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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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**中國航空科技工業股份有限公司**

**AviChina Industry & Technology Company Limited\***

*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 2357)**

**DISCLOSEABLE AND CONNECTED TRANSACTIONS:  
ACQUISITION OF THE ENTIRE EQUITY INTEREST IN  
TIANJIN AVIATION INVOLVING ISSUE OF DOMESTIC SHARES  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

**ANGLO CHINESE** 英高  
CORPORATE FINANCE, LIMITED

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A letter from the Independent Board Committee is set out on page 13 of this circular. A letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 25 of this circular.

A notice convening the extraordinary general meeting (“EGM”) of AviChina Industry & Technology Company Limited to be held at 8:30 a.m. on Tuesday, 29 March 2011 at AVIC Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People’s Republic of China is set out on pages 29 to 31 of this circular.

Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Wednesday, 9 March 2011. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person if you so wish.

21 February 2011

\* For identification purpose only.

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## DEFINITIONS

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

“Acquisition”	the acquisition of the entire interest in Tianjin Aviation by the Company from AMES pursuant to the Acquisition Agreement, the consideration for which is to be paid as to 25% by cash and as to 75% by the issue of the Consideration Shares to AMES
“Acquisition Agreement”	an acquisition agreement entered into between the Company and AMES dated 25 January 2011 in relation to the Acquisition
“AMES”	AVIC Electromechanical Systems Company Limited* (中航機電系統有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of AVIC
“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“AVIC”	China Aviation Industry Corporation (中國航空工業集團公司), a controlling shareholder of the Company holding 56.7% equity interest in the Company
“Board”	the board of directors of the Company
“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
“Consideration Share(s)”	182,344,533 new Domestic Shares to be issued by the Company to AMES at the Issue Price upon Completion to satisfy part of the consideration for the Acquisition
“Directors”	the director(s) of the Company
“Domestic Share(s)”	domestic share(s) of nominal value of RMB1.00 each in the ordinary share capital of the Company which are subscribed for in RMB

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## DEFINITIONS

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“EGM”	an extraordinary general meeting of the Company to be convened and held for the purposes of considering and, if thought fit, approving, among other things, the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement
“General Mandate”	the unconditional general mandate granted to the Board for the issue of new securities by the Company pursuant to the relevant resolution of the Shareholders passed at the annual general meeting of the Company held on 19 May 2010
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested share(s) of nominal value of RMB1.00 each in the ordinary share capital of the Company, which are listed on the Hong Kong Stock Exchange and subscribed for and traded in Hong Kong dollar
“HKD/HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (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 on the Acquisition, the issue of the Consideration Shares 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 resolutions to be proposed at the EGM to approve the connected transactions to be constituted by the Acquisition Agreement
“Issue Price”	HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share
“Last Trading Day”	24 January 2011, being the last trading day of the H Shares on the Hong Kong Stock Exchange immediately prior to the date of the Acquisition Agreement

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## DEFINITIONS

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“Latest Practicable Date”	17 February 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shares”	Domestic Shares and H Shares of the Company
“Shareholder(s)”	holder(s) of the Shares
“Tianjin Aviation”	Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of AMES
“Valuation Date”	30 September 2010

*Note:* In this circular, certain amounts denominated in RMB have been converted into HK\$ using an exchange rate of HK\$1.00: RMB0.84566, for the purpose of illustration only.

\* *For identification purpose only.*

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

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

*Non-executive Directors:*

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

*Independent non-executive Directors:*

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

*Registered Office:*

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

*Principal place of business in Hong Kong:*

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

21 February 2011

*To the Shareholders:*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS:  
ACQUISITION OF THE ENTIRE EQUITY INTEREST IN  
TIANJIN AVIATION INVOLVING ISSUE OF DOMESTIC SHARES  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Reference is made to the announcement of the Company dated 25 January 2011 in relation to acquisition of the entire equity interest in Tianjin Aviation involving issue of Domestic Shares.

\* *For identification purpose only.*

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with more information relating to, among other things, (1) further details of the Acquisition and the issue of the Consideration Shares; (2) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement; and (3) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its opinion in respect of the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement.

### A. INTRODUCTION

On 25 January 2011, the Company entered into the Acquisition Agreement with AMES pursuant to which AMES has agreed to sell and the Company has agreed to purchase, subject to conditions, the entire equity interest of Tianjin Aviation for a consideration of RMB768,278,300, among which (i) as to 25% of the consideration, being approximately RMB192,069,575 will be satisfied by the Company by way of cash; and (ii) as to 75% of the consideration, being approximately RMB576,208,725, will be satisfied by the Company by way of issuing to AMES 182,344,533 Consideration Shares at the Issue Price of HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share upon Completion. The number of Consideration Shares to be issued will be rounded down to the nearest whole number and any entitlement to a fractional share will be settled by the Company by way of cash. The Consideration Shares, being all new Domestic Shares, will be issued under the General Mandate and will rank equally with the existing Domestic Shares upon Completion.

### B. THE ACQUISITION AGREEMENT

#### **Date**

25 January 2011

#### **Parties**

Vendor: AMES

Purchaser: the Company

#### **Target**

100% equity interest in Tianjin Aviation directly held by AMES.

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## LETTER FROM THE BOARD

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### Consideration and Payment Terms

The consideration for the Acquisition of RMB768,278,300 has been agreed between the Company and AMES based on arm's length negotiations after taking into account a number of factors including, but not limited to, the net asset value of Tianjin Aviation based on its latest financial statements, the importance and the synergies of the integration of Tianjin Aviation with the Group and the valuation prepared by an independent firm of qualified PRC valuers using the cost replacement method.

According to the audited financial statements of Tianjin Aviation for the nine months ended 30 September 2010, the net asset value of Tianjin Aviation as at 30 September 2010 i.e., the Valuation Date amounted to RMB653,241,133. Based on a valuation report issued by an independent firm of qualified PRC valuers using the cost replacement method, the appraised value of 100% equity interest in Tianjin Aviation as at the Valuation Date i.e., 30 September 2010 is RMB768,278,300.

Of the consideration of RMB768,278,300, (i) as to 25% of the consideration, being approximately RMB192,069,575, will be satisfied by the Company by way of cash using the internal resources of the Group; and (ii) as to 75% of the consideration, being approximately RMB576,208,725, will be satisfied by the Company by way of issuing and allotting to AMES 182,344,533 Consideration Shares at the Issue Price of HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share. The number of Consideration Shares to be issued will be rounded down to the nearest whole number and any entitlement to a fractional share will be settled by the Company by way of cash. The cash portion of the consideration will be paid by the Company to a bank account designated by AMES upon, among other things, the title to the 100% equity interest in Tianjin Aviation has been registered in the name of the Company. The shares portion of the consideration will be settled by the Company within 180 days after the 100% equity interest in Tianjin Aviation has been registered in the name of the Company.

The final consideration for the Acquisition is to be determined based on the asset valuation result confirmed by and filed with the state-owned assets supervision and administration authorities or its authorized representatives. If there is any upward or downward adjustment to the valuation result by the stated-owned assets supervision and administration authorities or its authorized representatives, the current consideration amount will be adjusted upward or downward (as the case may be) accordingly. The cash portion and shares portion of the consideration that represent 25% and 75% of the total consideration respectively will also be adjusted upward or downward (as the case may be) accordingly. The Company will publish a further announcement if there is any change in the final consideration.



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## LETTER FROM THE BOARD

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### Consideration Shares

A total of 182,344,533 Consideration Shares, being all new Domestic Shares, will be issued by the Company to AMES upon Completion pursuant to the Acquisition Agreement. Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the date of the allotment of the Consideration Shares, the number of Consideration Shares represents:

- (a) approximately 6.21% and 3.68% of the existing total issued Domestic Shares and the existing total issued share capital of the Company, respectively, as at the Latest Practicable Date; and
- (b) approximately 3.55% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares after Completion.

The Consideration Shares, when issued, will rank equally in all respects among themselves, and with the Domestic Shares then in issue on the day of the issuance of the Consideration Shares, and be entitled to all dividends and other rights attached to the Domestic Shares from the date of issuance. The Consideration Shares will be issued under the General Mandate.

### Issue Price

The Issue Price of the Consideration Shares at HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share was determined based on arm's length negotiations between the Company and AMES with reference to the average closing price of approximately HK\$3.734 per H Share as quoted on the Hong Kong Stock Exchange for the 20 consecutive trading days up to the Last Trading Day, and represents:

- (a) a premium of approximately 2.02% to the closing price of HK\$3.66 per H Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- (b) a premium of approximately 0.70% over the average closing price of approximately HK\$3.708 per H Share as quoted on the Hong Kong Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day; and
- (c) a discount of approximately 3.76% to the closing price of HK\$3.88 per H Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Day.

The RMB/HKD exchange rate of the Issue Price was determined based on the central parity exchange rate between RMB and HKD (HK\$1.00: RMB0.84566) on the date immediately preceding the date of the meeting of the Board approving the Acquisition as announced by the China Foreign Exchange Trading System & National Interbank Funding Centre under the authority of the People's Bank of China. The Consideration Shares will be issued at the Issue Price based on the RMB rate.

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## LETTER FROM THE BOARD

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The Directors are of the view that the consideration for the Acquisition including the Issue Price for the Consideration Shares is fair and reasonable and in the interest of the Company as a whole and the Independent Shareholders are concerned.

### **Conditions Precedent**

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 person(s) of the parties;
- (2) the Acquisition including the issue of the Consideration Shares and the transactions contemplated thereunder having been approved by the Board and the Independent Shareholders;
- (3) AMES having completed and satisfied all necessary corporate approval procedures in accordance with the requirements of its articles of association;
- (4) the Acquisition having been approved by the State Administration for Science, Technology and Industry for National Defense (if applicable); and
- (5) the Acquisition being approved by state-owned assets supervision and administration authorities or its authorized representatives and the valuation report in relation to the Acquisition being filed with the state-owned assets supervision and administration authorities or its authorized representatives.

As at the Latest Practicable Date, conditions (1) and (3) above were fully satisfied. In relation to condition (2) above, the Acquisition including the issue of the Consideration Shares and the transactions contemplated thereunder had been approved by the Board but remained subject to approval by the Independent Shareholders.

### **Completion**

Completion of the Acquisition Agreement will take place on the date on which (i) the conditions set out above have been satisfied; (ii) the title to the equity interest of Tianjin Aviation has been registered in the name of the Company; and (iii) the Consideration Shares have been issued to and registered in the name of AMES.

## **C. INFORMATION RELATING TO TIANJIN AVIATION**

Tianjin Aviation was reorganized as a limited company in 1995. As at the Latest Practicable Date, AMES holds 100% equity interest in Tianjin Aviation. The registered capital of Tianjin Aviation is RMB43,160,000. Tianjin Aviation is mainly engaged in the research and development, manufacture and sale of aviation secondary power distribution system and fireproofing system.

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## LETTER FROM THE BOARD

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The major assets of Tianjin Aviation include plant, equipment, and machineries engaging in the business of the research and development, manufacture and sale of aviation secondary power distribution system and fireproofing system.

Based on the unaudited financial statements of Tianjin Aviation as at 31 December 2010, the total assets and net assets of Tianjin Aviation amounted to RMB1,101,817,420 and RMB621,828,660, respectively. For the financial year ended on 31 December 2010, the revenue, net profit before tax and net profit after tax of Tianjin Aviation amounted to RMB413,011,803, RMB109,531,411 and RMB106,303,149, respectively.

Based on the unaudited financial statements of Tianjin Aviation as at 31 December 2009, the total assets and net assets of Tianjin Aviation amounted to RMB1,043,757,844 and RMB518,003,532, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of Tianjin Aviation amounted to RMB282,815,728, RMB81,808,095 and RMB79,752,702, respectively.

### D. EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date other than the issue of the Consideration Shares pursuant to the Acquisition Agreement, the shareholding structure of the Company (a) as at the Latest Practicable Date; and (b) immediately after Completion and including issue of the Consideration Shares will be as follows:

Name of the Shareholder	Number of Shares held as at the Latest Practicable Date			Immediately after Completion (including issue of the Consideration Shares)		
	Number of Shares	Approximate % to the relevant class of issued share capital of the Company	Approximate % to the total issued share capital of the Company	Number of Shares	Approximate % to the relevant class of issued share capital of the Company	Approximate % to the total issued share capital of the Company
<b>Domestic Shares</b>						
AVIC	2,806,088,233	95.62%	56.70%	2,806,088,233	90.03%	54.69%
AMES	-	-	-	182,344,533	5.85%	3.55%
Other Domestic Shareholders	128,502,365	4.38%	2.60%	128,502,365	4.12%	2.50%
Sub-total	2,934,590,598	100%	59.30%	3,116,935,131	100%	60.74%
<b>H Shares</b>						
Public Shareholders	2,014,433,902	100%	40.70%	2,014,433,902	100%	39.26%
<b>Total</b>	<b>4,949,024,500</b>	<b>-</b>	<b>100%</b>	<b><u>5,131,369,033</u></b>	<b>-</b>	<b><u>100%</u></b>

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## LETTER FROM THE BOARD

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### **E. REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Acquisition implements the development strategy of building up the Company as a flagship manufacturer of a complete chain of civil aviation products in the aviation industry in China and continuously extends the Company's scope of aviation manufacturing business. The Acquisition extends the business of the Company into aviation mechanical and electrical business, enhances the manufacturing capabilities of the Company in aviation products and assemblies, and further integrates the aviation business system of the Company. Furthermore, the Directors consider that the transactions contemplated under the Acquisition Agreement will help the Group to consolidate its market position in the PRC aviation industry and further improve its investment value through operating synergies. Integration of Tianjin Aviation with the Group will enable the Group to further benefit from economies of scale through sharing of resources and expertise in the research and development, manufacture and sale of aviation secondary power distribution system and fireproofing system. The Directors (excluding the independent non-executive Directors) are of the opinion that the terms of the Acquisition Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

### **F. HONG KONG LISTING RULES IMPLICATIONS**

AMES is a wholly-owned subsidiary of AVIC. As AVIC is a controlling shareholder of the Company holding 56.70% equity interest in the Company, it is a connected person of the Company and AMES is an associate of AVIC pursuant to Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratio in relation to the Acquisition is over 5% but less than 25% and as the Acquisition involves the issue of Domestic Shares as part of the consideration, the Acquisition and the issue of the Consideration Shares constitute discloseable and connected transactions of the Company under the Hong Kong Listing Rules and are subject to the requirements of reporting, announcement and approval of the Independent Shareholders at the EGM.

An Independent Board Committee comprising all of the independent non-executive Directors will be established to advise the Independent Shareholders on the connected transactions contemplated under the Acquisition Agreement including the issue of the Consideration Shares. None of the members of the Independent Board Committee has any material interest in the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement. Anglo Chinese has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

None of the Directors has a material interest in the transactions contemplated under the Acquisition Agreement and thus no Director is required to abstain from voting on the board resolutions approving the Acquisition Agreement in accordance with the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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### **G. 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 held as to 56.7% by AVIC, being the controlling shareholder of the Company. The Company is mainly engaged in the research and development, manufacture and sale of aviation products.

#### **Information on AVIC**

AVIC is held and controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products.

#### **Information on AMES**

AMES was established in the PRC in 2010 and is a wholly-owned subsidiary of AVIC. AMES is mainly engaged in research, manufacture and sale of airborne avionics and equipment of aircraft and engine.

### **H. EGM**

The notice of the EGM to be held at 8:30 a.m. on Tuesday, 29 March 2011 at AVI Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People's Republic of China is set out on pages 29 to 31 of this circular, at which ordinary resolutions will be proposed to approve, among other matters, the terms and conditions of the Acquisition Agreement and the transactions contemplated thereunder, as well as the issue of Consideration Shares.

A reply slip and a form of proxy for use at the EGM are enclosed herewith. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event no later than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you wish.

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

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## LETTER FROM THE BOARD

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### I. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 13 of this circular. The Directors and the Independent Board Committee, having taken into account the advice of Anglo Chinese, consider that the terms and conditions of the Acquisition Agreement and the transactions contemplated thereunder, as well as the issue of Consideration Shares, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder, as well as the issue of Consideration Shares.

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

Yours faithfully,  
By Order of the Board  
**AviChina Industry & Technology Company Limited\***  
**Lin Zuoming**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

21 February 2011

*To the Independent Shareholders*

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 21 February 2011 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, as well as the issue of the Consideration Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Anglo Chinese has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the terms and conditions of the Acquisition Agreement and the connected transactions constituted thereunder, as well as the issue of the Consideration Shares.

We wish to draw your attention to the letter from the Board set out on pages 4 to 12 of the Circular and the letter from Anglo Chinese set out on pages 14 to 25 of the Circular.

Having considered the advice given by Anglo Chinese, we are of the opinion that the terms and conditions of the Acquisition Agreement and the transactions constituted thereunder, as well as the issue of Consideration Shares are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider the entering into of the Acquisition Agreement and issue of Consideration Shares are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,

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

**Guo Chongqing,**

**Li Xianzong,**

**Lau Chung Man, Louis**

*Independent Non-executive Directors*

\* *For identification purpose only.*

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## LETTER FROM ANGLO CHINESE

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

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### ANGLO CHINESE

CORPORATE FINANCE, LIMITED

40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.  
www.anglochinesegroup.com

財務顧問有限公司  
英高

*To the Independent Board Committee  
and the Independent Shareholders*

21 February 2011

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTIONS ACQUISITION OF THE ENTIRE EQUITY INTEREST IN TIANJIN AVIATION INVOLVING ISSUE OF DOMESTIC SHARES**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition. Details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 21 February 2011, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context requires otherwise.

On 25 January 2011, the Company entered into the Acquisition Agreement with AMES pursuant to which, AMES has agreed to sell and the Company has agreed to purchase, subject to conditions, the entire equity interest in Tianjin Aviation for a consideration of RMB768,278,300, among which (i) as to 25% of the consideration, being RMB192,069,575 will be satisfied by the Company by way of cash; and (ii) as to 75% of the consideration, being approximately RMB576,208,725 will be satisfied by the Company by way of issuing to AMES 182,344,533 Consideration Shares at the Issue Price of HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share upon Completion. The Consideration Shares, being all new Domestic Shares, represent approximately 3.55% of the existing total issued share capital of the Company as enlarged by the issue of the Consideration Shares upon Completion. The Consideration Shares will be issued under the General Mandate and will rank equally with the existing Domestic Shares upon Completion.

AMES is a wholly-owned subsidiary of AVIC, which is a controlling shareholder of the Company holding 56.70% equity interest in the Company and therefore a connected person of the Company. AMES is an associate of AVIC pursuant to Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratio in relation to the Acquisition is over 5% but less



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## LETTER FROM ANGLO CHINESE

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than 25% and as the Acquisition involves the issue of Domestic Shares as part of the consideration, the Acquisition and the issue of the Consideration Shares constitute discloseable and connected transactions of the Company under the Hong Kong Listing Rules and are subject to Independent Shareholders' approval at the EGM.

An Independent Board Committee comprising all of the independent non-executive Directors has been established to advise the Independent Shareholders on the connected transactions contemplated under the Acquisition Agreement. None of the members of the Independent Board Committee has any material interest in the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement.

Votes of the Independent Shareholders at the EGM shall be taken by poll. As AVIC has an indirect interest in Tianjin Aviation through AMES, therefore AVIC and its associates will abstain from voting at the EGM. Save for the approval from the Independent Shareholders at the EGM, the Acquisition, including the allotment and the issue of Domestic Shares, will be subject to the conditions precedent as set out on page 8 of this circular.

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the information, statements, opinions and representations contained or referred to in this circular and all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the letter from the Board contained in this circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in this circular.

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

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

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## LETTER FROM ANGLO CHINESE

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### PRINCIPLE FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, we have taken into account the following principal factors:

#### Background of the Acquisition

##### *Business and financial information on 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. As at the date of this circular, the Company is held as to 56.7% by AVIC, being the controlling shareholder of the Company, which is held and controlled by the State Council and is mainly engaged in the development, manufacture and sale of aviation products such as helicopters, trainers, general-purpose aircraft, regional jets as well as aviation parts. The major business segments of the Company comprise the entire aircraft business, aviation parts and components business.

The table below illustrates the audited consolidated financial results of the Group as extracted from the Company's annual report 2009 and the unaudited financial results from its interim report 2010:

<b>Consolidated Income Statement</b>	<b>For the year</b>	<b>For the year</b>	<b>Year on</b>	<b>For the six</b>
	<b>ended 31</b>	<b>ended 31</b>		<b>year change</b>
	<b>December 2009</b>	<b>December 2008</b>	<b>%</b>	<b>30 June 2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>
	(Audited)	(Restated)		(Unaudited)
Revenue	5,098,210	4,979,152	2.4%	2,505,464
Gross profit	918,231	881,493	4.2%	554,422
Gross profit margin	18.0%	17.7%		22.1%
Profit/(loss) attributable to the equity holders of the Company	160,946	(1,062,684)	NA	397,363
<b>Consolidated Balance Sheet</b>	<b>As at 31</b>	<b>As at 31</b>	<b>Year on</b>	<b>As at 30</b>
	<b>December 2009</b>	<b>December 2008</b>		<b>year change</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<b>%</b>	<i>RMB'000</i>
	(Audited)	(Restated)		(Unaudited)
Total assets	20,344,338	23,288,894	(12.6%)	25,187,039
Net asset value (net of minority interest)	4,668,039	2,659,673	75.5%	6,399,080
Cash and cash equivalents	1,996,694	2,418,654	(17.4%)	4,012,762
Total borrowings	2,474,318	6,630,095	(62.7%)	2,391,790
Gearing ratio (total borrowings/total assets)	12.2%	28.5%		9.5%

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## LETTER FROM ANGLO CHINESE

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### *Business and financial information on Tianjin Aviation*

Tianjin Aviation was reorganized as a limited liability company in 1995 and became a wholly-owned subsidiary of AMES.

Tianjin Aviation is mainly engaged in the research and development, manufacture and sale of aviation secondary power distribution system and fireproofing system. The major assets of Tianjin Aviation include plants, equipment and machinery engaged in the business of research and development, manufacture and sale of aviation secondary power distribution system and fire-proofing system.

Tabularised below are (i) unaudited consolidated income statement of Tianjin Aviation for the year ended 31 December 2010; and (ii) audited consolidated balance sheet as at 30 September 2010 as extracted from the financial statements audited in accordance with the Generally Accepted Accounting Principles in the PRC.

<b>Consolidated Income Statement</b>	<b>For the year ended 31 December 2010 RMB'000</b>	<b>For the year ended 31 December 2009 RMB'000</b>	<b>Year on year change %</b>
Revenue	413,012	282,816	46.0%
Operating profit	90,998	78,079	16.5%
Operating profit margin	22.0%	27.6%	
Net profit before tax	109,531	81,808	33.9%
Net profit after tax	106,303	79,753	33.3%
Net profit attributable to the equity holders of the Company	83,531	68,693	21.6%
<b>Consolidated Balance Sheet</b>	<b>As at 30 September 2010 RMB'000</b>	<b>As at 1 January 2010 RMB'000</b>	<b>Period change %</b>
Total assets	1,164,503	1,043,758	11.6%
Net asset value			
(net of minority interest)	653,241	518,004	26.1%
Cash and cash equivalents	72,153	139,011	(48.1%)
Total borrowings	45,000	0	NA
Gearing ratio			
(total borrowings/total assets)	3.9%	0.0%	

Tianjin Aviation has recorded a significant growth in turnover and net profit for the year ended 31 December 2010. Having reviewed the financial information of the Group and Tianjin Aviation, we are of the view that the Acquisition would enhance both the total assets and profitability of the Group. The financial effects to the Group are detailed later in this letter.

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## LETTER FROM ANGLO CHINESE

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### **Principal terms of the Acquisition Agreement**

On 25 January 2011, the Company entered into the Acquisition Agreement with AMES pursuant to which, AMES has agreed to sell and the Company has agreed to purchase, subject to fulfillment of certain conditions as stated on page 8 of the letter from the Board, the entire equity interest in Tianjin Aviation for a consideration of RMB768,278,300, among which (i) as to 25% of the consideration, being RMB192,069,575 will be satisfied by the Company by way of cash; and (ii) as to 75% of the consideration, being approximately RMB576,208,725 will be satisfied by the Company by way of issuing to AMES 182,344,533 Consideration Shares at the Issue Price of HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share upon Completion.

Upon Completion, Tianjin Aviation will be a wholly-owned subsidiary of the Company. As such, it will be consolidated into the Group's accounts for the purpose of preparing financial statements.

### *The consideration*

#### *i. Basis of the consideration*

As stated in the letter from the Board, the consideration for Acquisition of approximately RMB768.3 million was agreed between the Company and AMES based on arm's length negotiations after taking into account a number of factors, including but not limited to, the net asset value of Tianjin Aviation based on its latest financial statements, the importance and the synergies of the integration of Tianjin Aviation with the Group and the valuation prepared by an independent firm of qualified PRC valuer using the cost replacement method.

The final consideration for the Acquisition is to be determined based on the asset valuation result confirmed by and filed with the state-owned assets supervision and administration authorities or its authorized representatives. If there is any upward or downward adjustment to the valuation result by the said authorities or authorized representatives, the current consideration amount as well as the cash and shares portion will be adjusted upward or downward accordingly, as the case may be. The Company will publish a further announcement if there is any change in the final consideration.

#### *ii. Valuation methodology*

We have reviewed the valuation report prepared by China Alliance Appraisal Company Limited ("China Alliance Appraisal") on the methodology adopted and the assumptions used in arriving at the valuation of the entire equity interest in Tianjin Aviation and have not noticed any material issues that should bring to the attention of Shareholders. Cost replacement method was adopted by China Alliance Appraisal as an appropriate valuation methodology for the Acquisition. We understand that China Alliance Appraisal carried out its work in four stages, namely preparation, site visit and data collection, assessment and report submission, and it conducted a site visit to gather necessary information to determine the value for Tianjin Aviation. As the valuation report was prepared according to the valuation standard adopted in the PRC and the valuation will be subject to adjustment, if any, by the state-owned assets supervision and administration authorities or its authorized representatives, we have not relied on such valuation report to form our opinion and recommendation given in this letter.

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## LETTER FROM ANGLO CHINESE

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### iii. Payment method

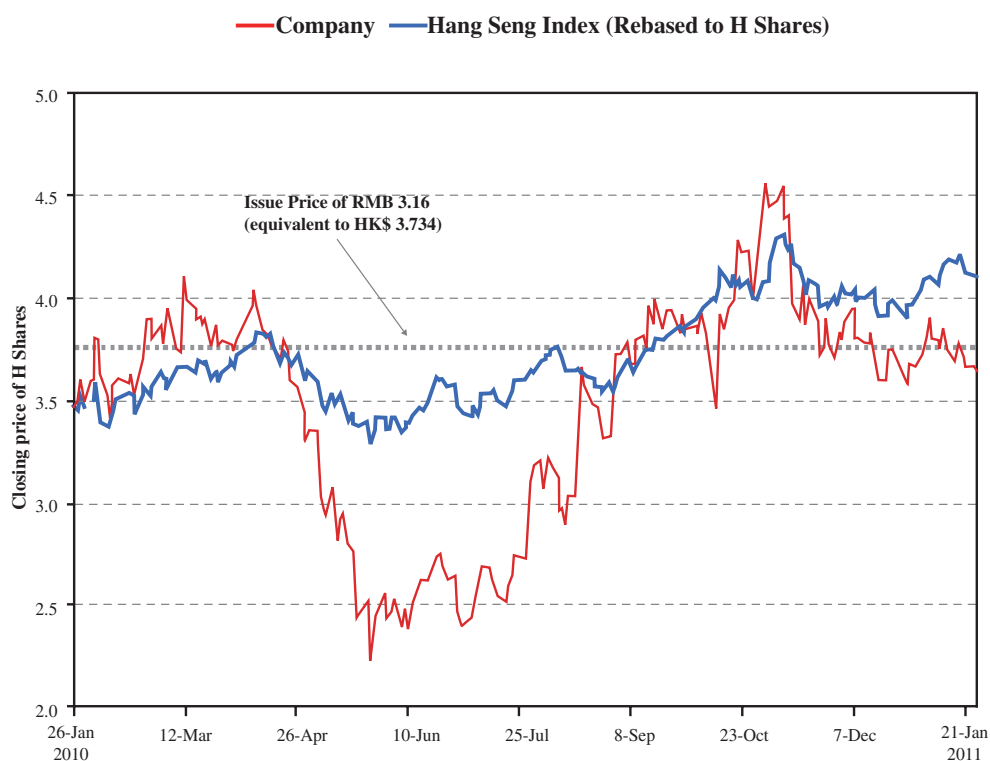
The cash portion of the consideration will be paid by the Company to a bank account designated by AMES upon, among other things, the title to the 100% equity interest in Tianjin Aviation has been registered in the name of the Company. The shares portion of the consideration will be settled by the Company within 180 days after the 100% equity interest in Tianjin Aviation has been registered in the name of the Company. The cash consideration is intended to be financed by Group's internal resources while the Consideration Shares will be issued by the Company under the General Mandate. The current arrangement for the consideration payment, in our view is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole, because the cash consideration accounts for less than 5% of the Group's cash and cash equivalents as at 30 June 2010 while the issue of Consideration Shares will minimize the cash outlay in connection with the Acquisition and will slightly dilute the interest of Independent Shareholders from approximately 2.60% to 2.50%.

### iv. Consideration Shares

The Issue Price of RMB3.16 (equivalent to approximately HK\$3.734) per Consideration Share was determined with reference to the average closing price of approximately HK\$3.734 per H Share as quoted on the Stock Exchange for the 20 consecutive trading days up to the Last Trading Day after arm's length negotiations between the Company and AMES.

#### 1. Historical market price of the Shares

The chart below illustrates the movement of the daily closing prices of the H Shares during a period starting from 26 January 2010, being one year prior to the signing of the Acquisition Agreement, up to and including the Last Trading Day:



Source: Bloomberg

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## LETTER FROM ANGLO CHINESE

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As shown in the chart above, the price performance of the H Shares broadly underperformed the Hang Seng Index. During the period under review, the closing prices of the H Shares ranged from HK\$2.23 to HK\$4.55 per H Share. The average closing price of the H Shares for the period was approximately HK\$3.48 per H Share. The Issue Price of RMB3.16 (equivalent to approximately HK\$3.734) per Consideration Share lies within the range of the closing price and is approximately 7.3% above the average closing price of the H Shares for the period under review.

### 2. Comparison of the Issue Price

As the Consideration Shares to be issued and allotted are Domestic Shares which will not be tradable on any stock exchange, we have used the share price of H Shares for the purpose of analysis. The Issue Price of RMB3.16 (equivalent to approximately HK\$3.734) per Consideration Share represents:

- (a) a premium of approximately 2.02% to the closing price of HK\$3.66 per H Share as quoted on the Stock exchange on the Last Trading Day;
- (b) a premium of approximately 0.70% over the average closing price of approximately HK\$3.71 per H Share as quoted on the Stock exchange for the 5 consecutive trading days up to and including the Last Trading Day;
- (c) a premium of approximately 0.03% over the average closing price of approximately HK\$3.73 per H Share as quoted on the Stock exchange for the 10 consecutive trading days up to and including the Last Trading Day;
- (d) a premium of approximately 0.24% over the average closing price of approximately HK\$3.73 per H Share as quoted on the Stock exchange for the 30 consecutive trading days up to and including the Last Trading Day;
- (e) a discount of approximately 3.69% over the average closing price of approximately HK\$3.88 per H Share as quoted on the Stock exchange for the 60 consecutive trading days up to and including the Last Trading Day;
- (f) a discount of approximately 3.76% over the closing price of HK\$3.88 per H Share as quoted on the Stock exchange on the Latest Practicable Date; and
- (g) a premium of approximately 144.39% over the Group's unaudited equity per Share attributable to equity holders of the Company of approximately RMB1.29, calculated based on the Group's unaudited consolidated equity attributable to equity holders of the Company of approximately RMB6,399 million and approximately 4,949 million outstanding Shares as at 30 June 2010.

Based on the above, we consider that the Issue Price, which represents a premium over the prevailing closing price of H Shares and the equity value per Share, is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM ANGLO CHINESE

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### **Comparable Companies**

The consideration for the Acquisition is approximately RMB768.3 million which implies that the historic price to earnings ratio and the price to book ratio for Tianjin Aviation are approximately 9.20 times and 1.24 times respectively given the unaudited net profit attributable to equity holders of approximately RMB83.5 million for the year ended 31 December 2010 and the unaudited net asset value (excluding minority interest) of RMB621.8 million as at 31 December 2010. The historic ratios using the 2009 audited accounts of Tianjin Aviation will be 11.18 times for the price to earnings ratio and 1.48 times for the price to book ratio, calculated on the basis of net profit attributable to equity holders of approximately RMB68.7 million and net asset value (excluding minority interest) of RMB518.0 million. These ratios are much lower than that of the median of comparable companies as discussed below.

To assess the fairness and reasonableness of the consideration for the Acquisition, we have searched for companies listed on the Stock Exchange which are principally engaged in the manufacturing business for aviation sector in the PRC but failed to find any suitable comparable. Accordingly, we then searched for A-share listed companies. To the best of our knowledge and as far as we are aware of, there are 8 listed comparable companies which are engaged principally in the manufacture of aviation products that are similar to that of Tianjin Aviation to some extent. The Independent Shareholders should note that the information of the comparable companies below is for information and reference only.

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## LETTER FROM ANGLO CHINESE

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

Comparable company	Stock code	Closing price as at Latest Practicable Date <i>RMB</i>	Price to earnings ratio <i>times</i>	Price to book ratio <i>times</i>
Aerospace Times Electronic Technology	600879	13.73	54.92	3.71
China Avic Avionics Equipment	600372	33.26	554.33	23.20
Guizhou Space Appliance	002025	13.58	43.81	3.74
Hafei Aviation Industry	600038	29.70	123.75	7.46
Jiangxi Hongdu Aviation Industry	600316	31.97	57.09	5.66
Sichuan Chengfa Aero Science & Technology	600391	24.57	66.41	5.75
Xi'an Aero-Engine	600893	33.65	96.14	5.05
Xi'an Aircraft International	000768	12.35	95.00	3.35
		Maximum	554.33	23.20
		Minimum	43.81	3.35
		Average	136.43	7.24
		<b>Median</b>	<b>80.70</b>	<b>5.36</b>

### The Acquisition – Tianjin Aviation

<b>2010 historic ratios</b>	<b>9.20</b>	<b>1.24</b>
2009 historic ratios	<b>11.18</b>	<b>1.48</b>

*Note:* The financials of comparable companies are for the year ended 31 December 2009 as their latest audited accounts are not publicly available.

*Source: Bloomberg*

#### *i. Price to earning ratio analysis*

As illustrated above, the comparable companies have average and median price to earnings ratios of approximately 136.43 times and 80.70 times respectively, which are much higher than the price to earnings ratio of Tianjin Aviation of 11.18 times.



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## LETTER FROM ANGLO CHINESE

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### *ii. Price to book ratio analysis*

As illustrated above, the comparable companies have average and median price to book ratios of approximately 7.24 times and 5.36 times respectively, which is much higher than the price to book ratio of Tianjin Aviation of approximately 1.48 times.

### *Conclusion*

We consider the multiples of publicly traded comparable companies provide a relevant benchmark for the purpose of valuation, in particular for those listed in the PRC given the fact that Tianjin Aviation is based in the PRC. In this case, both the price to earnings ratio and price to book ratio of comparable companies are much higher than that of Tianjin Aviation. Based on the above, we consider that the consideration for the Acquisition is fair and reasonable to the Company and the Independent Shareholders as a whole.

### **Changes in shareholding structure of the Company**

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date other than the issue of the Consideration Shares immediately after the Completion, AVIC will be interested in approximately 54.69% of the issued share capital of the Company, as enlarged by the issue of Consideration Shares, and the public float will decrease from 40.7% as at the Latest Practicable Date to 39.26% immediately after the Completion.

### **Reasons for the Acquisition**

According to the outlook of the aircraft and aviation parts of the PRC, the management of the Company expected with the stable and rapid development of the national economy, the PRC aviation transportation industry would maintain its growth momentum and would account for an increasing portion in the national transportation system. The PRC government is expected to gradually open the low altitude airspace policy and China's general aviation will become an important industry for expansion of domestic demand and promotion of the national economic development. The enormous market demand for general aviation and the positive policy support from the government will likely bring opportunities to the Group for continuous development. As an important sub-system of aviation manufacturing, the manufacture of aviation products will accordingly benefit from the development of China's entire aviation manufacturing industry.

In addition, as mentioned in the Company's 2010 interim report, the Group would continue to acquire aviation business assets domestically and overseas, acquire aviation business assets through negotiations with AVIC with a view to further strengthening its aviation industry chain, expanding its aviation business scale and as a result it would consolidate the Company's market share in helicopters, trainers, general-purpose aircrafts and regional jets business.

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## LETTER FROM ANGLO CHINESE

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The Directors consider that the Acquisition will enrich the Company's aviation mechanical and electrical business as well as enhance its manufacturing capabilities in aviation products and assemblies so as to integrate the aviation business system of the Company. We agree with the views of the Directors that the transactions contemplated under the Acquisition Agreement will help the Group to consolidate its market position in the PRC aviation industry and further improve its investment value through operating synergies. We are of the view that the Acquisition is in the interests of the Company and its shareholders as a whole.

### **POSSIBLE FINANCIAL EFFECTS**

The following analysis is based on the unaudited consolidated financial statements of the Group for the six months ended 30 June 2010. Upon completion of the Acquisition, Tianjin Aviation will become a wholly-owned subsidiary of the Company.

#### **Effects on net asset value**

According to the Company's interim report 2010, the unaudited consolidated net asset value of the Group excluding minority interests was approximately RMB6,399 million as at 30 June 2010. The total consideration of the Acquisition is approximately RMB768.3 million, which represents a premium of approximately RMB146.5 million over the total net asset value (net minority interest) of 100% equity interest in Tianjin Aviation of approximately RMB621.8 million as stated in its unaudited financial statements for the year ended 31 December 2010. Such premium represents approximately 2.29% of the unaudited consolidated net asset value of the Group as at 30 June 2010 and the Acquisition will not have any material impact on the Group's net asset value.

#### **Effects on earnings**

The Group recorded profits attributable to shareholders of RMB160.9 million and RMB397.3 million for the year ended 31 December 2009 and for the six months ended 30 June 2010 respectively. Tianjin Aviation also booked an unaudited profit attributable to shareholders of RMB83.5 million for the year ended 31 December 2010. The Acquisition would therefore improve the Group's profitability if they were consolidated under the Group's financial statements.

#### **Effects on gearing and working capital**

As at 30 June 2010, the Group's gearing level, calculated as total borrowings divided by the total assets, was approximately 9.50%. The gearing ratio of Tianjin Aviation as at 31 December 2010 was merely 1.36% given the total borrowings amount of RMB15 million and total assets of RMB1,101.8 million. We are of the view that the impact on the gearing ratio of the Group upon Completion will be insignificant.

The Group had cash and cash equivalents of approximately RMB4,013 million as at 30 June 2010. Upon Completion, the Group will incur a net cash outflow of approximately RMB192 million, being 25% of the total consideration for the Acquisition to be settled in cash. We are of the view that the Acquisition will not have any significant adverse impact on the working capital position and the normal operations of the Group following the Acquisition.

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## LETTER FROM ANGLO CHINESE

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### RECOMMENDATION

We have considered the above principal factors and reasons and particularly (i) the strategic rationale of the Acquisition; (ii) the terms of the consideration as discussed above; and (iii) the possible financial effects. Based on the above principal factors and reasons, we consider that the Acquisition is on normal commercial terms, and the entering into the Acquisition Agreement is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition.

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

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY**

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

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

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

**3. DIRECTORS' SERVICE CONTRACTS**

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

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

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2009, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

#### 5. CONSENT AND QUALIFICATION OF EXPERTS

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

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

As at the Latest Practicable Date, Anglo Chinese did not have shareholding interest in any member of the Group or any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Anglo Chinese did not have any direct or indirect interest in any assets which has been, since 31 December 2009, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

Anglo Chinese has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and references to its name included in this circular in the form and context in which it is included.

**6. COMPETING INTERESTS**

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

**7. NO MATERIAL ADVERSE CHANGE**

The Directors are of the opinion that since 31 December 2009, being the date to which the latest published audited accounts of the Group have been made up, there have been no material adverse changes in the financial or trading position of the Group.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company up to and including 29 March 2011:

- (a) the letter dated 21 February 2011 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 13 of this circular;
- (b) the letter of advice dated 21 February 2011 from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 14 to 25 of this circular;
- (c) the written consent of Anglo Chinese referred to in paragraph 5 of this Appendix; and
- (d) the Acquisition Agreement.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** an Extraordinary General Meeting (“EGM”) of AviChina Industry & Technology Company Limited (the “Company”) will be held at 8:30 a.m. on Tuesday, 29 March 2011, at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People’s Republic of China to consider and approve the following resolutions. Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 21 February 2011 (the “Circular”):

#### ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) inter-conditional with resolution 1(b) below having been approved by the Independent Shareholders, the terms and conditions of the Acquisition Agreement dated 25 January 2011 entered into between the Company and AMES (a copy of which have been produced to this meeting marked “A” and initialed by the Chairman of the meeting) pursuant to which, AMES has agreed to sell and the Company has agreed to purchase, subject to conditions, the entire equity interest in Tianjin Aviation for a consideration of RMB768,278,300, be and are hereby approved, ratified and confirmed; and

any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete or in connection with the transactions contemplated under the Acquisition Agreement, including, without limitation, to obtain all necessary approvals from the relevant PRC government authorities, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the Acquisition Agreement, as such Director or authorized representative may in his absolute discretion deem fit; and

\* For identification purpose only.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (b) inter-conditional with resolution 1(a) above having been approved by the Independent Shareholders, the issue of 182,344,533 Consideration Shares at the Issue Price of HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share, amounting to RMB576,208,725, as satisfaction of 75% of the Consideration upon Completion by the Company to AMES be and is hereby approved, ratified and confirmed; and

any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete or in connection with the issue of Consideration Shares, including, without limitation, to obtain all necessary approvals from the relevant PRC government authorities, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the articles of association of the Company, as such Director or authorized representative may in his absolute discretion deem fit.”

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

Hong Kong, 21 February 2011

*Notes:*

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

Pursuant to Article 38 of the Articles of Association of the Company, the H Share register of the Company will be closed from Wednesday 9 March 2011 to Tuesday, 29 March 2011 (both days inclusive), during which period no transfer of H shares will be effected. Holders of the Company’s H Shares and Domestic Shares whose names appear on the Company’s Register of Members on Tuesday, 29 March 2011 are entitled to attend the EGM and to vote in the EGM.

In order to qualify to attend and vote in the EGM, holders of the Company’s H shares shall lodge all transfers together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company’s H Shares Registrar, not later than 4:30 p.m. on Tuesday, 8 March 2011 at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queens’ Road East, Wanchai, Hong Kong.

**(2) Registration procedures for attending the EGM**

- (a) The shareholder or its proxies shall produce his identification proof. If a corporation shareholder’s legal representative or any other person authorized by the board of directors or other governing body of such corporate shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.
- (b) Holders of H Shares or Domestic Shares who wish to attend the EGM must complete the reply slip to confirm the attendance, and return the same to the correspondence address designated by the Company not later than 20 days before the date of the EGM, i.e. before Wednesday, 9 March 2011.
- (c) Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.



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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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**(3) Proxies**

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

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

Designated address of the Company:

P.O. Box 1655, Beijing, the PRC (Postal code: 100009)

Telephone No.: 86-10-58354319

Facsimile No.: 86-10-58354310

Attention: Mr. Xu Bin

**(5) Ordinary resolutions 1(a) and 1(b) 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 Mr. Wu Xiandong and non-executive directors Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Gao Jianshe, Mr. Li Fangyong, Mr. Chen Yuanxian, Mr. Wang Yong, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.*