
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 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).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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)

**I. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND THE
PROPOSED ANNUAL CAPS IN RESPECT THEREOF;
II. DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:
REVISION OF THE TERM OF THE EXISTING FINANCIAL SERVICES
FRAMEWORK AGREEMENT; AND
III. NOTICE OF EGM**

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

ANGLO CHINESE 英
CORPORATE FINANCE, LIMITED 高

A letter from the Board is set out on pages 7 to 28 of this circular. A letter from the Independent Board Committee is set out on pages 29 to 30 of this circular. A letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 49 of this circular.

A notice convening the EGM of the Company to be held at 9:00 a.m. on Thursday, 20 November 2014 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC is set out on pages 53 to 55 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed hereto and are also published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon on or before Thursday, 30 October 2014. 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 or any adjournment thereof (as the case may be) and voting in person if you so wish.

26 September 2014

* For identification purpose only

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	7
Letter from the Independent Board Committee	29
Letter from Anglo Chinese	31
Appendix – General Information	50
Notice of EGM	53

DEFINITIONS

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

“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“associates”	has the same meaning ascribed thereto under the Hong Kong Listing Rules
“AVIC”	Aviation Industry Corporation of China (中國航空工業集團公司), the controlling shareholder of the Company holding 51.26% equity interest in the Company
“AVIC Avionics”	China AVIC Electronics Co., Ltd. (中航機載電子設備股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange, which is owned as to 43.22% by the Company and as to 34.16% (directly and indirectly) by AVIC
“AVIC Avionics Group”	AVIC Avionics and its subsidiaries
“AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement”	the products and services mutual supply and guarantee agreement entered into between AVIC Avionics and the Company on 30 August 2011, details of which are set out in the announcement of the Company dated 30 August 2011 and the circular dated 23 September 2011
“AVIC Finance”	Aviation Industry Corporation Finance Company Limited (中航工業集團財務有限責任公司), a limited liability company established in the PRC and a subsidiary of AVIC
“AVIC Group”	AVIC and its subsidiaries
“Board”	the board of directors of the Company
“CBRC”	China Banking Regulatory Commission
“Company”	AviChina Industry & Technology Company Limited, a joint stock limited company established in the PRC, whose shares are listed on the Hong Kong Stock Exchange

DEFINITIONS

“Contractual Price”	the price to be agreed between the relevant parties for the provision of the aviation products, raw materials and related services (as the case may be), which shall be the Reasonable Costs incurred in providing the same plus not more than 8.0% of such costs, which is determined after taking into account the average profit margin of approximately 7% of the costs among industrial enterprises, the average profit margin in the aviation industry and the profits previously received by the Group or AVIC Group for similar products or services. The 8.0% margin used to determine the Contractual Price is the maximum profit margin under the Mutual Supply of Products Agreement and the Products and Services Mutual Supply and Guarantee Agreement and specific prices will be determined under separate agreements in each transaction
“Deposit Services”	the deposit services to be provided by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 9:00 a.m. on Thursday, 20 November 2014 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC, for the purposes of considering and, if thought fit, approving, among other things, (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement
“Existing Financial Service Framework Agreement”	the financial services framework agreement entered into between the Company and AVIC Finance on 25 March 2013, for a term of three years commencing from the effective date of 14 June 2013
“Existing Mutual Supply of Products Agreement”	the mutual supply of products agreement entered into between the Company and AVIC on 30 August 2011, for a term of three years commencing from the effective date of 1 January 2012
“Existing Mutual Provision of Services Agreement”	the mutual provision of services agreement entered into between the Company and AVIC on 30 August 2011, for a term of three years commencing from the effective date of 1 January 2012

DEFINITIONS

“Existing Trademarks and Technology Cooperation Framework Agreement”	the trademarks and technology cooperation framework agreement entered into between the Company and AVIC on 30 August 2011, for a term of three years commencing from the effective date of 1 January 2012
“Government-prescribed Price”	jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in particular transactions, which mainly comprise the relevant costs plus profit margin. The relevant costs will be proposed by the relevant manufacturing enterprises, subject to final confirmation by the relevant price control authorities and the industry regulators in the PRC. The existing prices of aviation products of the Group are mainly prescribed by the PRC government. Such Government-prescribed Price will not be published and is not publicly available
“Group”	the Company and its subsidiaries
“Guarantee Services”	the guarantee services to be provided by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement
“Hafei Aviation”	Hafei Aviation Industry Co., Ltd. (哈飛航空工業股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange and is a 35.10% directly and indirectly owned subsidiary of the Company as at the Latest Practicable Date
“Hafei Aviation Group”	Hafei Aviation and its subsidiaries
“Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement”	the products and services mutual supply and guarantee agreement entered into between Hafei Aviation and the Company on 18 December 2013, details of which are set out in the announcement of the Company dated 18 December 2013
“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

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Guo Chongqing, Mr. Lau Chung Man and Mr. Liu Renhuai, to advise the Independent Shareholders on (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into of the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement
“Independent Third Parties”	independent third parties (to the best of the Directors’ knowledge, information and belief after having made all reasonable enquiries), including the ultimate beneficial owners of such party, not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates (within the meaning of the Hong Kong Listing Rules)
“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 (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into of the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement
“Land Use Rights and Properties Leasing Agreement”	the Land Use Rights and Properties Leasing Agreement, entered into between AVIC and the Company for a term of 20 years commencing from 1 January 2012, and where appropriate, includes the supplemental agreement entered into between AVIC and the Company on 26 August 2014 to revise the Land Use Rights and Properties Leasing Agreement, details of which are set out in the announcement of the Company dated 26 August 2014
“Latest Practicable Date”	22 September 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
“Loan Services”	the loan services to be provided by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement

DEFINITIONS

“Market Price”	(i) where there are comparable market prices or standard charging rates entered into by independent third parties under normal commercial terms from transaction records of previous similar transactions, the transaction price shall be fixed at such price or standard; or (ii) if the transactions have no comparable market prices entered into between independent third parties, the transaction price shall be fixed by the price of non-connected transactions between the Company and independent third parties: (a) (as buyer) by tender procedures or choosing the most favorable price among at least 2 to 3 selected suppliers after taking into account the suppliers’ manufacturing qualifications and delivery time, and business relationship between the Company and suppliers according to the Company’s internal procurement policy or (b) (as supplier) negotiating with clients within prescribed price range after taking into account the transaction volumes and business relationship between the Company and purchasers according to the Company’s internal sales policy. The Market Price will be determined or approved by the authorized departments/persons of the specific entities under the Group in particular transactions
“Mutual Provision of Services Agreement”	the mutual provision of services agreement entered into between AVIC and the Company on 26 August 2014, details of which are set out in the announcement of the Company dated 26 August 2014
“Mutual Supply of Products Agreement”	the mutual supply of products agreement entered into between AVIC and the Company on 26 August 2014, details of which are set out in paragraph 2.1 under Section I of this circular
“Non-exempt Continuing Connected Transactions”	the continuing connected transactions contemplated under (i) the Mutual Supply of Products Agreement, and (ii) the Products and Services Mutual Supply and Guarantee Agreement, which are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules
“Other Financial Services”	apart from deposit, loan, settlement and guarantee services, other financial services AVIC Finance has agreed to provide to the Group under the Proposed Financial Services Framework Agreement (subject to the terms and conditions provided therein)
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China

DEFINITIONS

“Products and Services Mutual Supply and Guarantee Agreement”	the products and services mutual supply and guarantee agreement entered into among AVIC Avionics, Hafei Aviation and the Company on 26 August 2014, details of which are set out in paragraph 2.2 under Section I of this circular
“Proposed Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and AVIC Finance on 26 August 2014, for a term of three years commencing from 1 January 2015 to 31 December 2017 to replace the Existing Financial Services Framework Agreement and except for the revised three-year term commencing from 1 January 2015 to 31 December 2017, the terms and conditions of the Proposed Financial Services Framework Agreement are the same as the Existing Financial Services Framework Agreement
“Reasonable Costs”	the costs confirmed by the parties to the agreement after arm’s length negotiations and as permitted by the relevant accounting system/principles of the PRC (inclusive of sales tax and surcharges), mainly comprising direct manufacturing costs (inclusive of materials, labour and other manufacturing expenses) and indirect fees apportioned between the parties
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement Services”	the settlement services to be provided by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement
“SFO”	The Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (as amended from time to time)
“Shareholders”	the holders of shares of RMB1.00 each in the capital of the Company
“Trademarks and Technology Cooperation Framework Agreement”	the trademarks and technology cooperation framework agreement entered into between AVIC and the Company on 26 August 2014, details of which are set out in the announcement of the Company dated 26 August 2014

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. Lau Chung Man, Louis
Mr. Liu Renhuai

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

26 September 2014

To the Shareholders:

Dear Sir or Madam,

**I. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND THE
PROPOSED ANNUAL CAPS IN RESPECT THEREOF;
II. DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:
REVISION OF THE TERM OF THE EXISTING FINANCIAL SERVICES
FRAMEWORK AGREEMENT;
AND
III. NOTICE OF EGM**

Reference is made to the announcement of the Company dated 26 August 2014 in relation to, among other things, (i) renewal of the framework agreements and annual caps thereof for certain existing continuing connected transactions; (ii) revision of the annual caps for certain existing continuing connected transactions for 2014; and (iii) the revision of the term of the Existing Financial Services Framework Agreement. Except for the Non-exempt Continuing Connected Transactions contemplated under the Mutual Supply of Products

* For identification purpose only

LETTER FROM THE BOARD

Agreement and the Products and Services Mutual Supply and Guarantee Agreement, as well as the Deposit Services under the Proposed Financial Services Framework Agreement, the other continuing connected transactions and the proposed annual caps thereof referred to in the aforementioned announcement are exempt from Independent Shareholders' approval.

The purposes of this circular are to provide you with, among other things,

- (1) further details of (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement;
- (2) a letter of recommendation on (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement from the Independent Board Committee to the Independent Shareholders; and
- (3) a letter of advice on (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement from Anglo Chinese to the Independent Shareholders and the Independent Board Committee.

I. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND THE PROPOSED ANNUAL CAPS IN RESPECT THEREOF

1. Background

References are made to the announcement of the Company dated 30 August 2011 and the circular dated 23 September 2011 in relation to, among other things, the continuing connected transactions of the Group contemplated under (1) the Existing Mutual Supply of Products Agreement, (2) the Existing Mutual Provision of Services Agreement, (3) the Existing Trademarks and Technology Cooperation Framework Agreement, (4) the Land Use Rights and Properties Leasing Agreement, and (5) the AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement. At the extraordinary general meeting of the Company held on 9 December 2011, the independent Shareholders had approved the non-exempt continuing connected transactions of the aforementioned continuing connected transactions, including the continuing connected transactions contemplated under the Existing Mutual Supply of Products Agreement and the Existing Mutual

LETTER FROM THE BOARD

Provision of Services Agreement as well as the expenditure transactions under the AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement, and their respective annual caps for the three financial years ending 31 December 2014.

Reference is also made to the announcement of the Company dated 18 December 2013 in relation to the continuing connected transactions between the Group and Hafei Aviation Group contemplated under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement, upon the asset reorganization of Hafei Aviation.

As the terms of each of the aforementioned agreements governing the relevant existing continuing connected transactions and their respective annual caps will expire on 31 December 2014 (except for the Land Use Rights and Properties Leasing Agreement), the Company proposes to (1) enter into new framework agreements and supplemental agreement (for the Land Use Rights and Properties Leasing Agreement only) based on the original framework agreements to govern such existing continuing connected transactions; and (2) set their respective annual caps for each of the three financial years ending 31 December 2017.

2. The Framework Agreements

2.1 *Mutual Supply of Products Agreement*

As the Existing Mutual Supply of Products Agreement is due to expire on 31 December 2014, the Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the Existing Mutual Supply of Products Agreement. As such, the Board proposes to renew the Existing Mutual Supply of Products Agreement.

Principal terms of the proposed Mutual Supply of Products Agreement are summarized as follows:

Parties	:	AVIC The Company
Date	:	26 August 2014
Mutual supply of products	:	AVIC Group and the Group to mutually provide manufacturing raw materials, parts and components, finished and semi-finished aviation products (including but not limited to helicopters, aircraft and aviation parts and components) involved in the production and operations of their respective aviation products as well as the sales and ancillary services related thereto.

LETTER FROM THE BOARD

The supply of products by AVIC Group to the Group shall be made on terms not less favorable than those offered by Independent Third Parties under comparable conditions. The supply of products by the Group to AVIC Group shall be made on normal commercial terms.

Term : Three years, commencing from 1 January 2015 to 31 December 2017

Pricing : The products and ancillary services will be provided: (i) as most products under the Mutual Supply of Products Agreement are aviation products peculiar to the industry, the Government-prescribed Price will apply; (ii) if there is no Government-prescribed Price, then according to the Market Price; and (iii) if there is no Market Price, then according to the Contractual Price.

Note: please refer to detailed definitions of “Government-prescribed Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular.

Payment : Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into specific products agreement in each transaction.

2.2 Products and Services Mutual Supply and Guarantee Agreement

The existing products and services mutual supply and guarantee agreements entered into by the Company and AVIC Avionics and Hafei Aviation respectively, namely, the AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement and the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement, are due to expire on 31 December 2014. The Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the two aforementioned agreements with AVIC Avionics Group and Hafei Aviation Group, respectively. Given that the continuing connected transactions between the Group and Hafei Aviation Group, and those between the Group and AVIC Avionics Group are similar, and there are a large amount of ancillary transactions between AVIC Avionics Group and Hafei Aviation Group, for the convenience of management, the Company proposes to sign one combined agreement for the mutual supply of products and services and provision of guarantee, i.e. the Products and Services Mutual Supply and Guarantee Agreement together with AVIC Avionics and Hafei Aviation, in order to better monitor all the continuing connected transactions after completion of the reorganization, and apply for an overall cap.

LETTER FROM THE BOARD

Principal terms of the Products and Services Mutual Supply and Guarantee Agreement proposed to be entered into together are summarized as follows:

- Parties : The Company
- AVIC Avionics
- Hafei Aviation
- Date : 26 August 2014
- Scope : (1) The Group (including Hafei Aviation Group) to provide aviation parts and components, raw materials, and related manufacturing, labour and guarantee services to AVIC Avionics Group. Meanwhile, AVIC Avionics Group to provide aviation products, aviation parts and components and related manufacturing and labour services to the Group (including Hafei Aviation Group).
- (2) The Group (including AVIC Avionics Group) to provide aviation parts and components, raw materials and related manufacturing, labour and guarantee services to Hafei Aviation Group. Meanwhile, Hafei Aviation Group to provide aviation products, aviation parts and components and related manufacturing and labour services to the Group (including AVIC Avionics Group).
- Term : Three years, commencing from 1 January 2015 to 31 December 2017
- Pricing : The products and/or services provided to or supplied by the Group under the Products and Services Mutual Supply and Guarantee Agreement are of a similar nature as those under the Mutual Supply of Products Agreement, i.e. a wide range of aviation products and raw materials as well as ancillary services, and therefore similar pricing policies are adopted as follows: (i) as most products under the Products and Services Mutual Supply and Guarantee Agreement are aviation products peculiar to the industry, the Government-prescribed Price will generally apply; (ii) if the Government-prescribed Price does not apply to the specific products or services, according to the Market Price; (iii) if there is no Market Price, apply the Contractual Price.

LETTER FROM THE BOARD

Note: please refer to detailed definitions of “Government-prescribed Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular.

Payment : The parties will enter into separate contracts to set out the specific terms and conditions (including the payment terms) for the provision of products/services according to the principles and scope provided for under the Products and Services Mutual Supply and Guarantee Agreement.

Details of the other renewed framework agreements relating to the other existing continuing connected transactions between the Group and AVIC Group and the proposed annual caps in respect thereof, which are exempt from Independent Shareholders’ approval, can be referred to the announcement of the Company dated 26 August 2014.

3. Historical Annual Caps and Historical Annual Amounts of the Non-exempt Continuing Connected Transactions for the Preceding Periods ended 30 June 2014

Set out below are the historical annual caps of the Non-exempt Continuing Connected Transactions for the preceding periods ended 30 June 2014:

Agreement	Historical annual caps for the year ended/ending 31 December (RMB Millions)		
	2012	2013	2014
Expenditure of the Group			
Existing Mutual Supply of Products Agreement	8,749	11,615	15,489
AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement	645	818	1,039
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	–	27 (from 13 November to 31 December)	65
Revenue of the Group			
Existing Mutual Supply of Products Agreement	15,631	21,772	30,339
AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement	80	104	135

LETTER FROM THE BOARD

Agreement	Historical annual caps for the year ended/ending 31 December (RMB Millions)		
	2012	2013	2014
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	–	170 (from 13 November to 31 December)	830
Guarantees provided by the Group			
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	–	0	100

Set out below are the historical annual amounts and utilization rates of the Non-exempt Continuing Connected Transactions for the preceding periods ended 30 June 2014:

Agreement	Annual amount and utilization rates		
	for the year ended 31 December 2012 (RMB million/%)	for the year ended 31 December 2013 (RMB million/%)	for the six months ended 30 June 2014 (RMB million/%)
Expenditure of the Group			
Existing Mutual Supply of Products Agreement	8,188/93.59%	9,370/80.67%	5,076/32.77%
AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement	491/76.12%	556/67.97%	349/33.59%
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	–	2/7.41% (from 13 November to 31 December)	4/6.15%
Revenue of the Group			
Existing Mutual Supply of Products Agreement	12,476/ 79.82%	12,978/ 59.61%	7,121/23.47%
AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement	74/92.5%	72/69.23%	20/14.81%

LETTER FROM THE BOARD

Agreement	Annual amount and utilization rates		
	for the year ended 31 December 2012 (RMB million/%)	for the year ended 31 December 2013 (RMB million/%)	for the six months ended 30 June 2014 (RMB million/%)
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	–	157/92.35% (from 13 November to 31 December)	447/53.86%
 Guarantees provided by the Group			
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	–	0	0

Note: during the periods, no guarantees have been provided to Hafei Aviation Group by the Group

LETTER FROM THE BOARD

4. Proposed Annual Caps for the Non-exempt Continuing Connected Transactions

4.1 Proposed annual caps for the Non-exempt Continuing Connected Transactions for the three financial years ending 31 December 2017

Based on the factors set out in paragraph 4.2 under Section I of this circular, the Directors have estimated the annual caps for each of the Non-exempt Continuing Connected Transactions for each of the three financial years ending 31 December 2015, 2016 and 2017.

Continuing Connected Transactions	Proposed annual caps			Cross-reference to this circular
	for the year ending 31 December			
	<i>(RMB Millions)</i>			
	2015	2016	2017	
Expenditure of the Group				
Mutual Supply of Products Agreement	16,882	18,310	21,023	Paragraph 2.1 under Section I
Products and Services Mutual Supply and Guarantee Agreement	1,100	1,400	1,700	Paragraph 2.2 under Section I
Revenue of the Group				
Mutual Supply of Products Agreement	28,996	33,345	38,347	Paragraph 2.1 under Section I
Products and Services Mutual Supply and Guarantee Agreement	1,500	1,800	2,200	Paragraph 2.2 under Section I

4.2 Basis of determination of the proposed annual caps

a. Mutual Supply of Products Agreement

The proposed annual caps for the expenditure transactions under the Mutual Supply of Products Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of provision of products by AVIC Group to the Group; (ii) considering the PRC government's focus on promoting and stimulating the development of national strategic emerging industries (e.g. the aviation industry), the market expansion due to opening up of low airspace in China, the industry forecast of rapid development of aviation entire aircraft and aviation parts and components businesses and an expected increase in the sales orders for aviation equipment and products to be received by the Group in the next three financial years, the Group will demand more ancillary aviation parts and components from AVIC Group, and (iii) to enhance the Group's competitiveness in both the domestic and international markets, the Group will continuously develop new models with high value, resulting in the acquisition of aviation parts of high technology content and high value from AVIC Group.

LETTER FROM THE BOARD

The proposed annual caps for the revenue transactions under the Mutual Supply of Products Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products by the Group to AVIC Group; (ii) with the estimated increase in the sales of the Group to AVIC Group resulting from the expected rapid growth of China aviation industry in the forthcoming three financial years due to the development of China's national economy and the aviation industry; (iii) current sales order status of the Group, especially the development and production of new models, which may lead to an increase in the product types and volumes of the Group and a corresponding increase in transaction volumes between the Group and AVIC Group; and (iv) the potential increase in the number of enterprises injected to the Group following the completion of the assets reorganizations of AVIC Avionics and Hafei Aviation, which may lead to an increase in the sales of the Group's products to AVIC Group.

b. Products and Services Mutual Supply and Guarantee Agreement

The proposed annual caps for the expenditure transactions under the Products and Services Mutual Supply and Guarantee Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products and services by AVIC Avionics Group and Hafei Aviation Group to the Group; (ii) the estimated increase in the parts and components of aviation products and the ancillary services provided to the Group due to the potential increase in the numbers of the subsidiaries to be injected into AVIC Avionics and Hafei Aviation following the completion of their assets reorganizations; and (iii) the estimated growth of the aviation products business of the Group and hence the increase in the demand for parts and components of aviation products and ancillary services.

The proposed annual caps for the revenue transactions under the Products and Services Mutual Supply and Guarantee Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products and services by the Group to AVIC Avionics Group and Hafei Aviation Group; (ii) the estimated increase in the demand for parts and components of aviation products and the ancillary services of AVIC Avionics Group and Hafei Aviation Group from the Group in light of the potential growth in the businesses of AVIC Avionics and Hafei Aviation; and (iii) the estimated increase in the parts and components of aviation equipment and products and the ancillary services supplied by the Group due to the potential increase in the numbers of the subsidiaries injected into AVIC Avionics and Hafei Aviation following the completion of their assets reorganizations.

c. Justifications of the Growth Rate of the Proposed Annual Caps

In view of the rapid development of the PRC aviation industry as well as the internal reorganization of the Group and the expected large orders and delivery of certain new aviation products in the previous three years ending 31 December 2014, the

LETTER FROM THE BOARD

growth rate of the historical annual caps for the three years ending 31 December 2014 is higher than that of the proposed annual caps for the three years ending 31 December 2017. As a result of the delay in the orders and delivery of certain new aviation products of the Group due to market changes, however, the utilization rates of the historical annual caps under the Mutual Supply of Products Agreement and the Products and Services Mutual Supply and Guarantee Agreement were relatively low, particularly for the year ended 31 December 2013. Furthermore, as a larger amount of aviation equipment and products under the Mutual Supply of Products Agreement and the Products and Services Mutual Supply and Guarantee Agreement are normally delivered at year end, the actual annual amounts for both the expenditure and revenue transactions of the Group for the year 2014 are still expected to grow and would be higher than the previous years with a higher utilization rate of the annual cap for the year 2014.

After the batch delivery of certain new aviation products is expected to be completed by 2014, the transactions between the Group and AVIC Group, those among the Group, Hafei Aviation Group and AVIC Avionics Group for the three years ending 31 December 2017 are expected to stabilize at a level lower than the growth in year 2014. As a result, for the three years ending 31 December 2017, the growth rate is expected to grow within the scope of the average historical annual growth rate of 15% in respect of the Group's continuing connected transactions after taking into consideration of the future business development.

5. Reasons for and Benefits of Continuing the Non-exempt Continuing Connected Transactions

The above Non-exempt Continuing Connected Transactions are and will be conducted in the ordinary and usual course of business of the Group. Such transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company. Due to the historical connection and long-term cooperation relationship between the Group and AVIC Group, and our connected subsidiaries AVIC Avionics Group and Hafei Aviation Group, the Directors (excluding the independent non-executive Directors) consider that it is beneficial to continue the relevant continuing connected transactions by way of renewal of the Existing Mutual Supply of Products Agreement and entering into a new combined Products and Services Mutual Supply and Guarantee Agreement as set out in Section I above, as these transactions have facilitated and will continue to facilitate the overall operations and growth of the Group's business. In addition, AVIC, AVIC Avionics, Hafei Aviation and their respective associates generally have better understanding of the Group's business and can better ensure the standards of technology, quality, delivery and technical support of the products to meet the Group's requirements. Further, the transactions contemplated under the new framework agreements will be conducted on normal commercial terms (or better to the Group) or on terms not less favourable than those offered to or obtained from Independent Third Parties under comparable market conditions, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed annual caps are also fair and reasonable. In addition, Shareholders should note that the proposed caps should not be construed as an assurance or forecast by the Company of the future revenue of the Group.

LETTER FROM THE BOARD

The Independent Board Committee comprising independent non-executive Directors will give their view on the Non-exempt Continuing Connected Transactions and the proposed annual caps in respect thereof after considering the advice from Anglo Chinese, and their view will be set out in this circular.

II. DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS: REVISION OF THE TERM OF THE EXISTING FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. Background

References are made to the announcement of the Company dated 25 March 2013 and the circular dated 13 May 2013 in relation to, among other things, the continuing connected transactions of the Company contemplated under the Existing Financial Services Framework Agreement.

The terms of the Existing Financial Services Framework Agreement are effective from 14 June 2013 for a term of three years, which is different from the term of most of the existing framework agreements for continuing connected transactions of the Company. For the purpose of facilitating the unified management of the continuing connected transactions, the Company proposes that the Existing Financial Services Framework Agreement to be terminated on 31 December 2014, and replaced by the Proposed Financial Services Framework Agreement with a term of three years commencing from 1 January 2015 and ending 31 December 2017. Except for the revised three-year term commencing from 1 January 2015 to 31 December 2017, the terms and conditions of the Proposed Financial Services Framework Agreement are the same as the Existing Financial Services Framework Agreement.

2. The Proposed Financial Services Framework Agreement

2.1 Date

26 August 2014

2.2 Effective Date and Term

Three years, commencing from 1 January 2015 to 31 December 2017

2.3 Parties

- (a) the Company; and
- (b) AVIC Finance

2.4 Major Terms

Pursuant to the Proposed Financial Services Framework Agreement, AVIC Finance has agreed to provide the Group with the Deposit Services, the Loan Services, the Settlement Services, the Guarantee Services and the Other Financial Services.

LETTER FROM THE BOARD

(a) *Deposit Services*

- (i) Interest rates for the Group's deposits with AVIC Finance shall not be lower than (a) the minimum interest rate promulgated by the PBOC for the same type of deposit services; (b) the interest rates for the same type of deposits offered by major commercial banks of the PRC to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other group member of AVIC Group;
- (ii) The maximum outstanding daily balance of deposit amount (including accrued interests) placed by the Group with AVIC Finance shall not be more than RMB3 billion; and
- (iii) If AVIC Finance is unable to repay the Group's deposits, the Company has the right to terminate the Proposed Financial Services Framework Agreement and to set off the deposit due to the Group from AVIC Finance against the outstanding loan due to AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall compensate the Group for the full amount of the loss suffered by the Group and the Group is entitled to terminate the Proposed Financial Services Framework Agreement.

(b) *Loan Services*

- (i) Loan services are provided by AVIC Finance to the Group on normal commercial terms. For Loan Services application which fulfills the credit conditions imposed by AVIC Finance, no security over the assets of the Group or pledge of rights or other guarantee will be required by AVIC Finance. For Loan Services applications which do not fulfill the credit conditions imposed by AVIC Finance, the parties shall enter into separate agreements regarding the provision of the aforesaid Loan Services, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the stock exchanges on which they are listed; and
- (ii) Interest rates charged by AVIC Finance for the provision of the Loan Services to the Group shall not be higher than (a) the maximum loan interest rates promulgated by the PBOC for the same type of loan services; (b) the interest rates for the same type of loans provided by AVIC Finance to any other group member of AVIC Group with the same credit rating; and (c) the interest rates offered by major commercial banks in the PRC for the same type of loan services.

LETTER FROM THE BOARD

(c) *Settlement Services*

- (i) Settlement Services mean the services provided by AVIC Finance to the Group in relation to effecting any payment out of any fund held by AVIC Finance or accepting payment of fund to the Group, in both cases on the Group's behalf and to the order of the Group; and
- (ii) The fees for the Settlement Services shall not be higher than (a) the fees then charged by major commercial banks in the PRC for the same type of services provided to the Group; and (b) the fees then charged by AVIC Finance for the same type of services provided to any other group member of AVIC Group.

(d) *Guarantee Services*

Guarantee Services mean the services provided by AVIC Finance to the Group in relation to the financing, finance lease, tender, contract performance of the Group and no counter-guarantee is required. In the event that a counter-guarantee is required from the Group, the parties shall enter into separate agreements, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the stock exchanges on which they are listed.

(e) *Other Financial Services*

- (i) AVIC Finance will, in accordance with the Company's instructions and requests, provide to the Group the Other Financial Services including but not limited to bill acceptance, discount services and factoring services of accounts receivable. Before AVIC Finance providing to the Group the Other Financial Services, AVIC Finance and the relevant member of the Group are required to negotiate and enter into separate agreement(s); and
 - (ii) The fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than (a) the maximum fee promulgated by PBOC for the same type of financial services (if applicable); (b) the fees charged by major commercial banks in the PRC for the same type of services; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other group member of AVIC Group with the same credit rating.
- (f) The Group may obtain financial services from the other financial institutions in addition to those provided by AVIC Finance pursuant to the Proposed Financial Services Framework Agreement.

LETTER FROM THE BOARD

3. Proposed Caps and Rationale

Deposit Services

The Directors estimate that the proposed cap in respect of the maximum daily outstanding balance of deposits (including the accrued interest) with AVIC Finance during the term of the Proposed Financial Services Framework Agreement (i.e. from 1 January 2015 to 31 December 2017) is RMB3 billion. The proposed cap is determined with reference to, among other things, the following factors:

- (1) the control of financial risks when selecting AVIC Finance as one of the Group's providers of financial services;
- (2) the increased future business development plans of the Group's aviation entire aircraft and aviation parts and components, i.e. exploring the general aviation market for certain aircraft series and developing certain proprietary researched and manufactured new aviation products etc., which are expected to bring in more orders and sales revenue, thereby contributing to increased funds and financial services needs of the Group during the term of the Proposed Financial Services Framework Agreement, following the completion of various reorganization exercises and acquisitions undertaken by the Group recently;
- (3) it is also expected that there will be an increase in the funds of the Company's subsidiaries deposited with AVIC Finance after their approval procedures (e.g. internal approval procedures including board and shareholders' meetings, as well as the requirements to be fulfilled required by relevant authorities in the PRC) have been completed in the coming years;
- (4) the historical maximum daily outstanding balances of deposits (including the accrued interest) which was set at the same level i.e. RMB3 billion for each financial year under the original term of the Existing Financial Services Framework Agreement. It is estimated with the expected increase in future business in the next three financial years, the maximum daily outstanding balances of deposits of RMB3 billion is a reasonable estimate for the next three financial years considering the reasons for the potential increase in deposits as stated in (2) and (3) above. The historical maximum outstanding daily balances of deposits (including interests accrued thereon) of the Group; and the maximum outstanding daily balances of deposits (including interests accrued thereon)

LETTER FROM THE BOARD

placed by the Group with AVIC Finance for the financial years ended 31 December 2012 and 2013 respectively and for the six months ended 30 June 2014 are set out as follows:

	Year ended 31 December 2012 (RMB million)	Year ended 31 December 2013 (RMB million)	Six months ended 30 June 2014 (RMB million)
Maximum outstanding daily balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance	1,095	1,563	847

- (5) The benefits to be derived from the provision of the Deposit Services by AVIC Finance to the Group including, the ability to obtain preferential deposit rate(s) offered by AVIC Finance, the ability to obtain other financial services by AVIC Finance in a more favorable terms and to supplement the funds needs of the subsidiaries of the Company and therefore improve the funds use efficiency of the Group.

Other Financial Services

The Directors estimate that the proposed annual cap in respect of provision of the Other Financial Services by AVIC Finance to the Group for each year during the term of the Proposed Financial Services Framework Agreement (i.e. from 1 January 2015 to 31 December 2017) is RMB1 billion. The proposed cap is determined with reference to, among other things, the following factors:

- (1) the overall capital management strategy of the Group;
- (2) the increased future business development and financial services needs of the Group during the term of the Proposed Financial Services Framework Agreement, following the completion of various reorganization exercises and acquisitions undertaken by the Group recently;
- (3) The business of the Other Financial Services mainly relates to bill acceptance, discount services and factoring services of accounts receivable, etc., which promotes the recovery of capital of the subsidiaries of the Group and improves the funds use efficiency; and

LETTER FROM THE BOARD

- (4) The Other Financial Services to be provided by AVIC Finance to the Group are on more favorable terms as compared to the terms offered by the other financial institutions under the same conditions, and therefore reduce the overall financial expenses of the Group.

The historical amounts of the Other Financial Services provided by AVIC Finance to the Group for the two financial years ended 31 December 2013 and the six months ended 30 June 2014 are as follows:

	Year ended 31 December 2012 (RMB million)	Year ended 31 December 2013 (RMB million)	Six months ended 30 June 2014 (RMB million)
The provision of the Other Financial Services by AVIC Finance to the Group	–	455	78

4. Reasons for and benefits expected from the Proposed Financial Services Framework Agreement

The reasons for the Group to enter into the Proposed Financial Services Framework Agreement with AVIC Finance are as follows:

- (a) The interest rates on the Deposit Services, the Loan Services and the Other Financial Services offered by AVIC Finance to the Group will be equal to or more favorable, depending on the case, than those offered to the Group by major commercial banks in the PRC.
- (b) AVIC Finance is regulated by the PBOC and the CBRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, capital risks are reduced through the introduction of risk control measures.
- (c) AVIC Finance's understanding of the Group's operations will enable it to provide more expedient and efficient services than major commercial banks in the PRC.
- (d) The customers of AVIC Finance are limited to the group members of AVIC Group pursuant to the relevant regulations of the PBOC and the CBRC; further, AVIC provides undertakings and guarantees in favour of the Company in respect of the provision of financial services by AVIC Finance under the Proposed Financial Services Framework Agreement. Both of the aforementioned factors will ensure more control by AVIC Finance of the risks that it may be exposed to as compared with other financial entities.

LETTER FROM THE BOARD

The Directors (excluding the independent non-executive Directors) believe that the terms of the Proposed Financial Services Framework Agreement are fair and reasonable, the proposed transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Group and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the proposed caps in respect of provision of the Deposit Services are fair and reasonable.

III. GENERAL INFORMATION

1. Information of the Company

The Company is a joint stock limited liability company incorporated in the PRC, whose shares are listed on the Hong Kong Stock Exchange. As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company holding 51.26% equity interest in the Company. The Company is mainly engaged in the research and development, manufacture and sales of civil aviation products.

2. Information of 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 (including but are not limited to mechanical equipment).

3. Information of AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange. AVIC Avionics is a 43.22% owned subsidiary of the Company, which is mainly engaged in the manufacture of avionics products and related accessories.

4. Information of Hafei Aviation

Hafei Aviation is a joint stock limited liability company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange. Hafei Aviation is a 35.10% owned subsidiary of the Company, which is mainly engaged in the development, research and manufacture of helicopter products.

5. Information of AVIC Finance

AVIC Finance was established on 8 April 2007 as a limited liability company in Beijing, the PRC. It is licensed by the CBRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrustment loans and entrustment investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory services, credit certification and other advisory agency services and security to member companies, and other financial services as may be approved by the CBRC.

LETTER FROM THE BOARD

As at 30 June 2014, the registered capital of AVIC Finance was RMB2.5 billion. AVIC Finance also had a total asset value of approximately RMB30,924 million which included liquid assets (such as bank deposits, central bank reserves, short-term loans, central bank notes and treasury bonds) of approximately RMB27,260 million. It has secured lines of credit of an amount up to RMB13,750 million from several major commercial banks in the PRC.

Based on the audited accounts of AVIC Finance prepared in accordance with PRC accounting principles, AVIC Finance's before-tax profits were approximately RMB697.5674 million, RMB837.5179 million, RMB919.6698 million and RMB547.4974 million for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, respectively, and its after-tax profits were approximately RMB532.5814 million, RMB646.2651 million, RMB697.4232 million and RMB417.3190 million, respectively, representing an annual return on equity of about 26.6%, 32.31%, 27.82% and 33.38% for the same periods. As at 31 December 2011, 2012 and 2013 and 30 June 2014, the current ratios of AVIC Finance were approximately 52.67%, 58.11%, 59.20% and 27.07%, respectively, and its capital adequacy ratios were approximately 15.52%, 15.45%, 16.58% and 16.61%, respectively, which are all in compliance with the requirement of the CBRC with regards to the capital adequacy ratio applicable to the finance companies of enterprise groups.

IV. HONG KONG LISTING RULES IMPLICATIONS

(i) Non-exempt Continuing Connected Transactions and the proposed annual caps in respect thereof

AVIC is a controlling shareholder of the Company holding 51.26% equity interest in the Company. AVIC Avionics and Hafei Aviation are directly and indirectly owned as to 34.16% and 26.93% by AVIC (excluding the interest held by AVIC through the Company). Both AVIC Avionics and Hafei Aviation are subsidiaries of the Company, and as AVIC holds more than 10% equity interests in each of them, they are connected subsidiaries of the Company under the Hong Kong Listing Rules. Accordingly, each of AVIC and AVIC Avionics and Hafei Aviation is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

As the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) for the Non-exempt Continuing Connected Transactions contemplated under each of the new framework agreements, namely, (i) the Mutual Supply of Products Agreement, (ii) the Products and Services Mutual Supply and Guarantee Agreement, are more than 5%, the Non-exempt Continuing Connected Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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

LETTER FROM THE BOARD

(ii) Discloseable and continuing connected transactions: Revision of the term of the Existing Financial Services Framework Agreement

As AVIC is a controlling shareholder of the Company and AVIC Finance is a subsidiary of AVIC, AVIC Finance is a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the Proposed Financial Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules.

As (i) the Loan Services and the Guarantee Services are provided on normal commercial terms and no security over the assets of the Group will be granted in respect of the provision of financial assistance; and (ii) the Settlement Services will fall within the de minimis threshold as stipulated under the Hong Kong Listing Rules, the Loan Services, the Guarantee Services and the Settlement Services are exempt from reporting, announcement and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

As the highest of the applicable test percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the proposed annual caps for the Other Financial Services is more than 0.1% but less than 5%, the proposed annual caps for Other Financial Services are subject to the reporting and announcement requirements, but are exempt from the Independent Shareholders' approval requirement.

Since the highest of the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the proposed cap for the maximum outstanding daily balance of deposits (including accrued interest) for the Deposit Services is more than 5% but less than 25%, the Deposit Services are subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules. Meanwhile, the Deposit Services also constitute discloseable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules and are therefore also subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

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

V. EGM

For the purposes of considering and, approving the resolutions to be proposed at the EGM in relation to, among other things, (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017 and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the

LETTER FROM THE BOARD

Deposit Services under the Proposed Financial Services Framework Agreement, the EGM will be held at 9:00 a.m. on Thursday, 20 November 2014 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC. The notice of the EGM is set out on pages 53 to 55 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed herewith and are also published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Thursday, 30 October 2014. 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 and voting in person at the EGM or any adjournment thereof (as the case may be) should you wish.

AVIC and its associate(s) 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 in relation to (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017 and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement. As at the Latest Practicable Date, AVIC and its associate(s) 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 after having made all reasonable enquiries, apart from AVIC and its associates, no other Shareholder has a material interest in the Non-exempt Continuing Connected Transactions and the Proposed Financial Services Framework Agreement and therefore no other Shareholder will be required to abstain from voting on the ordinary resolutions to approve the Non-exempt Continuing Connected Transactions and the proposed annual caps in respect thereof, and the Proposed Financial Services Framework Agreement and the proposed cap for the Deposit Services thereunder 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.

VI. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 29 to 30 of this circular.

The Directors and the Independent Board Committee, having taken into account the advice of Anglo Chinese, consider that (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017 and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement are in the ordinary and usual

LETTER FROM THE BOARD

course of business of the Group, 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.

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)

26 September 2014

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 26 September 2014 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017 and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement 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 abovementioned matters.

We wish to draw your attention to the letter from the Board set out on pages 7 to 28 of the Circular and the letter from Anglo Chinese set out on pages 31 to 49 of the Circular.

Having considered the advice given by Anglo Chinese, we are of the opinion that (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017 and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement are in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider (i) the framework agreements in respect of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017 and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Deposit Services under the Proposed Financial Services Framework Agreement 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,

Lau Chung Man, Louis,

Liu Renhuai

Independent Non-executive Directors

* *For identification purpose only.*

LETTER FROM ANGLO CHINESE

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

ANGLO CHINESE

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

財務顧問有限公司
英高

*To the Independent Board Committee
and the Independent Shareholders*

26 September 2014

Dear Sirs,

**I. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND THE
PROPOSED ANNUAL CAPS IN RESPECT THEREOF;
AND
II. DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:
REVISION OF THE TERM OF THE EXISTING FINANCIAL SERVICES
FRAMEWORK AGREEMENT**

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 certain framework agreements including the proposed terms of the Non-Exempt Continuing Connected Transactions and the proposed annual caps thereof for the three financial years ending 31 December 2017 and the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement. Details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 26 September 2014, 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.

As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company holding 51.26% equity interest in the Company. AVIC Avionics and Hafei Aviation are directly and indirectly owned as to 34.16% and 26.93% by AVIC, respectively (excluding the interests of AVIC Avionics and Hafei Aviation held by AVIC through the Company). As both AVIC Avionics and Hafei Aviation are subsidiaries of the Company and AVIC holds more than 10% equity interests in each of them, they are connected subsidiaries of the Company under the Hong Kong Listing Rules. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVIC, AVIC Avionics and Hafei Aviation is a connected person of the Company and the Non-Exempt Continuing Connected Transactions constitute continuing connected transactions of the

LETTER FROM ANGLO CHINESE

Company. As each of the highest applicable size test percentage ratios in relation to the Non-Exempt Continuing Connected Transactions is more than 5%, such transactions will be subject to, among other things, approval by the Independent Shareholders. AVIC Finance is a subsidiary of AVIC and therefore a connected person of the Company and the Proposed Financial Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company. As the highest applicable size test percentage ratios in respect of the proposed cap for the maximum daily outstanding balance of deposits (including accrued interest) for the Deposit Services is more than 5% but less than 25%, the Deposit Services also constitute discloseable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting, announcement and the independent shareholders' approval requirements under the Hong Kong Listing Rules.

An Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders on the proposed terms of the Non-Exempt Continuing Connected Transactions and the proposed annual caps thereof for the three financial years ending 31 December 2017 and the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement.

Votes of the Independent Shareholders at the EGM shall be taken by poll. As AVIC has material interest in the Non-Exempt Continuing Connected Transactions, AVIC and its associates will abstain from voting at the EGM.

BASIS OF OUR OPINION

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

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

LETTER FROM ANGLO CHINESE

have we conducted any form of independent in-depth investigation into the business and affairs or the prospects of the Company, AVIC, AVIC Avionics, Hafei Aviation, AVIC Finance 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. Within the past two years from the Latest Practicable Date, we were engaged as the independent financial adviser by the Company for one occasion, details of which were set out in the circular of the Company dated 13 May 2013. Given our independence role and normal professional fees received from the Company under the past engagement, we consider it would not affect our independence to form our opinion in this letter.

PRINCIPLE FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transactions and the Proposed Financial Services Framework Agreement, we have taken into account the following principal factors:

Background of the Non-Exempt Continuing Connected Transactions and the Proposed Financial Services Framework Agreement

Information of AVIC Group

AVIC is held and controlled by the State Council of the PRC and is mainly engaged in the development and manufacturing of aviation products and non-aviation products, which include but not limited to mechanical equipment.

Information of the Company

As at the Latest Practicable Date, the Company is held as to 51.26% by AVIC, the controlling shareholder of the Company. As a member of AVIC Group, the Company is mainly engaged in the research, development, manufacture and sales of civil aviation products.

Information of AVIC Avionics

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

Information of Hafei Aviation

Hafei Aviation is a joint stock limited liability company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, Hafei Aviation is a 35.10% owned subsidiary of the Company, which is mainly engaged in the development, research and manufacture of helicopter products.

LETTER FROM ANGLO CHINESE

Information of AVIC Finance

AVIC Finance was established on 8 April 2007 as a limited liability company in Beijing, the PRC. It is licensed by the CBRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrustment loans and entrustment investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory services, credit certification and other advisory agency services and security to member companies, and other financial services as may be approved by the CBRC. AVIC Finance is licensed to provide to the Group all services as stipulated under the Proposed Financial Services Framework Agreement.

As at 30 June 2014, the registered capital of AVIC Finance was RMB2.5 billion. AVIC Finance has secured lines of credit of an amount up to RMB13,750 million from several major commercial banks in the PRC. Set out below is a summary of the financial information of AVIC Finance based on its audited accounts prepared in accordance with PRC accounting principles for each of the three years ended 31 December 2011, 2012 and 2013 and the unaudited management account for the 6 months ended 30 June 2014:

	For the year ended 31 December			For the six months ended 30 June
	2011	2012	2013	2014
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(audited)	(unaudited)
Net interest income	750	877	928	523
Profit before taxation	698	838	920	548
Profit after taxation	533	646	697	417

LETTER FROM ANGLO CHINESE

	As at 31 December			As at 30
	2011	2012	2013	June
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(audited)	(unaudited)
Cash and deposits in central bank (<i>Note 1</i>)	3,397	3,743	4,863	3,866
Loans to companies within AVIC Group	15,545	17,073	21,264	22,397
Cash and balances with other financial institutions	9,992	14,780	18,823	2,949
Other assets	1,473	1,602	2,740	1,712
Total assets	30,407	37,199	47,690	30,924
Deposits from companies within AVIC Group	27,266	33,882	43,378	25,544
Deposits from other financial institutions	40	85	13	1,148
Other liabilities	388	346	505	517
Liabilities	27,694	34,313	43,896	27,209
Equity	2,713	2,886	3,794	3,715
Current ratio	52.67%	58.11%	59.20%	27.07%
Capital adequacy ratio				
(<i>Note 2</i>)	15.52%	15.45%	16.58%	16.61%

Notes:

1. Cash and deposits in central bank mainly represent the mandatory proportion of the deposits AVIC Finance received with PBOC.
2. Capital adequacy ratio is a measurement of capital position of a financial institution in respect of its exposure to risks such as credit risk, market risk and operational risk, and is defined as the financial institution's capital base divided by its risk-weighted assets.

As a licensed financial institution in the PRC, AVIC Finance is subject to supervisions by PBOC and CBRC, which includes regular examination of the audited financial statements and other relevant materials required to be filed by AVIC Finance as well as on-site inspections and interviews with the senior management of AVIC Finance. According to Administration of the Finance Companies of Enterprises

LETTER FROM ANGLO CHINESE

Groups Procedures (企業集團財務公司管理辦法) of the PRC and actual practice in execution, AVIC Finance are required to deposit a mandatory proportion of the deposits they have received with PBOC, and must comply with, among others, the following ratio requirements:

	Requirements on PRC licensed finance companies	AVIC Finance			As at 30 June 2014
		As at 31 December			
		2011	2012	2013	
Capital adequacy ratio	≥10%	15.52%	15.45%	16.58%	16.61%
Inter-bank borrowing balances shall not exceed total capital	≤100%	0.00%	0.00%	4.59%	28.44%
Total amount of outstanding guarantees shall not be more than the total capital	≤100%	0.23%	0.05%	0.00%	0.00%
Total amount of investment to total capital ratio	≤70%	52.80%	40.59%	67.12%	47.17%
Self-owned fixed assets to total equity ratio	≤20%	0.14%	0.08%	0.11%	0.09%

We have reviewed the relevant regulations. As shown in the table above, AVIC Finance complied with all the ratio requirements as at 31 December 2011, 2012 and 2013 and 30 June 2014. Up to the date hereof, there is no record of non-compliance with relevant laws, rules and regulations of the PRC on AVIC Finance.

AVIC Finance has established stringent internal control measures to ensure effective risk management and compliance with the relevant laws and regulations including corporate governance structure, internal rules and policies and standard operation procedures, as well as intra-group check-and-balance mechanisms. We understand that AVIC Finance has implemented regular internal audit procedures to review the execution and compliance with the internal rules and policies. In addition, CBRC performs regular on-spot inspections on finance companies of enterprises groups to check the implementation of their internal control and risk management systems. Since its establishment, there was no major issue on AVIC Finance raised by CBRC.

We have reviewed the corporate governance structure, internal rules and policies and standard operation procedures, and are of the view that there exist appropriate internal control measures in AVIC Finance to safeguard the interest of the Independent Shareholders.

LETTER FROM ANGLO CHINESE

Background

References are made to the announcement of the Company dated 30 August 2011 and the circular dated 23 September 2011 in relation to, among other things, the continuing connected transactions of the Group contemplated under (1) the Existing Mutual Supply of Products Agreement, (2) the Existing Mutual Provision of Services Agreement, (3) the Existing Trademarks And Technology Cooperation Framework Agreement, and (4) the Land Use Rights and Properties Leasing Agreement, as well as (5) the AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement. At the extraordinary general meeting of the Company held on 9 December 2011, the independent Shareholders had approved the non-exempt connected transactions of the aforementioned continuing connected transactions, including the continuing connected transactions contemplated under the Existing Mutual Supply of Products Agreement and the Existing Mutual Provision of Services Agreement as well as the expenditure transactions under the AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement, and their respective annual caps for the three financial years ending 31 December 2014.

Reference is also made to the announcement of the Company dated 18 December 2013 in relation to the continuing connected transactions between the Group and Hafei Aviation Group contemplated under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement, upon the asset reorganisation of Hafei Aviation.

As the terms of each of the aforementioned framework agreements governing the relevant existing continuing connected transactions and their respective annual caps will expire on 31 December 2014 (except for the Land Use Rights and Properties Leasing Agreement), the Company proposes to (1) enter into new framework agreements and supplemental agreement (for the Land Use Rights and Properties Leasing Agreement only) based on the original framework agreements to govern such existing continuing connected transactions; and (2) set their respective annual caps for each of the three financial years ending 31 December 2017. Given that the continuing connected transactions between the Group and Hafei Aviation Group, and those between the Group and AVIC Avionics Group are similar, and there are a large amount of ancillary transactions between AVIC Avionics Group and Hafei Aviation Group, for the convenience of management, the Company proposes to sign one combined agreement for the mutual supply of products and services and provision of guarantee i.e. the Products and Services Mutual Supply and Guarantee Agreement together with AVIC Avionics and Hafei Aviation, in order to better monitor all the continuing connected transactions after completion of the reorganisation, and apply for an overall cap.

References are also made to the announcement of the Company dated 25 March 2013 and the circular dated 13 May 2013 in relation to, among other things, the continuing connected transactions of the Company contemplated under the Existing Financial Services Framework Agreement.

The terms of the Existing Financial Services Framework Agreement are effective from 14 June 2013 for a term of three years, which is different from the term of most of the existing framework agreements for continuing connected transactions of the Company. For the purpose of facilitating the unified management of the continuing connected transactions, the Company proposes that the Existing Financial Services Framework Agreement to be terminated on 31 December 2014, and replaced by the Proposed Financial Services Framework Agreement with a term of three years commencing from 1 January 2015 and ending 31 December 2017.

LETTER FROM ANGLO CHINESE

Principal terms of Mutual Supply of Products Agreement and the Products and Services Mutual Supply and Guarantee Agreement

On 26 August 2014, AVIC and the Company entered into the Mutual Supply of Products Agreement, pursuant to which AVIC Group and the Group to mutually provide manufacturing raw materials, parts and components, finished and semi-finished aviation products (including but not limited to helicopters, aircraft and aviation parts and components) involved in the production and operations of their respective aviation products as well as the sales and ancillary services related thereto. The supply of products by AVIC Group to the Group shall be made on terms not less favorable than those offered by Independent Third Parties under comparable conditions. The supply of products by the Group to AVIC Group shall be made on normal commercial terms. Terms of the Mutual Supply of Products Agreement are substantially the same as the Existing Mutual Supply of Products Agreement.

On 26 August 2014, AVIC Avionics, Hafei Aviation and the Company entered into the Products and Services Mutual Supply and Guarantee Agreement pursuant to which (1) the Group (including Hafei Aviation Group) agrees to provide aviation parts and components, raw materials, and related manufacturing, labour and guarantee services to AVIC Avionics Group; and meanwhile, AVIC Avionics Group agrees to provide aviation products, aviation parts and components and related manufacturing and labour services to the Group (including Hafei Aviation Group); and (2) the Group (including AVIC Avionics Group) agrees to provide aviation parts and components, raw materials and related manufacturing, labour and guarantee services to Hafei Aviation Group; and meanwhile, Hafei Aviation Group agrees to provide aviation products, aviation parts and components and related manufacturing and labour services to the Group (including AVIC Avionics Group). Terms of the Products and Services Mutual Supply and Guarantee Agreement are substantially the same as each of the existing AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement and the existing Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement.

Term

The term of each of the Mutual Supply of Products Agreement and the Products and Services Mutual Supply and Guarantee Agreement is three years commencing from 1 January 2015 to 31 December 2017.

Pricing

Under the Mutual Supply of Products Agreement, the products and ancillary services will be provided: (i) as most products under the Mutual Supply of Products Agreement are aviation products peculiar to the industry, the Government-prescribed Price will apply; (ii) if there is no Government-prescribed Price, then according to the Market Price; and (iii) if there is no Market Price, then according to the Contractual Price.

Under the Products and Services Mutual Supply and Guarantee Agreement, the products and/or services provided to or supplied by the Group are of a similar nature as those under the Mutual Supply of Products Agreement, i.e. a wide range of aviation products and raw materials as well as ancillary services, and therefore similar pricing policies are adopted as follows: (i) as most products under the Products and Services Mutual Supply and Guarantee Agreement are aviation products peculiar to the industry, the

LETTER FROM ANGLO CHINESE

Government-prescribed Price will generally apply; (ii) if the Government-prescribed Price does not apply to the specific products or services, according to the Market Price; (iii) if there is no Market Price, apply the Contractual Price.

Government-prescribed Price are the prices for aviation products in the PRC aviation industry as jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in particular transactions, which mainly comprise the relevant costs plus profit margin. The relevant costs will be proposed by the relevant manufacturing enterprises, subject to final confirmation by the relevant price control authorities and the industry regulators in the PRC. The existing prices of aviation products of the Group are mainly prescribed by the PRC government. Such Government-prescribed Price will not be published and is not publicly available.

Market Price is (i) where there are comparable market prices or standard charging rates entered into by independent third parties under normal commercial terms from transaction records of previous similar transactions, the transaction price shall be fixed at such price or standard; or (ii) if the transactions have no comparable market prices entered into between independent third parties, the transaction price shall be fixed by the price of non-connected transactions between the Company and independent third parties: (a) (as buyer) by tender procedures or choosing the most favorable price among at least 2 to 3 selected suppliers after taking into account the suppliers' manufacturing qualifications and delivery time, and business relationship between the Company and suppliers according to the Company's internal procurement policy or (b) (as supplier) negotiating with clients within prescribed price range after taking into account the transaction volumes and business relationship between the Company and purchasers according to the Company's internal sales policy. The Market Price will be determined or approved by the authorized departments/persons of the specific entities under the Group in particular transactions.

Contractual Price is the price to be agreed between the relevant parties for the provision of the aviation products, raw materials and related services (as the case may be), which shall be the Reasonable Costs incurred in providing the same plus not more than 8.0% of such costs, which is determined after taking into account the average profit margin of approximately 7% of the costs among industrial enterprises, the average profit margin in the aviation industry and the profits previously received by the Group or AVIC Group for similar products or services. The 8.0% margin used to determine the Contractual Price is the maximum profit margin and specific prices will be determined under separate agreements in each transaction.

The same ceiling of 8.0% margin was used in the Mutual Supply of Products Agreement, the Products and Services Mutual Supply and Guarantee Agreement because products and services under such agreements are of similar nature and specific prices will be determined under separate agreements in each transaction. Such ceiling was determined after arm's length negotiations between the Group and with each of AVIC, AVIC Avionics and Hafei Aviation with reference to the historical margin of the Group on similar products and service and industry profit margin, and given parties of Mutual Supply of Products Agreement, the Products and Services Mutual Supply and Guarantee Agreement can charge to counter parties on the same basis, we are of the view that such term is on normal commercial term, fair and reasonable.

The Group has established written internal procurement and sales policies to ensure individual transactions are conducted on normal commercial terms and in the interests of the Group. We have reviewed such policies and noted that under such policies, connected parties and independent third parties shall be

LETTER FROM ANGLO CHINESE

equally treated. For instance, as a purchaser, the Company shall consider at least 2 to 3 price quotations and choose the one most favourable to the Company. We are of the view that such policies could ensure the individual transactions are on normal commercial terms and fair and reasonable.

Pursuant to the requirements under chapter 14A of the Hong Kong Listing Rules, the independent non-executive Directors and the auditors of the Company will conducted annual review and issue confirmations regarding the non exempted continuing connected transactions each year. We have reviewed the annual reports of the Company for the three financial years ended 31 December 2013 whereby the independent non-executive Directors of the Company confirmed that the transactions conducted under the Existing Mutual Supply of Products Agreement, the Existing AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement and the Existing Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement as well as the deposit services under the Existing Financial Services Framework Agreement during such period were entered into in accordance with such framework agreements on terms that are fair and reasonable and in the interest of the Shareholders as a whole. We also noted in the annual reports that the Company's auditor has also confirmed that such transactions have been entered into in accordance with the relevant agreements and have not exceeded the relevant annual caps. Based on such compliance record, we are of the view that the Company's internal control measures are effective.

As most products under the Mutual Supply of Products Agreement and the Products and Services Mutual Supply and Guarantee Agreement are aviation products peculiar to the industry which the Government-prescribed Price will apply; the Market Price will be decided with reference to terms of comparable transactions with independent third parties; the Contractual Price will be decided with reference to historical profit margin of the Group and industry profit margin, we are of the view that the pricing mechanism is in line with the industry practice, on normal commercial terms and fair and reasonable.

Payment

Specific payment terms are to be agreed between the parties in each specific transaction contemplated under the Mutual Supply of Products Agreement and the Products and Services Mutual Supply and Guarantee Agreement.

Reasons for and benefits of the continuing of existing continuing connected transactions

Due to the historical connection and long-term cooperation relationship between the Group and AVIC Group, and its connected subsidiaries AVIC Avionics Group and Hafei Aviation Group, AVIC, AVIC Avionics, Hafei Aviation and their respective associates generally have better understanding of the Group's business and can better ensure the standards of technology, quality, delivery and technical support of the products to meet the Group's requirements. Therefore, we concur with the Directors that it is beneficial to continue the relevant continuing connected transactions by way of entering of the new framework agreements or entering into new ones and supplemental agreement, as these transactions have facilitated and will continue to facilitate the overall operations and growth of the Group's business.

LETTER FROM ANGLO CHINESE

Historical and proposed caps of the Non-Exempt Continuing Connected Transactions

Historical figures

Set out below are the historical annual caps and annual amounts of continuing connected transactions under the Existing Mutual Supply of Products Agreement, the existing AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement and the existing Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement for the preceding two financial years ended 31 December 2013 and the six months ended 30 June 2014:

Agreement	Historical annual caps for the year ended/ending 31 December		
	<i>(RMB Millions)</i>		
	2012	2013	2014
Expenditure of the Group			
Existing Mutual Supply of Products Agreement	8,749	11,615	15,489
AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement	645	818	1,039
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	N/A	27 (from 13 November to 31 December)	65
Revenue of the Group			
Existing Mutual Supply of Products Agreement	15,631	21,772	30,339
AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement	80	104	135
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	N/A	170 (from 13 November to 31 December)	830
Guarantees provided by the Group			
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	N/A	0	100

LETTER FROM ANGLO CHINESE

	Historical annual amount and utilization rate			for the
	for the year ended		change in	6 months
	31 December		annual	ended
	2012	2013	amount	30 June
	<i>(RMB</i>	<i>(RMB</i>		<i>(RMB</i>
	<i>million/%)</i>	<i>million/%)</i>	<i>(%)</i>	<i>million/%)</i>
Expenditure of the Group				
Existing Mutual Supply Agreement	8,188/93.59%	9,370/80.67%	14.4%	5,076/32.77%
Existing products and services mutual supply and guarantee agreements	491	558	13.6%	353
AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement	491/76.12%	556/67.97%	13.2%	349/33.59%
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	N/A	2/7.41% (from 13 November to 31 December)	N/A	4/6.15%
Revenue of the Group				
Existing Mutual Supply Agreement	12,476/ 79.82%	12,978/ 59.61%	4.0%	7,121/23.47%
Existing products and services mutual supply and guarantee agreements	74	229	209.5%	467
AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement	74/92.5%	72/69.23%	-2.7%	20/14.81%
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	N/A	157/92.35% (from 13 November to 31 December)	N/A	447/53.86%

The historical annual amounts for the expenditure transaction under the Existing Mutual Supply Agreement with AVIC for the year ended 31 December 2013 increased 14.4% comparing with that of the previous year, while the historical annual amounts for the revenue transaction under the Existing Mutual Supply Agreement with AVIC for the year ended 31 December 2013 increased 4% comparing with that of the previous year.

The historical annual amounts for the expenditure transaction under the two existing products and services mutual supply and guarantee agreements with AVIC Avionics and Hafei Aviation for the year ended 31 December 2013 increased by 13.6% comparing with that of the previous year while the historical annual amounts for the revenue transaction increased by 209.5%, which is mainly due to Hafei Aviation

LETTER FROM ANGLO CHINESE

became a connected subsidiary of the Company after the completion of the asset reorganisation on 13 November 2013 and the entering of the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreements.

Proposed annual caps

Set out below are the proposed annual caps for the Non-Exempt Continuing Connected Transactions for the three financial years ending 31 December 2015, 2016 and 2017:

Non-Exempt Continuing Connected Transactions	Existing caps		Proposed annual caps				
	For the year		For the year ending 31 December				
	ending 31		For the year ending 31 December				
	December		change	2016	change	2017	change
	2014	2015		2016		2017	
	<i>(RMB</i>	<i>(RMB</i>	<i>(%)</i>	<i>(RMB</i>	<i>(%)</i>	<i>(RMB</i>	<i>(%)</i>
	<i>million)</i>	<i>million)</i>	<i>(%)</i>	<i>million)</i>	<i>(%)</i>	<i>million)</i>	<i>(%)</i>
Expenditure of the Group							
Mutual Supply of Products Agreement	15,489	16,882	9.0%	18,310	8.5%	21,023	14.8%
Products and Services Mutual Supply and Guarantee Agreement	1,104 <i>(Note)</i>	1,100	-0.3%	1,400	27.3%	1,700	21.4%
Revenue of the Group							
Mutual Supply of Products Agreement	30,339	28,996	-4.4%	33,345	15.0%	38,347	15.0%
Products and Services Mutual Supply and Guarantee Agreement	965 <i>(Note)</i>	1,500	55.4%	1,800	20.0%	2,200	22.2%

Note: comprising the 2014 annual caps under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement and the AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement

The compounded annual growth rate of the expenditure transaction under Mutual Supply of Products Agreement based on the proposed annual caps for the three financial years ending 31 December 2017 of approximately 12% is general in line with the historical growth rate for such transactions and the compounded annual growth rate for revenue transaction of approximately 15% is higher than the historical growth rate for such transactions under the Existing Mutual Supply Agreement. Such growth rates indicated by the proposed annual caps were generally in line with the historical compounded annual growth rate of approximately 25% of the revenue of the Group for the three years ended 31 December 2013 and taken into account of the increase of the anticipated future demands for entire aircrafts and ancillary aviation parts and components, as well as the development and production of new models.

LETTER FROM ANGLO CHINESE

The compounded annual growth rate of the expenditure transaction under the Products and Services Mutual Supply and Guarantee Agreement based on the proposed annual caps for the three financial years ending 31 December 2017 is approximately 24%, which is higher than the historical growth rate for the expenditure transaction. The compounded annual growth rate of the proposed annual caps for the revenue transaction under Mutual Supply of Products Agreement of approximately 21% is generally in line with the historical compounded annual growth rate of approximately 25% of the revenue of the Group for the three years ended 31 December 2013. As advised by the Company, such growth rates indicated by the proposed annual caps were determined with reference to the increase of the anticipated future demands for ancillary aviation parts and components, due to the increase in the number of enterprises injected to the Group following the completion of the assets reorganisations of AVIC Avionics and Hafei Aviation.

Basis of determination of the proposed annual caps

The proposed annual caps for the expenditure transactions under the Mutual Supply of Products Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of provision of products by AVIC Group to the Group; (ii) considering the PRC government's focus on promoting and stimulating the development of national strategic emerging industries (i.e the aviation industry), the market expansion due to opening up of low airspace in China, the industry forecast of rapid development of aviation entire aircraft and aviation parts and components businesses and an expected increase in the sales orders for aviation equipment and products to be received by the Group in the next three financial years, the Group will demand more ancillary aviation parts and components from AVIC Group, and (iii) to enhance the Group's competitiveness in both the domestic and international markets, the Group will continuously develop new models with high value, resulting in the acquisition of aviation parts of high technology content and high value from AVIC Group.

The proposed annual caps for the revenue transactions under the Mutual Supply of Products Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products by the Group to AVIC Group; (ii) with the estimated increase in the sales of the Group to AVIC Group resulting from the expected rapid growth of China aviation industry in the forthcoming three financial years due to the development of China's national economy and the aviation industry; (iii) current sales order status of the Group, especially the development and production of new models, which may lead to an increase in the product types and volumes of the Group and a corresponding increase in transaction volumes between the Group and AVIC Group; and (iv) the potential increase in the number of enterprises injected to the Group following the completion of the assets reorganisations of AVIC Avionics and Hafei Aviation, which may lead to an increase in the sales of the Group's products to AVIC Group.

The proposed annual caps for the expenditure transactions under the Products and Services Mutual Supply and Guarantee Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products and services by AVIC Avionics Group and Hafei Aviation Group to the Group; (ii) the estimated increase in the parts and components of aviation products and the ancillary services provided to the Group due to the potential increase in the numbers of the subsidiaries to be injected into AVIC Avionics and Hafei Aviation following the completion of their assets reorganisations; and (iii) the estimated growth of the aviation products business of the Group and hence the increase in the demand for parts and components of aviation products and ancillary services.

LETTER FROM ANGLO CHINESE

The proposed annual caps for the revenue transactions under the Products and Services Mutual Supply and Guarantee Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products and services by the Group to AVIC Avionics Group and Hafei Aviation Group; (ii) the estimated increase in the demand for parts and components of aviation products and the ancillary services of AVIC Avionics Group and Hafei Aviation Group from the Group in light of the potential growth in the businesses of AVIC Avionics and Hafei Aviation; and (iii) the estimated increase in the parts and components of aviation equipment and products and the ancillary services supplied by the Group due to the potential increase in the numbers of the subsidiaries injected into AVIC Avionics and Hafei Aviation following the completion of their assets reorganisations.

According to a statement by the chief officer of Civil Aviation Administration of China, during the implementation of the Twelfth Five-year Plan, the investment scale in civil aviation industry will amount to more than RMB1,500 billion, representing an increase of approximately 50% over the investment scale of more than RMB1,000 billion during the Eleventh Five-year Plan. In assessing the reasonableness of the proposed caps, we have reviewed the expenditure and revenue projection for the years of 2015 to 2017 prepared by the Company and discussed with the management the basis and assumptions of such projections, which we consider reasonable and consistent with the market conditions and trends. We have not been assisted by any independent market research consultants to form our view. Based on the above analysis, we are of the view that the proposed caps for each of the Non-Exempt Continuing Connected Transactions are fair and reasonable and the conduct of those transactions would be subject to annual review by the independent non-executive Directors and auditors of the Company as required under the Hong Kong Listing Rules, the Group would have flexibility in conducting its business if the proposed caps are tailored to future business growth. This is particularly so for transactions conducted with AVIC, AVIC Avionics and Hafei Aviation, which involve aviation parts and products as it is unlikely that the Group can secure orders of this type directly from other suppliers and customers in the PRC. Shareholders should note that the proposed caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group.

Major terms the Proposed Financial Services Framework Agreement

Except for the revised three-year term commencing from 1 January 2015 to 31 December 2017, terms and conditions of the Proposed Financial Services Framework Agreement are the same as the Existing Financial Services Framework Agreement.

Summarised below are the major terms of the Proposed Financial Services Framework Agreement in relation to the Deposit Services:

- (i) Interest rates for the Group's deposits with AVIC Finance shall not be lower than (a) the minimum interest rate promulgated by the PBOC for the same type of deposit services; (b) the interest rates for the same type of deposits offered by major commercial banks of the PRC to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other group member of AVIC Group.
- (ii) The maximum outstanding daily balance of deposit amount (including accrued interests) placed by the Group with AVIC Finance shall not be more than RMB3 billion; and

LETTER FROM ANGLO CHINESE

- (iii) If AVIC Finance is unable to repay the Group's deposits, the Company has the right to terminate the Proposed Financial Services Framework Agreement and to set off the deposit due to the Group from AVIC Finance against the outstanding loan due to AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall compensate the Group for the full amount of the loss suffered by the Group and the Group is entitled to terminate the Proposed Financial Services Framework Agreement.

Reasons for and benefits of entering into the Proposed Financial Services Framework Agreement

Pursuant to the relevant PRC rules and regulations, PRC incorporated companies other than licensed financial institutions are not allowed to extend loans to one another including intra-group companies, except through an entrustment loan arrangement with a licensed financial institutions acting as an agent or a centralised financial intermediary of an enterprises group. According to Administration of the Finance Companies of Enterprises Groups Procedures (企業集團財務公司管理辦法) of the PRC, the aim of establishing finance companies of enterprises groups such as AVIC Finance is to strengthen the capital management of the group, enhance the efficiency of the use of capital and to provide finance management services for member companies of the group. AVIC Finance is regulated by the PBOC and the CBRC and provides its services in accordance and in satisfaction of the rules and operational requirements of these regulatory authorities. The customers of AVIC Finance are limited to the group members of AVIC, including the Group. Comparing with other financial institutions, the risk of AVIC Finance is mitigated and can be controlled by AVIC.

As at the 30 June 2014, the Group has a total cash balance of approximately RMB8,122 million (including pledged deposits, term deposits with initial term of over three months and cash and cash equivalents) and a total borrowings of approximately RMB6,331 million. It is intention of the Group to have more efficient and effective cash management. Pursuant to the Proposed Financial Services Framework Agreement, the services provided by AVIC Finance will be on a non-exclusive basis, which offers the Group alternative choice of financial services and the Company is not obliged to engage AVIC Finance for any particular services. As a subsidiary of AVIC, AVIC Finance has better understanding of the PRC aviation industry and the Group's operation and financial needs; therefore, the Group is expected to benefit from more expedient, efficient and/or customised service provision by AVIC Finance than the commercial banks in the PRC.

In addition, pursuant to the Proposed Financial Services Framework Agreement, the interest rates on Deposit Services, Loan Services and other Financial Services offered by AVIC Finance will be equal to or more favourable to the Group than those offered by major commercial banks in the PRC and those offered by AVIC Finance to any other group member of AVIC Group. As advised by the management of the Company, such banks mainly include the Agricultural Bank of China, the Industrial and Commercial Bank of China and the China Construction Bank. As these banks are independent to the Group and are well established industry leaders which offer the prevailing interest rates, we consider it is fair and reasonable for the Company to compare the interest rates offered by these banks. As the customers of AVIC Finance are limited to the group members of AVIC, reference to the interest rates offered by AVIC Finance to any other group member of AVIC Group ensures the Group does not obtain less favorable terms comparing with other group members of AVIC Group.

LETTER FROM ANGLO CHINESE

We consider terms of the Propose Financial Services Framework Agreement are fair and reasonable so far as the Shareholders are concerned and the entering into the Proposed Financial Services Framework Agreement is in the interest of the Company and Shareholder as a whole.

Historical and proposed annual cap of the Deposit Services

The proposed annual cap in respect of the maximum daily outstanding balance of deposits (including the accrued interest) with AVIC Finance during the term of the Proposed Financial Services Framework Agreement is RMB3 billion. In assessing the reasonableness of the proposed caps, we have discussed with the management of the Group the basis and assumptions in setting the proposed caps and understand that the proposed cap is determined with reference to, among other things, (1) the control of financial risks when selecting AVIC Finance as one of the Group's providers of financial services; (2) the increased future business development plans of the Group's aviation entire aircraft and aviation parts and components, i.e. exploring the general aviation market for certain aircraft series and developing certain proprietary researched and manufactured new aviation products etc., which are expected to bring in more orders and sales revenue, thereby contributing to increased funds and financial services needs of the Group during the term of the Proposed Financial Services Framework Agreement, following the completion of various reorganisation exercises and acquisitions undertaken by the Group recently (3) the Company expectation that there will be an increase in the funds of the Company's subsidiaries deposited with AVIC Finance after the approval procedures (i.e. internal approval procedures including board and shareholders' meetings, as well as the requirements to be fulfilled required by relevant authorities in the PRC) have been completed in the coming years (4) the historical maximum daily outstanding balances of deposits (including the accrued interest) which was set at the same level i.e. RMB3 billion for each financial year under the original term of the Existing Financial Services Framework Agreement. The Company estimated that with the expected increase in future business in the next three financial years, the maximum daily outstanding balances of deposits of RMB3 billion is a reasonable estimate for the next three financial years considering the reasons for the potential increase in deposits as stated in (2) and (3) above. The historical maximum outstanding daily balances of deposits (including interests accrued thereon) of the Group; and the maximum outstanding daily balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance for the financial years ended 31 December 2012 and 2013 respectively and for the six months ended 30 June 2014 are set out as follows; (5) the benefits to be derived from the provision of the Deposit Services by AVIC Finance to the Group including, the ability to obtain preferential deposit rate(s) offered by AVIC Finance, the ability to obtain other financial services by AVIC Finance in a more favorable terms and to supplement the funds needs of the subsidiaries of the Company and therefore improve the funds use efficiency of the Group.

LETTER FROM ANGLO CHINESE

Set out below is a summary of the historical transaction amounts of deposits placed by the Group with AVIC Finance:

	31 December 2012 <i>(RMB</i> <i>million)</i>	31 December 2013 <i>(RMB</i> <i>million)</i>	30 June 2014 <i>(RMB</i> <i>million)</i>
Maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance for the year or period ended	1,095	1,563	847
Existing approved caps (<i>Note1</i>)	2,000	3,000	3,000
Percentage of use of the corresponding approved caps	54.8%	52.1%	28.2%
Total cash balance of the Group (<i>Note2</i>)	9,684	11,418	8,122
Percentage of the maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance over the total cash balance of the Group as at	11.3%	13.7%	10.4%

Note:

1. The existing approved caps were approved by the then Shareholders at the extraordinary general meeting of the Company held on 19 May 2010 and the annual general meeting of the Company held on 14 June 2013.
2. Total cash balance of the Group includes pledged deposits, term deposits with initial term of over three months and cash and cash equivalents.

We noted the existing approved caps of the Deposit Services had not been fully utilised during the past two years and the six months ended 30 June 2014, and the percentages of the maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance for each of the past two years and the six months ended 30 June 2014 over the total cash balance of the Group as at 31 December 2012 and 2013 and 30 June 2014 are 11.3%, 13.7% and 10.4% respectively. We also noted the cash balance of the Group as at 31 December 2013 increased by approximately 17.9% comparing with that as at 31 December 2012 and the maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance increased by 42.7% for the year ended 31 December 2013 comparing to the previous year. We noticed that the cash balance of the Group as at 30 June 2014 is lower than that as at 31 December 2013 and the maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance for the period ended 30 June 2014 is also lower than that for the year ended 31 December 2013. As advised by the management of the Company, such balances are usually higher at the end of a financial year due to the characteristic of the aviation industry. The management of the Company expects the needs of Deposit Services will continue to increase. The proposed cap of the maximum daily outstanding balance of deposits to be placed at AVIC Finance by the Group pursuant to the Proposed Financial Services Framework

LETTER FROM ANGLO CHINESE

Agreement of RMB3 billion represents 11.7% of the deposits from companies within AVIC Group of approximately RMB25,544 million as at 30 June 2014, which shows the sources of deposits placed in AVIC Finance is diversified within AVIC Group. As the total balance of cash deposits at AVIC Finance is significantly more than the proposed annual cap of deposits from the Group, we consider AVIC Finance is able to provide deposit services to the Group at the proposed annual cap level. The proposed caps of the Deposit Services represent the maximum amount the Group would place deposits with AVIC Finance, rather than the obligation of the Group to place its deposits with AVIC Finance at that amount. The proposed caps of the Deposit Services under the Proposed Financial Services Framework Agreement will provide more flexibility to the Group and the proposed caps are at the appropriate level and would meet the funding management purposes of the Group. Having considered the above, we are of the view that the proposed caps in respect of the Deposit Services under the Proposed are fair and reasonable so far as the Shareholders are concerned.

RECOMMENDATION

We have considered the above principal factors and reasons and particularly (i) the terms of new framework agreements in respect of the Non-Exempt Continuing Connected Transactions and the Proposed Financial Services Framework Agreement; (ii) the proposed annual caps for the Non-Exempt Continuing Connected Transactions and the Deposit Services for the three financial years ending 31 December 2017; and (iii) the rationale of entering into new framework agreements in respect of the Non-Exempt Continuing Connected Transactions and the Proposed Financial Services Framework Agreement. Based on the above principal factors and reasons, we consider that the Non-Exempt Continuing Connected Transactions and the Deposit Services are in the ordinary and usual course of business of the Company, the terms of new framework agreements in respect of the Non-Exempt Continuing Connected Transactions and the Proposed Financial Services Framework Agreement are on normal commercial terms, and such agreements and the proposed annual caps in respect of the Non-Exempt Continuing Connected Transactions and the Deposit Services for the three financial years ending 31 December 2017 are 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 resolutions to be proposed at the EGM to approve the Non-Exempt Continuing Connected Transactions and the proposed annual caps in respect thereof for three financial years ending 31 December 2017 and the revision of the term of the Existing Financial Services Framework Agreement as well as the proposed cap for the Deposit Services.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited
Dian Deng
Assistant Director

Note: Ms Dian Deng is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over six years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

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

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

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

Name of Director	Class of shares	Capacity	Approximate Number of Restricted Shares held	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of shares hold
Lin Zuoming	H Share	Beneficial owner	489,629	0.021%	0.009%	Long position
Tan Ruisong	H Share	Beneficial owner	439,885	0.019%	0.008%	Long position
Gu Huizhong	H Share	Beneficial owner	303,885	0.013%	0.006%	Long position
Gao Jianshe	H Share	Beneficial owner	311,885	0.013%	0.006%	Long position

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

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

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

3. DIRECTORS' SERVICE CONTRACTS

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

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

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2013, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

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

5. CONSENT AND QUALIFICATION OF EXPERTS

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

Name	Qualifications
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 2013, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

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

6. COMPETING INTERESTS

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

7. NO MATERIAL ADVERSE CHANGE

The Directors are of the opinion that since 31 December 2013, being the date to which the latest published audited accounts of the Group have been made up, there have been no material adverse changes in the financial or trading position of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company up to and including 20 November 2014:

- (a) the letter dated 26 September 2014 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 29 to 30 of this circular;
- (b) the letter of advice dated 26 September 2014 from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 31 to 49 of this circular;
- (c) the written consent of Anglo Chinese referred to in paragraph 5 of this Appendix; and
- (d) all the agreements as referred to in this circular.

NOTICE OF EGM



中國航空科技工業股份有限公司 AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (“EGM”) of AviChina Industry & Technology Company Limited (the “Company”) will be held at 9:00 a.m. on Thursday, 20 November 2014, at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC to consider and approve the following resolutions. Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 26 September 2014:

ORDINARY RESOLUTIONS

1. **“THAT:**

- (1) the entering into by the Company of the framework agreements in respect of the Non-exempt Continuing Connected Transactions, namely, (i) the Mutual Supply of Products Agreement and (ii) the Products and Services Mutual Supply and Guarantee Agreement and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017 be and are hereby approved, ratified and confirmed; and
- (2) 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 the Non-exempt Continuing Connected Transactions, namely, the transactions contemplated under (i) the Mutual Supply of Products Agreement; and (ii) the Products and Services Mutual Supply and Guarantee Agreement, and the proposed annual caps thereof for the three financial years ending 31 December 2017 and all other matters ancillary thereto, 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 aforesaid agreements, as such Director or authorized representative may in his absolute discretion deem fit.”

* For identification purpose only

NOTICE OF EGM

2. **“THAT:**

the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement be and is hereby approved.”

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

Beijing, 26 September 2014

* *For identification purpose only.*

Notes:

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

Pursuant to Article 40 of the Articles of Association of the Company, the H Share register of the Company will be closed from Friday, 31 October 2014 to Thursday, 20 November 2014 (both days inclusive), during which period no transfer of H shares will be effected. Holders of the Company’s H Shares and Domestic Shares whose names appear on the Company’s Register of Members on Thursday, 20 November 2014 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 Thursday, 30 October 2014 at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queens’ Road East, Wan Chai, 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. on or before Thursday, 30 October 2014.
- (c) Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.

(3) Proxies

- (a) Any shareholder who is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his behalf at the EGM. A proxy need not be a shareholder of the Company. Any shareholder who wishes to appoint a proxy should first review the form of proxy for use in the EGM.

NOTICE OF 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 of 17M Floor, Hopewell Centre, 183 Queens' Road East, Wan Chai, Hong Kong 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:

9/F., Easyhome Tower, No. 3A Dongzhimen South Avenue, Dongcheng District, Beijing, the PRC

(Postal code: 100007)

Telephone No.: 86-10-58354335/4752

Facsimile No.: 86-10-58354310

Attention: Mr. Liu Kai/Mr. Hao Weidi

- (5) **Ordinary resolutions above will be voted by poll by the Independent Shareholders.**

As at the date of this notice, the Board comprises executive Directors Mr. Lin Zuoming, Mr. Tan Ruisong and non-executive Directors Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Sheng Mingchuan, Mr. Maurice Savart as well as independent non-executive Directors Mr. Guo Chongqing, Mr. Lau Chung Man, Louis, and Mr. Liu Renhuai.