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

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

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

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

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

**(Stock Code: 2357)**

- (1) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:  
FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH AVIC FINANCE;**
- (2) SUPPLEMENTARY INFORMATION TO THE 20 JULY 2012 CIRCULAR RELATING TO  
(I) PROPOSED PLACING OF NEW HAFEI AVIATION A SHARES BY HAFEI AVIATION;  
(II) DISCLOSEABLE AND CONNECTED TRANSACTIONS: PROPOSED SUBSCRIPTION  
OF NEW HAFEI AVIATION A SHARES BY AVIC HELICOPTER AND AVIC HAFEI IN  
CONSIDERATION OF AVIC HELICOPTER INTEREST AND  
AVIC HAFEI ASSETS RESPECTIVELY;**
- (3) PROPOSED DISTRIBUTION OF 2012 FINAL DIVIDEND;  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

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

**ANGLO CHINESE** 英高  
CORPORATE FINANCE, LIMITED

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**This circular contains supplemental information to the circular of AviChina Industry & Technology Company Limited\* (the "Company") dated 20 July 2012 in relation to the Hafei Aviation Subscription (the "20 July 2012 Circular") and therefore shall be read in conjunction with the 20 July 2012 Circular.**

Letters from the Independent Board Committee in relation to the Financial Services CCT and the Hafei Aviation Subscription are set out on page 24 and page 25 of this circular, respectively. Letters from Anglo Chinese to the Independent Board Committee and the Independent Shareholders in relation to the Financial Services CCT and Hafei Aviation Subscription are set out on pages 26 to 38 and pages 39 to 56 of this circular, respectively.

A notice convening the annual general meeting ("AGM") of AviChina Industry & Technology Company Limited\* to be held at 9:00 a.m. on Friday, 14 June 2013 at Grand Skylight CATIC Hotel, Beijing, No. 18 Bei Chen East Road, Chaoyang District, Beijing, the People's Republic of China is set out on pages 76 to 79 of this circular.

A reply slip and a form of proxy for use at the AGM are enclosed and are also published on the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)). Shareholders who intend to attend the AGM shall complete and return the reply slip in accordance with the instructions printed thereon before Saturday, 25 May 2013. Shareholders who intend to appoint a proxy to attend the AGM shall complete and return the enclosed proxy form in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding of the AGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the AGM or any adjournment thereof (as the case may be) and voting in person if you so wish.

13 May 2013

\* For identification purpose only

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings and certain capitalized terms used but not defined herein shall have the same meanings as set out in the section headed “Definitions” of the 20 July 2012 Circular:*

“AGM”	the annual general meeting of the Company to be held on Friday, 14 June 2013 for the purposes of, among other matters, considering and, if thought fit, approving the provision of the Deposit Services and the Other Financial Services by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement (including proposed caps thereof) and the Subscription Agreement
“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“AVIC”	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 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
“Bill Acceptance”	the services where AVIC Finance accepts and guarantees to unconditionally draw an amount equivalent to the face value of a commercial bill issued by the Group to the payee or bearer on the maturity date
“Board”	the board of Directors of the Company
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), whose H shares are listed on the Hong Kong Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“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

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## DEFINITIONS

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“Discount Services”	the services where the Group transfers to AVIC Finance the rights attached to a commercial bill it held to acquire cash before its maturity date and AVIC Finance pays to the bearer the balance equivalent to the amount of the face value less discount interests
“Existing Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and AVIC Finance on 1 April 2010, the term of which is due to expire on 18 May 2013
“Factoring Services of Accounts Receivable”	the services where the Group assigns to AVIC Finance its accounts receivable derived from the sales of commodities, provision of services to domestic purchasers (as debtor) or otherwise and AVIC Finance provides financing services to the Group on and subject to the agreed terms and conditions
“Financial Services CCT”	the non-exempt continuing connected transactions in relation to the provision of Deposit Services and Other Financial Services by AVIC Finance to the Group as contemplated under the Proposed Financial Services Framework Agreement
“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 Subscription”	the subscription for new Hafei Aviation A Shares by each of the Company, AVIC Helicopter and AVIC Hafei at the Subscription Price, details of which are set out in the 20 July 2012 Circular and the announcement of the Company dated 22 March 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
“Independent Board Committee”	the independent committee of the Board comprising Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, being the independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the terms of the Proposed Financial Services Framework Agreement relating to the provision of Deposit Services and Other Financial Services by AVIC Finance and the proposed caps thereof and the Subscription Agreement
“Independent Shareholders”	Shareholders of the Company other than AVIC and its associates

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## DEFINITIONS

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“Latest Practicable Date”	8 May 2013, 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
“Original Letter from the Board”	the letter from the Board dated 20 July 2012 contained in the 20 July 2012 Circular in relation to the Hafei Aviation Subscription
“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)
“PBC”	People’s Bank of China (中國人民銀行)
“PRC”	the People’s Republic of China
“Proposed Financial Services Framework Agreement”	the conditional Financial Services Framework Agreement entered into between the Company and AVIC Finance on 25 March 2013
“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 (Chapter 571, Laws of Hong Kong)
“Shareholders”	holders of Shares of the Company
“Subscription Agreement”	the subscription agreement entered into between Hafei Aviation on the one side and the Company, AVIC Helicopter and AVIC Hafei on the other side on 25 May 2012, as amended by the Supplementary Agreement I and Supplementary Agreement II
“Supplementary Agreement I”	the first supplementary agreement to the subscription agreement entered into among the parties to the subscription agreement on 11 July 2012, pursuant to which, among others, the Valuation Results were recognized by the parties and the number of new Hafei Aviation A Shares to be subscribed for by each relevant party under the AVIC Helicopter Subscription, AVIC Hafei Subscription and the Company’s Subscription has been adjusted by reference to the Valuation Results

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## DEFINITIONS

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“Supplementary Agreement II”                    the second supplementary agreement to the subscription agreement, as amended by the Supplementary Agreement I, entered into among the parties to the subscription agreement on 21 March 2013, pursuant to which, among others, the Valuation Results filed with and ascertained by SASAC were confirmed and consented by the parties to be RMB3,320,466,700 and the number of new Hafei Aviation A Shares to be subscribed for by each relevant party under the AVIC Helicopter Subscription, AVIC Hafei Subscription and the Company’s Subscription has been adjusted by reference to the aforesaid valuation results

“20 July 2012 Circular”                    the circular dated 20 July 2012 despatched by the Company to the Shareholders in relation to, among other things, the Hafei Aviation Subscription

\* *For identification purpose only*

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LETTER FROM THE BOARD

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

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

(Stock Code: 2357)

*Executive Directors:*

Mr. Lin Zuoming  
Mr. Tan Ruisong

*Non-executive Directors:*

Mr. Gu Huizhong  
Mr. Gao Jianshe  
Mr. Sheng Mingchuan  
Mr. Maurice Savart

*Independent non-executive Directors:*

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

*Registered Office:*

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

*Principal place of business in*

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

13 May 2013

*To the Shareholders:*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:  
FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH AVIC FINANCE;  
(2) SUPPLEMENTARY INFORMATION TO THE 20 JULY 2012 CIRCULAR  
RELATING TO (I) PROPOSED PLACING OF NEW HAFEI AVIATION A  
SHARES BY HAFEI AVIATION;  
(II) DISCLOSEABLE AND CONNECTED TRANSACTIONS: PROPOSED  
SUBSCRIPTION OF NEW HAFEI AVIATION A SHARES BY AVIC  
HELICOPTER AND AVIC HAFEI IN CONSIDERATION OF AVIC  
HELICOPTER INTEREST AND AVIC HAFEI ASSETS RESPECTIVELY;  
(3) PROPOSED DISTRIBUTION OF 2012 FINAL DIVIDEND;  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

Reference is made to the announcement of the Company dated 25 March 2013 in relation to the Financial Services Framework Agreement with AVIC Finance, in which AVIC Finance has agreed to provide the Group with Deposit Services, Loan Services, Settlement Services, Guarantee Services and the Other

\* For identification purpose only

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## LETTER FROM THE BOARD

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Financial Services on a non-exclusive basis for another term of three years, subject to and on the terms and conditions provided therein. The Deposit Services and the Other Financial Services under the Proposed Financial Services Framework Agreement constitute discloseable and continuing connected transactions of the Company under the Hong Kong Listing Rules.

Reference is also made to the announcements of the Company dated 25 May 2012, 14 June 2012, 11 July 2012, 6 September 2012, 22 March 2013 and 1 April 2013, respectively and the 20 July 2012 Circular regarding, among other things, the Hafei Aviation Subscription whereby AVIC Helicopter Subscription and AVIC Hafei Subscription constitute discloseable and connected transactions of the Company under the Hong Kong Listing Rules.

The purposes of this circular are to provide you with (1) information regarding, among other things, the resolutions to be proposed at the forthcoming AGM in relation to, among other things, (i) the proposed terms of the Deposit Services and the Other Financial Services under the Proposed Financial Services Framework Agreement as well as the proposed caps in respect thereof during the term of the Proposed Financial Services Framework Agreement; and (ii) the proposed distribution of 2012 final dividend; as well as (2) supplemental information to the 20 July 2012 Circular in relation to the Hafei Aviation Subscription.

### **I. RENEWAL OF THE TERM OF THE EXISTING FINANCIAL SERVICES FRAMEWORK AGREEMENT**

#### **A. Background**

The term of the Existing Financial Services Framework Agreement is due to expire on 18 May 2013. Accordingly, on 25 March 2013, the Company and AVIC Finance conditionally entered into the Proposed Financial Services Framework Agreement, pursuant to which AVIC Finance has agreed to provide the Group with Deposit Services, Loan Services, Settlement Services, Guarantee Services and the Other Financial Services on a non-exclusive basis for another term of three years, subject to and on the terms and conditions provided therein.

AVIC Finance was established pursuant to the relevant PRC laws and regulations relating to the establishment of “group finance company” to provide financial services and explore financial channels for the member companies of AVIC. AVIC Finance is a non-banking financial institution approved and regulated by the PBC and the CBRC. AVIC Finance only provides financial services to AVIC and its member companies in the PRC.

The Company utilises the services of AVIC Finance on a voluntary, non-exclusive basis and is not obliged to engage AVIC Finance for any particular services, or at all. AVIC Finance is merely one of a number of financial institutions which provide financial services to the Group.

#### **B. The Proposed Financial Services Framework Agreement**

##### **1. Date**

25 March 2013



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## LETTER FROM THE BOARD

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### 2. *Effective Date and Term*

The Proposed Financial Services Framework Agreement shall become effective for a term of three years upon, the approval by the Independent Shareholders at the AGM.

### 3. *Parties*

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

### 4. *Major Terms*

Pursuant to the Proposed Financial Services Framework Agreement, AVIC Finance has agreed to provide to the Group with Deposit Services, Loan Services, Settlement Services, Guarantee Services and the Other Financial Services based on the terms summarized as follows:

#### (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 PBC for the same type of deposit services; (b) the interest rates for the same type of deposits offered by any third party to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other member companies of AVIC (including AVIC).
- (ii) The maximum daily 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

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## LETTER FROM THE BOARD

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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 Loan Services to the Group shall not be higher than (a) the maximum loan interest rates promulgated by the PBC for the same type of loan services; (b) the interest rates for the same type of loans provided by AVIC Finance to any other member companies of AVIC (including AVIC) with the same credit rating; and (c) the interest rates offered by the major commercial banks in the PRC for the same type of loan services.

(c) *Settlement Services*

- (i) The 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 Company's behalf and to the order of the Company; and
- (ii) The fees for Settlement Services shall not be higher than (a) the fees then charged by any other third party for the same type of services provided to the Group; and (b) the fees then charged by AIVC Finance for the same type of services provided to any other member companies of AVIC (including AVIC).

(d) *Guarantee Services*

The 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 reverse guarantee is required. In the event that a reverse 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 Other Financial Services including but not limited to Bill Acceptance (票據承兌), Discount Services (貼現服務) and Factoring Services of Accounts Receivable (應收帳款保理服務). 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 Other Financial Services shall not be higher than (a) the maximum fee promulgated by PBC for the same type of financial services (if applicable); (b) the fees

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## LETTER FROM THE BOARD

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charged by other financial institutions in the PRC including 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 member companies of AVIC (including AVIC) 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.*

PBC regulates and promulgates the base interest rates or fees (if applicable) chargeable or offered by financial institutions in respect of provision of RMB deposits, RMB loans and other financial services, and would determine the floating range of interest rates in respect of provision of RMB deposits and RMB loans services from time to time. The interest rates or fees charged or offered by AVIC Finance as well as the other independent third parties including other commercial banks and financial institutions must be in compliance with the requirements of the PBC and the aforesaid floating range of interest rates determined by the PBC from time to time. According to the Proposed Financial Services Framework Agreement, the interest rates or fees charged or offered by AVIC Finance will be determined with references to the interest rates and/or fees promulgated by the PBC (where applicable) and/or the other independent third parties including other commercial banks and financial institutions (as the case may be) and will not be less favourable than the terms offered by the other independent third parties.

In determining the interest rates or fees, the Company will make reference to the interest rates or fees offered or charged by major commercial banks in the PRC such as Agricultural Bank of China, Industrial and Commercial Bank of China and China Construction Bank. The interest rates or fees (if applicable) promulgated by the PBC for different types of services are public information and can be obtained through the website of the PBC.

### **C. 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 is RMB3 billion. The proposed cap was determined with reference to, among other things, the following factors:

- (1) the control of financial risks in selecting providers of financial services;
- (2) the future business development plans and financial 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 during the course of the previous few years;

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## LETTER FROM THE BOARD

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- (3) the historical maximum daily outstanding balances of deposits (including interests accrued thereon) of the Group; and that the maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance for the financial years ended 31 December 2010, 2011 and 2012 respectively and for the period ended 28 February 2013 are within the existing cap of RMB2 billion for the maximum daily balance of deposits and are set out as follows:

	Year ended 31 December 2010 <i>(RMB million)</i>	Year ended 31 December 2011 <i>(RMB million)</i>	Year ended 31 December 2012 <i>(RMB million)</i>	Period ended 28 February 2013 <i>(RMB million)</i>
Maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance	476.01	1,134.09	1,095.11	774.02

- (4) the benefits to be derived through the provision of the Deposit Services by AVIC Finance to the Group such as, the ability to obtain the prime rate(s) offered by AVIC Finance so as to reduce the Group's overall interest expenditure 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 Group proposes to enter into the Other Financial Services with AVIC Finance during the term of the Proposed Financial Services Framework Agreement, such transactions are new transactions to be entered into between the Group and AVIC Finance, subject to the approval of the Independent Shareholders. For the financial years ended 31 December 2011 and 2012, the Group had approximately RMB231 million and RMB421 million borrowings secured by accounts receivable, respectively. By reference to the aforesaid data and based on the following factors, the Directors estimate that the proposed annual caps in respect of provision of the Other Financial Services by AVIC Finance to the Group during the term of the Proposed Financial Services Framework Agreement are RMB1 billion, details of the determining factors are as follows:

- (1) the overall capital management strategy of the Group;
- (2) that both of the accounts receivable and payable of the Group have been increased steadily for the preceding three financial years ended 31 December 2010, 2011 and 2012 in accordance with the business development of the Group and thereby the Bill Acceptance services, Discount Services and Factoring Services of Accounts Receivable are expected to be increasingly necessary for the Group; and

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## LETTER FROM THE BOARD

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- (3) the future business development and financial 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 during the course of the previous few years.

**D. Reasons for and benefits expected to acquire 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 Deposit Services, Loan Services and the Other Financial Services offered by AVIC Finance to the Group will be equal to or more favourable, depending on the case, than those offered to the Group by any third party.
- (b) AVIC Finance is regulated by the PBC 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 render more expedient and efficient service provision than the other commercial banks in the PRC.
- (d) As the Other Financial Services to be provided by AVIC Finance to the Group will not be higher than the fees charged by the other financial institutions in the PRC for the same type of financial services and under the same conditions, for example, the fees charged by AVIC Finance for provision of Discount Services and Factoring Services of Accounts Receivable will be more favorable (about 5% lower) than those offered by other financial institutions, it will reduce the overall financial expenses of the Group.
- (e) Pursuant to the relevant regulations of the PBC and the CBRC, the customers of AVIC Finance are limited to the group members of AVIC, which will ensure more control by AVIC Finance of the risks that it may be exposed to as compared with other financial entities.
- (f) The Other Financial Services mainly comprise Bill Acceptance services, Discount Services and Factoring Services of Accounts Receivable, which help to promote the recovery of capital of the subsidiaries of the Group and improve the funds use efficiency.

The Directors (including the independent non-executive Directors) believe that the terms of the Proposed Financial Services Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the proposed cap and annual caps in respect of provision of Deposit Services and Other Financial Services are fair and reasonable.

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## LETTER FROM THE BOARD

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### **E. Hong Kong Listing Rules Implications**

#### *Exempt and Non-exempt Continuing Connected Transactions*

As AVIC is a controlling shareholder of the Company, 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 of the Company under the Hong Kong Listing Rules.

Since (i) the Loan Services and the Guarantee Services will be entered into by the parties on normal commercial terms and no security over the assets of the Group will be granted in respect of the financial assistance; (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 exempted from reporting, announcement and Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

Since the highest of the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of each of (i) the proposed cap of the maximum daily outstanding balance of deposits (including accrued interest) for the Deposit Services; and (ii) the proposed annual caps for the Other Financial Services is more than 5%, the Deposit Services and the Other Financial Services are subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

#### *Discloseable Transactions*

Since the highest of the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the proposed cap of the maximum daily outstanding balance of deposits (including accrued interest) for the Deposit Services and the proposed annual caps for the Other Financial Services is more than 5% but less than 25%, the Deposit Services and the Other Financial Services also constitute discloseable transactions for the Company under Chapter 14 of the Hong Kong Listing Rules and are therefore subject to the notification and announcement requirements under Rule 14.33 of the Hong Kong Listing Rules.

None of the Directors has a material interest in the abovementioned continuing connected transactions and hence no Director is required to abstain from voting on such board resolution in accordance with the Hong Kong Listing Rules.

### **F. Information of the Parties**

#### *Information relating to the Company*

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

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## LETTER FROM THE BOARD

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### *Information relating to 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.

As of 31 December 2012, the registered capital of AVIC Finance was RMB2 billion. AVIC Finance also had a total asset value of approximately RMB37,199 million which included liquid assets (such as bank deposits, central bank reserves, short-term loans, central bank notes and treasury bonds) of approximately RMB37,196 million. It has secured lines of credit of an amount up to RMB10,900 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 RMB385 million, RMB 698 million and RMB838 million for the years ended 31 December 2010, 2011 and 2012 respectively, and its after-tax profits were approximately RMB296 million, RMB533 million and RMB 646 million respectively, representing an annual return on equity of about 19.73%, 26.6% and 41.9% for the same periods. As of 31 December 2010, 2011 and 2012, the current ratios of AVIC Finance were approximately 62.98 %, 52.67 % and 58.11 % respectively and its capital adequacy ratios were approximately 12.27%, 15.52% and 15.45% 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.

AVIC Finance is subject to stringent regulations and is regulated by the PBC and the CBRC. The CBRC's supervision includes regular examination of the audited financial statements and other relevant materials required to be filed by group finance companies as well as on-site inspections and interviews with the senior management of group finance companies. To ensure compliance with the applicable laws and regulations, the CBRC has powers to issue corrective and/or disciplinary orders and to impose penalties and/or fines on a group finance company. In accordance with the relevant requirements under the Measures for Administration of Finance Companies of Enterprise Groups promulgated by the CBRC on 27 July 2004, group finance companies, including AVIC Finance:

- (a) are not allowed to engage in non-financial service business, including property investment or trading;
- (b) must comply with the following ratio requirements: (i) the capital adequacy ratio shall not be lower than 10%, (ii) the inter-bank borrowing balance shall not exceed the total registered capital of the relevant finance company, (iii) the total

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## LETTER FROM THE BOARD

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amount of outstanding guarantees shall not be more than the total registered capital of the relevant finance company, (iv) the ratio of self-owned fixed assets to total equity shall not exceed 20%; and

- (c) are required to deposit a mandatory proportion of the deposits they have received with the PBC.

### **G. Internal Control Measures**

As far as the Directors are aware, AVIC Finance the Group have established stringent internal control measures to ensure effective risk management and compliance with laws and regulations, including:

- (a) it has established corporate governance structure to ensure the effectiveness of its internal controls including the establishment of three committees namely, the Strategy and Development Committee, the Risk and Audit Committee, and the Remuneration Committee;
- (b) it has in place effective internal rules and policies specifically for the management and control of operational risk and credit risks. It has its own credit policies and credit approval procedures for loan approvals which are designed in accordance with the relevant PBC and CBRC regulations. It has also implemented various risk management tools to manage and monitor credit risks. The internal audit department assumes an internal independent supervisory role and is responsible for examining and auditing the business operation of other departments; and
- (c) it has in place intra-group check-and-balance mechanisms (such as division of duties, regular and random internal examination, re-assessment and upper level supervision) to identify operational bottlenecks and irregularities and to deal with problems (if any) in a timely and effective manner.

In assessing the financial risks involved in placing deposits with AVIC Finance, the Directors have taken into account the following factors:

- (a) the operations of AVIC Finance are subject to the supervision of the PBC and the CBRC and are regulated by the relevant PRC financial services rules and regulations; and
- (b) AVIC Finance has established internal control and risk management systems in accordance with the relevant PRC financial services rules and regulations.

## **II. PROPOSED DISTRIBUTION OF 2012 FINAL DIVIDEND**

The Board recommended the payment of a final dividend for the year 2012 in an aggregate amount of RMB109,488,583.34, representing a dividend of RMB0.02 per share (2011: RMB0.01 per share), calculated based on the existing number of total issued shares of 5,474,429,167 shares as at the Latest Practicable Date. The proposed distribution of 2012 final dividend is subject to Shareholders' approval by way of an ordinary resolution at the AGM.



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## LETTER FROM THE BOARD

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The 2012 final dividend will be paid to those Shareholders whose names appear on the Company's register of members at the close of business on 26 June 2013 (the "**Record Date**"). To determine the identity of the Shareholders entitled to receive the 2012 final dividend, the Company's register of members will be closed from 21 June 2013 to 26 June 2013 (both days inclusive), during which period no transfer of H Shares will be registered. In order to be entitled to receive the 2012 final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's H Shares registrar, by not later than 4:30 p.m. on 20 June 2013.

In accordance with Article 149 of the Articles of Association, the dividend will be declared in RMB to the Shareholders. The dividend payable to holders of the domestic shares will be paid in RMB within three months after the dividend declaration date. The dividend payable to H Shareholders is calculated and declared in RMB and will be paid in Hong Kong Dollars within three months after the dividend declaration date. The amount to be paid in Hong Kong Dollars will be converted based on the average closing exchange rate between RMB and Hong Kong Dollars issued by the People's Bank of China for the five working days prior to the declaration of dividends at the annual general meeting of the Company to be held on 14 June 2013.

### III. SUPPLEMENTAL INFORMATION TO THE 20 JULY 2012 CIRCULAR

#### A. Background

As disclosed in the 20 July 2012 Circular, an extraordinary general meeting of the Company was originally scheduled on 21 September 2012, at which an ordinary resolution would be proposed to approve, among other things, the terms and conditions of the Subscription Agreement, and the transactions contemplated under the original subscription agreement, as amended by the Supplementary Agreement I.

On 6 September 2012, the Company announced that approvals by the relevant PRC authorities for the transactions contemplated under the Subscription Agreement would not be granted prior to the scheduled extraordinary general meeting, and that the Company might require additional time to provide supplemental information to the Shareholders upon obtaining such approvals. AVIC, the controlling shareholder of the Company, pursuant to the relevant PRC regulations, proposed and the Company announced that the scheduled extraordinary general meeting would be postponed to a later date to be announced by the Company.

On 21 March 2013, Hafei Aviation on the one side and the Company, AVIC Helicopter and AVIC Hafei on the other side entered into the Supplementary Agreement II to vary certain terms of the original subscription agreement, as amended by the Supplementary Agreement I.

On 1 April 2013, the Company announced, among other things, that the approval in principle was obtained from SASAC and that the transactions contemplated under the Subscription Agreement are still subject to the approval by the CSRC and the Independent Shareholders at a general meeting.

The following sets out further information relating to the Hafei Aviation Subscription subsequent to the despatch of the 20 July 2012 Circular and specifically, supplemental information relating to the adjustments to the Valuation Results, as well as the corresponding adjustments to the numbers of new Hafei Aviation A Shares to be issued by Hafei Aviation to the Company, AVIC Helicopter and AVIC Hafei, respectively under the Subscription Agreement. **As the following**

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## LETTER FROM THE BOARD

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information is supplemental to the 20 July 2012 Circular, Shareholders are advised to read the information in conjunction with the 20 July 2012 Circular as a whole. The Original Letter from the Board in which details of the transactions contemplated under the original subscription agreement, as amended by the Supplementary Agreement I, are set out, is appended to this circular for ease of reference.

**B. Variation to the terms of the Original Subscription Agreement, as amended by the Supplementary Agreement I**

*Adjustments to the original valuation results in respect of certain target assets*

As disclosed in the announcement of the Company dated 22 March 2013, the parties to the Supplementary Agreement II confirm and consent that, according to the final valuation report filed with and ascertained by SASAC, the aggregate consideration in respect of the target assets has been adjusted to RMB3,320,466,700, among which, the consideration in respect of (i) 100% equity interest in Changfei Parts and Components, (ii) 100% equity interest in Helicopter Tianjin, (iii) 100% equity interest in AVIC Huiyang, (iv) AVIC Hafei Assets and (v) 100% equity interest in Changhe Aviation are approximately RMB863,093,000, RMB815,247,000, RMB189,610,600, RMB810,954,200 and RMB641,562,000, respectively.

Based on the aforesaid, the final valuation results in respect of (i) AVIC Helicopter Interest, comprising 100% equity interest in Changfei Parts and Components, Helicopter Tianjin and AVIC Huiyang, (ii) AVIC Hafei Assets and (iii) Changhe Aviation Interest comprising 100% equity interest in Changhe Aviation as confirmed with SASAC are approximately RMB1,868 million (original valuation result was approximately RMB1,842 million), RMB811 million (same as the original valuation result) and RMB641.6 million (original valuation result was approximately RMB641 million), respectively.

*Adjustments to the numbers of new Hafei Aviation A Shares to be issued by Hafei Aviation*

Following the above adjustments to the consideration amounts in respect of certain target assets, according to the Supplementary Agreement II, the total number of new Hafei Aviation A Shares to be issued by Hafei Aviation to the Company, AVIC Helicopter and AVIC Hafei under the Subscription Agreement has been adjusted to 193,839,271, among which, 37,452,541 will be issued to the Company (original number of new Hafei Aviation A Shares to be issued to the Company was 37,409,221), 109,045,565 will be issued to AVIC Helicopter (original number of new Hafei Aviation A Shares to be issued to AVIC Helicopter was 107,510,979) and 47,341,165 will be issued to AVIC Hafei (same as the original number of new Hafei Aviation A Shares to be issued to AVIC Hafei), accounting for approximately 6.29%, 18.30% and 7.95% of the total enlarged issued share capital of Hafei Aviation upon completion of the Proposed Placing of Hafei Aviation.

The final issuance numbers have not been approved by the CSRC.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, the Subscription Price of RMB17.13 per new Hafei Aviation A Share as agreed by the parties in the Subscription Agreement remained unchanged. As at the Latest Practicable Date, the closing price of Hafei Aviation A Shares was RMB25.19 per share.

According to the Subscription Agreement, if any ex-dividend or ex-entitlement event occurs during the period between the Price Determination Date and the issue date of the new Hafei Aviation A Shares, the Subscription Price and the total number of Hafei Aviation A Shares to be issued shall be adjusted according to certain pre-determined formulas as set out in the Subscription Agreement. In 2012, Hafei Aviation had made profit distribution for the year 2011 and subject to the approval of its shareholders, Hafei Aviation may make profit distribution for the year 2012 in 2013. Accordingly, pursuant to the Subscription Agreement, the Subscription Price will be adjusted in light of the aforesaid occurrence of ex-dividend or ex-entitlement event, which will also affect the total number of new Hafei Aviation A Shares to be subscribed for by the Company, AVIC Helicopter and AVIC Hafei, respectively. The Company will make further announcements on any proposed adjustments to the Subscription Price and the number of subscription shares upon the Hafei Aviation Subscription having been approved by the relevant PRC government authority.

As at the Latest Practicable Date, two of the conditions precedent to the Subscription Agreement remained outstanding, namely, the approval by the Independent Shareholders for the Subscription Agreement and the connected transactions contemplated thereunder, as well as the approval by the CSRC for the transactions contemplated under the Subscription Agreement.

**C. Discloseable transaction: Deemed disposal of approximately 15.42% equity interest in Hafei Aviation by the Company**

As at the Latest Practicable Date, the Company held approximately 50.05% equity interest in Hafei Aviation. Upon completion of the Proposed Placing of Hafei Aviation, the equity interest to be held by the Company in Hafei Aviation will be diluted by approximately 15.42% from 50.05% to approximately 34.63%. Whereas Hafei Aviation will remain to be a subsidiary of the Company following completion of the Proposed Placing of Hafei Aviation, such dilution will constitute a deemed disposal by the Company of approximately 15.42% equity interest in Hafei Aviation. Pursuant to Chapter 14 of the Hong Kong Listing Rules, as the highest applicable size test percentage ratio in relation to the deemed disposal exceeds 5% but is less than 25%, such deemed disposal constitute a discloseable transaction of the Company.

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## LETTER FROM THE BOARD

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### D. Shareholding Structure of Hafei Aviation before and after completion of the Proposed Placing of Hafei Aviation

Set forth below is the shareholding structure of Hafei Aviation before and after completion of the Proposed Placing of Hafei Aviation:

Name of shareholder of Hafei Aviation	Before completion of the Proposed Placing of Hafei Aviation		After completion of the Proposed Placing of Hafei Aviation	
	Number of Hafei Aviation A Shares held	Approximate % of the issued share capital	Number of Hafei Aviation A Shares held	Approximate % of the issued share capital
The Group	168,856,523	50.05	206,309,064	34.63
AVIC Helicopter	0	0	109,045,565	18.30
AVIC Hafei	0	0	47,341,165	7.95
<b>Sub-total</b>	<b>168,856,523</b>	<b>50.05</b>	<b>362,695,794</b>	<b>60.88</b>
Independent qualified investors under the Cash Subscription	0	0	64,565,090	10.84
Other shareholders	168,493,477	49.95	168,493,477	28.28
<b>Total</b>	<b>337,350,000</b>	<b>100</b>	<b>595,754,361</b>	<b>100</b>

Based on the audited financial statements of Hafei Aviation prepared in accordance with the PRC accounting standards, as at 31 December 2012, the total assets and net assets of Hafei Aviation amounted to approximately RMB4,986 million and RMB1,596 million, respectively.

Based on the audited financial statements of Hafei Aviation prepared in accordance with the PRC accounting standards, for the two financial years ended 31 December 2012, the revenue and net profits (before and after tax and extraordinary items) of Hafei Aviation are as follows:

	Revenue <i>RMB</i>	Net profit before tax and extraordinary items <i>RMB</i>	Net profit after tax and extraordinary items <i>RMB</i>
2011	2,769,433,700	123,299,400	109,809,200
2012	2,858,187,000	132,554,500	115,556,800

The gain arising from the deemed disposal of Hafei Aviation is expected to be changed from approximately RMB0.8 billion as at the Valuation Date to approximately RMB0.91 billion as at 31 December 2012. Such gain arising from the deemed disposal is calculated based on the change in the net asset values (“NAV”) of Hafei Aviation attributable to the Company before and after completion

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## LETTER FROM THE BOARD

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of the Proposed Placing of Hafei Aviation, being the difference between the NAV of Hafei Aviation attributable to the Company before the Proposed Placing of Hafei Aviation (which is 50.05% X the NAV of Hafei Aviation at 31 December 2012) and the NAV of Hafei Aviation attributable to the Company after completion of the Proposed Placing of Hafei Aviation without taking into account of the Company's Subscription (which is 28.34% (being the percentage of the number of Hafei Aviation A Shares held by the Company as at the Latest Practicable Date as divided by the enlarged share capital of Hafei Aviation after completion of the Proposed Placing of Hafei Aviation) X the NAV of Hafei Aviation after completion of the Proposed Placing of Hafei Aviation). The gain will be reflected as a credit/debit movement to reserves and will not be included in the consolidated income statements of the Group.

The audited NAV of Hafei Aviation as at 31 December 2012 was approximately RMB1.596 billion. The NAV of Hafei Aviation after completion of the Proposed Placing of Hafei Aviation is approximately RMB6.022 billion which is calculated by using the sum of (i) the audited NAV of Hafei Aviation as at 31 December 2012, which is approximately RMB1,596 million, and (ii) the aggregate consideration in respect of the target assets to be injected into Hafei Aviation under the Subscription Agreement which is approximately RMB3,320 million; (iii) RMB1.106 billion, being the estimated proceeds under the Cash Subscription. As such, the gain of the deemed disposal is expected to be approximately RMB0.91 billion. However, the above calculations are for information only as the actual gain cannot be ascertained at this stage as Hafei Aviation's NAV can only be determined upon completion of the Proposed Placing of Hafei Aviation. There will be no proceed to be raised in such deemed disposal.

The loss arising from the disposal of Changhe Aviation Interest is expected to be changed from approximately RMB0.2 billion as at the Valuation Date to approximately RMB0.22 billion as at 31 December 2012, which represents the difference between 6.29% (being the percentage of the number of Hafei Aviation A Shares to be subscribed for by the Company under the Company's Subscription as divided by the enlarged share capital of Hafei Aviation after completion of the Proposed Placing of Hafei Aviation) of the NAV of Hafei Aviation after completion of the Proposed Placing of Hafei Aviation (being approximately RMB379 million) and RMB594 million, being the NAV of Changhe Aviation attributable to the Group as at 31 December 2012. However, the above calculations are for information only as the actual loss can only be ascertained on the date upon which the Company's Subscription is completed. The disposal of Changhe Aviation Interest will not raise any proceeds.

Taking the above analysis on a consolidated basis, a gain of approximately RMB0.69 billion is expected to accrue to the Group upon completion of the Proposed Placing of Hafei Aviation. The abovementioned figures only represent an arithmetic summation of the financial information of the relevant assets involved in the subject transactions and are set out in this letter for illustration purpose only.

In addition, according to the requirements of the relevant PRC authorities, all the results of Changhe Aviation Interest, AVIC Helicopter Interest and AVIC Hafei Assets during the period from the Valuation Date to the completion of Hafei Aviation Subscription shall be consolidated into the accounts of Hafei Aviation.

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## LETTER FROM THE BOARD

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As the respective equity interest held by the Group in Changhe Aviation and Hafei Aviation is expected to be, after completion of the Proposed Placing of Hafei Aviation, diluted from 100% to 34.63% and from 50.05% to 34.63%, respectively, the net profits of Changhe Aviation and Hafei Aviation attributable to the Group will be diluted accordingly. Taking the audited net profits of Changhe Aviation and Hafei Aviation attributable to the Group for the year ended 31 December 2012 (being an aggregate of approximately RMB155 million) as an illustration, as the net profits attributable to the Group by the 34.63% equity interest of Hafei Aviation by reference to the arithmetic summation of the net profit of each of Hafei Aviation, Changhe Aviation, Changfei Parts and Components, Helicopter Tianjin, AVIC Huiyang and AVIC Hafei Assets for the year ended 31 December 2012 were approximately RMB78 million, the dilution percentage to the net profits of Changhe Aviation and Hafei Aviation attributable to the Group as a result of completion of the Proposed Placing of Hafei Aviation would be equivalent to approximately 50%. The above calculation is for illustration purposes only, and shall not be interpreted to indicate any actual or intended adjustment to the net profits attributable to the Company for the year ended 31 December 2012 as a result of the completion of the Proposed Placing of Hafei Aviation. The abovementioned figures only represent an arithmetic summation of the financial information of the relevant assets involved in the subject transactions and are set out in this letter for illustration purpose only.

### **E. Information relating to the Target Assets**

#### *Information relating to Changfei Parts and Components*

Changfei Parts and Components is a limited liability company established in the PRC in April 2012. As at the Latest Practicable Date, Changfei Parts and Components was 100% owned by AVIC Helicopter. The registered capital of Changfei Parts and Components is RMB200 million. Changfei Parts and Components is mainly engaged in the business of manufacturing and sale of aviation parts and components.

Upon the Completion of the Proposed Placing of Hafei Aviation, Changfei Parts and Components will merge with Changhe Aviation when appropriate, and the revenue of Changfei Parts and Components during the transition period will mainly come from Changhe Aviation.

Based on the audited financial information of Changfei Parts and Components prepared in accordance with the PRC accounting standards, as at 31 December 2012, the total assets and net assets of Changfei Parts and Components amounted to approximately RMB882 million and RMB628 million, respectively.

For the financial year ended 31 December 2012, the revenue and net profits (before and after tax and extraordinary items) of Changfei Parts and Components amounted to approximately RMB97.78 million, RMB11.03 million and RMB8.27 million, respectively.

#### *Information relating to Helicopter Tianjin*

Helicopter Tianjin is a limited liability company established in the PRC in May 2012. As at the Latest Practicable Date, Helicopter Tianjin was 100% owned by AVIC Helicopter. The registered capital of Helicopter Tianjin is RMB250 million. Helicopter Tianjin is still under

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## LETTER FROM THE BOARD

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construction at this stage and has not commenced any business. Helicopter Tianjin will be mainly engaged in the design, research and development, manufacturing, sale, maintenance and customization of helicopters.

Based on the audited financial information of Helicopter Tianjin prepared in accordance with the PRC accounting standards, as at 31 December 2012, the total assets and net assets of Helicopter Tianjin amounted to approximately RMB833 million and RMB784 million, respectively. For the financial year ended 31 December 2012, the loss (before and after tax and extraordinary items) of Helicopter Tianjin amounted to approximately RMB10.17 million and RMB10.17 million, respectively.

### *Information relating to AVIC Huiyang*

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

Based on the audited financial statements of AVIC Huiyang prepared in accordance with the PRC accounting standards, as at 31 December 2012, the total assets and net assets of AVIC Huiyang amounted to approximately RMB949 million and RMB230 million, respectively. For the financial year ended 31 December 2012, the revenue and net profits (before and after tax and extraordinary items) of AVIC Huiyang amounted to approximately RMB380.90 million, RMB8.93 million and RMB5.36 million, respectively. For the financial year ended 31 December 2011, the revenue and net profits (before and after tax and extraordinary items) of AVIC Huiyang amounted to approximately RMB415.35 million, RMB20.29 million and RMB14.57 million, respectively.

### *Information relating to AVIC Hafei Assets*

AVIC Hafei Assets are mainly the assets of AVIC Hafei relating to the manufacturing of helicopter parts and components, including a total of 6 plants, 14 pieces of land using rights and 234 pieces of equipment, all located in Harbin, Heilongjiang Province of PRC.

Based on the audited financial statements of AVIC Hafei prepared in accordance with the PRC accounting standards, as at 31 December 2012, the carrying amount of the total assets of AVIC Hafei Assets amounted to approximately RMB601 million.

### *Information relating to Changhe Aviation*

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

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## LETTER FROM THE BOARD

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Based on the audited financial statements prepared in accordance with the PRC accounting standards, as at 31 December 2012, the total assets and net assets of Changhe Aviation amounted to approximately RMB8,288 million and RMB594 million, respectively. For the financial year ended 31 December 2012, the revenue and net profits (before and after tax and extraordinary items) of Changhe Aviation amounted to approximately RMB5,931 million, RMB116 million and RMB97 million, respectively. For the financial year ended 31 December 2011, the revenue and net profits (before and after tax and extraordinary items) of Changhe Aviation amounted to approximately RMB4,076.93 million, RMB58.31 million and RMB50.95 million, respectively.

**Save as disclosed herein, all other major terms of the original subscription agreement, as amended by the Supplementary Agreement I as set out in the 20 July 2012 Circular shall remain unchanged and in full force and effect.**

#### IV. AGM

For the purposes of considering and, if thought fit, approving the resolutions to be proposed at the forthcoming AGM in relation to, among other things, (i) the proposed terms of the Deposit Services and the Other Financial Services under the Proposed Financial Services Framework Agreement as well as the proposed caps in respect thereof during the term of the Proposed Financial Services Framework Agreement; (ii) the proposed distribution of 2012 final dividend; and (iii) the terms and conditions of the Subscription Agreement and the connected transactions relating to the AVIC Helicopter Subscription and AVIC Hafei Subscription contemplated under the Subscription Agreement, the AGM will be held at 9:00 a.m. on Friday, 14 June 2013 at Grand Skylight CATIC Hotel, Beijing, No. 18 Bei Chen East Road, Chaoyang District, Beijing, the People's Republic of China. The notice of the AGM is set out on pages 76 to 79 of this circular.

A reply slip and a form of proxy for use at the AGM are enclosed herewith. Shareholders who intend to appoint a proxy to attend the AGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event no later than 24 hours before the time fixed for holding of the AGM 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 AGM or any adjournment thereof (as the case may be) should you wish.

AVIC and its associate(s), if any, are connected persons of the Company as defined under the Hong Kong Listing Rules and they will abstain from voting at the AGM in respect of the ordinary resolutions to be proposed in relation to (i) the proposed terms of the Deposit Services and the Other Financial Services under the Proposed Financial Services Framework Agreement as well as the proposed caps in respect thereof during the term of the Proposed Financial Services Framework Agreement; and (ii) the Hafei Aviation Subscription pursuant to the Subscription Agreement. As at the Latest Practicable Date, AVIC and its associate(s), if any, directly owned 2,989,492,900 shares of the Company, representing approximately 54.61% of the total issued share capital of the Company. AVIC was entitled to control all voting rights in respect of such shares.

As the term of the Existing Financial Services Framework Agreement is due to expire on 18 May 2013, the Company will establish an internal reporting system whereby its subsidiaries are required to report to the Company the transaction amount in respect of each of the Deposit Services and the Other Financial Services entered into between them and AVIC Finance during the interim period between 19 May 2013 to 14



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## LETTER FROM THE BOARD

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June 2013 prior to the convening of the AGM. The Company will closely monitor such transaction amounts and ensure that they will not exceed the threshold which triggers Independent Shareholders' approval requirement pursuant to the Hong Kong Listing Rules.

To the best knowledge of the Directors and having made all reasonable enquiries, apart from AVIC and its associates, no other Shareholder has a material interest in the Proposed Financial Services Framework Agreement (including the proposed caps) and the Hafei Aviation Subscription pursuant to the Subscription Agreement and therefore no other Shareholder will be required to abstain from voting on the ordinary resolutions to approve the provision of the Deposits Services and the Other Financial Services by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement (including the proposed caps thereof) and the Hafei Aviation Subscription pursuant to the Subscription Agreement at the AGM.

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

### V. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee in relation to the Financial Services CCT and the Hafei Aviation Subscription which are set out on page 24 and page 25 of this circular, respectively.

The Directors and the Independent Board Committee, having taken into account the advice of Anglo Chinese, consider that (i) the terms of the Proposed Financial Services Framework Agreement in relation to the provision of the Deposit Services and the Other Financial Services by AVIC Finance to the Group, as well as the proposed caps thereof, as well as (ii) the Proposed Placing of Hafei Aviation, the Company Subscription and the connected transactions relating to the AVIC Helicopter Subscription and the AVIC Hafei Subscription under the Subscription Agreement are conducted on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed at the AGM.

The Board also considers that the proposed distribution of 2012 final dividend as mentioned above is in the best interests of the Company and the Shareholders as a whole and therefore, the Board recommends all Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the AGM approving the proposed distribution of 2012 final dividend.

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

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

\* For identification purpose only

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE IN  
RELATION TO THE FINANCIAL SERVICES CCT**

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

13 May 2013

*To the Independent Shareholders*

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 13 May 2013 of which this letter forms a part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the terms of the Proposed Financial Services Framework Agreement in relation to the provision of the Deposit Services and the Other Financial Services by AVIC Finance to the Group, as well as the proposed caps thereof are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Anglo Chinese has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Proposed Financial Services Framework Agreement in relation to the provision of the Deposit Services and the Other Financial Services by AVIC Finance to the Group, as well as the proposed caps thereof.

We wish to draw your attention to the letter from the Board set out on pages 5 to 23 of the Circular and the letter from Anglo Chinese set out on pages 26 to 38 of the Circular in relation to the Financial Services CCT.

Having considered the advice given by Anglo Chinese, we are of the opinion that the terms of the Proposed Financial Services Framework Agreement in relation to the provision of the Deposit Services and the Other Financial Services by AVIC Finance to the Group, and the proposed caps thereof are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Proposed Financial Services Framework Agreement in relation to the provision of the Deposit Services and the Other Financial Services by AVIC Finance to the Group (including the proposed caps thereof) is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the AGM.

Yours faithfully,

For and on behalf of the Independent Board Committee  
**AviChina Industry & Technology Company Limited\***  
**Guo Chongqing, Li Xianzong, Lau Chung Man, Louis**  
*Independent Non-executive Directors*

\* For identification purpose only

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE  
IN RELATION TO THE HAFEI AVIATION SUBSCRIPTION**

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

13 May 2013

*To the Independent Shareholders*

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 13 May 2013 of which this letter forms a part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the terms and conditions of the Subscription Agreement and the connected transactions constituted thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Anglo Chinese has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Subscription Agreement.

We wish to draw your attention to the letter from the Board set out on pages 5 to 23 of this Circular and the letter from Anglo Chinese set out on pages 39 to 56 of this Circular in relation to the Hafei Aviation Subscription.

Having considered the advice given by Anglo Chinese, we are of the opinion that the terms of the Subscription Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. Although the completion of Proposed Placing of Hafei Aviation will dilute the profit of the Company as explained in the 20 July 2012 Circular, the Group will enhance its assets size and manufacture capabilities of its helicopter business through the Proposed Placing of Hafei Aviation. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the AGM.

Yours faithfully,

For and on behalf of the Independent Board Committee  
**AviChina Industry & Technology Company Limited\***  
**Guo Chongqing, Li Xianzong, Lau Chung Man, Louis**  
*Independent Non-executive Directors*

\* For identification purpose only

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**LETTER FROM ANGLO CHINESE  
IN RELATION TO THE FINANCIAL SERVICES CCT**

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

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**ANGLO CHINESE**

CORPORATE FINANCE, LIMITED  
40<sup>th</sup> 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*

13 May 2013

Dear Sirs,

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS  
FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH AVIC FINANCE**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of Proposed Financial Services Framework Agreement in relation to the Deposit Services and the Other Financial Services to be provided by AVIC Finance to the Group, as well as the related proposed caps. Details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 13 May 2013, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context requires otherwise.

Reference is made to the announcement of the Company dated 25 March 2013 in relation to the Proposed Financial Services Framework Agreement with AVIC Finance, in which AVIC Finance has agreed to provide the Group with, amongst other things, Deposit Services and Other Financial Services on a non-exclusive basis for another term of three years, subject to and on the terms and conditions provided therein.

AVIC Finance is a subsidiary of AVIC which, as at the Latest Practicable Date, had an approximately 51.26% direct equity interest in the Company. AVIC Finance is 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 ratio in respect of the proposed caps for the Deposit Services and the Other Financial Services is more than 5% but less than 25%, the Deposit Services and the Other Financial Services also constitute discloseable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules. Deposit Services and Other Financial Services are subject to, amongst other things, approval by Independent Shareholders by way of poll at the AGM pursuant to the Hong Kong Listing Rules.

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The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, has been formed to advise the Independent Shareholders in respect of Deposit Services and Other Financial Services contemplated under the Proposed Financial Services Framework Agreement and their respective proposed caps.

Votes of the Independent Shareholders at the AGM shall be taken by poll. As AVIC has material interest in the Proposed Financial Services Framework Agreement, AVIC and its associates will abstain from voting at the AGM in respect of the ordinary resolution to be proposed in relation to Deposit Services and Other Financial Services under the Proposed Financial Services Framework Agreement including the proposed caps thereof.

### **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 have we conducted any form of independent in-depth investigation into the business and affairs or the prospects of the Company, AVIC, 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.

### **PRINCIPLE FACTORS AND REASONS CONSIDERED**

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the Deposit Services and the Other Financial Services contemplated under the Proposed Financial Services Framework Agreement and their respective proposed caps, we have taken into account the following principal factors:

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**1. Background of the Proposed Financial Services Framework Agreement**

*Business of the Group*

The Company is a joint stock limited company incorporate in the PRC, whose H shares are listed on the Stock Exchange. AVIC is the controlling shareholder of the Company and as at the Latest Practicable Date, AVIC was directly interested in 2,806,088,233 shares of the Company, representing approximately 51.26% of the total issued share capital of the Company. The Company is mainly engaged in the research and development, manufacture and sales of civil aviation products.

*Financial information of the Group*

Set out below is a summary of the consolidated financial costs and income and the profit/loss of the Group from its continuing operations for each of the three years ended 31 December 2012:

	<b>For the year ended 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	audited	audited	audited
	(restated)	(restated)	
Finance income	80.6	126.9	173.2
Finance cost	(133.5)	(145.6)	(160.4)
<b>Finance income/(cost), net</b>	<b>(52.9)</b>	<b>(18.7)</b>	<b>12.8</b>
<b>Profit for the year</b>	<b>958.9</b>	<b>908.8</b>	<b>1,157.0</b>

Finance income of the Group represents interest income on bank balances and deposits, while finance costs of the Group represents interest expenses on bank and other borrowings. The Group recorded a net finance cost of RMB68.4 million in 2009 and turnaround into a net finance income of RMB12.8 million in 2012, which was mainly resulted from the increased interest income arising from the increased bank deposits. It is noted that the net finance income/cost has been steadily improved in the past three years and positively contributed to the performance of 2012.

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Set out below is a summary of the Group's consolidated cash and borrowing balances as at 31 December 2010, 2011 and 2012:

	<b>As at 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	audited	audited	audited
	(restated)	(restated)	
Pledged deposits	153.2	635.2	652.6
Term deposits with initial term of over three months	2,692.3	2,348.0	3,228.0
Cash and cash equivalents	6,417.9	6,303.4	5,219.3
<b>Total cash balance</b>	<b>9,263.4</b>	<b>9,286.6</b>	<b>9,099.9</b>
Bank borrowing	1,992.4	1,769.8	1,897.1
Other borrowing	1,038.0	1,288.6	1,451.0
<b>Total borrowing</b>	<b>3,030.4</b>	<b>3,058.4</b>	<b>3,348.1</b>

The total cash balances of the Group has been increased significantly since 2010 and the total cash balances of the Group as at 31 December 2010, 2011 and 2012 have exceeded RMB9 billion consecutively. As at 31 December 2012, the cash balances of the Group amounted to RMB9,099.9 million, representing a significant increase of approximately 144.4% comparing with the cash balances of RMB3,722.4 million as at 31 December 2009, while the total borrowings recorded a mild increase of approximately 28.3% during the corresponding period. The increase of the cash balances of the Group as at 31 December 2010 was mainly resulted from several fund-raising and asset reorganisation activities of the Group in 2010.

***Background of the Proposed Financial Services Framework Agreement***

The Company entered into the Existing Financial Services Framework Agreement with AVIC Finance on 1 April 2010. As the Existing Financial Services Framework Agreement is due to expire on 18 May 2013, the Company and AVIC Finance conditionally entered into the Proposed Financial Services Framework Agreement on 25 March 2013, pursuant which AVIC Finance has agreed to continue to provide the Group with Deposit Services, Loan Services, Settlement Services, Guarantee Services and Other Financial Services on a non-exclusive basis for another term of three years upon approval by the Independent Shareholders at the AGM. It is noted that major terms of the Proposed Financial Services Framework Agreement are similar to those of the Existing Financial Services Framework Agreement and only the Deposit Services and Other Financial Services are subject to the Independent Shareholders approval under the Hong Kong Listing Rules.

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**2. Major terms of the Proposed Financial Services Framework Agreement**

Pursuant to the Proposed Financial Services Framework Agreement, AVIC Finance has agreed to continue to provide to the Group with amongst other things, Deposit Services and Other Financial Services based on the terms summarised as follows:

*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 PBC for the same type of deposit services; (b) the interest rates for the same type of deposits offered by any third party to the Group; and (c) the interest rates for the same type of deposits offered by the AVIC Finance to any other member companies of AVI(including AVIC);
- (ii) The maximum daily 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.

*Other Financial Services*

- (i) AVIC Finance will, in accordance with the Company's instructions and requests, provide to the Group Other Financial Services including but not limited to Bill Acceptance (票據承兌), Discount Services (貼現服務) and Factoring Services of Accounts Receivable (應收帳款保理服務). 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 the PBC for the same type of financial services (if applicable); (b) the fees charged by the other financial institutions in the PRC including major commercial banks in the PRC for the same services; and (c) the fees charged for the same type of financial service offered by AVIC Finance to any other member companies of AVIC (including AVIC) with the same credit rating.

The Proposed Financial Services Framework Agreement shall become effective for a term of three years upon the approval by the Independent Shareholders at the AGM.



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### **3. Reason for and benefits of entering 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 PBC 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 31 December 2012, the Group has a total cash balance of approximately RMB9,099.9 million and a total borrowing of approximately RMB3,348.1 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 and Loan Services provided by or charged by AVIC Finance will be equal to or more favourable to the Group than the terms available from third parties for the same type of services, and fee charged by AVIC Finance for provision of Settlement Services and Other Finance Services to the Group will be equal to or more favourable than the terms available from third parties under the same conditions. 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.

### **4. Proposed Caps**

#### *Deposit Services*

The maximum daily outstanding balance of deposits to be placed at AVIC Finance during the term of the Proposed Financial Services Framework Agreement is proposed to be 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 caps were arrived at after considering (1) the control of financial risks in selecting providers of financial services; (2) the future business development plans and financial needs of the Group following the completion of various reorganisation exercises and acquisitions undertaken by the Group during the course of previous few years; (3) the historical maximum daily outstanding balances of deposits

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(including interest accrued thereon) of the Group; and the maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance under the period of Existing Financial Services Framework Agreement; and (4) the benefits of the Deposit Services to the Group.

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

	<b>31 December 2010</b>	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>28 February 2013</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB 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	476.01	1,134.09	1,095.11	774.02
Existing approved caps ( <i>Note 1</i> )	2,000	2,000	2,000	2,000
Percentage of use of the existing approved caps	24%	57%	55%	39%
Total cash balance of the Group as at	9,263.4	9,286.6	9,099.9	N/A
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	5%	12%	12%	N/A

*Note:*

- 1) the existing caps under the Existing Financial Services Framework Agreement were approved by the then Shareholders at the extraordinary general meeting of the Company held on 19 May 2010.

We noted that the existing approved caps of the Deposit Services were set with reference to, amongst other things, the Group's total cash balances in the financial year of 2009. We also noted that the existing approved caps of the Deposit Services had not been fully utilised during the past three years 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 three years ended 31 December 2012 over the total cash balance of the Group as at 31 December 2010, 2011 and 2012 are 5%, 12% and 12% respectively. Over the past three years, the total cash balances of the Group have been significantly increased and the total cash balances of the Group as at 31 December 2010, 2011 and 2012 have exceeded RMB9 billion consecutively, which represents an increase of over 140% comparing with the total cash balances of the Group as at 31 December 2009, and the management of

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the Company expects the needs of Deposit Service will increase. 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. We understand from the management of the Company that 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 are fair and reasonable so far as the Shareholders are concerned.

***Other Financial Services***

The proposed annual caps in respect of the provision of Other Financial Services by AVIC Finance to the Group during the term of the Proposed Financial Services Framework Agreement are proposed to be RMB1 billion. In assessing the reasonableness of the proposed annual caps, we have discussed with the management of the Group the basis and assumptions in setting the proposed annual caps and understand that the proposed annual caps were arrived at after considering (1) the capital management strategy of the Group; (2) the future business development and financial needs of the Group following the completion of various reorganisation exercises and acquisition undertaken by the Group during the course of previous few years; and (3) the nature and benefits of the Other Financial Services.

Set out below is summary of accounts receivable and payable of the Group as at 31 December 2010, 2011 and 2012:

	<b>As at 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	(audited)	(audited)	(audited)
	(restate)	(restate)	
Accounts receivable classified as current			
assets	3,568.9	4,387.5	5,957.2
Notes receivable	878.2	665.5	1,454.2
Accounts payable	5,490.1	6,913.9	10,042.6
Notes payable	1,155.7	1,790.4	2,632.8
Net book value of receivables secured for			
borrowing	47.0	319.8	469.0
Borrowing secured by the above mounts of			
receivables	45.0	231.0	421.0

As shown above, the current portion of accounts receivable of the Group as at 31 December 2010, 2011 and 2012 amount to approximately RMB3,568.9 million, RMB4,387.5 million and RMB5,957.2 million, respectively, and the accounts payable of the Group as at 31 December 2010, 2011 and 2012 amount to approximately RMB5,490.1 million, RMB6,913.9 million and

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RMB10,042.6 million, respectively. It is noted that both of the accounts receivable and payable have been increased steadily in accordance with the business development of the Group. As advised by the management of the Company, the bill acceptance services, discount service and factoring services of accounts receivable are expected to be increasingly necessary for the Group and it is expected that in general the Bill Acceptance services will apply to the notes payable of the Group and the Discounts Services will apply to notes receivable of the Group. In addition, as disclosed in the annual report of the Company for the year ended 31 December 2012, as at 31 December 2012, a total of approximately RMB421.0 million borrowings were secured by receivables with a net book value of approximately RMB469.0 million. The proposed annual caps of RMB1 billion for a basket of services provisions under the Other Financial Services represent the maximum amount that AVIC Finance would render under the Proposed Financial Services Framework Agreement. As stated in the letter from the Board, the Other Financial Services comprise, amongst other things, Bill Acceptance services, Discount Services and Factoring Services of Accounts Receivable services, which are new transactions to be entered into between the Group and AVIC Finance without historical figures available, are expected to provide advance cash inflow with a reasonable and favourable finance charge in a more flexible way when such service is needed by the Group, and also help to promote the recovery of capital of subsidiaries of the group and improve the funds use efficiency and the proposed caps of RMB1 billion is set at an appropriate level for such services.

Having considered the above, we are of the view that the proposed annual caps in respect of the Other Financial Services are fair and reasonable so far as the Shareholders are concerned.

**5. Annual review of the continuing connected transactions**

Pursuant to Rules 14A.37 to 14A.40 of the Hong Kong Listing Rules, the continuing connected transactions are subject to the following requirements:

- (i) each year the independent non-executive Directors will review the continuing connected transactions and confirm in the annual report and accounts that they have been entered into:
  - (a) in the ordinary and usual course of business of the Group;
  - (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
  - (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (ii) each year the auditors of the Company will provide a letter to the Board confirming that the continuing connected transactions:
  - (a) have received the approval of the Directors;
  - (b) are in accordance with the pricing policies of the Group if the transactions involving provision of goods and services by the Group;

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- (c) have been entered into in accordance with the relevant agreement governing the continuing connected transactions; and
- (d) have not exceeded the cap disclosed in previous announcement(s).

The Directors must state in the annual report whether the auditors have confirmed the above matters;

- (iii) the Company shall allow, and shall procure the relevant counterparties to the continuing connected transactions to allow, the auditors of the Company sufficient access to their records for the purpose of reporting on the continuing connected transactions as set out in paragraph (ii) above; and
- (iv) the Company will promptly notify the Hong Kong Stock Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in (i) and/or (ii) respectively.

As the maximum balances of deposits placed by the Group with AVIC Finance will be restricted by the proposed caps in respective of the Deposit Services and the Other Financial Services will be capped at proposed annual caps in respective of the Other Financial Services and both the Deposit Services and the Other Financial Services will be subject to annual review by the independent non-executive Directors and auditors of the Company, we are of the view that appropriate measures will be in place to govern the conduct of the Deposit Services and the Other Financial Services and safeguard the interest of the Independent Shareholders.

We have reviewed the annual reports of the Company for three financial years of 2010, 2011 and 2012, whereby the independent non-executive Directors have confirmed that the transactions pursuant to the Existing Financial Services Framework Agreement during the three years have been entered into in accordance with the Existing Financial Services Framework Agreement 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 the transactions pursuant to the Existing Financial Services Framework Agreement during the three years have been entered into in accordance with the Existing Financial Services Framework Agreement.

## **6. Information of AVIC Finance**

### ***Business 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, credit certification and other advisory agency service and security to

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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.

***Financial information and regulatory environment of AVIC Finance***

As at 31 December 2012, the registered capital of AVIC Finance was RMB2 billion. Set out below is a summary of the financial information of AVIC Finance from its respective audited financial statement for each of the three years ended 31 December 2010, 2011 and 2012:

	<b>For the year ended 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)
Net interest income	375.8	750.5	876.9
Profit before taxation	384.8	697.6	837.5
Profit after taxation	296.0	532.6	646.3
	<b>As at 31 December</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)	<i>RMB million</i> (audited)
Cash and deposits in central bank ( <i>Note 1</i> )	3,272.5	3,396.7	3,743.5
Loans to companies within AVIC Group	10,988.4	15,545.0	17,073.0
Cash and balances with other financial institutions	22,267.9	9,991.8	14,780.2
Other assets	991.3	1,473.7	1,601.9
<b>Total assets</b>	37,520.1	30,407.2	37,198.6
Deposits from companies within AVIC Group	35,493.5	27,265.6	33,882.0
Deposits from other financial institutions	41.2	39.8	84.5
Other liabilities	114.6	388.6	346.4
<b>Liabilities</b>	35,649.3	27,694.0	34,312.9
<b>Equity</b>	1,870.8	2,713.1	2,885.8
<b>Current ratio</b>	62.98%	52.67%	58.11%
<b>Capital adequacy ratio</b> ( <i>Note 2</i> )	12.27%	15.52%	15.45%

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*Notes:*

1. Cash and deposits in central bank mainly represent the mandatory proportion of the deposits AVIC Finance received with PBC
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 based divided by its risk-weighted assets

As at the Latest Practicable Date, AVIC Finance has secured lines of credit of an amount up to RMB12,400 million from several major commercial banks in the PRC. 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 Agreement of RMB3 billion represents 8.85% of the deposits from companies within AVIC Group of approximately RMB33,882 million as at 31 December 2012.

***Regulatory compliance of Finance***

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 and actual practice in execution, AVIC Finance must comply with the following ratio requirement:

	<b>Requirements on PRC licensed finance companies</b>	<b>AVIC Finance</b>		
		<b>2010</b>	<b>2011</b>	<b>2012</b>
Capital adequacy ratio	≥10%	12.27%	15.52%	15.45%
Inter-bank borrowing balances shall not exceed total capital	≤100%	–	–	–
Total amount of outstanding guarantees shall not be more than the total capital	≤100%	53.45%	0.23%	0.05%
Total amount of investment to total capital ratio	≤70%	52.47%	52.80%	40.59%
Self-owned fixed assets to total equity ratio	≤20%	0.23%	0.14%	0.08%

As shown from the table above, AVIC Finance complies with all the ratio requirements as at 31 December 2010, 2011 and 2012.

***Internal Control Measures***

We are advised by the Company that 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.

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IN RELATION TO THE FINANCIAL SERVICES CCT**

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We are also advised by the Company 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. As advised by the Company, AVIC Finance has been examined by CBRC and no major issues were observed by CBRC since the establishment of AVIC Finance.

**RECOMMENDATION**

Having taken into consideration of the above principal factors and reasons, we concur with the Directors' view that (i) the Deposit Services and Other Financial Services contemplated under the Proposed Financial Services Framework Agreement are on normal commercial terms and in the ordinary and usual course of business of the Company; (ii) the terms of the Deposit Services and Other Financial Services contemplated under the Proposed Financial Services Framework Agreement and their respective caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the proposed resolutions at the AGM to approve the Deposit Services and Other Financial Services contemplated under the Proposed Financial Services Framework Agreement and their respective caps.

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



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**LETTER FROM ANGLO CHINESE  
IN RELATION TO THE HAFEI AVIATION SUBSCRIPTION**

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

**ANGLO CHINESE**  
CORPORATE FINANCE, LIMITED  
40<sup>th</sup> Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong  
www.anglochinesegroup.com

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*To the Independent Board Committee  
and the Independent Shareholders*

13 May 2013

Dear Sirs,

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

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the connected transactions relating to the AVIC Helicopter Subscription and AVIC Hafei Subscription. Details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 13 May 2013, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context requires otherwise.

Reference is made to the announcements of the Company dated 25 May 2012, 11 July 2012, 22 March 2013 and 1 April 2013, and the 20 July 2012 Circular of which our letter dated 20 July 2012 formed part. On 25 May 2012, 11 July 2012 and 21 March 2013, AVIC Helicopter, AVIC Hafei and the Company entered into the Subscription Agreement, Supplementary Agreement and Supplementary Agreement II with Hafei Aviation, a 50.05% non-wholly owned subsidiary of the Company whose A shares are listed on the Shanghai Stock Exchange, pursuant to which Hafei Aviation agreed to issue and AVIC Helicopter, AVIC Hafei and the Company collectively agreed to subscribe for approximately 194 million new Hafei Aviation A Shares based on the Subscription Price of RMB17.13 per Hafei Aviation A Share. The consideration for the subscription will be satisfied by the transfer of the AVIC Helicopter Interest, the AVIC Hafei Assets and the Changhe Aviation Interest (together the “**Incoming Assets**”) to Hafei Aviation. The estimated appraised value of the Incoming Assets to be transferred to Hafei Aviation aggregated to approximately RMB3,320 million. The final number of new Hafei Aviation A Shares to be issued will be dependent on the final Subscription Price to be approved by CSRC. The issuance and allotment of new Hafei Aviation A Shares under the Subscription Agreement is also subject to approval by the relevant PRC government authorities including CSRC. Upon the

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completion of the Proposed Placing of Hafei Aviation, AVIC Helicopter, AVIC Hafei and the Company will be respectively interested in approximately 18.30%, 7.95% and 34.63% of the total issued share capital of Hafei Aviation, as enlarged by the issue of new Hafei Aviation A Shares.

As at the Latest Practicable Date, AVIC Hafei is held as to 95.72% by and a subsidiary of AVIC Helicopter, which is a non-wholly owned subsidiary of AVIC, the controlling shareholder of the Company. Pursuant to Chapter 14A of the Hong Kong Listing Rules, AVIC is a connected person of the Company, and AVIC Helicopter and AVIC Hafei are associates of AVIC. Therefore, the AVIC Helicopter Subscription and AVIC Hafei Subscription will constitute connected transactions of the Company. As the highest applicable size test percentage ratio in relation to the AVIC Helicopter Subscription and AVIC Hafei Subscription exceeds 5% but is less than 25%, such subscription will also constitute discloseable transactions of the Company. The AVIC Helicopter Subscription and AVIC Hafei Subscription will be subject to, among other things, approval by the Independent Shareholders.

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

Votes of the Independent Shareholders at the AGM shall be taken by poll. As AVIC has material interest in the AVIC Helicopter Subscription and AVIC Hafei Subscription, AVIC and its associates will abstain from voting on the ordinary resolution to approve the Hafei Aviation Subscription pursuant to the Subscription Agreement at the AGM. Save for the approval from the Independent Shareholders at the AGM, the Subscription Agreement is also subject to the conditions precedent as set out on page 11 to page 12 of the 20 July 2012 Circular. As at the Latest Practicable Date, the transactions contemplated under the Subscription Agreement had been approved by the board of Hafei Aviation and the shareholders of Hafei Aviation on a general meeting, approved in principle by SASAC, but were still subject to the approval by the CSRC.

### **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

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our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in this circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted any form of independent in-depth investigation on the Incoming Assets or into the business and affairs or the prospects of AVIC, the Company, Hafei Aviation, AVIC Helicopter, AVIC Hafei or any of their respective subsidiaries or associates.

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

### **PRINCIPLE FACTORS AND REASONS CONSIDERED**

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the connected transactions relating to the AVIC Helicopter Subscription and AVIC Hafei Subscription, and the proposed transfer of the relevant Incoming Assets as consideration under the Subscription Agreement, we have taken into account the following principal factors:

#### **Background of the Subscription Agreement**

##### *Business and financial information of the Group*

The Company is directly held as to 51.26% by AVIC, the controlling shareholder of the Company which is a state-owned enterprise in the PRC specialising in the manufacturing of aviation products and non-aviation products such as special vehicles. As a member of AVIC, the Group is engaged in the research, development, manufacture and sales of civilian aviation products, such as helicopters, trainers, general-purpose aircraft and regional jets as well as aviation parts. Pursuant to the Subscription Agreement, Hafei Aviation, being a 50.05% non-wholly owned subsidiary of the Company listed on the Shanghai Stock Exchange, will issue new Hafei Aviation A Shares in exchange for the Incoming Assets which in substance can be viewed a reorganisation exercise among AVIC Helicopter and AVIC Hafei and the Company, for the purpose of consolidating their respective helicopter related businesses under Hafei Aviation. Such reorganisation will result in a deemed disposal of equity interest in Hafei Aviation by the Company and reduce its equity interest by approximately 15.42% to approximately 34.63% but Hafei Aviation will remain as a non-wholly owned subsidiary of the Company upon the completion of the Proposed Placing of Hafei Aviation due to the voting rights arrangement between AVIC Helicopter and AVIC Hafei and the Company.

The Group used to be engaged in two key segments namely aviation products and automobile products. Since the second half of 2008, the Group underwent a series of reorganisation to divest its loss making automobile segment and focus on the aviation segment, and the Group ceased to hold material controlling interest in any automobile business after such reorganisation. To further extend its aviation manufacture industry chain and to seek new focus for business growth, the Company continued to acquire aviation business assets from AVIC, resulting in a growing number of subsidiaries and rapid growth of revenue of its aviation product business.

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Tabularised below is a summary of the audited consolidated financial results of the Group as extracted from the Company's annual report 2012:

<b>Consolidated Income Statement</b>	<b>For the year ended</b>		<b>Year on year change %</b>
	<b>31 December 2012</b>	<b>2011</b>	
	<i>RMB'000</i>	<i>RMB'000</i> (restated)	
Revenue from continuing operations	16,800,189	13,271,415	26.59%
Gross profit from continuing operations	3,269,755	2,652,512	23.27%
Gross profit margin	19.46%	19.99%	
Profit attributable to the equity holders of the Company from continuing operations	600,394	444,190	35.17%
<b>Consolidated Balance Sheet</b>	<b>As at 31 December</b>		<b>Year on year change %</b>
	<b>2012</b>	<b>2011</b>	
	<i>RMB'000</i>	<i>RMB'000</i> (restated)	
Total assets	35,896,112	30,973,212	15.89%
Net asset value (excluding minority interest)	9,126,486	7,545,394	20.95%
Cash and cash equivalents	5,219,321	6,303,412	-17.20%
Total borrowings	3,348,090	3,058,384	9.47%
Gearing ratio (total borrowings/total assets)	9.33%	9.87%	

The revenue of the Group's continuing operations in 2012 was approximately RMB16,800 million, representing an increase of approximately 26.59% as compared with that in 2011. Among that, the revenue of the Group's entire aircraft business amounted to approximately RMB8,273 million, representing an increase of approximately 26.21% as compared with that in 2011 and accounting for 49.24% of the total revenue of the aviation segment which is mainly due to the rapid increase of helicopter business. The revenue of the Group's aviation parts and components business amounted to approximately RMB8,527 million, representing an increase of approximately 26.97% as compared with that in 2011 and accounting for 50.76% of the total revenue of the aviation segment which is mainly due to the increase in the avionics business.

The continuing operations of the Group recorded a profit attributable to the equity holders of the Company of approximately RMB600 million in 2012, representing an increase of approximately 35.17% as compared with that in 2011.

***Business and financial information of Hafei Aviation***

Hafei Aviation is a joint stock limited liability company incorporated in the PRC whose A shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, Hafei Aviation is held as to 50.05% by the Company and 49.95% by public shareholders. Hafei Aviation is mainly engaged in the development and manufacture of helicopter products.

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

<b>Consolidated Income Statement</b>	<b>For the year ended</b>		<b>Year on year change</b>
	<b>31 December 2012</b>	<b>2011</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	2,858,187	2,769,434	3.20%
Operating profit	131,112	114,777	14.23%
Operating profit margin	4.59%	4.14%	
Net profit before tax	132,555	123,299	7.51%
Net profit after tax	115,557	109,809	5.23%
Net profit attributable to the equity holders of Hafei Aviation	115,557	109,809	5.23%

<b>Consolidated Balance Sheet</b>	<b>As at 31 December</b>		<b>Year on year change</b>
	<b>2012</b>	<b>2011</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Total assets	4,986,244	3,130,135	16.91%
Net asset value (excluding minority interest)	1,596,365	1,505,379	5.72%
Cash and cash equivalents	572,650	151,445	6.04%
Total borrowings	0	0	N/A
Gearing ratio (total borrowings/total assets)	0	0	N/A

***Business and financial information of the Incoming Assets***

As there is no consolidated financial statements being prepared in respect of the Incoming Assets, tabularised below is the summation of the financial information of Changhe Aviation, Changfei Parts and Components, Helicopter Tianjin, AVIC Huiyang and AVIC Hafei Assets according to their respective financial information audited by RSM China Certified Public Accountants (中瑞岳華會計師事務所), an independent qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, for

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the two years ended 31 December 2012. The figures below are only an arithmetic summation of the financial information of the Incoming Assets for illustration purpose only and should not be viewed as a consolidated financial statement or pro forma financial information of the Incoming Assets:

<b>Income Statement</b>	<b>For the year ended</b>		<b>Year on year change</b>
	<b>31 December 2012</b>	<b>2011</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Aggregate revenue	6,444,255	4,457,837	44.56%
Aggregate operating profit	134,638	68,367	96.93%
Operating profit margin	2.09%	1.53%	
Aggregate net profit before tax	137,551	67,235	104.58%
Aggregate net profit/(loss) after tax	108,462	54,393	99.40%
Aggregate net profit/(loss) attributable to the equity holders	109,782	56,312	94.95%
<b>Balance Sheet</b>	<b>As at 31 December</b>		<b>Year on year change</b>
	<b>2012</b>	<b>2011</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Aggregate total assets	11,554,112	9,228,241	25.20%
Aggregate net asset value (excluding minority interest)	2,836,280	724,712	291.37%
Aggregate cash and cash equivalents	2,374,888	3,209,590	-26.01%
Aggregate total borrowings	620,650	960,450	-35.38%
Gearing ratio (total borrowings/total assets)	5.37%	10.41%	

As shown above, the operation of the Incoming Assets as a whole remained profitable for each of the two years ended 31 December 2012 and 2011 and the size of operation is much bigger than that of Hafei Aviation in terms of turnover and net asset value. Among the Incoming Assets, Changhe Aviation, currently a wholly owned subsidiary of the Company, contributed the majority of the revenue and profit; AVIC Hafei Assets did not have operating track record for the year ended 31 December 2012. For the year ended 31 December 2012, the aggregate turnover of the companies comprising the Incoming Assets amounted to some RMB6,444 million, which was approximately 2.25 times of that of Hafei Aviation for the same year; the net profit attributable to Hafei Aviation from the Incoming Assets was approximately RMB110 million in 2012, which was about 95% of the net profit attributable to equity holder of Hafei Aviation for the same year.

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

***Changhe Aviation***

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

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

<b>Consolidated Income Statement</b>	<b>For the year ended</b>		<b>Year on year change %</b>
	<b>31 December</b>		
	<b>2012</b>	<b>2011</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	
Revenue	5,931,135	4,076,935	45.48%
Operating profit	115,468	59,079	95.45%
Operating profit margin	1.95%	1.45%	
Net profit before tax	116,401	58,307	99.63%
Net profit after tax	95,795	49,035	95.36%
Net profit attributable to the equity holders	97,114	50,954	90.59%
<b>Consolidated Balance Sheet</b>	<b>As at 31 December</b>		<b>Year on year change %</b>
	<b>2012</b>		
	<b>2011</b>		
	<i>RMB'000</i>	<i>RMB'000</i>	
Total assets	8,288,401	8,283,324	0.06%
Net asset value (excluding minority interest)	593,797	555,774	6.84%
Cash and cash equivalents	2,061,228	2,974,795	-30.71%
Total borrowings	395,000	629,800	-37.28%
Gearing ratio (total borrowings/total assets)	4.77%	7.60%	

***Changfei Parts and Components***

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

Tabularised below is a summary of the financial results of Changfei Parts and Components as extracted from the audited financial statement for the year ended 31 December 2012:

<b>Consolidated Income Statement</b>	<b>For the year ended 31 December 2012</b>
	<i>RMB'000</i>
Revenue	97,775
Operating profit	11,029
Operating profit margin	11.28%
Net profit before tax	11,028
Net profit after tax	8,271
Net profit attributable to the equity holders	8,271

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**Consolidated Balance Sheet**

**As at 31 December 2012**

*RMB'000*

Total assets	882,096
Net asset value (excluding minority interest)	628,064
Cash and cash equivalents	1,283
Total borrowings	0
Gearing ratio (total borrowings/total assets)	0.00%

***Helicopter Tianjin***

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

Tabularised below is a summary of the financial results of Helicopter Tianjin as extracted from the audited financial statements for the year ended 31 December 2012:

**Consolidated Income Statement**

**For the year ended  
31 December 2012**

*RMB'000*

Revenue	0
Operating profit	-10,171
Operating profit margin	N/A
Net profit before tax	-10,171
Net profit after tax	-10,171
Net profit attributable to the equity holders	-10,171

**Consolidated Balance Sheet**

**As at 31 December 2012**

*RMB'000*

Total assets	833,449
Net asset value (excluding minority interest)	783,673
Cash and cash equivalents	197,146
Total borrowings	0
Gearing ratio (total borrowings/total assets)	0.00%



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***AVIC Huiyang***

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

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

<b>Consolidated Income Statement</b>	<b>For the year ended</b>		<b>Year on year change</b>
	<b>31 December</b>		
	<b>2012</b>	<b>2011</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	415,345	380,902	9.04%
Operating profit/(loss)	18,312	9,288	97.15%
Operating profit margin	4.41%	2.44%	
Net profit/(loss) before tax	20,293	8,928	127.31%
Net profit/(loss) after tax	14,567	5,358	171.87%
Net profit(loss) attributable to the equity holders	14,567	5,358	171.87%
<b>Consolidated Balance Sheet</b>	<b>As at 31 December</b>		<b>Year on year change</b>
	<b>2012</b>		
	<b>2012</b>	<b>2011</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Total assets	948,927	944,917	0.42%
Net asset value (excluding minority interest)	229,507	168,939	35.85%
Cash and cash equivalents	115,231	234,795	-50.92%
Total borrowings	225,650	330,650	-31.76%
Gearing ratio (total borrowings/total assets)	23.78%	34.99%	

***AVIC Hafei Assets***

AVIC Hafei is a limited liability company established in the PRC. As at the Latest Practicable Date, AVIC Hafei is an 95.72% owned subsidiary of AVIC Helicopter. AVIC Hafei Assets are mainly the assets of AVIC Hafei relating to the manufacturing of helicopter parts and components, including 6 plants, 14 land using rights and 234 pieces of equipments.

Based on the audited financial statement prepared in accordance with the PRC accounting standards, as at 31 December 2012, the carrying amount of the total assets of AVIC Hafei Assets amounted to approximately RMB601.24 million.

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### **Principal terms of the Subscription Agreement**

As AVIC Helicopter Subscription, the AVIC Hafei Subscription and the Company's Subscription are inter-conditional, the transactions contemplated under the Subscription Agreement are effectively an asset swap exercise whereby the Group, through issuance of new Hafei Aviation A Shares as consideration, acquires the Incoming Assets other than Changhe Aviation that is a subsidiary of the Company prior to the completion of the Proposed Placing of Hafei Aviation. The Subscription will constitute a deemed disposal of approximately 15.42% equity interest in Hafei Aviation while the Company's effective equity interest in Changhe Aviation will also be reduced by 65.37%. The financial results of the Incoming Assets will be consolidated under the Group through its non-wholly owned subsidiary Hafei Aviation upon the completion of the Proposed Placing of Hafei Aviation.

### ***The consideration***

Pursuant to the Subscription Agreement, as amended by Supplementary Agreement I and Supplementary Agreement II, Hafei Aviation agrees to issue and AVIC Helicopter and AVIC Hafei and the Company agree to subscribe 109,045,565, 47,341,165 and 37,452,451 new Hafei Aviation A Shares, respectively. It is expected that approximately 194 million new Hafei Aviation A Shares will be issued at the Subscription Price of RMB17.13 per Hafei Aviation A Share, subject to adjustment to be made pursuant to the occurrence of any ex-dividend or ex-entitlement event, which translated into an implied share consideration of approximately RMB3,320 million for the exchange of the Incoming Assets with estimated valuation of approximately RMB3,320 million.

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

The consideration is determined after the arm's length negotiation by the parties with reference to the Valuation Results of the Incoming Assets as at 31 March 2012 prepared by an independent qualified valuer in the PRC.

#### *ii. Valuation methodology*

We have reviewed the valuation reports dated 15 June 2012 prepared by the Independent Valuer on the methodology adopted and the assumptions used in arriving at the valuation of the Incoming Assets. The Independent Valuer has considered cost replacement method and income method to determine the value of the Incoming Assets. As stated in such valuation report, there are too many uncertain factors such as the specialisation of aviation products business and the influence of the industry policy and the major clients that could affect the valuation model using income method, cost replacement method was adopted by the Independent Valuer as an appropriate valuation methodology. We understand that the Independent Valuer has carried out its work in seven procedures, namely defining valuation scope, signing engagement letter, preparing valuation plan, site visit, data collection, assessment, report submission and filing. We have also inspected the license of the Independent Valuer as being a qualified valuer in the PRC. As the valuation reports were prepared according to the valuation standard in the PRC and the Independent Valuer was appointed by Hafei Aviation, we have not relied on such valuation reports but relied on our analysis on the strategic rationale of consolidating the Incoming Assets under Hafei Aviation, the terms and the consideration

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of the Subscription Agreement, as amended by the Supplementary Agreement I and Supplementary Agreement II, and the possible financial effects to the Group to form our opinion and recommendation given in this letter.

*iii. Payment method*

The total consideration payable by AVIC Helicopter under the Subscription Agreement, as amended by Supplementary Agreement I and Supplementary Agreement II, is estimated to be approximately RMB1,868 million, which will be satisfied by AVIC Helicopter transferring the AVIC Helicopter Interest to Hafei Aviation. The total consideration payable by AVIC Hafei under the Subscription Agreement, as amended by Supplementary Agreement I and Supplementary Agreement II, is estimated to be approximately RMB811 million, which will be satisfied by AVIC Hafei transferring the AVIC Hafei Assets to Hafei Aviation. The total consideration payable by the Company under the Subscription Agreement, as amended by the Supplementary Agreement II, is estimated to be approximately RMB642 million, which will be satisfied by the Company transferring the Changhe Aviation Interest to Hafei Aviation.

***The Subscription Price***

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

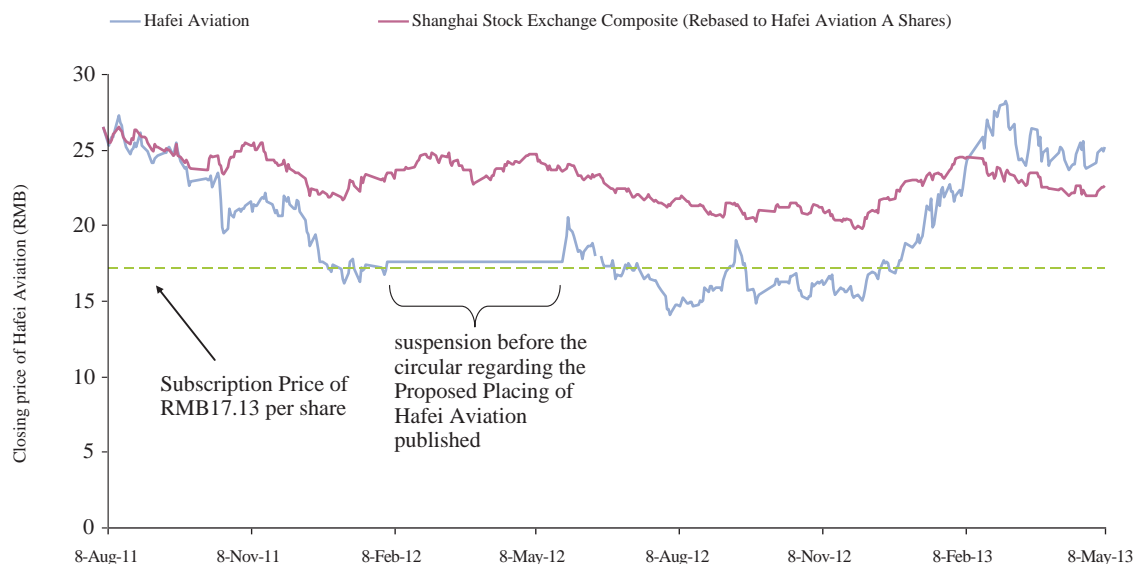
The Subscription Price will not be subject to adjustment except for the adjustment to be made pursuant to the occurrence of any ex-dividend or ex-entitlement event. The Subscription Price will be subject to the approval of the shareholders of Hafei Aviation at its general meeting after the same is approved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

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



Source: Bloomberg

During the Review Period, the closing prices of the Hafei Aviation A Shares ranged from RMB16.17 to RMB27.23 per share. The average closing price of the Hafei Aviation A Shares for the period was approximately RMB21.50 per share. The Subscription Price of RMB17.13 per share lies within the range of the closing price and is approximately 20.33% below the average closing price of the Hafei Aviation A Shares for the Review Period. As shown in the chart above, the price performance of the Hafei Aviation A Shares is broadly in line with that of the Shanghai Stock Exchange Composite Index during the Review Period, we are of the view that the basis of determining the Subscription Price is fair and reasonable. As mentioned above, the Subscription Price was determined according to relative PRC regulation and would not be subject to adjustment except for the adjustment to be made pursuant to the occurrence of any ex-dividend or ex-entitlement event according to the Subscription Agreement. The share performance of Hafei Aviation A Shares after the announcement of the Proposed Placing of Hafei Aviation has reflected the impact of such placing and other financial information published afterwards and hence may not serve as a meaningful benchmark for comparison.

### ***Lock-up arrangement***

The new Hafei Aviation A Shares proposed to be subscribed by AVIC Helicopter, AVIC Hafei and the Company pursuant to the Subscription Agreement will be subject to a lock-up period of 36 months commencing from the date upon which completion of the issue of the relevant new Hafei Aviation A Shares takes place. The 36 months lock-up arrangement was set pursuant to the Articles 45 of the Administrative Measures for the Major Assets Re-organisation of Listed Companies 【Order of CSRC No. 73】 (【中國證券監

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督管理委員會令第73號】《上市公司重大資產重組管理辦法》) effective 1 September 2011. The lock-up arrangement with the Company and the associates of AVIC also indicated that they are strategic investors who will participate in the long term development of Hafei Aviation. We are of the view that the lock-up arrangement is fair and reasonable.

**Comparable Companies**

As mentioned above, the transactions contemplated under the Subscription Agreement are effectively an asset swap exercise whereby the Group will issue new Hafei Aviation A Shares as consideration for acquiring the Incoming Assets. The net profit attributable to Hafei Aviation from the Incoming Assets was approximately RMB110 million for the year ended 31 December 2012 and the net asset value of the Incoming Assets attributable to Hafei Aviation was approximately RMB2,836 million as at 31 December 2012. Based on the implied share consideration payable by Hafei Aviation of approximately RMB3,320 million, the price to earning ratio and the price to book ratio implied by the Incoming Assets was approximately 30.25 times and 1.17 times, respectively.

To assess the fairness and reasonableness of the considerations for the Subscription, we have searched for companies listed on the Hong Kong Stock Exchange which are principally engaged in the manufacturing for aviation sector but failed to find any suitable comparable. Therefore, we have searched for A-share listed companies in the PRC. To the best of our knowledge and as far as we are aware of, there are 6 comparable companies which is an exhaustive list of companies that engage principally in the manufacturing of aviation products in the PRC which are similar with the products manufactured by the Incoming Assets. We consider such comparable companies comparable to the Incoming Assets in terms of their business sector, products mix and geographical location. As the trading of shares of Xi'an Aero Engine Plc has been suspended since 23 January 2013, we removed it from the comparable company list.

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**LETTER FROM ANGLO CHINESE  
IN RELATION TO THE HAFEI AVIATION SUBSCRIPTION**

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We have reviewed commonly used valuation ratios implied by the closing prices of the comparable companies as at the Latest Practicable Date, including price to earning ratio and price to book ratio, which we consider appropriate for this comparison purpose as tabularised below:

Company name	Stock code	Stock Exchange	Market capitalisation as at the Latest Practicable Date <i>RMB</i>	Net profit attributable to equity holders for the year ended 31 December 2012 <i>RMB</i>	Net asset value excluding minority interest as at 31 December 2012 <i>RMB</i>	Price to earning ratio	Price to book ratio
AVIC Aircraft Co., Ltd.	000768	Shenzhen	25,955	252	11,471	103.07	2.26
Guizhou Space Appliance Co., Ltd.	002025	Shenzhen	3,947	153	1,506	25.75	2.62
Jiangxi Hongdu Aviation Industry Co., Ltd.	600316	Shanghai	11,976	88	4,597	136.69	2.61
Sichuan Chengfa Aero-science & Technology Co., Ltd.	600391	Shanghai	3,750	37	1,629	100.11	2.30
China Aerospace Times Electronic Technology Co., Ltd.	600879	Shanghai	6,870	205	3,455	33.46	1.99
					<b>Maximum</b>	136.69	2.62
					<b>Minimum</b>	25.75	1.99
					<b>Average</b>	79.81	2.36
					<b>Median</b>	100.11	2.30
Incoming Assets						30.25	1.17

Source: Bloomberg

**i. Price to earning ratio analysis**

As illustrated above, the comparable companies have average and median price to earning ratios of approximately 79.81 times and 100.11 times, respectively, which are much higher than the implied price to earning ratio of the Incoming Assets of approximately 30.25 times. Given Changfei Parts and Components, Helicopter Tianjin and AVIC Hafei Assets have not commenced or just commenced operation for the year ended 31 December 2012 and thus implied price to earning ratio may not serve as a meaningful benchmark for comparison.

**ii. Price to book ratio analysis**

As illustrated above, the comparable companies have average and median price to book ratios of approximately 2.36 times and 2.30 times, respectively, which are much higher than the implied price to book ratio of the Incoming Assets of approximately 1.17 times. We are of the view that the implied consideration is fair and reasonable to Hafei Aviation and the Company as a whole.

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## LETTER FROM ANGLO CHINESE IN RELATION TO THE HAFEI AVIATION SUBSCRIPTION

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### *Conclusion*

Based on the above, we consider that the implied consideration represented by new Hafei Aviation A Shares with value of approximately RMB3,320 million for the Incoming Assets is fair and reasonable to Hafei Aviation and the Company as a whole. We have also analysed the financial impacts to the Company before and after the completion of the Proposed Placing of Hafei Aviation under the section headed “POSSIBLE FINANCIAL EFFECTS” below.

### **Changes in shareholding structure of Hafei Aviation**

Upon the completion of the Proposed Placing of Hafei Aviation, the equity interest held by the Company in Hafei Aviation will be diluted by approximately 15.42% from 50.05% to approximately 34.63%. AVIC Helicopter, AVIC Hafei and the Company entered into an agreement on 25 May 2012, pursuant to which AVIC Helicopter and AVIC Hafei have undertaken that they will, subsequent to the completion of the Proposed Placing of Hafei Aviation, exercise their respective voting rights at all general meetings of Hafei Aviation in accordance with the instructions of the Company. Accordingly, the Directors confirm, after consulting with the auditors of the Company, that Hafei Aviation will remain to be a subsidiary of the Company and the accounts of Hafei Aviation will continue to be consolidated under the Group following the completion of the Proposed Placing of Hafei Aviation.

### **Reasons for the asset swap constituted under the Subscription Agreement**

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

As mentioned in the Company’s annual report 2012, the Group continued to carry out business reorganisation and extend the scope of new aviation manufacture business according to its established strategic objectives. The acquisition of the entire interest in Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空機電有限公司, “Tianjin Aviation”) had been completed in January 2012 and the operating results of Tianjin Aviation had been consolidated into the Company’s financial results for the period, which brings new profit contribution to the Company. Such acquisition has enhanced the Company’s manufacturing capabilities in aviation products and assemblies, and further perfected the aviation business system of the Company. We are of the view that the transactions contemplated under the Subscription Agreement consolidated the Incoming Assets under the Group are in line with the Company’s development strategy to focus on aviation products and further enhance the assets scale and manufacturing capabilities of the Company’s helicopter related business.

Upon the completion of the Proposed Placing of Hafei Aviation, all helicopter business under AVIC and the Company in relation to the manufacturing of helicopter parts and components and entire civil helicopters will be injected into Hafei Aviation. The rest of the helicopter business under AVIC is military helicopter related business and there will be no helicopter related business under the Company other than that under Hafei Aviation. In order to avoid potential competition with Hafei Aviation in the future, AVIC and the Company also committed that they will ensure none of their members other than Hafei Aviation and its

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## **LETTER FROM ANGLO CHINESE IN RELATION TO THE HAFEI AVIATION SUBSCRIPTION**

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members will involve in business similar with the current business of Hafei Aviation and its members, and will provide the priority to Hafei Aviation and its members to involve in any new business which may constitute competition. Such consolidation of assets that principally engaged in the research and development, design, manufacturing and sale of helicopter related business will further enhance the product mix of the Group's aviation business, enlarge the operation scale, unify the products planning and avoid overlapping investments. We also concur with the view of the Directors that through centralisation of helicopter related business in one platform, the Group will be able to achieve synergy in terms of sharing and optimising distribution of helicopter manufacturing technologies, research and development experience and manufacturing capacity. In addition, we are of the view that by consolidating the Group's helicopter business under another listed vehicle, the transparency of such business division will be increased as more information will be given to shareholders and potential investors through regular publication of financial results and other public information. Stringent corporate governance as required by the regulators may also improve the investment value of such business division given most of the companies comprising the Incoming Assets are private companies prior to their injection into Hafei Aviation. Besides, given Hafei Aviation is also a listed company, potential coverage by research analysts may improve the investor's awareness for the shares of both Hafei Aviation and the Company. By means of issuing new A Shares of Hafei Aviation for the Incoming Assets, the Group will be able to strengthen its position and capacity on helicopter segment without incur substantial cash outflow.

The Board considered that the Company, as a controlling shareholder of Hafei Aviation, will continue to benefit from the future development of Hafei Aviation and the transactions contemplated under the Subscription Agreement will help the Group to consolidate its market position in the PRC aviation industry and further improve its investment value.

Having considered the above, we agree with the Directors that the asset swap exercise contemplated under the Subscription Agreement will enable the Group to focus on its aviation business, strengthen its market position in the PRC aviation industry, improve the operations of the Company, enhance the profitability and sustainable development of the Company and further increase the investment value of the Company. We are of the view that the transactions contemplated under the Subscription Agreement are in the interests of the Company and its shareholders as a whole.

### **POSSIBLE FINANCIAL EFFECTS**

The following analysis is based on the audited consolidated financial statements of the Company, the audited financial information of Hafei Aviation and the Incoming Assets for the financial year ended 31 December 2012. The completion of the Proposed Placing of Hafei Aviation will result in a deemed disposal of approximately 15.42% equity interest in Hafei Aviation while the Company's effective equity interest in Changhe Aviation will also be reduced by 65.37%. Upon the completion of the Proposed Placing of Hafei Aviation, financial results of the Incoming Assets will be consolidated under the financial statements of Hafei Aviation and the financial results of the enlarged Hafei Aviation will be consolidated under the financial statements of the Company. Changhe Aviation, Changfei Parts and Components, Helicopter Tianjin and AVIC Huiyang will become wholly owned subsidiaries of Hafei Aviation, and Hafei Aviation will become non-wholly owned subsidiary of the Company.



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

According to the Company's annual report 2012, the audited consolidated net asset value of the Group excluding minority interests was approximately RMB9,126 million as at 31 December 2012. The net asset value attributable to the Company by the Changhe Aviation (being 100% of the audited net asset value excluding minority interest of Changhe Aviation as at 31 March 2012) and Hafei Aviation (being 50.05% of the audited net asset value excluding minority interest of Hafei Aviation as at 31 December 2012) prior to the Proposed Placing of Hafei Aviation aggregated to approximately RMB1,393 million as at 31 December 2012. After the completion of the Proposed Placing of Hafei Aviation, the net asset value attributed to the Company by the approximately 34.63% equity interest in the enlarged Hafei Aviation would be approximately RMB1,918 million as at 31 December 2012 (being 34.63% of the sum of the net asset value excluding minority interest of the Hafei Aviation and the Incoming Assets as at 31 December 2012 and the proceeds under the Cash Subscription), representing an increase of approximately 37.71% comparing with current contribution from the Changhe Aviation Interest and the approximately 50.05% equity interest in Hafei Aviation.

### **Effects on earnings**

The Group recorded net profit attributable to shareholders of approximately RMB600 million for the year ended 31 December 2012. The net profit attributed to the Company by Changhe Aviation (being 100% of the audited net profit attributable to equity holders of Changhe Aviation for the year ended 31 December 2012) and Hafei Aviation (being 50.05% of the audited net profit attributable to equity holders of Hafei Aviation for the year ended 31 December 2012) prior to the Proposed Placing of Hafei Aviation aggregated to approximately RMB155 million for the year ended 31 December 2012. After the completion of the Proposed Placing of Hafei Aviation, the net profit attributed to the Company by the approximately 34.63% equity interest in the enlarged Hafei Aviation would be approximately RMB78 million for the year ended 31 December 2012 (being 34.63% of the net profit attributable to equity holders of the Hafei Aviation and the Incoming Assets for the year ended 31 December 2012), representing a decrease of approximately RMB77 million or 49.64% comparing with current contribution from the Changhe Aviation Interest and the approximately 50.05% equity interest in Hafei Aviation and such decrease representing approximately 12.81% of the audited net profit attributable to equity holders of the Company from continuing operations for the year ended 31 December 2012.

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

As at 31 December 2012, the Group's total borrowings was RMB3,348million and the gearing ratio, being calculated as total borrowings divided by the total assets, was approximately 9.33%. As at 31 December 2012, the total borrowings of the AVIC Helicopter Interest and AVIC Hafei Interest was RMB226 million and the gearing ratio was 6.91%. We are of the view that the asset swap constituted by the AVIC Helicopter Subscription and AVIC Hafei Subscription would decrease the gearing ratio of the Group after the completion of the Proposed Placing of Hafei Aviation.

The Company had cash and cash equivalents of approximately RMB5,219 million as at 31 December 2012. The Group will not incur any cash outflow pursuant to the Subscription Agreement. Given the cash and cash equivalent under the AVIC Helicopter Interest and AVIC Hafei Assets was approximately RMB314 million as at 31 December 2012 and the Company confirms that the proceeds under the Cash Subscription of

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not more than RMB1,106 million will be primarily used to develop the helicopter business and supplement the working capital, we are of the view that the asset swap constituted under the Subscription Agreement will increase the working capital position of the Group after the completion of the Proposed Placing of Hafei Aviation.

**RECOMMENDATION**

We have considered the above principal factors and reasons and particularly (i) the strategic rationale of consolidating the Incoming Assets under Hafei Aviation; (ii) the terms and the consideration of the Subscription Agreement, as amended by the Supplementary Agreement I and Supplementary Agreement II; and (iii) the possible financial effects to the Group. Due to the inter-conditional term of the Subscription Agreement, AVIC Helicopter Subscription, the AVIC Hafei Subscription and the Company's Subscription are effectively an asset swap exercise through which the Company could remain control of Hafei Aviation and expand its helicopter business without any cash outflow, although the earnings of Company would be diluted upon completion of the Proposed Placing of Hafei Aviation. Based on the above principal factors and reasons, we consider that the AVIC Helicopter Subscription and the AVIC Hafei Subscription are on normal commercial terms, and the entering of the AVIC Helicopter Subscription and the AVIC Hafei Subscription is in the ordinary course of business, fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the AGM to approve the AVIC Helicopter Subscription and the AVIC Hafei Subscription.

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

## 1. RESPONSIBILITY STATEMENT

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

## 2. (A) THE INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES 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 interests and short positions which they were deemed or taken to have under such provisions of the SFO); or (ii) to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange are set out below:

Name of Director	Class of shares	Capacity	Approximate Number of Restricted Shares held	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of shares hold
Lin Zuoming	H Share	Beneficial owner	683,273	0.029%	0.01%	Long position
Tan Ruisong	H Share	Beneficial owner	614,579	0.026%	0.01%	Long position
Gu Huizhong	H Share	Beneficial owner	614,579	0.026%	0.01%	Long position
Gao Jianshe	H Share	Beneficial owner	614,579	0.026%	0.01%	Long position

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or Chief Executive of the Company had any interests or short positions: (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) which were required to be notified to the Company and the 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 Listing Rules, required to be notified to the Company and the Hong Kong Stock Exchange.

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

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

**3. DIRECTORS' SERVICE CONTRACTS**

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

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

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

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

**5. CONSENT AND QUALIFICATION OF EXPERTS**

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

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

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

As at the Latest Practicable Date, Anglo Chinese did not have any direct or indirect interest in any assets which has been, since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

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

#### **6. COMPETING INTERESTS**

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

#### **7. NO MATERIAL ADVERSE CHANGE**

The Directors are of the opinion that since 31 December 2012, being the date to which the latest published audited accounts of the Group have been made up, there have been no material adverse changes in the financial or trading position of the Group.

#### **8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company up to and including 14 June 2013:

- (a) the letter dated 13 May 2013 from the Independent Board Committee to the Independent Shareholders in relation to the Financial Services CCT, the text of which is set out on page 24 of this circular;
- (b) the letter dated 13 May 2013 from the Independent Board Committee to the Independent Shareholders in relation to the Hafei Aviation Subscription, the text of which is set out on page 25 of this circular;
- (c) the letter of advice dated 13 May 2013 from Anglo Chinese to the Independent Board Committee and the Independent Shareholders in relation to the Financial Services CCT, the text of which is set out on pages 26 to 38 of this circular;
- (d) the letter of advice dated 13 May 2013 from Anglo Chinese to the Independent Board Committee and the Independent Shareholders in relation to the Hafei Aviation Subscription, the text of which is set out on pages 39 to 56 of this circular;
- (e) the written consent of Anglo Chinese referred to in paragraph 5 of this Appendix;

- (f) the Proposed Financial Services Framework Agreement;
- (g) the Existing Financial Services Framework Agreement; and
- (h) the Subscription Agreement.



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

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

(Stock Code: 2357)

*Executive Directors:*

Mr. Lin Zuoming

Mr. Tan Ruisong

*Non-executive Directors:*

Mr. Gu Huizhong

Mr. Gao Jianshe

Mr. Sheng Mingchuan

Mr. Maurice Savart

*Independent non-executive Directors:*

Mr. Guo Chongqing

Mr. Li Xianzong

Mr. Lau Chung Man, Louis

*Registered Office:*

8th Floor, Tower 2

No. 5A Rongchang East Street

Beijing Economic-Technological

Development Area

Beijing, PRC

*Principal place of business in*

*Hong Kong:*

Unit B, 15/F, United Centre

Queensway 95

Hong Kong

20 July 2012

*To the Shareholders:*

Dear Sir or Madam,

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

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

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

\* For identification purpose only

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

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

#### **A. INTRODUCTION**

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

#### **B. MAJOR TERMS**

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

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

RMB1 per new Hafei Aviation A Share.

**2. Placing methods:**

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

**3. Placing targets:**

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



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

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

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

**5. Subscription price:**

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

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

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

**6. Lock-up period:**

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

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

**7. Conditions of Completion:**

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

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

**8. Use of proceeds under the Cash Subscription:**

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

**C. THE SUBSCRIPTION AGREEMENT AND THE SUPPLEMENTARY AGREEMENT**

**1. Date**

Subscription Agreement: 25 May 2012

Supplementary Agreement: 11 July 2012

**2. Parties**

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

**3. Principal Terms**

**(1) AVIC Helicopter Subscription**

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

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

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

**(2) *AVIC Hafei Subscription***

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

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

**(3) *Company's Subscription***

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

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

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

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

#### **4. Subscription Price**

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

#### **5. Conditions precedent to the Subscription Agreement becoming effective**

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

- (1) the Subscription Agreement having been executed by the legal representative or authorized person(s) of each party;
- (2) Hafei Aviation having held a board meeting and a general meeting to approve the transactions contemplated under the Subscription Agreement;
- (3) each of the Company, AVIC Helicopter and AVIC Hafei having completed and satisfied all the necessary corporate procedures in accordance with the relevant requirements of their respective articles of association and the Listing Rules (as applicable to the Company). Such necessary corporate procedures include, but not limited to, the board

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

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

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

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

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

#### **E. INFORMATION RELATING TO CHANGHE AVIATION**

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

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

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

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

**Information relating to Changfei Parts and Components**

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

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

**Information relating to Helicopter Tianjin**

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

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

**Information relating to AVIC Huiyang**

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

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

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

**Information relating to AVIC Hafei Assets**

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**J. GENERAL****Information on the Company**

The Company is a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange. As at the Latest Practicable Date, the Company was held as to 51.26% by AVIC, being the controlling shareholder of the Company. The Company is mainly engaged in the research and development, manufacture and sales of civilian aviation products.

**Information on Hafei Aviation**

Hafei Aviation is a joint stock limited liability company incorporated in the PRC whose A shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, Hafei Aviation was held as to 50.05% equity interest by the Company. Hafei Aviation is mainly engaged in the development and manufacture of helicopter products.

**Information on AVIC**

AVIC is held and controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products such as automobile engine and parts and components.

**Information on AVIC Helicopter**

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

**Information on AVIC Hafei**

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

**K. DIRECTORS' INTEREST IN THE SUBSCRIPTION AGREEMENT**

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

**L. EGM**

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

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

AVIC and its associate(s) are connected persons of the Company as defined under the Listing Rules, therefore, AVIC and AMES shall abstain from voting at the EGM in respect of the ordinary resolution to be proposed at the EGM. As at the Latest Practicable Date, AVIC and AMES owned an aggregate of 2,989,492,900 Shares, representing approximately 54.61% of the total issued share capital of the Company. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the EGM will be taken by poll. The Company will announce the results of the poll in accordance with the Listing Rules following the EGM.

**M. RECOMMENDATION**

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

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

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

\* *For identification purpose only*

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## NOTICE OF ANNUAL GENERAL MEETING

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

### NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** an Annual General Meeting (“AGM”) of AviChina Industry & Technology Company Limited\* (the “Company”) will be held at 9:00 am on Friday, 14 June 2013, at Grand Skylight CATIC Hotel, Beijing, No. 18 Bei Chen East Road, Chaoyang District, Beijing, the People’s Republic of China for the purposes of, among other things, considering and approving 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 13 May 2013 (the “Circular”), a copy of which will be produced to the AGM marked “A” and initialed by the Chairman of the meeting for identification purpose:

#### ORDINARY RESOLUTIONS

1. The resolution relating to the Report of the Board of the Company for the year ended 31 December 2012.
2. The resolution relating to the Report of the Supervisory Committee of the Company for the year ended 31 December 2012.
3. The resolution relating to the audited financial statements of the Company for the year ended 31 December 2012.
4. The resolution relating to the profit distribution plan (including distribution of 2012 final dividend) of the Company for the year ended 31 December 2012.
5. The resolution relating to the appointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and domestic auditors of the Company for the financial year 2013 respectively and to determine their remuneration.

\* For identification purpose only

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## NOTICE OF ANNUAL GENERAL MEETING

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6. The resolution relating to the non-exempt continuing connected transaction of the Company,

**“THAT:**

- (a) the Proposed Financial Services Framework Agreement (copy of which have been produced to this meeting marked “B” and initialed by the Chairman of the meeting) and the execution thereof and implementation of the terms thereof relating to the provision of the Deposit Services and the Other Financial Services by AVIC Finance to the Group (including the proposed caps thereof) be and are hereby approved, ratified and confirmed; and
- (b) any Director or authorized representative of the Chairman of the Board be and is hereby authorized to sign, execute, perfect, and deliver all such documents and do all such deeds, acts, matters and things as he may in his absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the terms of the Proposed Financial Services Framework Agreement including but not limited to the terms relating to the provision of the Deposit Services and the Other Financial Services by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the Proposed Financial Services Framework Agreement, as such Director or authorized representative may in his absolute discretion deem fit.”

7. The resolution relating to the Hafei Aviation Subscription under the Subscription Agreement,

**“THAT:**

- (a) the terms and conditions of the Subscription Agreement entered into between Hafei Aviation, the Company, AVIC Helicopter and AVIC Hafei (copies of which have been produced to this meeting marked “C” and initialed by the Chairman of the meeting) in relation to, among other matters, (1) the Company’s Subscription; (2) AVIC Helicopter Subscription; and (3) AVIC Hafei Subscription, subject to fulfillment of the conditions as set out in the Subscription Agreement, be and are hereby approved, ratified and confirmed; and
- (b) any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete or in connection with the transactions contemplated under the Subscription Agreement, including, without limitation, to obtain all necessary approvals from the relevant PRC government authorities, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the Subscription Agreement, as such Director or authorized representative may in his absolute discretion deem fit.”

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## NOTICE OF ANNUAL GENERAL MEETING

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8. The resolution(s) to be proposed at the AGM by Shareholders holding 5% or more of the total number of the Company's shares carrying voting rights, if any, by way of ordinary resolution(s).

### SPECIAL RESOLUTION(S)

9. The resolution(s) to be proposed at the AGM by Shareholders holding 5% or more of the total number of the Company's shares carrying voting rights, if any, by way of special resolution(s).

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

Beijing, 13 May 2013

*Notes:*

**(1) CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY TO ATTEND THE AGM**

Pursuant to Article 38 of the Articles of Association of the Company, the H Share register of the Company will be closed from Saturday, 25 May 2013 to Friday, 14 June 2013 (both days inclusive), during which period no transfer of H shares will be effected. Holders of the Company's H Shares and Domestic Shares whose names appear on the Company's Register of Members before the close of business hours on Friday, 14 June 2013 are entitled to attend the AGM and to vote in the AGM.

In order to qualify to attend and vote in the AGM, holders of the Company's H shares shall lodge all transfers together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company's H Shares Registrar, not later than **4:30 p.m. on Friday, 24 May 2013** at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong.

**(2) CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY TO RECEIVE THE 2012 FINAL DIVIDEND**

The Board recommended the payment of a final dividend for the year 2012 in an aggregate amount of RMB109,488,583.34, representing a dividend of RMB0.02 per share (2011: RMB0.01 per share), calculated based on the existing number of total issued shares of 5,474,429,167 shares as at the Latest Practicable Date, which is subject to adjustment based on the number of the total issued shares of the Company as at the Record Date (as defined below). The proposed distribution of 2012 final dividend is subject to Shareholders' approval by way of an ordinary resolution at the AGM.

The 2012 final dividend will be paid to those Shareholders whose names appear on the Company's register of members at the close of business on 26 June 2013 (the "**Record Date**"). To determine the identity of the Shareholders entitled to receive the 2012 final dividend, the Company's register of members will be closed from 21 June 2013 to 26 June 2013 (both days inclusive), during which period no transfer of H Shares will be registered. In order to be entitled to receive the 2012 final dividend, all transfer instruments accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's H Shares registrar, by not later than **4:30 p.m. on 20 June 2013**.

\* For identification purpose only



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## NOTICE OF ANNUAL GENERAL MEETING

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**(3) REGISTRATION PROCEDURES FOR ATTENDING THE AGM**

- (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 AGM, 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 AGM 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 AGM, i.e. before 25 May 2013.
- (c) Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.

**(4) PROXIES**

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

**(5) THE AGM IS EXPECTED TO LAST FOR HALF A DAY. SHAREHOLDERS ATTENDING THE MEETING ARE RESPONSIBLE FOR THEIR OWN TRANSPORTATION AND ACCOMMODATION EXPENSES.**

Designated address of the Company:  
P.O. Box 1655, Beijing, the PRC (Postal code: 100009)  
Telephone No.: 86-10-58354319  
Facsimile No.: 86-10-58354310  
Attention: Mr. Xu Bin

**(6) ORDINARY RESOLUTIONS 6 AND 7 ABOVE WILL BE VOTED BY POLL BY THE INDEPENDENT SHAREHOLDERS.**

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