	Goldin Financial Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Subscriptions and the Share Subscription Agreements
“Group”	the Company and its subsidiaries
“Hongdu Aviation Group”	Jiangxi Hongdu Aviation Industry (Group) Corporation Limited (江西洪都航空工業集團有限責任公司), a wholly-owned subsidiary of AVIC
“Hongdu Technology”	Jiangxi Hongdu Technology Corporation Limited (江西洪都科技有限責任公司), a wholly-owned subsidiary of Hongdu Aviation Group
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, to advise the Independent Shareholders in respect of the Share Subscriptions and the Share Subscription Agreements
“Independent Shareholders”	Shareholders (other than AVIC and its associates) who are not required to abstain from voting on the ordinary resolution to be proposed at the EGM to approve the Share Subscriptions and the Share Subscription Agreements
“Latest Practicable Date”	6 June 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
“PRC”	the People’s Republic of China

DEFINITIONS

“Price Determination Date”	19 May 2014, being the date when the announcement on the approval of CITC Placing by the board of directors of CITC was published
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SFO”	The Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (as amended from time to time)
“Shares”	domestic Shares and H Shares of the Company
“Shareholder(s)”	holder(s) of the Shares
“Share Issuance and Asset Purchase Agreement(s)”	the share issuance and asset purchase agreement(s) entered into between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group on 16 May 2014, pursuant to which, CITC will, subject to the share issuance and asset purchase agreement(s) having become effective, place new CITC A Shares to AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group to acquire the relevant defense assets held by them
“Share Subscriptions”	the Share Subscription of the Company and the Share Subscription of AVIC Avionics
“Share Subscription Agreements”	the Share Subscription Agreement of the Company and the Share Subscription Agreement of AVIC Avionics
“Share Subscription Agreement of AVIC Avionics”	a conditional share subscription agreement entered into between AVIC Avionics and CITC on 16 May 2014, pursuant to which AVIC Avionics has conditionally agreed to subscribe for 33,132,500 new CITC A Shares for a total consideration of not more than RMB550 million in cash
“Share Subscription Agreement of the Company”	a conditional share subscription agreement entered into between the Company and CITC on 16 May 2014, pursuant to which the Company has conditionally agreed to subscribe for not more than 100,301,200 new CITC A Shares for a total consideration of not more than RMB1,665 million in cash
“Share Subscription of AVIC Avionics”	the conditional subscription by AVIC Avionics pursuant to the Share Subscription Agreement of AVIC Avionics for 33,132,500 new CITC A Shares for a total consideration of not more than RMB550 million in cash

DEFINITIONS

“Share Subscription of the Company”	the conditional subscription by the Company pursuant to the Share Subscription Agreement of the Company for not more than 100,301,200 new CITC A Shares for a total consideration of not more than RMB1,665 million in cash
“Shenyang Aircraft Group”	Shenyang Aircraft Corporation (瀋陽飛機工業(集團)有限公司), a subsidiary of AVIC with its 94.15% equity interest being held by AVIC

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

No. 5A Rongchang East Street

Beijing Economic-Technological

Development Area

Beijing, PRC

Principal place of business in HongKong:

Unit B, 15/F, United Centre

Queensway 95,

Hong Kong

10 June 2014

To the Shareholders:

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION:
SUBSCRIPTION OF NEW CITC A SHARES
BY THE COMPANY AND AVIC AVIONICS; AND
(2) NOTICE OF EGM**

Reference is made to the announcement of the Company dated 16 May 2014 in relation to the participation of the Company and its subsidiary, AVIC Avionics, in the major assets reorganization of CITC, including, among other things, (1) the conditional subscription by the Company for not more than 100,301,200 new CITC A Shares to be placed by CITC; and (2) the conditional subscription by AVIC Avionics for 33,132,500 new CITC A Shares to be placed by CITC.

* For identification purpose only

LETTER FROM THE BOARD

The purposes of this circular are to provide you with, among other things, (i) further details of the Share Subscriptions and the Share Subscription Agreements; (ii) a letter from the Independent Board Committee containing its opinion and recommendation to the Independent Shareholders in respect of the Share Subscriptions and the Share Subscription Agreements; and (iii) a letter of advice from Goldin to the Independent Board Committee and the Independent Shareholders containing its opinion in respect of the Share Subscriptions and the Share Subscription Agreements.

A. INTRODUCTION

On 23 December 2013, CITC (whose A shares are listed on the Shenzhen Stock Exchange) published an announcement on suspension of trading due to a proposed major assets reorganization. On 16 May 2014, CITC entered into the Share Issuance and Asset Purchase Agreement(s) with AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group, pursuant to which and subject to the Share Issuance and Asset Purchase Agreement(s) having become effective, CITC will issue shares to AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group to acquire 100% equity interest held by them in each of Shenyang Aircraft Group, Chengdu Aircraft Group and Hongdu Technology, thereby to realize the acquisition and listing of the assets of defense equipment business of AVIC. Upon completion of the acquisition, CITC will be transformed into a company focusing on aviation defense business.

On 16 May 2014, the Company and AVIC Avionics entered into the Share Subscription Agreements with CITC respectively, subject to, among other things, the Share Issuance and Asset Purchase Agreement(s) executed between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group having become effective. To provide funds for the development of the defense equipment business to be acquired pursuant to the Share Issuance and Asset Purchase Agreement(s), CITC intends to place new CITC A Shares to ten specific investors including the Company and AVIC Avionics, for a total issuance value of not more than RMB5,282.41 million. Pursuant to the Share Subscription Agreements, the Company has conditionally agreed to subscribe for not more than 100,301,200 new CITC A Shares for a total consideration of not more than RMB1,665 million in cash; and AVIC Avionics has conditionally agreed to subscribe for 33,132,500 new CITC A Shares for a total consideration of not more than RMB550 million in cash.

The Company indirectly holds 0.95% equity interest in CITC and the Group will in aggregate hold approximately 8.45% equity interest in CITC and become the second largest shareholder of CITC upon completion of the Share Subscriptions. The final number of new CITC A Shares to be subscribed by and the consideration to be paid by the Company and AVIC Avionics for the Share Subscriptions respectively shall be subject to approval by the shareholders at a general meeting of CITC after the same have been approved by the competent government authorities.

LETTER FROM THE BOARD

B. THE SHARE SUBSCRIPTION AGREEMENT OF THE COMPANY

A summary of the principal terms of the Share Subscription Agreement of the Company is set out as follows:

1. Date

16 May 2014

2. Parties

- (a) the Company as the subscriber; and
- (b) CITC as the issuer.

3. Consideration

Not more than RMB1,665 million in cash

4. Price

Pursuant to the Share Subscription Agreement of the Company, the subscription price of the new CITC A Shares to be placed by CITC is RMB16.60 per share, being the average trading price of CITC A Shares quoted on the Shenzhen Stock Exchange for the 20 trading days immediately preceding the Price Determination Date after considering the profit distribution plan of CITC for the year 2013. If any ex-dividend or ex-entitlement event occurs during the period between the Price Determination Date and the issue date of new CITC A Shares, the subscription price of new CITC A Shares to be placed by CITC and the number of shares to be subscribed by the Company shall be adjusted accordingly. The subscription price of new CITC A Shares and the number of shares to be subscribed by the Company will be subject to approval by the shareholders of CITC at a general meeting after the same have been approved by the competent government authorities.

5. Lock-up period

Pursuant to the Share Subscription Agreement of the Company, the new CITC A Shares to be subscribed by the Company shall be subject to a lock-up period of 36 months commencing from the date of listing.

6. Conditions precedent to the Share Subscription Agreement of the Company becoming effective

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

- (i) the Share Subscription Agreement of the Company having been duly executed by the authorised representatives or legal representatives of the parties;

LETTER FROM THE BOARD

- (ii) the CITC Placing having been approved by the board of directors and the general meeting of CITC;
- (iii) the Share Issuance and Asset Purchase Agreement(s) executed between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group having become effective;
- (iv) the Company having performed all necessary internal approval procedures pursuant to the Articles of Association and the Hong Kong Listing Rules, including but not limited to, the approvals by the Board and at a general meeting on the Share Subscriptions;
- (v) the transactions contemplated under the CITC Placing having been approved by SASAC; and
- (vi) the transactions contemplated under the CITC Placing having been approved by the CSRC.

C. THE SHARE SUBSCRIPTION AGREEMENT OF AVIC AVIONICS

A summary of the principal terms of the Share Subscription Agreement of AVIC Avionics is set out as follows:

1. Date

16 May 2014

2. Parties

- (i) AVIC Avionics as the subscriber; and
- (ii) CITC as the issuer.

3. Consideration

Not more than RMB550 million in cash

4. Price

Pursuant to the Share Subscription Agreement of AVIC Avionics, the subscription price of the new CITC A Shares to be placed by CITC is RMB16.60 per share, being the average trading price of CITC A Shares quoted on the Shenzhen Stock Exchange for the 20 trading days immediately preceding the Price Determination Date after considering the profit distribution plan of CITC for the year 2013. If any ex-dividend or ex-entitlement event occurs during the period between the Price Determination Date and the issue date of new CITC A Shares, the subscription price of new CITC A Shares to be placed by CITC and the number of shares to be subscribed by AVIC Avionics shall be

LETTER FROM THE BOARD

adjusted accordingly. The subscription price of new CITC A Shares and the number of shares to be subscribed by AVIC Avionics will be subject to approval by the shareholders of CITC at a general meeting after the same have been approved by the competent government authorities.

5. Lock-up period

Pursuant to the Share Subscription Agreement of AVIC Avionics, the new CITC A Shares to be subscribed by AVIC Avionics shall be subject to a lock-up period of 36 months commencing from the date of listing.

6. Conditions precedent to the Share Subscription Agreement of AVIC Avionics becoming effective

The Share Subscription Agreement of AVIC Avionics shall become effective upon the fulfillment of, among other things, the following conditions:

- (i) the Share Subscription Agreement of AVIC Avionics having been duly executed by the authorised representatives or legal representatives of the parties;
- (ii) the CITC Placing having been approved by the board of directors and the general meeting of CITC;
- (iii) the Share Issuance and Asset Purchase Agreement(s) executed between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group having become effective;
- (iv) AVIC Avionics having performed all necessary internal approval procedures pursuant to its articles of association and the relevant rules, including but not limited to, the approvals by the board of directors and at a general meeting on the Share Subscription of AVIC Avionics;
- (v) the Company having performed all necessary internal approval procedures pursuant to the Articles of Association and the Hong Kong Listing Rules, including but not limited to, the approvals by the Board and at a general meeting on the Share Subscriptions;
- (vi) the transactions contemplated under the CITC Placing having been approved by SASAC; and
- (vii) the transactions contemplated under the CITC Placing having been approved by the CSRC.

D. REASONS FOR AND BENEFITS OF THE SHARE SUBSCRIPTIONS

Subject to the Share Issuance and Asset Purchase Agreement(s) having become effective, and the acquisition of important defense equipment assets by CITC from AVIC, the subscriptions of new CITC A Shares by the Company and AVIC Avionics in CITC are in line with the development strategies of the

LETTER FROM THE BOARD

Company, facilitate the participation by the Group in a more diversified aviation business and improve the Group's investment structure. In particular, as reinstated and encouraged by the existing PRC government policies, the demand for defense equipment is expected to increase. The acquisition of the entire equity interests in Shenyang Aircraft Group, Chengdu Aircraft Group and Hongdu Technology, which are engaged in defence equipment manufacturing in China, is expected to strengthen the financial performance of CITC and the CITC A share market price. As the second largest shareholder of CITC upon completion of the Share Subscriptions, it is expected that the Company will benefit from the strengthening financial performance of CITC as well as the increase in the CITC A share price. Furthermore, the Company is of the view that the aggregate amount of cash payable by the Company and AVIC Avionics in consideration of the Share Subscriptions will not have a material adverse effect on the liquidity position of the Group. The Share Subscriptions will accordingly represent a favourable investment of the Company. In the long run, it is expected that the Company, through its minority interest and as the second largest shareholder of CITC, may benefit through business cooperation with CITC. Any such business cooperation will be entered into in compliance with the Hong Kong Listing Rules, including the announcement requirement and where appropriate, shareholders' approval before entering into any such connected transactions.

The Directors (excluding the independent non-executive Directors who will give their opinions in the letter of the Independent Board Committee) are of the view that the terms of the Share Subscriptions and the Share Subscription Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Each of the Directors, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, who is general manager, vice general manager and vice general manager of AVIC, respectively, is deemed to have a material interest in the Share Subscriptions and accordingly, they had abstained from voting on the Board resolution approving the Share Subscriptions and the Share Subscription Agreements in accordance with the Company Law of the PRC and the Hong Kong Listing Rules.

E. HONG KONG LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, AVIC holds 51.26% equity interest in the Company and is the controlling shareholder of the Company. AVIC also holds 51.33% equity interest in CITC. Pursuant to the Hong Kong Listing Rules, CITC is a connected person of the Company. The entering into of the Share Subscription Agreement of the Company between the Company and CITC therefore constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As AVIC Avionics is a non wholly-owned subsidiary of the Company, the entering into of the Share Subscription Agreement of AVIC Avionics between AVIC Avionics and CITC therefore also constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the Share Subscription of the Company and the Share Subscription of AVIC Avionics on an aggregate basis is more than 5% but less than 25%, the Share Subscriptions also constitute discloseable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules. As such, the Share Subscriptions are subject to the reporting, announcement and Independent Shareholders' approval requirements.

LETTER FROM THE BOARD

An Independent Board Committee comprising all of the independent non-executive Directors will be established by the Company to advise the Independent Shareholders on the Share Subscriptions. An independent financial adviser will also be appointed to advise the Independent Board Committee and the Independent Shareholders on the Share Subscriptions.

F. GENERAL INFORMATION

Information on the Company

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

Information on AVIC Avionics

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

Information on CITC

CITC is a joint stock company with limited liability listed on the Shenzhen Stock Exchange with a registered capital of RMB345,188,382. It is principally engaged in the development and research, manufacture and sales of the products such as automotive panel die, parts and components of auto body and lithium battery new energy. CITC is held as to 51.33% equity interest by AVIC as at the Latest Practicable Date.

Based on the audited financial statements of CITC prepared in accordance with the PRC accounting standards, as at 31 December 2013, the total assets and the net assets value of CITC amounted to RMB3,093,522,525.24 and RMB1,602,282,033.45 respectively. For the year ended 31 December 2013, the net profits (before and after tax and extraordinary items) of CITC amounted to RMB52,817,956.19 and RMB38,176,268.35, respectively. For the year ended 31 December 2012, the net profits (before and after tax and extraordinary items) of CITC amounted to RMB60,059,409.43 and RMB51,602,935.90, respectively.

Information on AVIC

AVIC is directly held and controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products. As at the Latest Practicable Date, AVIC directly holds 51.26% equity interest of the Company and is the controlling shareholder of the Company.

LETTER FROM THE BOARD

Information on Shenyang Aircraft Group

Shenfei Aircraft Group is a subsidiary of AVIC with 94.15% of its equity interest being held by AVIC as at the Latest Practicable Date. It is mainly engaged in the research and bulk production of fighter aircraft of various types and models, and parts and components of fighter aircraft.

Information on Chengdu Aircraft Group

Chengdu Aircraft Group is a wholly-owned subsidiary of AVIC. It is mainly engaged in the research, manufacture, export of fighter aircraft and manufacture of parts and components of civil aircraft.

Information on Hongdu Technology

Hongdu Technology is an indirect subsidiary of AVIC. It is mainly engaged in the research and manufacture of air-to-ground missiles and manufacture of aviation parts and components.

G. EGM

The EGM will be held at 9:00 a.m. on Tuesday, 22 July 2014 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC, at which, among other matters, an ordinary resolution will be proposed to approve the Share Subscriptions and the Share Subscription Agreements. A notice convening the EGM is set out on pages 31 to 33 of this circular.

A reply slip and proxy form for use at the EGM are enclosed hereto and are also published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Tuesday, 1 July 2014. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed proxy form in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the EGM or any adjournment thereof (as the case may be) and voting in person if you so wish.

AVIC and its associate(s), if any, are connected persons of the Company as defined under the Hong Kong Listing Rules and accordingly, they will abstain from voting at the EGM in respect of the ordinary resolution to be proposed in relation to the Share Subscriptions and the Share Subscription Agreements. As at the Latest Practicable Date, AVIC and its associate(s), if any, directly owned 2,989,492,900 Shares, representing approximately 54.61% of the total issued share capital of the Company. AVIC was entitled to control all voting rights in respect of such Shares.

To the best knowledge of the Directors and having made all reasonable enquiries, apart from AVIC and its associates, no other Shareholder has a material interest in the Share Subscriptions and the Share Subscription Agreements and therefore no other Shareholder will be required to abstain from voting on the ordinary resolution to approve the Share Subscriptions and the Share Subscription Agreements at the EGM.

LETTER FROM THE BOARD

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

H. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee in relation to the Share Subscriptions and the Share Subscription Agreements which is set out on page 14 of this circular.

The Directors and the Independent Board Committee, having taken into account the advice of Goldin, consider that the terms and conditions of the Share Subscriptions and the Share Subscription Agreements are conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM.

Your attention is also drawn to the additional information set out in the Appendix 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)

10 June 2014

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 10 June 2014 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 Share Subscriptions and the Share Subscription Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Goldin has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the Share Subscriptions and the Share Subscription Agreements.

We wish to draw your attention to the letter from the Board set out on pages 5 to 13 of the Circular and the letter from Goldin set out on pages 15 to 27 of the Circular in relation to the Share Subscriptions and the terms of the Share Subscription Agreements.

Having considered the advice given by Goldin, we are of the opinion that the terms and conditions of the Share Subscriptions and the Share Subscription Agreements are conducted on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Share Subscription Agreements is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant 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 GOLDIN

The following is the full text of the letter from Goldin setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Share Subscription Agreements, which has been prepared for the purpose of inclusion in this circular.



高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Goldin Financial Limited
23rd Floor
Two International Finance Centre
8 Finance Street
Central,
Hong Kong

10 June 2014

To: the Independent Board Committee and the Independent Shareholder

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE SUBSCRIPTION OF NEW CITC A SHARES BY THE COMPANY AND AVIC AVIONICS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Share Subscription Agreements, details of which are set out in the letter from the Board (the “Letter from the Board”) contained in this circular dated 10 June 2014 issued by the Company (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 16 May 2014, the Company and AVIC Avionics entered into Share Subscription Agreements with CITC respectively, subject to conditions, one of which is the Share Issuance and Asset Purchase Agreement(s) executed between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group having become effective. CITC intends to place new CITC A Shares to ten specific investors including the Company and AVIC Avionics, with a total issuance value of not more than RMB5,282.41 million. Pursuant to the Share Subscription Agreements, the Company has conditionally agreed to subscribe for not more than 100,301,200 new CITC A Shares for a total consideration of not more than RMB1,665 million in cash; and AVIC Avionics has conditionally agreed to subscribe for 33,132,500 new CITC A Shares for a total consideration of not more than RMB550 million in cash.

The Company indirectly holds 0.95% equity interest in CITC currently and the Group will in aggregate hold approximately 8.45% equity interest in CITC and become the second largest shareholder of CITC upon completion of the Share Subscriptions. The final number of shares to be subscribed by and the consideration to be paid by the Company and AVIC Avionics respectively shall be subject to the shareholders’ approval of CITC at its general meeting after the same have been approved by the competent government authorities.

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As at the Latest Practicable Date, AVIC holds 51.26% equity interest in the Company and is the controlling shareholder of the Company. AVIC also holds 51.33% equity interest in CITC. Pursuant to the Hong Kong Listing Rules, CITC is a connected person of the Company. The entering into of the Share Subscription Agreement of the Company between the Company and CITC therefore constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As AVIC Avionics is a non wholly-owned subsidiary of the Company, the entering into of the Share Subscription Agreement of AVIC Avionics between AVIC Avionics and CITC therefore also constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the Share Subscription of the Company and the Share Subscription of AVIC Avionics on an aggregate basis is more than 5% but less than 25%, the Share Subscriptions also constitute a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. As such, the Share Subscriptions are subject to the reporting, announcement and Independent Shareholders' approval requirements.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, has been established to advise and give recommendation to the Independent Shareholders in respect of the Share Subscription Agreements and the transactions contemplated thereunder.

We, Goldin, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Share Subscription Agreements, and to make a recommendation as to, among others, whether the terms and conditions of the Share Subscription Agreements and the transactions contemplated thereunder are fair and reasonable and as to voting in respect of the relevant resolutions at the EGM.

BASIS OF OUR ADVICE

In formulating our opinion and recommendations, we have reviewed, inter alia, the announcement of the Company dated 16 May 2014 (the "Announcement"), the Subscription Agreements, the annual report of the Company for the year ended 31 December 2013 (the "Annual Report 2013") and the annual report of CITC for the year ended 31 December 2013. We have also reviewed certain information provided by the management of the Company relating to the operations, financial condition and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the Share Subscription Agreements, the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents

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which are available under present circumstances to enable us to reach an informed view regarding the Share Subscription Agreements to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or future prospects of the Group, nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into of the Share Subscription Agreements. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Share Subscription Agreements, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in the research and development, manufacture and sales of civil aviation products. Set out below are the audited financial information of the Group for the two years ended 31 December 2012 and 2013 as extracted from the Annual Report 2013:

Table 1: Financial highlights of the Group

	For the year ended	
	31 December	
	2012	2013
	<i>RMB'million</i>	<i>RMB'million</i>
	<i>(Restated)</i>	
Revenue	18,368.20	22,192.75
Profit attributable to equity shareholders of the Company	664.17	712.62
	As at 31 December	
	2012	2013
	<i>RMB'million</i>	<i>RMB'million</i>
	<i>(Restated)</i>	
Non-current assets	10,945.61	13,369.20
Current assets	30,719.26	37,559.10
Non-current liabilities	1,257.87	2,693.49
Current liabilities	21,198.71	26,427.92
Net current assets	9,520.54	11,131.18
Net assets attributable to the equity shareholders of the Company	10,156.43	10,122.83

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For the year ended 31 December 2013, the turnover of the Group rose from approximately RMB18,368.20 million to approximately RMB22,192.75 million, representing an increase of approximately 20.83%. As advised by the management of the Company, such increase was primarily attributable to the growing helicopter and avionics businesses during the reporting period. For the year ended 31 December 2013, the Group recorded the profit attributable to the equity shareholders of the Company of approximately RMB712.62 million, representing an increase of approximately 7.30% as compared to that of approximately RMB664.17 million in the previous financial year. As advised by the management of the Company, it was mainly attributable to (i) the increase of gross profit driven by the increase of revenue during the period; and (ii) the increase of other gains resulted from sales of part of the non-major business assets by the Company's subsidiaries such as the financial assets and long-term equity investment. As at 31 December 2013, the audited net current assets and net assets attributable to the owners of the Company amounted to approximately RMB11,131.18 million and approximately RMB10,122.83 million respectively, representing an increase of 16.92% and a slight decrease of 0.33% over the prior year figures respectively. Such increase in net current assets was mainly attributable to the higher growth in current assets comparative to the growth in current liabilities.

2. Reasons for, and benefits of, the Share Subscriptions

CITC is a joint stock company with limited liability listed on the Shenzhen Stock Exchange with a registered capital of RMB345,188,382. It is principally engaged in the development and research, manufacture and sales of the products such as automotive panel die, parts and components of auto body and lithium battery new energy. CITC is held as to 51.33% equity interest by AVIC as at the Latest Practicable Date.

The table below is a brief summary of the financial information of CITC for the two years ended 31 December 2012 and 2013 as extracted from the audited financial statements of CITC prepared in accordance with the PRC accounting standards:

Table 2: Financial highlights of CITC

	For the year ended	
	31 December	
	2012	2013
	<i>RMB'million</i>	<i>RMB'million</i>
Revenue	681.25	778.88
Profit attributable to the owners of CITC	54.45	45.35
	As at 31 December	
	2012	2013
	<i>RMB'million</i>	<i>RMB'million</i>
Total assets	2,835.01	3,093.52
Net assets attributable to owners of CITC	1,575.71	1,602.28

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As set out in Table 2 above, for the year ended 31 December 2013, the revenue of CITC raised from approximately RMB681.25 million to approximately RMB778.88 million, representing an increase of approximately 14.34%. Such gain was mainly due to the increase in the placement of order by clients for automotive panel die and lithium battery, with a growth of approximately 25.39% and approximately 24.94% in the respective segment revenues. For the year ended 31 December 2013, the profit attributable to the owners of CITC was approximately RMB45.35 million, representing a drop of approximately 16.71% as compared to the profit of approximately RMB54.45 million in the previous financial year. According to the annual report of CITC for the year ended 31 December 2013, such decrease in earnings was mainly attributable to the rise in segment operating cost and distribution cost, in particular the operating cost for the manufacture and sale of lithium battery business increased by approximately 48.96% in 2013 compared to that in 2012 due to the increase in manufacturing cost and labour cost. As at 31 December 2013, the audited net assets attributable to owners of CITC were approximately RMB1,602.28 million.

While the existing businesses of CITC continue to be carried out, in December 2013, CITC announced that the proposed major assets reorganization would proceed, subject to further discussions and the trading of CITC A Shares was suspended thereafter. On 16 May 2014, CITC entered into the Share Issuance and Asset Purchase Agreement(s) with AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group, pursuant to which, CITC will issue shares to AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group to acquire 100% equity interest held by them in each of Shenyang Aircraft Group, Chengdu Aircraft Group and Hongdu Technology, thereby to realize the listing of the assets of defense equipment business of AVIC. As advised by the Directors, given the defense equipment assets to be acquired by CITC are important assets of AVIC, the subscriptions of new CITC A Shares by the Company and AVIC Avionics are in line with the development strategies of the Company, facilitating the participation by the Group in a more diversified aviation business and improving the Group's investment structure. In particular, as reinstated and encouraged by the existing PRC government policies, the demand for defense equipment is expected to increase. The acquisition of the entire equity interests in Shenyang Aircraft Group, Chengdu Aircraft Group and Hongdu Technology, which are engaged in defence equipment manufacturing in China, is expected to strengthen the financial performance of CITC and the CITC A Shares market price. As the second largest shareholder of CITC upon completion of the Share Subscriptions, it is expected that the Company will benefit from the strengthening financial performance of CITC as well as the increase in the CITC A Shares price. Furthermore, the Company is of the view that the aggregate amount of cash payable by the Company and AVIC Avionics in consideration of the Share Subscriptions will not have a material adverse effect on the liquidity position of the Group. The Share Subscriptions will accordingly represent a favourable investment of the Company. In the long run, it is expected that the Company, through its minority interest and as the second largest shareholder of CITC, may benefit through business cooperation with CITC. Any such business cooperation will be entered into in compliance with the Hong Kong Listing Rules, including the announcement requirement and where appropriate, shareholders' approval before entering into any such connected transactions.

We have reviewed the relevant announcement regarding the Share Issuance and Asset and Purchase Agreement as published by CITC on 19 May 2014 (the "CITC Announcement") and noted that upon the asset reorganization through the Share Issuance and Asset and Purchase Agreement, CITC will become the major operating arm of the defense equipment business of AVIC. Having considered that the unaudited total assets of the defense equipment business to be acquired by CITC represents over 10 times of the total assets of CITC as at 31 December 2013 as stated in the CITC Announcement, which is relatively significant as compared to the existing business of CITC, the defense equipment business will become the core business of

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CITC. As such, we have conducted researches from public domains on the future prospects of the aviation industry in the PRC. In addition, despite that the existing businesses of CITC being the manufacture and sale of automotive panel die, parts and components of auto body and the lithium battery new energy business will become relatively small upon completion of the acquisition of the defense equipment business, we have also analysed the future outlook of both the automotive industry and the lithium battery industry in the PRC as set out below.

Aviation industry

The PRC government has been encouraging and supporting the aviation industry in the past 10 years, which is evidenced by including aviation as one of the key development industries in “高技術產業發展十一五規劃” (the Eleventh Five-year Plan for High Technology Industries*) and as one of the national strategic emerging industries that are given priority in development according to the “十二五國家戰略性新興產業發展規劃” (the Twelfth Five-year Plan for Strategic Emerging Industry*). The PRC government aims to strengthen the development of the aviation industry through a number of policies including but not limited to the continuous acceleration of the opening up of low airspace and the further enhancement of the applications of new aviation technology. In view of the aforesaid, we consider that the prospect of the aviation industry in the PRC is expected to be optimistic.

Regarding the national defense of aviation industry, the Ministry of National Defense of the PRC issued “中國武裝力量的多樣化運用白皮書” (The Diversified Employment of China’s Armed Forces*) in April 2013 and stated that the intention of the PRC government is to build a strong national defense and powerful armed forces which is capable to commensurate its international status and meet its security needs. In the “2014年中央和地方預算草案的報告” (Report on the central and local budgets of the PRC in 2014*) issued by the Ministry of Finance of the PRC, the estimated expense for national defense is expected to be approximately RMB808.2 billion, which increased by approximately 12.2% as compared to that of the previous year. As further mentioned in the CITC Announcement, the products to be manufactured by the defense equipment business are mainly supplied to the national defense sector, which is highly dependent on the national defense policy. Therefore, the demand for the defense equipment products is expected to increase, which is beneficial to the defense equipment business to be carried out by CITC.

Existing businesses – automotive and lithium battery industries

With reference to the statistics release by the National Bureau of Statistics of the PRC for the year 2013, automotive manufacturing and sale units in the PRC increased by approximately 14.76% and approximately 13.87% respectively as compared to that of the previous year. Coupled with the estimates as announced by the China Association of Automobile Manufacturers that the unit growth of automotive in the PRC would be 8-10% in 2014, it is expected that the manufacturing and sales business of automotive industry would keep growing steadily, leading to the increase in demand of automotive parts and components in the PRC. As such, we consider that the prospect of manufacture and sale business of automotive related goods of CITC would remain positive.

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In June 2012, 中華人民共和國發展和改革委員會 (National Development and Reform Commission of the PRC*) issued “節能與新能源汽車產業規劃” (2012-2020年) (Plan of Energy Conservation and New Energy Vehicle Industry*, the “New Energy Vehicle Plan”) to advise on the development of energy conservation and new energy for the vehicle industry. Pursuant to the New Energy Vehicle Plan, the PRC government aims to expand the new energy vehicle industry by various means including the set-up of national research center for the advancement of automotive battery technology so as to improve the quality and efficiency while to lower the manufacturing cost of vehicle battery, thereby increasing the competitiveness of new energy vehicle. Furthermore, it is also estimated that the new energy vehicle in the PRC domestic market would reach 500,000 units in 2015, and up to 5.0 million units in 2020. Taking into account the above and that the subsidy schemes for purchasing pure electric vehicles and plug-in hybrid vehicles as approved and announced in February 2014, it is expected that the new energy vehicle industry in the PRC would start to flourish and the demand for the lithium battery, being one of the most popular types of rechargeable battery for electric vehicles, would be growing in the coming future.

As demonstrated in the section headed “1. Background information of the Group” above, the aviation business of the Group has been performing satisfactorily where both revenue and profit of the Group attributable to equity shareholders of the Company recorded a moderate increase in 2013 as compared to that in 2012. In 2013, the Group continued to promote the reorganization of assets according to its established development strategies and completed the acquisition of helicopter business related assets as well as the acquisition of three avionics companies. In addition to the Company’s existing aviation business, being the manufacturing and sales of helicopters, aircrafts and aviation parts and components, the Share Subscriptions would allow the Group to participate in the defense equipment business, thereby diversifying its existing aviation business and further increasing its investment in the aviation business in the PRC. Considering the optimistic prospect of the aviation industry, we are of the view that the entering into of the Share Subscription Agreements would bring positive returns to and enhance the future growth of the Group.

After taking into account that (i) upon completion of the proposed acquisition by CITC of the defense equipment asset from AVIC, the defense equipment business will become the core business of CITC and the prospect of which is expected to be optimistic; (ii) the defense equipment assets to be acquired by CITC are important assets of AVIC and the Share Subscriptions are in line with the development strategies of the Company; (iii) the Share Subscriptions would allow the Group to further increase its investment in the aviation business in the PRC; (iv) the future outlook of both automotive industry and lithium battery industry in the PRC which CITC is currently engaging in would remain positive; and (v) the Share Subscriptions would bring positive returns to and enhance the future growth of the Group, we concur with the Directors’ view that the Share Subscriptions are fair and reasonable and the Share Subscriptions are in the interests of the Company and the Shareholders as a whole.

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3. Principal terms of the Share Subscription Agreements

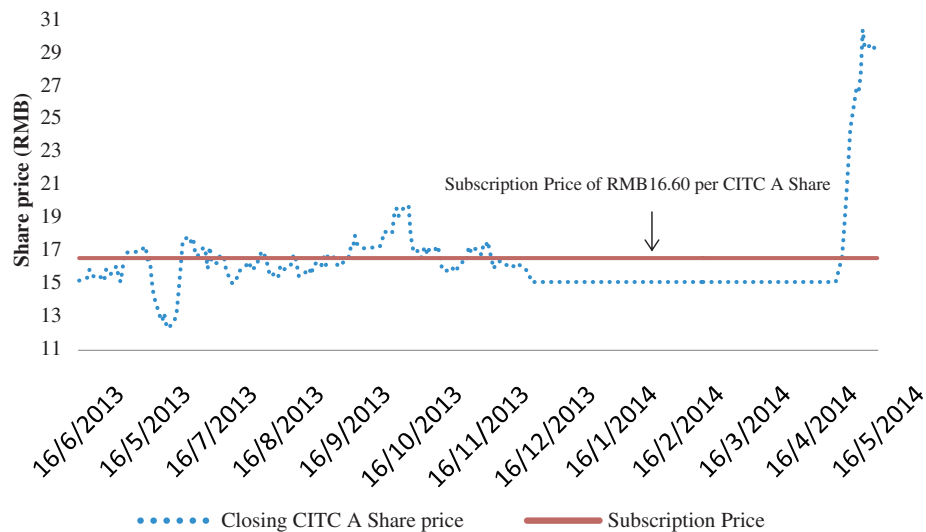
Pursuant to the Share Subscription Agreements of the Company and AVIC Avionics, the subscription price (the “Subscription Price”) of the new CITC A Shares to be placed by CITC is RMB16.60 per share, being the average trading price of CITC A Shares quoted on the Shenzhen Stock Exchange for the 20 trading days immediately preceding the Price Determination Date after considering the profit distribution plan of CITC for the year 2013. If any ex-dividend or ex-entitlement event occurs during the period between the Price Determination Date and the issue date of new CITC A Shares, the Subscription Price and the number of shares to be subscribed by the Company and AVIC Avionics shall be adjusted accordingly. The Subscription Price and the number of shares to be subscribed by the Company and AVIC Avionics will be subject to the shareholders’ approval of CITC at its general meeting after the same have been approved by the competent government authorities. Pursuant to the Share Subscription Agreement of the Company, the new CITC A Shares to be subscribed by the Company shall be subject to a lock-up period of 36 months commencing from the date of listing.

To assess the fairness and reasonableness of the Subscription Price, we have performed the analysis as follows:

Share price performance

Chart 1 below shows the daily closing price of the CITC A Shares versus the Subscription Price from 16 May 2013, being the 12-month period prior to the date of the Announcement, up to and including the Latest Practicable Date (the “Review Period”):

Chart 1: CITC A Share price performance against the Subscription Price during the Review Period



Source: Bloomberg

Note: Trading in the CITC A Shares was suspended from 23 December 2013 to 16 May 2014 during the Review Period.

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During the Review Period, the highest closing price and the lowest closing price of the CITC A Shares were RMB30.46 and RMB12.32, respectively, with an average closing price of approximately RMB17.16. The Subscription Price represents a discount of approximately 45.50% and a premium of approximately 34.74% to the highest closing price and the lowest closing price of the CITC A Shares during the Review Period respectively. The Subscription Price represents a discount of approximately 3.26% to the average closing price of the CITC A Shares during the Review Period.

During the period from 16 May 2013 to 20 December 2013, being the last trading day of the CITC A Shares prior to the date of the CITC Announcement, the CITC A Shares were fluctuating at a range between RMB12.32 and RMB19.80.

On 23 December 2013, trading of the CITC A Shares was suspended. Subsequently on 19 May 2014, CITC issued the CITC Announcement and the closing price of the CITC A Shares increased to RMB16.67 from RMB15.15 in the last trading closing price on the same date, and further surged to RMB30.46 on 29 May 2014. As described in the paragraphs under the section headed “Reasons for, and benefits of, the Share Subscriptions” above, no substantial improvement in the financial performance of CITC was observed for the latest financial year. We are therefore of the view that the recent significant increase in the share price of CITC was not supported by any improvement in the financial performance of the Group and the said surge of the CITC A Share price may reflect the positive market sentiment and perception towards the future prospect of CITC, in particular, CITC will become the major operating arm of the defense equipment business of AVIC and such aviation business will become the core business of CITC upon completion of the asset reorganization through the Share Issuance and Asset and Purchase Agreement.

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Historical trading volume of the CITC A Shares

Table 3 set out below show the daily trading volume of the CITC A Shares and the monthly statistics on the trading volume of the CITC A Shares respectively during the Review Period:

Table 3: Monthly statistics on the trading volume of the CITC A Shares

Month	Total trading volume (No. of CITC A Shares)	No. of trading days	Average daily trading volume (No. of CITC A Shares)	Percentage of average daily trading volume to total number of CITC A Shares (Approximate %)	Percentage of average daily trading volume to total number of CITC A Shares held by the public (Approximate %)
May-13	208,537,623	22	9,478,983	2.75	5.75
Jun-13	264,972,921	17	15,586,642	4.52	9.46
Jul-13	535,434,946	23	23,279,780	6.74	14.13
Aug-13	261,104,942	22	11,868,406	3.44	7.21
Sep-13	247,431,231	19	13,022,696	3.77	7.91
Oct-13	293,087,578	18	16,282,643	4.72	9.89
Nov-13	170,216,903	21	8,105,567	2.35	4.92
Dec-13	66,918,080	15	4,461,205	1.29	2.71
Jan-14	-	-	-	Not applicable	Not applicable
Feb-14	-	-	-	Not applicable	Not applicable
Mar-14	-	-	-	Not applicable	Not applicable
Apr-14	-	-	-	Not applicable	Not applicable
May-14	262,388,404	10	26,238,840	7.60	15.93
Jun-14 (Up to the Latest Practicable Date)	91,875,403	4	22,968,851	6.65	13.94

Source: Bloomberg

Notes:

- (1) Trading in the CITC A Shares was suspended from 23 December 2013 to 16 May 2014 during the Review Period.
- (2) Based on 345,188,382 CITC A Shares in issue as at the date of the CITC Announcement as set out in the shareholding structure in the CITC Announcement.
- (3) Based on approximately 164.72 million CITC A Shares held by public shareholders of CITC as at the date of the CITC Announcement as set out in the shareholding structure in the CITC Announcement.

As illustrated in the table above, during the Review Period, save for the relatively lower trading liquidity in November and December, we noted that the average daily trading volume of the CITC A Shares as a percentage of the total number of CITC A Shares held by the public ranged from approximately 5.75% to approximately 15.93%. Based on the above, we considered that the trading

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volume of the Shares during the Review Period was not thin. Given the CITC A Shares were generally liquid in the open market and the current CITC A Share price is supported by an active trading volume, we are of the view that the share price of CITC may serve as a reference when setting the Subscription Price and therefore the basis of setting the Subscription Price with reference to the average prevailing share price of CITC is fair and reasonable.

Comparison of the Subscription Price

To further assess the fairness and reasonableness of the Subscription Price, we attempted to compare the market prices of other companies listed on the Main Board and the GEM Board of the Stock Exchange with principal businesses and financial positions similar to that of CITC. We have researched companies listed on the Stock Exchange and overseas stock exchanges which their principal business activities that are substantially similar to that of CITC, which is principally engaged in the sale and manufacture of automotive related goods, parts and/or components, sale and manufacture of automobile battery and the aviation-related business. However, we are unable to identify any listed companies which are engaged in the business that is substantially similar to that of CITC. As such, our analysis is mainly based on the historical share price performance and the trading liquidity of the CITC A Shares as described above.

We noted that the Subscription Price represents a slight premium of approximately 1.53% over the average trading price of CITC A Shares as quoted on the Shenzhen Stock Exchange for the 20 trading days immediately preceding the Price Determination Date of approximately RMB16.35. Considering that (i) CITC has maintained its profit making performance without any significant decline in its latest financial year of 2013; (ii) the trading of CITC A Shares was suspended during the publication of the financial results of CITC for 2013 and the average trading price for the 20 trading days immediately preceding the Price Determination Date of CITC A Shares has not yet reflected the profit distribution of CITC for the year 2013; and (iii) the Subscription Price was arrived after arm's length negotiations between the Company and CITC, we are of the view that such premium over the average trading price for the 20 trading days immediately preceding the Price Determination Date is justifiable.

After taking into account that (i) the Subscription Price is determined with reference to the average trading price of CITC A Shares as quoted on the Shenzhen Stock Exchange for the 20 trading days immediately preceding the Price Determination Date and after considering the profit distribution plan of CITC for the year 2013; (ii) the Subscription Price represents a discount of approximately 3.26% to the average closing price of the CITC A Share during the Review Period; (iii) the closing price of CITC A Shares has been surging after the CITC Announcement and even reached the highest of RMB30.46 on 29 May 2014, representing a premium of approximately 83.50% over the Subscription Price; and (iv) the reasons for, and the benefits of, the Share Subscriptions as discussed above, we are of the view that the Subscription Price is fair and reasonable and we consider that the principal terms of the Share Subscription Agreements are on normal commercial terms, fair and reasonable and are in the interest of the Company and the Independent Shareholders as a whole.

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4. Financial impacts of the Share Subscriptions

(a) *Net asset value*

Since the total consideration of not more than RMB2,215 million for the Shares Subscriptions will be settled by the Group in cash and the investment in CITC through the Share Subscriptions will be classified as non-current assets in the balance sheet of the Group, the net asset value of the Group is expected to remain unchanged.

(b) *Liquidity*

The bank balances and cash of the Group is expected to decrease by RMB2,215 million for the payment of the consideration for the Share Subscriptions, while the new CITC A shares to be subscribed by the Company and AVIC Avionics of equivalent amount will be classified as non-current assets. Accordingly, the liquidity ratio of the Group is expected to decrease.

(c) *Earnings*

Upon completion of the Share Subscriptions, the investment in CITC through the Share Subscriptions will be classified as non-current assets. Based on the optimistic prospects of the aviation industry, automotive industry and lithium battery industry in the PRC and the growing demand for CITC's products as mentioned above, it is expected that the investment in CITC would bring positive impact to the earnings of the Group in the future.

(d) *Gearing ratio*

As advised by the management of the Company, the consideration for the Share Subscriptions of not more than RMB2,215 million will be funded by internal resources of the Group. As such, we are of the view that the gearing of the Group is expected to remain unchanged.

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RECOMMENDATIONS

Having considered the abovementioned background and reasons, we consider that the Share Subscriptions are in the ordinary and usual course of business of the Group and the terms of the Share Subscription Agreements are normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Share Subscription Agreements and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
Goldin Financial Limited
Billy Tang
Director

1. RESPONSIBILITY STATEMENT

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

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

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

Name of Director	Class of shares	Capacity	Approximate Number of Restricted Shares held	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	489,629	0.021%	0.009%	Long position
Tan Ruisong	H Share	Beneficial owner	439,885	0.019%	0.008%	Long position
Gu Huizhong	H Share	Beneficial owner	439,885	0.019%	0.008%	Long position
Gao Jianshe	H Share	Beneficial owner	439,885	0.019%	0.008%	Long position

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

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

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

3. 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 2013, 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
Goldin	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Goldin 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, Goldin did not have any direct or indirect interest in any assets which have been, since 31 December 2013, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group.

Goldin has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter 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 2013, 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 22 July 2014:

- (a) the letter dated 10 June 2014 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 14 of this circular;
- (b) the letter of advice dated 10 June 2014 from Goldin to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 27 of this circular;
- (c) the written consent of Goldin referred to in paragraph 5 of this Appendix;
- (d) Share Subscription Agreement of the Company; and
- (e) Share Subscription Agreement of AVIC Avionics.

NOTICE OF EGM



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

NOTICE OF EGM

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting (the “EGM”) of AviChina Industry & Technology Company Limited (the “Company”) will be held at 9:00 a.m. on Tuesday, 22 July 2014, at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC to consider and approve the following resolution. Unless otherwise indicated, capitalized terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 10 June 2014 (the “Circular”):

ORDINARY RESOLUTION

1. “**THAT:**

- (a) the Share Subscriptions and the terms and conditions of the Share Subscription Agreements between the Company and CITC and between AVIC Avionics and CITC, respectively (copies of which have been produced to this meeting marked “A” and initialed by the Chairman of the meeting) in relation to the Share Subscriptions, subject to fulfillment of the conditions as set out in the Share Subscription Agreements, be and are hereby approved, ratified and confirmed; and
- (b) any one of the Directors or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete or in connection with the Share Subscriptions, including, without limitation, to obtain all necessary approvals from the relevant regulatory authorities in the PRC, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the Share Subscription Agreements, 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

Beijing, 10 June 2014

* For identification purpose only

NOTICE OF EGM

Notes:

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

Pursuant to Article 40 of the Articles of Association, the H Share register of the Company will be closed from Wednesday, 2 July 2014 to Tuesday, 22 July 2014 (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 before the close of business hours on Tuesday, 22 July 2014 are entitled to attend and vote in the EGM.

In order to qualify to attend and vote in the EGM, holders of the Company's H Shares shall lodge all transfers together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company's H Shares Registrar, not later than 4:30 p.m. on Monday, 30 June 2014 at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong.

(2) Registration procedures for attending the EGM

- (a) The Shareholder or its proxies shall produce his identification proof. If a corporation Shareholder's legal representative or any other person authorized by the board of directors or other governing body of such corporate Shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate Shareholder (as the case may be) to prove the identity and authorization 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 Tuesday, 1 July 2014.
- (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. Any Shareholder who wishes to appoint a proxy should first review the form of proxy for use at the EGM.
- (b) Any Shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the board of the body corporate or by attorneys duly authorized. If the instrument is signed by an attorney of the appointer, the power of attorney authorizing the attorney to sign or other documents of authorization must be notarially certified. In order to be valid, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered in the case of holders of Domestic Shares, to the correspondence address designated by the Company, and in the case of holders of H Shares, to Computershare Hong Kong Investor Services Limited at the address stated in note (1) above not less than 24 hours before the time for holding the EGM and return of a form of proxy will not preclude a shareholder from attending in person and voting at the EGM if he or she so wishes.

NOTICE OF EGM

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

Designated address of the Company:

9/F., Easyhome Tower, No. 3A Dongzhimen South Avenue, Dongcheng District, Beijing, the PRC (Postal code: 100007)

Telephone No.: 86-10-58354335/4752

Facsimile No.: 86-10-58354310

Attention: Mr. Liu Kai/Mr. Hao Weidi

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

As at the date of this notice, the Board comprises executive Directors Mr. Lin Zuoming, 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.