
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **AviChina Industry & Technology Company Limited**, you should at once hand this circular and the enclosed revised 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:
ACQUISITION OF EQUITY INTERESTS OF
KEEVEN INSTRUMENT AND CHANGFENG AVIONICS; AND
(2) SUPPLEMENTAL 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 4 to 10 of this circular. A letter from the Independent Board Committee is set out on page 11 of this circular. A letter from Somerley to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 23 of this circular.

A supplemental notice convening the extraordinary general meeting (the "EGM") of AviChina Industry & Technology Company Limited to be held at 9:10 a.m. (or the time immediately after the conclusion of the Domestic Shareholders Class Meeting) on Wednesday, 21 August 2013 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 27 to 29 of this circular.

A reply slip and a revised 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 Wednesday, 31 July 2013. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed revised 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 revised 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.

19 July 2013

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms and expressions shall have the following meanings and certain capitalized terms used but not defined herein shall have the same meanings as set out in the section headed “Definitions” of the circular of the Company dated 5 July 2013:

“Acquisition”	the acquisition of 100% equity interest in each of Keeven Instrument and Changfeng Avionics by AVIC Avionics from AVIC Avionics Systems for an aggregate consideration of approximately RMB1,418 million in cash pursuant to the Acquisition Agreement
“Acquisition Agreement”	an acquisition agreement entered into between AVIC Avionics and AVIC Avionics Systems dated 26 June 2013 in relation to the Acquisition
“Articles of Association”	the articles of association of the Company
“AVIC”	China Aviation Industry Corporation (中國航空工業集團公司), a controlling shareholder of the Company directly 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, formerly named as China AVIC Avionics Equipment Co., Ltd.), a non wholly-owned subsidiary of the Company with 43.22% of its equity interest being held by the Company
“AVIC Avionics Systems”	AVIC Avionics Systems Co., Ltd.* (中航航空電子系統有限責任公司), a wholly-owned subsidiary of AVIC
“Board”	the board of directors of the Company
“Changfeng Avionics”	Suzhou Changfeng Avionics Co., Ltd. (蘇州長風航空電子有限公司, formerly named as AVIC Radar and Electrical Technology Co., Ltd.), a wholly-owned subsidiary of AVIC Avionics Systems
“Company”	AviChina Industry & Technology Company Limited*, a joint stock limited company established in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange
“Completion”	completion of the Acquisition and the transactions contemplated under the Acquisition Agreement
“Directors”	the director(s) of the Company

* For identification purpose only

DEFINITIONS

“EGM”	an extraordinary general meeting of the Company to be held at 9:10 a.m. (or the time immediately after the conclusion of the Domestic Shareholders Class Meeting) on Wednesday, 21 August 2013 at Grand Skylight CATIC Hotel Beijing, No.18 Bei Chen East Road, Chaoyang District, Beijing, the People’s Republic of China, for the purposes of considering and, if thought fit, approving, among other things, the Acquisition and the transactions contemplated under the Acquisition Agreement
“Group”	The Company and its subsidiaries
“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 Acquisition and the transactions contemplated under the Acquisition Agreement
“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 connected transactions under the Acquisition Agreement
“Keeven Instrument”	Beijing Keeven Aviation Instrument Co., Ltd. (北京青雲航空儀錶有限公司), a wholly-owned subsidiary of AVIC Avionics Systems
“Latest Practicable Date”	16 July 2013, 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
“RMB”	Renminbi, the lawful currency of the PRC
“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

DEFINITIONS

“Somerley”

Somerley 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 in respect of the Acquisition

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 Hong Kong:*

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

19 July 2013

To the Shareholders:

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION:
ACQUISITION OF EQUITY INTERESTS OF
KEEVEN INSTRUMENT AND CHANGFENG AVIONICS; AND
(2) SUPPLEMENTAL NOTICE OF EGM**

Reference is made to the announcements of the Company dated 9 December 2012, 14 June 2013 and 26 June 2013, respectively, in relation to, among other things, the proposed acquisitions by AVIC Avionics, a non wholly-owned subsidiary of the Company, of the 100% equity interest in each of Keeven Instrument and Changfeng Avionics held by AVIC Avionics Systems, a wholly-owned subsidiary of AVIC.

* For identification purpose only

LETTER FROM THE BOARD

On 26 June 2013, AVIC Avionics entered into the Acquisition Agreement with AVIC Avionics Systems, pursuant to which, AVIC Avionics Systems has agreed to sell and AVIC Avionics has agreed to purchase, subject to conditions, the 100% equity interest in each of Keeven Instrument and Changfeng Avionics for an aggregate consideration of approximately RMB1,418 million in cash.

The purposes of this circular are to provide you with, among other things, (i) further details of the Acquisition; (ii) a letter from the Independent Board Committee containing its opinion and recommendation to the Independent Shareholders in respect of the Acquisition and the transactions contemplated under the Acquisition Agreement; and (iii) a letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders containing its opinion in respect of the Acquisition and the transactions contemplated under the Acquisition Agreement.

A. BACKGROUND

On 26 June 2013, AVIC Avionics, a non wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with AVIC Avionics Systems, pursuant to which, AVIC Avionics Systems has agreed to sell and AVIC Avionics has agreed to purchase, subject to conditions, the 100% equity interest in each of Keeven Instrument and Changfeng Avionics for an aggregate consideration of approximately RMB1,418 million in cash.

A summary of the principal terms of the Acquisition Agreement is set out as follows:

B. THE ACQUISITION AGREEMENT

Date

26 June 2013

Parties

Vendor: AVIC Avionics Systems

Purchaser: AVIC Avionics

Target

Subject to the satisfaction of the conditions precedent under the Acquisition Agreement, AVIC Avionics will acquire the 100% equity interest in each of Keeven Instrument and Changfeng Avionics from AVIC Avionics Systems.

Consideration and Payment Terms

The aggregate consideration for the Acquisition of RMB1,418 million has been agreed between AVIC Avionics and AVIC Avionics Systems based on arm's length negotiations after taking into account a number of factors, such as the valuation results of Keeven Instrument of approximately RMB542 million and Changfeng Avionics of approximately RMB876 million as at 31 December 2012

LETTER FROM THE BOARD

prepared by an independent firm of qualified PRC valuers, namely China Alliance Appraisal Co., Ltd., using the cost replacement method; the production, research and development capabilities of Keeven Instrument and Changfeng Avionics; and the market position of Keeven Instrument and Changfeng Avionics.

Considering the specialisation of aviation products business and the influence of the industry policy and major clients that could affect the valuation model using income method, China Alliance Appraisal Co., Ltd. considers that the cost replacement method under the asset-based approach is the most appropriate valuation method adopted in the valuation of Keeven Instrument and Changfeng Avionics.

In preparing the valuation, China Alliance Appraisal Co., Ltd. has made, among others, the following key assumptions:

- (i) there will not be any unforeseeable material changes in the external economic environment after the valuation date;
- (ii) the business of each subject company being valued is lawfully operated and there will not be any unforeseeable factors preventing it from being operated on a going concern basis. The use of the assets being valued will not be changed and the assets being valued will be used at the current premises continuously; and
- (iii) the fundamental and financial information provided by each subject company being valued and the commissioning party are true, accurate and complete.

The final consideration will be subject to the valuation results of Keeven Instrument and Changfeng Avionics as filed with and confirmed by the relevant competent PRC authorities. The consideration will be payable in a lump sum to AVIC Avionics Systems by cash within 20 working days upon the Acquisition Agreement becoming effective. The Company will publish a further announcement if there is any unexpected adjustment to the valuation results of Keeven Instrument and Changfeng Avionics. Unless the adjustment to the final consideration amount is material, the Company will not seek re-approval from the Independent Shareholders.

Conditions Precedent to the Acquisition Agreement Becoming Effective

Pursuant to the Acquisition Agreement, the Acquisition will become effective upon fulfillment of, among other things, the following conditions:

- (1) the Acquisition Agreement having been executed by the legal representatives or authorized persons of the parties;
- (2) AVIC Avionics Systems having completed and satisfied all necessary internal corporate approval procedures in accordance with the requirements of its articles of association;

LETTER FROM THE BOARD

- (3) AVIC Avionics having completed and satisfied all necessary internal corporate approval procedures in accordance with the requirements of its articles of association and the relevant requirements of the listing rules of the Shanghai Stock Exchange;
- (4) the Company having completed and satisfied all necessary internal corporate approval procedures in accordance with the requirements of the Articles of Association and the relevant requirements of the Hong Kong Listing Rules, including but not limited to, the approvals of the Board and general meeting;
- (5) the valuation report in relation to the Acquisition having been filed with the relevant competent PRC authorities; and
- (6) the transactions contemplated under the Acquisition Agreement having been approved by AVIC.

None of the above conditions precedent to the effectiveness of the Acquisition Agreement is waivable by the parties and the Acquisition Agreement does not provide for any long stop date for the completion of the Acquisition.

C. REASONS FOR AND BENEFITS OF THE ACQUISITION

Upon completion of the Acquisition, the product line of AVIC Avionics will be expanded from avionics products and related accessories to include aviation instrument, sensor and autopilot currently manufactured by Keeven Instrument and airborne equipment currently manufactured by Changfeng Avionics. Accordingly, the Acquisition will contribute to expanding the production scale of AVIC Avionics, enriching the products and thereby improving the overall competitiveness of the Company so as to further improve the profitability and enhance the leading position of the Company in the industry.

The Directors (including independent non-executive Directors) are of the opinion that the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

D. HONG KONG LISTING RULES IMPLICATIONS

As AVIC is the controlling shareholder of the Company and AVIC Avionics Systems is a subsidiary of AVIC, each of AVIC and AVIC Avionics Systems is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. The entering into of the Acquisition Agreement will constitute a connected transaction of the Company. As the highest of the applicable size test percentage ratios in relation to the Acquisition is more than 5% but less than 25%, the Acquisition also constitutes a discloseable transaction of the Company under the Hong Kong Listing Rules and is subject to the reporting, announcement and the Independent Shareholders' approval requirements.

Each of Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, Directors of the Company, who are general manager, vice general manager and vice general manager of AVIC, respectively, is deemed to have a material interest in the transactions contemplated under the Acquisition Agreement and accordingly, they had abstained from voting on the board resolution approving the Acquisition Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules.

LETTER FROM THE BOARD

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

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.

Information on AVIC Avionics

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

Information on AVIC Avionics Systems

AVIC Avionics Systems is a limited liability company incorporated in the PRC, which is a wholly-owned subsidiary of AVIC. AVIC Avionics Systems is principally engaged in the research, manufacture, sales and services of airborne avionics system and equipment for all kinds of aircraft. The registered capital of AVIC Avionics Systems is RMB210 million.

Based on the audited financial statements of AVIC Avionics Systems for the year ended 31 December 2012, the total assets, the net assets value, the revenue, the total profits and the net profits of AVIC Avionics Systems amounted to RMB37,736.12 million, RMB19,212.33 million, RMB14,139.81 million, RMB1,765.57 million and RMB1,431.84 million, respectively.

Information on Keeven Instrument

Keeven Instrument is principally engaged in the manufacture and sales of aviation instrument, sensor and autopilot and related products. The registered capital of Keeven Instrument is RMB63.44 million.

Based on the audited financial statements of Keeven Instrument for the year ended 31 December 2012 prepared in accordance with the PRC accounting standards, the total assets and the net assets of Keeven Instrument amounted to RMB1,178,841,952.78 and RMB464,341,556.69, respectively. For the year ended 31 December 2012, the revenue, the net profit (before and after taxation and extraordinary items) of Keeven Instrument amounted to RMB419,283,339.65, RMB12,304,547.36 and RMB8,405,190.94, respectively.

LETTER FROM THE BOARD

Based on the audited financial statements of Keeven Instrument for the year ended 31 December 2011 prepared in accordance with the PRC accounting standards, the total assets and the net assets of Keeven Instrument amounted to RMB896,121,324.06 and RMB465,007,457.84, respectively. For the year ended 31 December 2011, the revenue, the net profit (before and after taxation and extraordinary items) of Keeven Instrument amounted to RMB356,248,577.14, RMB11,147,760.63 and RMB7,864,021.01, respectively.

Keeven Instrument recorded an increase in revenue and net profit by approximately 17.7% and 6.9%, respectively for the year ended 31 December 2012 as compared to 2011, which was mainly due to the increase of customer orders.

Information on Changfeng Avionics

Changfeng Avionics is principally engaged in the research, manufacture, sales and services of avionics, airborne equipment and aviation products. The registered capital of Changfeng Avionics is RMB59.63 million.

Based on the audited financial statements of Changfeng Avionics for the year ended 31 December 2012 prepared in accordance with the PRC accounting standards, the total assets and the net assets of Changfeng Avionics amounted to RMB1,721,286,828.39 and RMB491,236,494.13, respectively. For the year ended 31 December 2012, the revenue, the net profit (before and after taxation and extraordinary items) of Changfeng Avionics amounted to RMB678,438,299.92, RMB143,762,342.06 and RMB105,920,819.05, respectively.

Based on the audited financial statements of Changfeng Avionics for the year ended 31 December 2011 prepared in accordance with the PRC accounting standards, the total assets and the net assets of Changfeng Avionics amounted to RMB1,829,521,340.46 and RMB439,102,795.31, respectively. For the financial year ended 31 December 2011, the revenue, the net profit (before and after taxation and extraordinary items) of Changfeng Avionics amounted to RMB755,981,236.40, RMB241,854,041.23 and RMB188,943,231.03, respectively.

Changfeng Avionics recorded a decrease in revenue and net profit by approximately 10.3% and 44% respectively for the year ended 31 December 2012 as compared to 2011, which was mainly due to the decrease in customer orders and the slight decline of gross profit margin.

F. EGM

The supplemental notice of the EGM to be held at 9:10 a.m. (or the time immediately after the conclusion of the Domestic Shareholders Class Meeting) on Wednesday, 21 August 2013 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 27 to 29 of this circular, at which, among other matters, an ordinary resolution will be proposed to approve the Acquisition and the transactions contemplated under the Acquisition Agreement.

A reply slip and revised 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

LETTER FROM THE BOARD

Wednesday, 31 July 2013. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed revised 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 revised 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 Acquisition pursuant to the Acquisition Agreement. As at the Latest Practicable Date, AVIC and its associate(s), if any, directly owned 2,989,492,900 Shares of the Company, 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 Acquisition pursuant to the Acquisition Agreement and therefore no other Shareholder will be required to abstain from voting on the ordinary resolution to approve the Acquisition under the Acquisition Agreement at the EGM.

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

G. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee in relation to the Acquisition which is set out on page 11 of this circular.

The Directors and the Independent Board Committee, having taken into account the advice of Somerley, consider that the terms and conditions of the Acquisition Agreement and the connected transactions constituted thereunder 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)

19 July 2013

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 19 July 2013 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 Acquisition Agreement and the connected transactions constituted thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Somerley has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the Acquisition Agreement and the connected transactions constituted thereunder.

We wish to draw your attention to the letter from the Board set out on pages 4 to 10 of the Circular and the letter from Somerley set out on pages 12 to 23 of the Circular in relation to the Acquisition.

Having considered the advice given by Somerley, we are of the opinion that the terms and conditions of the Acquisition Agreement and the connected transactions constituted thereunder 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 Acquisition Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the 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 SOMERLEY

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



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

19 July 2013

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION: ACQUISITION OF EQUITY INTERESTS OF KEEVEN INSTRUMENT AND CHANGFENG AVIONICS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the acquisition of the entire issued share capital of each of Keeven Instrument and Changfeng Avionics by AVIC Avionics, a non wholly-owned subsidiary of the Company, from AVIC Avionics Systems, a wholly-owned subsidiary of AVIC, the controlling Shareholder. Details of the Acquisition are contained in the circular to the Shareholders dated 19 July 2013 (the “**Circular**”), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 26 June 2013, AVIC Avionics and AVIC Avionics Systems entered into the Acquisition Agreement, pursuant to which AVIC Avionics Systems has conditionally agreed to sell and AVIC Avionics has conditionally agreed to purchase the 100% equity of each of Keeven Instrument and Changfeng Avionics at an aggregate consideration of approximately RMB1,417.7 million (the “**Consideration**”) in cash.

AVIC Avionics Systems is a wholly-owned subsidiary of AVIC which, as at the Latest Practicable Date, held approximately 51.26% equity interest in the Company. AVIC Avionics Systems is therefore a connected person of the Company and the transaction contemplated under the Acquisition Agreement will constitute a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. The Acquisition is subject to the approval of the Independent Shareholders by way of poll at the EGM. AVIC, its associates and any party who has a material interest in the Acquisition shall abstain from voting on the proposed ordinary resolution approving the Acquisition at the EGM.

LETTER FROM SOMERLEY

The Independent Board Committee, comprising the three independent non-executive Directors, namely Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, has been established to advise the Independent Shareholders on the terms of the Acquisition Agreement. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete as at the date of the Circular and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been omitted or withheld from us, or to doubt the truth or accuracy of the information provided to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, AVIC Avionics, AVIC, AVIC Avionics Systems, Keeven Instrument or Changfeng Avionics.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Principal terms of the Acquisition Agreement

(i) *Subject matters and the Consideration*

On 26 June 2013, AVIC Avionics and AVIC Avionics Systems entered into the Acquisition Agreement whereby AVIC Avionics Systems has conditionally agreed to sell and AVIC Avionics has conditionally agreed to purchase the 100% equity interest in each of Keeven Instrument and Changfeng Avionics at the Consideration of approximately RMB1,417.7 million, which shall be satisfied wholly by cash within 20 working days upon fulfilment of the conditions precedent to the Acquisition Agreement. Upon Completion, Keeven Instrument and Changfeng Avionics will become wholly-owned subsidiaries of AVIC Avionics, a non wholly-owned subsidiary of the Company and their financial results will be fully consolidated into those of the Group.

The Consideration is determined with reference to, among others, the valuation results of Keeven Instrument and Changfeng Avionics as at 31 December 2012 prepared by an independent firm of qualified PRC valuers (the “**Independent Valuer**”). The final consideration will be subject to the valuation results of Keeven Instrument and Changfeng Avionics as at 31 December 2012 being filed with and confirmed by relevant PRC governmental authorities. However, the Company has informed us that it is currently anticipated that there will be no material difference between the Consideration and that as approved by relevant PRC governmental authorities. As a result, we present our analysis throughout our letter on the basis that there would be no material changes to the Consideration.

LETTER FROM SOMERLEY

(ii) *Conditions precedent*

The Acquisition shall become effective upon fulfilment of, among others, the following conditions:

- (a) the Acquisition Agreement having been executed by the legal representatives or authorised persons of the parties;
- (b) AVIC Avionics Systems having completed and satisfied all necessary internal corporate approval procedures in accordance with the requirements of its articles of association;
- (c) AVIC Avionics having completed and satisfied all necessary internal corporate approval procedures in accordance with the requirements of its articles of association and the relevant requirements of the listing rules of the Shanghai Stock Exchange;
- (d) the Company having completed and satisfied all necessary internal corporate approval procedures in accordance with the requirements of the Articles of Association and the relevant requirements of the Hong Kong Listing Rules, including but not limited to, the approvals of the Board and general meeting;
- (e) the valuation reports in relation to the Acquisition having been filed with relevant PRC governmental authorities; and
- (f) the transactions contemplated under the Acquisition Agreement having been approved by AVIC.

None of the above conditions precedent to the effectiveness of the Acquisition Agreement is waivable by the parties and the Acquisition Agreement does not provide for any long stop date for Completion.

(iii) *Completion*

AVIC Avionics Systems shall be responsible, with the assistance of Keeven Instrument and Changfeng Avionics, for carrying out the necessary procedures for Completion within 20 working days after fulfilment of all conditions precedent as set out above, including the amendments of the articles of association of Keeven Instrument and Changfeng Avionics and completion of the required procedures for the transfer of the equity interests in Keeven Instrument and Changfeng Avionics from AVIC Avionics Systems to AVIC Avionics at the relevant administrative department for industry and commerce.

LETTER FROM SOMERLEY

2. Business and financial information of the Group

The Company is a joint stock limited liability company incorporated in the PRC, with its H Shares listed on the Hong Kong Stock Exchange since October 2003. The Group is principally engaged in the research, development, manufacture and sale of aviation products such as helicopters, trainers, general-purpose aircraft and regional jets as well as aviation parts. The major business segments of the Company comprise the entire aircraft business and the aviation parts and components business.

Set out below is a summary of the audited consolidated financial results of the Group for the two years ended 31 December 2012 as extracted from the Company's 2012 annual report (the "2012 Annual Report"):

	For the year ended	
	31 December	
	2012	2011
	RMB'000	RMB'000
	(audited)	(restated)
Continuing operations		
Revenue	16,800,189	13,271,415
Entire aircrafts	8,273,277	6,555,030
Aviation parts and components	8,526,912	6,716,385
Gross profit	3,269,755	2,652,512
Gross profit margin	19.5%	20.0%
Profit attributable to the Shareholders	600,394	444,190

On 18 January 2012, the acquisition of the 100% equity interest in Tianjin Aviation Mechanical and Electrical Co., Ltd. ("**Tianjin Aviation**") was completed and the operating results of Tianjin Aviation had been consolidated into the Group's financial results, which brought new profit contribution to the Company for the year ended 31 December 2012. Tianjin Aviation is principally engaged in the research and development, manufacture and sale of aviation secondary power distribution system and fireproofing system.

For the year ended 31 December 2012, the Group recorded revenue from continuing operations of approximately RMB16,800.2 million, representing an increase of approximately 26.6% as compared to that in the previous year, mainly attributable to the growth in both business segments of entire aircraft and aviation parts and components. Revenue generated from the entire aircraft business in 2012, accounting for approximately 49.2% of total revenue, increased by approximately 26.2% to approximately RMB8,273.3 million, primarily due to the rapid growth in the helicopter business. The aviation parts and components segment, on the other hand, generated revenue of approximately RMB8,526.9 million, representing an increase of approximately 27.0% as compared to that in the previous year and accounting for approximately 50.8% of total revenue, mainly as a result of the growth in the avionics business. Gross profit margin in 2012 is more or less the same as that in the previous year. Due to the rapid development and increase in revenue of the helicopter and avionics businesses and the increase in interest income resulting from the optimisation in deposit structure, profit attributable to the Shareholders from continuing operations increased by approximately 35.2% from approximately RMB444.2 million in 2011 to approximately RMB600.4 million in 2012.

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Set out below is a summary of the audited consolidated balance sheet of the Group as at 31 December 2011 and 2012 as extracted from the 2012 Annual Report:

	As at 31 December	
	2012	2011
	<i>RMB'000</i> (audited)	<i>RMB'000</i> (restated)
Cash and cash equivalents	5,219,321	6,303,412
Total assets	35,896,112	30,973,212
Net assets attributable to the Shareholders	9,126,486	7,545,394
Total borrowings	3,348,090	3,058,384
Gearing ratio (total borrowings/total assets)	9.3%	9.9%

Cash and cash equivalents decreased by approximately 17.2% to approximately RMB5,219.3 million as at 31 December 2012, mainly attributable to (i) the significant increase in receivables and inventories to be used for manufacture and operations in 2013, and (ii) the increase in external investments in 2012, being offset by the proceeds raised from the placing of new Shares as well as the non-public issuances of shares by subsidiaries of the Company in 2012. The significant increase in net assets attributable to the Shareholders by approximately 21.0% to approximately RMB9,126.5 million as at 31 December 2012 was primarily due to the profit of the Group earned and the issuance of new Shares during the year. The decrease in gearing ratio, being total borrowings divided by total assets, from approximately 9.9% as at 31 December 2011 to approximately 9.3% as at 31 December 2012 was primarily resulted from the acquisition of Tianjin Aviation.

3. Business and financial information of Keeven Instrument

Keeven Instrument is principally engaged in the manufacture and sales of aviation instrument, sensor, autopilot and related products.

Set out below is a summary of the audited financial information of Keeven Instrument for the two years ended 31 December 2012 prepared in accordance with the PRC accounting standards:

	For the year ended	
	31 December	
	2012	2011
	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)
Consolidated income statement		
Operating income from principal activities	414,696	353,506
Gross profit	108,527	95,865
Gross profit margin	26.2%	27.1%
Profit attributable to the shareholders	8,405	7,864

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	As at 31 December	
	2012	2011
	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)
Consolidated statement of financial position		
Cash and cash equivalents	93,591	78,900
Total assets	1,178,842	896,121
Net assets attributable to the shareholders	464,342	465,007
Total borrowings	489,802	274,034
Gearing ratio (total borrowings/total assets)	41.5%	30.6%

Operating income from principal activities increased by approximately 17.3% from approximately RMB353.5 million in 2011 to approximately RMB414.7 million in 2012, mainly attributable to increased orders of aviation products. Due to the decrease in sales of non-aviation civil electronic information systems and products which have higher gross profit margins, the overall gross profit margin decreased slightly from approximately 27.1% in 2011 to approximately 26.2% in 2012. Despite the significant growth in operating income from principal activities, profit attributable to the shareholders of Keeven Instrument increased moderately by approximately 6.9% from approximately RMB7.9 million in 2011 to approximately RMB8.4 million in 2012, primarily due to the significant increase in interest expenses resulting from the increased borrowings for expanding the company's production scale.

4. Business and financial information of Changfeng Avionics

Changfeng Avionics is principally engaged in the research, manufacture, sales and services of avionics, airborne equipment and aviation products.

Set out below is a summary of the audited financial information of Changfeng Avionics for the two years ended 31 December 2012 prepared in accordance with the PRC accounting standards:

	For the year ended	
	31 December	
	2012	2011
	<i>RMB'000</i> (audited)	<i>RMB'000</i> (audited)
Income statement		
Operating income from principal activities	676,856	754,662
Gross profit	327,286	380,511
Gross profit margin	48.4%	50.4%
Net profit	105,921	188,943

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	As at 31 December	
	2012	2011
	RMB'000	RMB'000
	(audited)	(audited)
Statement of financial position		
Cash and cash equivalents	95,438	178,595
Total assets	1,721,287	1,829,521
Net assets	491,236	439,103
Total borrowings	503,000	521,160
Gearing ratio (total borrowings/total assets)	29.2%	28.5%

Operating income from principal activities decreased by approximately 10.3% from approximately RMB754.7 million in 2011 to approximately RMB676.9 million in 2012, mainly attributable to the decrease in sales orders from customers. Due to the change in the product mix associated with the sales orders received, the gross profit margin decreased from approximately 50.4% in 2011 to approximately 48.4% in 2012. The significant decrease in net profit by approximately 43.9% from approximately RMB188.9 million in 2011 to approximately RMB105.9 million in 2012 was primarily resulted from the increase in administrative expenses, in particular the depreciation charges, and the increase in interest expenses due to the increase in interest rates associated with the company's borrowings.

5. Reasons and benefits from entering into the Acquisition Agreement

As mentioned in the 2012 Annual Report, the Company would continue to take advantage of the supporting policies of the Chinese government for the aviation industry, being a strategic emerging industry listed in the Twelfth Five-year Plan. Pursuant to the 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) issued by the State Council and the Central Military Commission in 2010, the average annual growth of China's general aviation industry is expected to reach 15% or more in the coming ten years. Moreover, the Chinese government has further clarified the strategic position of high-end manufacturing industry, including the manufacturing of aviation equipment. Such favourable environment provides opportunities to the Group for continuous development. The Acquisition allows the Group to further benefit from the growth of China's overall aviation manufacturing industry driven by the continued growth of the Chinese economy, accelerated pace of urbanisation, increasing domestic customer demand, sustained development of air transportation and strengthening of the national defence.

The Acquisition is also in line with the Company's development strategy to focus on its aviation core business by extending its aviation manufacturing industry chain and enriching its product mix, and will enhance the Company's manufacturing capabilities in aviation products and further perfect the Company's industry chain. Since 2008, the Group has been undergoing a series of reorganisation and acquisitions to divest its loss-making automobile segment and focus on the aviation segment. After such reorganisation and acquisitions, the revenue scale of the Group has been expanding with a steady increase in profit and market share. As disclosed in the 2012 Annual Report, the Group continued to carry out business reorganisation and extend the scope of new aviation manufacturing business according to its established strategic objectives. The

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Company will continue to seek support and acquire aviation business assets from AVIC in order to further extend its aviation manufacturing industry chain and expand its scale of operation for continuous business growth.

As a result, we agree with the views of the Directors that the Acquisition will expand the production scale of AVIC Avionics, enrich the product mix and therefore improving the overall competitiveness of the Company, furthering improving the profitability and enhancing the leading position of the Company in the industry. We are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

6. Evaluation of the Consideration

(i) *Basis of the Consideration*

The Consideration of approximately RMB1,417.7 million is determined based on arm's length negotiations between the parties to the Acquisition Agreement with reference to, among others, the valuation results of Keeven Instrument and Changfeng Avionics as at 31 December 2012 prepared by the Independent Valuer using the cost replacement method. Taking into account that (a) the valuation reports are prepared in accordance with relevant PRC valuation standards, (b) the Independent Valuer is appointed by AVIC Avionics Systems, and (c) Keeven Instrument and Changfeng Avionics are profit making companies and the cost replacement method may not be appropriate in determining the valuations of Keeven Instrument and Changfeng Avionics, we have not relied on such valuation reports in assessing the fairness and reasonableness of the Consideration.

(ii) *Comparable Companies*

Based on (a) the Consideration of approximately RMB1,417.7 million, (b) the audited profits attributable to the shareholders of Keeven Instrument and Changfeng Avionics of approximately RMB114.3 million for the year ended 31 December 2012, and (c) the audited net assets attributable to the shareholders of Keeven Instrument and Changfeng Avionics of approximately RMB955.6 million as at 31 December 2012, the implied price-to-earnings ("**P/E**") ratio and price-to-book ("**P/B**") ratio of the Acquisition are approximately 12.40 times and 1.48 times respectively, which are lower than the medians of those of the Comparable Companies as discussed below.

Both Keeven Instrument and Changfeng Avionics are principally engaged in the manufacture and sales of aviation products. To assess the fairness and reasonableness of the Consideration, we researched companies (a) principally engaged in the manufacture and sales of aviation products similar to those of Keeven Instrument and Changfeng Avionics in the PRC, and (b) having their shares listed in the PRC. However, as a result of specialisation and diversity of products manufactured by companies engaged in the manufacturing sector of the aviation industry in the PRC, we are not able to identify any companies with mix of products similar to each of that of Keeven Instrument and Changfeng Avionics. In order to generate a meaningful comparison with reasonable sample size, we have included all PRC-listed companies (the "**Comparable Companies**") which are principally engaged in the manufacture and sales of aviation-related products (excluding entire aircraft) in our analysis of P/E ratios and P/B ratios. In other words, we have considered the companies engaged in the same sector (i.e. the manufacturing sector of the aviation industry) as that of Keeven Instrument

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and Changfeng Avionics, for the purpose of assessing the Consideration. Taking into account that (i) the operations of both Keeven Instrument and Changfeng Avionics are wholly based in the PRC, (ii) the companies engaged in the same sector as that of Keeven Instrument and Changfeng Avionics have been considered, and (iii) the electronic products manufactured by the Comparable Companies, Keeven Instrument and Changfeng Avionics are accessories and components of avionic products, which are broadly affected by the aviation industry as a whole, we are of the view that the Comparable Companies represent a fair and representative sample and the valuations of the Comparable Companies provide a more relevant benchmark for the purpose of assessing the Consideration.

The list of Comparable Companies is set out in the table below:

Comparable Companies	Stock code (CH Equity)	Major aviation product categories (Note 4)	Closing price as at the Latest		Trailing P/E (times) (Note 1)	2012 P/E (times) (Note 2)	P/B (times) (Note 3)
			Market Capitalisation (RMB million)	Practicable Date (RMB)			
1. Aerospace Hi-Tech Holdings Group Co., Ltd.	000901	安防監控轉盤 (security monitoring turntable), etc	3,076.91	12.29	78.48	76.81	3.86
2. AVIC Aero-Engine Controls Co., Ltd.	000738	航空發動機控制系統及部件 (aero-engine control systems and components)	10,710.65	11.36	53.80	54.10	3.97
3. China Aerospace Times Electronics Technology Co., Ltd.	600879	無人機 (unmanned aircraft) and 慣性導航 (inertial navigation), etc	7,817.32	7.52	29.63	29.72	1.79
4. China AVIC Electronics Co., Ltd.	600372	飛機參數採集設備 (aircraft data collection equipment) and 飛機定位導航設備 (aircraft navigation equipment), etc	34,127.76	25.22	71.68	70.92	6.99
5. Guizhou Space Appliance Co., Ltd.	002025	高端繼電器 (high-end relays)、連接器 (connectors) and 微特電機 (micro motors) (used in aerospace and aviation)	3,748.80	11.36	24.11	24.17	2.43

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Comparable Companies	Stock code (CH Equity)	Major aviation product categories (Note 4)	Market Capitalisation (RMB'million)	Closing price as at the Latest Practicable		Trailing P/E (times) (Note 1)	2012 P/E (times) (Note 2)	P/B (times) (Note 3)
				Date (RMB)				
6. Sichuan Chengfa Aero- Science & Technology Co., Ltd.	600391	內貿航空及衍生產品 (domestic aviation and derivative products) and 航 空發動機零配件加工 (aircraft engine parts processing)	3,644.63	11.04	102.45	100.36	2.25	
7. Xi' An Aero-Engine Plc	600893	航空發動機及衍生產品 (aircraft engine and derivative products) and 航 空零部件出口 (aviation parts export)	18,980.37	17.42	64.81	64.52	4.44	
				Maximum	102.45	100.36	6.99	
				Minimum	24.11	24.17	1.79	
				Average	60.71	60.09	3.68	
				Median	64.81	64.52	3.86	
Implied P/E and P/B ratios of the Acquisition							12.40	1.48

Source: 2012 annual reports and 2013 first quarterly report of respective Comparable Companies and Bloomberg

Note 1: The P/E ratios are calculated based on the respective closing prices of the Comparable Companies as at the Latest Practicable Date and the respective earnings per share of the Comparable Companies for the latest twelve-month period, and are extracted from Bloomberg.

Note 2: The P/E ratios are calculated based on the respective closing prices of the Comparable Companies as at the Latest Practicable Date and the respective earnings per share of the Comparable Companies for the year ended 31 December 2012 as disclosed in the respective 2012 annual reports.

Note 3: The P/B ratios are calculated based on the respective closing prices of the Comparable Companies as at the Latest Practicable Date and the respective book values per share of the Comparable Companies as at 31 March 2013 extracted from Bloomberg.

Note 4: The major aviation product categories are extracted from respective 2012 annual reports or company websites of the Comparable Companies.

As shown above, the average and median of the trailing P/E ratios of the Comparable Companies are approximately 60.71 times and 64.81 times respectively whereas those of the 2012 P/E ratios of the Comparable Companies are approximately 60.09 times and 64.52 times respectively, which are much higher than the implied P/E ratio of the Acquisition of approximately 12.40 times. Furthermore, the average and median of the P/B ratios of the Comparable Companies are

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approximately 3.68 times and 3.86 times respectively, which are much higher than the implied P/B ratio of the Acquisition of approximately 1.48 times. On this basis, we consider the Consideration to be fair and reasonable.

7. Possible financial effects of the Acquisition

Upon Completion, Keeven Instrument and Changfeng Avionics will become wholly-owned subsidiaries of AVIC Avionics, a non wholly-owned subsidiary of the Company and their financial results will be fully consolidated into those of the Group. However, Independent Shareholders should note that the financial analyses below are for illustrative purposes only and do not represent how the financial position of the Group will be upon Completion.

(i) Earnings

The Group recorded a profit attributable to the Shareholders of approximately RMB600.4 million for the year ended 31 December 2012. Keeven Instrument and Changfeng Avionics also recorded profits attributable to the shareholders of approximately RMB8.4 million and RMB105.9 million respectively. The Directors expect that the Acquisition would have a positive impact of the future earnings of the Group as the Company will be able to fully consolidate the financial results of Keeven Instrument and Changfeng Avionics into its consolidated financial statements upon Completion.

(ii) Equity attributable to the Shareholders

The equity attributable to the Shareholders was approximately RMB9,126.5 million as at 31 December 2012, as disclosed in the 2012 Annual Report. As the Consideration of approximately RMB1,417.7 million is wholly financed by the Group's internal resources, the Directors expect that the Acquisition would not have any material impact on the Group's net asset value.

(iii) Gearing and working capital

As at 31 December 2012, the gearing ratio, being total borrowings divided by total assets, of the Group was approximately 9.3% whereas those of Keeven Instrument and Changfeng Avionics were approximately 41.5% and 29.2% respectively. The gearing ratio of the Group is expected to increase upon Completion. However, taking into account (a) the profitable track records of Keeven Instrument and Changfeng Avionics, (b) the anticipated positive impact of the Acquisition on the earnings of the Group upon Completion, and (c) the benefits brought by the Acquisition as detailed in section 5 headed "Reasons and benefits from entering into the Acquisition Agreement" above, we concur with the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

The Group had cash and cash equivalents of approximately RMB5,219.3 million as at 31 December 2012. Upon Completion, the Group will incur a cash outflow of approximately RMB1,417.7 million, being the Consideration. The Directors are of the view that the Acquisition will not have any significant adverse impact on the working capital position of the Group upon Completion.

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DISCUSSION AND ANALYSIS

The Group is principally engaged in the research, development, manufacture and sale of aviation products such as helicopters, trainers, general-purpose aircraft and regional jets as well as aviation parts.

The Company has been acquiring aviation business assets from AVIC in the past few years in order to further extend its aviation manufacturing industry chain and expand its scale of operation for continuous business growth. The Acquisition is in line with the Company's development strategy to focus on its aviation core business by extending its aviation manufacturing industry chain and enriching its product mix, and will enhance the Company's manufacturing capabilities in aviation products and further perfect the Company's industry chain.

The implied P/E and P/B ratios of the Acquisition of approximately 12.40 times and 1.48 times are lower than the average and median of those of the Comparable Companies.

Upon Completion, Keeven Instrument and Changfeng Avionics will become wholly-owned subsidiaries of AVIC Avionics, a non wholly-owned subsidiary of the Company and their financial results will be fully consolidated into those of the Group, which is expected to have a positive impact of the future earnings of the Group.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the Acquisition Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Acquisition Agreement, while not in the ordinary and usual course of business of the Company, is nevertheless in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and ourselves recommend, the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
David Ching
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 Securities and Futures Ordinance (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	683,273	0.029%	0.01%	Long position
Tan Ruisong	H Share	Beneficial owner	614,579	0.026%	0.01%	Long position
Gu Huizhong	H Share	Beneficial owner	614,579	0.026%	0.01%	Long position
Gao Jianshe	H Share	Beneficial owner	614,579	0.026%	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 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 2012, 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
Somerley	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, Somerley did not have shareholding interest in any member of the Group or any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Somerley did not have any direct or indirect interest in any assets which have been, since 31 December 2012, 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.

Somerley 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 2012, 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 August 2013:

- (a) the letter dated 19 July 2013 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 11 of this circular;
- (b) the letter of advice dated 19 July 2013 from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 12 to 23 of this circular;
- (c) the written consent of Somerley referred to in paragraph 5 of this Appendix; and
- (d) the Acquisition Agreement.

SUPPLEMENTAL 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)

SUPPLEMENTAL NOTICE OF EGM

Reference is made to the circular of AviChina Industry & Technology Company Limited (the “**Company**”) dated 5 July 2013 and the notice of the extraordinary general meeting of the Company (the “**EGM**”) dated 5 July 2013 (the “**Notice**”).

SUPPLEMENTAL NOTICE IS HEREBY GIVEN THAT the EGM as originally scheduled will be held at 9:10 a.m. (or the time immediately after the conclusion of the Domestic Shareholders Class Meeting) on Wednesday, 21 August 2013, 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 supplemental notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 19 July 2013 (the “**Circular**”):

SPECIAL RESOLUTION

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

* For identification purpose only

SUPPLEMENTAL NOTICE OF EGM

- (c) any one of the Directors or authorized representative of the Chairman of the Board be and is hereby authorised to make such other modifications to the proposed amendments to the Articles of Association as may be required by the relevant regulatory authorities in the PRC.”

ORDINARY RESOLUTION

2. **“THAT:**

- (a) the terms and conditions of the Acquisition Agreement entered into between AVIC Avionics and AVIC Avionics Systems (a copy of which has been produced to this meeting marked “A” and initialed by the Chairman of the meeting) in relation to the Acquisition, subject to fulfillment of the conditions as set out in the Acquisition Agreement, 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 transactions contemplated under the Acquisition Agreement, 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 Acquisition 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

Beijing, 19 July 2013

(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 Thursday, 1 August 2013 to Wednesday, 21 August 2013 (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 Wednesday, 21 August 2013 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 Wednesday, 31 July 2013 at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queens’ Road East, Wanchai, Hong Kong.

SUPPLEMENTAL NOTICE OF EGM

(2) Registration procedures for attending the EGM

- (a) The Shareholder or its proxies shall produce his identification proof. If a corporation Shareholder's legal representative or any other person authorized by the board of directors or other governing body of such corporate Shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate Shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.
- (b) Holders of H Shares or Domestic Shares who wish to attend the EGM must complete the reply slip to confirm the attendance, and return the same to the correspondence address designated by the Company not later than 20 days before the date of the EGM, i.e. before Wednesday, 31 July 2013.
- (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 revised 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 revised 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 revised form of proxy will not preclude a shareholder from attending in person and voting at the EGM if he or she so wishes.

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

Designated address of the Company:

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

Telephone No.: 86-10-58354319/4312

Facsimile No.: 86-10-58354310

Attention: Mr. Xu Bin/Ms. Lv Hongyu

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

As at the date of this supplemental 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.