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

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中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

**I. RENEWAL OF THE ANNUAL CAPS FOR CERTAIN EXISTING
CONTINUING CONNECTED TRANSACTIONS;
AND
II. REVISION OF THE 2011 ANNUAL CAPS FOR AVIC AVIONICS CCT**

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

ANGLO CHINESE 英
CORPORATE FINANCE, LIMITED 高

A letter from the Independent Board Committee is set out on page 23 of this circular. A letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 34 of this circular.

A notice convening the extraordinary general meeting (“EGM”) of AviChina Industry & Technology Company Limited to be held at 9:00 a.m. on Friday, 9 December 2011 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People’s Republic of China is set out on pages 39 to 41 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed and are also published on the website of the Stock Exchange (www.hkex.com.hk). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Saturday, 19 November 2011. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person if you so wish.

23 September 2011

* For identification purpose only.

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DEFINITIONS

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

“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“associates”	has the same meaning ascribed thereto under the Listing Rules
“AVIC”	Aviation Industry Corporation of China (中國航空工業集團公司) (formerly known as AVIC Organizing Unit), which was established upon completion of the merger and reorganization of China Aviation Industry Corporation I and China Aviation Industry Corporation II, and is a controlling shareholder of the Company holding 56.70% equity interest in the Company
“AVIC Avionics”	China AVIC Avionics Equipment Co., Ltd., (中航航空電子設備股份有限公司) (formerly known as “Jiangxi Changhe Automobile Co., Ltd.”), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange, is owned as to 44.49% by the Company and as to 35.16% (directly and indirectly, excluding the interest held by AVIC through the Company) by AVIC
“AVIC Avionics CCT”	the continuing connected transactions between the Group and AVIC Avionics Group contemplated under the existing products and services mutual supply and guarantee provision agreement, details of which were disclosed in the announcement of the Company dated 20 December 2009
“AVIC Avionics CCT Agreement”	the products and services mutual supply and guarantee provision agreement entered into between AVIC Avionics and the Company on 30 August 2011, details of which are set out in paragraph 2.5 under Section I of the letter from the Board
“AVIC Avionics Group”	AVIC Avionics and its subsidiaries
“AVIC Group”	AVIC and its subsidiaries
“Board”	the board of directors of the Company

DEFINITIONS

“Company”	AviChina Industry & Technology Company Limited*, a joint stock limited company established in the PRC, whose H shares are listed on the Stock Exchange
“Contractual Price”	the price to be agreed between the relevant parties for the provision of the subject products or services (as the case may be), which shall be the Reasonable Costs incurred in providing the same plus not more than 8.0% of such costs
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the purposes of considering and, if thought fit, approving, among other things, the proposed terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT
“Group”	the Company and its subsidiaries
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, to advise the Independent Shareholders on the proposed terms of the Non-Exempt Continuing Connected Transactions; the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT
“Independent Shareholders”	Shareholders (other than AVIC and its associates) who are not required to abstain from voting on the resolutions to be proposed at the EGM to approve the proposed terms of the Non-Exempt Continuing Connected Transactions; the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT
“Independent Third Party”	an independent third party (to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry), including the ultimate beneficial owners of such party, not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates (within the meaning of the Listing Rules)

DEFINITIONS

“Latest Practicable Date”	21 September 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“JONHON Optronic”	中航光電科技股份有限公司 (China Aviation Optical-Electrical Technology Co., Ltd.), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, is owned as to 43.34% by the Company
“Land Use Rights and Properties Leasing Agreement”	the land use rights and properties leasing agreement entered into between AVIC and the Company on 30 August 2011, details of which are set out in paragraph 2.4 under Section I of the letter from the Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Market Price”	(i) the price at which the same type of products or services (as the case may be) is provided by independent third parties under normal commercial terms in the ordinary course of their businesses in the same area, in the vicinity in the PRC, or if there is no such price; then (ii) the price at which the same type of products or services (as the case may be) is provided by independent third parties under normal commercial terms in the ordinary course of their businesses in the PRC
“Mutual Provision of Services Agreement”	the mutual provision of services agreement entered into between AVIC and the Company on 30 August 2011, details of which are set out in paragraph 2.2 under Section I of the letter from the Board
“Mutual Supply of Products Agreement”	the mutual supply of products agreement entered into between AVIC and the Company on 30 August 2011, details of which are set out in paragraph 2.1 under Section I of the letter from the Board
“Non-Exempt Continuing Connected Transactions”	the continuing connected transactions contemplated under the (i) Mutual Supply of Products Agreement, (ii) Mutual Provision of Services Agreement, and (iii) the expenditure transaction under the AVIC Avionics CCT Agreement, which are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules

DEFINITIONS

“PRC”	the People’s Republic of China
“Reasonable Costs”	the costs confirmed by the parties to the agreement after arm’s length negotiation and as permitted by the relevant accounting system/principles of the PRC (inclusive of sales tax and surcharges)
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the holders of shares of RMB1.00 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trademarks and Technology Cooperation Framework Agreement”	the trademarks and technology cooperation framework agreement entered into between AVIC and the Company on 30 August 2011, details of which are set out in paragraph 2.3 under Section I of the letter from the Board

* *For identification purpose only.*

LETTER FROM THE BOARD



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

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

(Stock Code: 2357)

Executive Directors:

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

Non-executive Directors:

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

Independent non-executive Directors:

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

Registered Office:

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

Principal place of business

in Hong Kong:

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

23 September 2011

To the Shareholders:

Dear Sir or Madam,

**I. RENEWAL OF THE ANNUAL CAPS FOR CERTAIN EXISTING
CONTINUING CONNECTED TRANSACTIONS;
AND
II. REVISION OF THE 2011 ANNUAL CAPS FOR AVIC AVIONICS CCT**

Reference is made to the announcement of the Company dated 30 August 2011 in relation to, among other things, the renewal of the annual caps for certain existing continuing connected transactions of the Company and revision of the 2011 annual caps for AVIC Avionics CCT. The purpose of this

* For identification purpose only.

LETTER FROM THE BOARD

circular is to provide you with information necessary to enable you to make an informed decision on whether to vote for or against the ordinary resolutions to be proposed at the EGM relating to the proposed terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revised 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT.

I. RENEWAL OF THE ANNUAL CAPS FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS

1. Background

Reference is made to the announcement of the Company dated 29 September 2008 and the circular dated 10 November 2008 in relation to, among other things, the continuing connected transactions of the Company contemplated under (1) the mutual supply agreement, (2) the comprehensive services agreement, (3) the technology cooperation agreement, (4) the land use rights leasing agreement and (5) the properties leasing agreement entered into between the Company and AVIC. At the extraordinary general meeting of the Company held on 15 December 2008, the Independent Shareholders approved, among other things, the above mentioned continuing connected transactions contemplated under the mutual supply agreement, the comprehensive service agreement and the technology cooperation agreement and their respective annual caps for the three financial years ending 31 December 2011.

Reference is also made to the announcement of the Company dated 20 December 2009 in relation to the AVIC Avionics CCT contemplated under the products and services mutual supply and guarantee provision agreement entered into between the Company and AVIC Avionics.

As the term of certain of the abovementioned framework agreements governing the relevant existing continuing connected transactions and their respective annual caps will expire on 31 December 2011, and that the Group has undergone reorganization of its assets during the course of the preceding three years leading to certain changes to the scope of the original framework agreements, the Company proposes to (1) enter into new framework agreements to govern the terms of such existing continuing connected transactions; and (2) set their respective annual caps for the three financial years ending 31 December 2014.

2. The Framework Agreements

2.1 Mutual Supply of Products Agreement

The Board considers that it is in the interest of the Company to continue certain continuing connected transactions contemplated under the existing mutual supply agreement by entering into a new framework agreement, namely, the Mutual Supply of Products Agreement, with AVIC. With the Group's streamlining of its business to focus on the aviation business following its assets reorganization, the scope of products and the ancillary services subject to the Mutual Supply of Products Agreement will be amended to cover aviation related materials, components and products and their related sale and ancillary services.

LETTER FROM THE BOARD

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

Parties	:	AVIC the Company
Date	:	30 August 2011
Mutual provision of products	:	AVIC Group and the Group to mutually provide raw materials, parts and components, finished products and semi-finished products (including but not limited to helicopters, aircraft and aviation parts and components) required by the other party in its production and business operations as well as the specialized facilities and ancillary services related thereto. The mutual provision of products by the parties shall be made on terms not less favourable than those offered to/by Independent Third Parties under comparable conditions.
Term	:	Commencing from 1 January 2012 to 31 December 2014
Pricing	:	The products and ancillary services will be provided: (i) according to the State-prescribed price; (ii) if there is no State-prescribed price, then according to the State-guidance price; (iii) if there is no State-guidance price, then according to the Market Price; and (iv) if none of the above is applicable, then according to the Contractual Price.
Payment	:	Specific payment terms are to be agreed between the parties in each transaction.

2.2 Mutual Provision of Services Agreement

The Board considers that it is in the interest of the Company to continue certain continuing connected transactions contemplated under the existing comprehensive services agreement by entering into the new framework agreement, namely, the Mutual Provision of Services Agreement, with AVIC. The scope of services to be mutually provided by the parties subject to the Mutual Provision of Services Agreement will be amended to cover services relating to the production and business operations of each party.

LETTER FROM THE BOARD

Principal terms of the Mutual Provision of Services Agreement are summarized as follows:

Parties	:	AVIC the Company
Date	:	30 August 2011
Mutual provision of services	:	AVIC Group to provide certain services relating to the production and business operations of the Group including, without limitation, (i) electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing; (v) construction and transportation; (vi) network design, consultancy and related services; (vii) cultural, hygienic, social security and logistic services; (viii) import and export services; and (ix) test flight and related information and quality monitoring services. The Group to provide certain services relating to the production and business operation of AVIC Group including, without limitation, (i) electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing; (v) construction and transportation; (vi) network design, consultancy and related services; and (vii) enterprise management trust services. The mutual provision of services by the parties shall be made on terms not less favourable than those offered to/by Independent Third Parties under comparable conditions.
Term	:	Commencing from 1 January 2012 to 31 December 2014
Pricing	:	The services will be provided: (i) according to the State-prescribed price; (ii) if there is no State-prescribed price, then according to the State-guidance price; (iii) if there is no State-guidance price, then according to the Market Price; and (iv) if none of the above is applicable, then according to the Contractual Price.
Payment	:	Specific payment terms are to be agreed between the parties in each service provision transaction.

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2.3 *Trademarks and Technology Cooperation Framework Agreement*

The Board considers that it is in the interest of the Company to continue certain continuing connected transactions contemplated under the existing technology cooperation agreement by entering into the new framework agreement, namely, the Trademarks and Technology Cooperation Framework Agreement, with AVIC. The scope of cooperation has been extended to cover the licence of trademarks.

Principal terms of the Trademarks and Technology Cooperation Framework Agreement are summarized as follows:

Parties	:	AVIC the Company
Date	:	30 August 2011
Scope	:	<i>Joint development of technologies</i>

- (1) The parties will jointly develop new technologies for use in the business operations of the Group, and any resulting technologies will principally be jointly owned by the parties. The proportion of ownership will be determined by the parties in a separate agreement.

Licence of technologies and trademarks

- (2) AVIC Group will grant to the Group exclusive licence of its technologies in connection with the production and business operations of the Group free of charge.
- (3) For technologies owned by AVIC Group that have been used by the Group in its production and business operations, AVIC Group can, subject to the Group's prior consent, use such technologies on the condition that such technologies will not be used by AVIC Group in competition of the business of the Group.
- (4) The parties will grant a licence of or transfer their respective technologies and trademarks to the other party at a price to be determined according to the pricing principles stated below.

LETTER FROM THE BOARD

Entrusted development of technologies

- (5) AVIC Group will engage the Group to develop new technologies in connection with its production and business operations. The development costs will be paid by AVIC Group and the resulting technologies will be owned by AVIC Group. AVIC Group will grant to the Group (i) a licence to use such resulting technologies free of charge; and (ii) a pre-emption right to purchase such resulting technologies rights.
- (6) The Group will engage AVIC Group to develop new technologies in connection with its production and business operations. The development costs will be paid by the Group and the resulting technologies rights will be owned by the Group. The Group will grant a non-exclusive licence to AVIC Group free of charge on the condition that such technologies will not be used by AVIC Group in competition of the business of the Group.

Term	:	Commencing from 1 January 2012 to 31 December 2014
Pricing	:	Except for those licences which will be expressly granted free of charge under the framework agreement, the grant of licence or transfer of the relevant technologies and trademarks will be made at a price to be determined: (i) according to the State-prescribed price; (ii) if there is no State-prescribed price, then according to the State-guidance price; (iii) if there is no State-guidance price, then according to the Market Price; and (iv) if none of the above is applicable, then according to the Contractual Price.
Payment	:	The parties will enter into separate contracts to set out the specific terms and conditions (including the payment terms) for the grant, transfer or cooperation in the development of technologies or trademarks according to the principles and scope provided for under the framework agreement.

LETTER FROM THE BOARD

2.4 *Land Use Rights and Properties Leasing Agreement*

The Board considers that it is in the interest of the Company to continue certain continuing connected transactions contemplated under the existing land use rights leasing agreement and the properties leasing agreement. However, in order to better manage the transactions contemplated under the abovementioned two agreements, the Board proposes to combine the two agreements by entering into a new framework agreement, namely, the Land Use Rights and Properties Leasing Agreement, the terms of which are substantially the same as that of the existing two agreements. Upon the Land Use Rights and Properties Leasing Agreement becoming effective, it will supersede the existing land use rights leasing agreement and the properties leasing agreement.

Principal terms of the Land Use Rights and Properties Leasing Agreement are summarized as follows:

Parties	:	AVIC the Company
Date	:	30 August 2011
Scope	:	<i>Land Use Rights</i>

AVIC Group to lease 21 pieces of land with an aggregate area of approximately 1.63 million square meters to the Group at an annual rental of approximately RMB35.9 million.

The Group to lease a piece of land with an aggregate area of approximately 16,000 square meters to AVIC Group at an annual rental of approximately RMB429,000.

Properties Leasing

AVIC Group to lease certain properties with an aggregate gross floor area of approximately 0.19 million square meters to the Group at an annual rental of approximately RMB4.44 million.

The Group to lease certain properties with an aggregate gross floor area of approximately 52,000 square meters to AVIC Group at an annual rental of approximately RMB4.92 million.

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Term	:	Twenty (20) years commencing from 1 January 2012
Pricing	:	The annual rental is reviewed and adjusted (where necessary) every three years and shall not be higher than the prevailing market annual rental as determined by an independent valuer with reference to the market rent of land or properties (as the case may be) with similar conditions and locations.
Payment	:	Payments of rentals are to be made annually. Payments are to be made by the relevant parties by cheques within 30 working days after the first quarter of each financial year.

2.5 AVIC Avionics CCT Agreement

The Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the existing products and services mutual supply and guarantee provision agreement by entering into the AVIC Avionics CCT Agreement, the terms of which are substantially the same as that of the existing framework agreement.

Principal terms of the AVIC Avionics CCT Agreement are summarized as follows:

Parties	:	the Company AVIC Avionics
Date	:	30 August 2011
Scope	:	(1) The Group agrees to provide aviation parts and components, raw materials, production and labour services to AVIC Avionics Group, as well as ongoing guarantee(s) to AVIC Avionics Group in relation to the bank loan(s) obtained by them during their ordinary course of business; and (2) AVIC Avionics Group agrees to provide aviation parts and components and related ancillary services to the Group.
Term	:	Commencing from 1 January 2012 to 31 December 2014

LETTER FROM THE BOARD

Pricing : The products and/or services will be provided: (i) according to the State-prescribed price; (ii) if there is no State-prescribed price, then according to the State-guidance price; (iii) if there is no State-guidance price, then according to the Market Price (including bidding price); and (iv) if none of the above is applicable, then according to the Contractual Price.

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

3. Historical annual amounts of the above continuing connected transactions for the preceding two financial years ended 31 December 2010 and the six months ended 30 June 2011

Set out below are the historical annual amounts of the above existing continuing connected transactions for the preceding two financial years ended 31 December 2010 and the six months ended 30 June 2011:

Agreements	Annual amount for the year ended 31 December 2009 <i>(RMB million)</i>	Annual amount for the year ended 31 December 2010 <i>(RMB million)</i>	Actual amount for the 6 months ended 30 June 2011 <i>(RMB million)</i>	Annual caps for the year 2011 <i>(RMB million)</i>
Expenditure of the Group				
Existing mutual supply agreement with AVIC	2,010	2,787	1,696	6,545
Existing comprehensive services agreement with AVIC	85	39	9.85	170
Existing technology cooperation agreement with AVIC	32	16	2	98
Existing land use rights leasing agreement	13	17	17	30
Existing properties leasing agreement	18	8	1.6	19
Existing products and services mutual supply and guarantee provision agreement with AVIC Avionics	17	69	48	86 ^(Note 1)
	(from 7 July to 31 December 2009)			

LETTER FROM THE BOARD

Agreements	Annual amount for the year ended 31 December 2009 <i>(RMB million)</i>	Annual amount for the year ended 31 December 2010 <i>(RMB million)</i>	Actual amount for the 6 months ended 30 June 2011 <i>(RMB million)</i>	Annual caps for the year 2011 <i>(RMB million)</i>
Revenue of the Group				
Existing mutual supply agreement with AVIC	3,998	6,916	4,130	10,534
Existing technology cooperation agreement with AVIC	-	1	1	63
Existing properties leasing agreement	0.33	1.7	0.79	2
Existing products and services mutual supply and guarantee provision agreement with AVIC Avionics	-	1	3.8	4 ^(Note 2)
	(from 7 July to 31 December 2009)			
Guarantees provided by the Group				
Existing products and services mutual supply and guarantee provision agreement with AVIC Avionics	-	-	-	100
	(from 9 July to 31 December 2009)			

Notes:

1: To be revised to RMB508 million. Please refer to Section II below for details.

2: To be revised to RMB46 million. Please refer to Section II below for details.

4. Proposed annual caps for the above continuing connected transactions

4.1 Proposed annual caps for the above continuing connected transactions for the three financial years ending 31 December 2014

Based on the factors set out in paragraph 4.2 under Section I of this letter from the Board, the Directors have estimated the annual caps for each of the continuing connected transactions for each of the three financial years ending 31 December 2012, 2013 and 2014. By applying the size tests under the Listing Rules, the Directors have categorized the continuing connected transactions, as set out below, based on the following principles:

LETTER FROM THE BOARD

- (1) continuing connected transactions which do not require Independent Shareholders' approval if none of the results of the size tests exceeds 5%; and
- (2) non-exempt continuing connected transactions which require Independent Shareholders' approval if any of the results of the size tests exceeds 5%.

Non-Exempt Continuing Connected Transactions	Proposed annual caps for the year ending 31 December (amount in RMB millions)			Cross-reference to this letter from the Board
	2012	2013	2014	
Reporting, Announcement and Independent Shareholders' Approval required (Size Tests \geq 5%)				
Expenditure of the Group				
Mutual Supply of Products Agreement	8,749	11,615	15,489	Paragraph 2.1 under Section I
Mutual Provision of Services Agreement	1,965	2,224	2,434	Paragraph 2.2 under Section I
AVIC Avionics CCT Agreement	645	818	1039	Paragraph 2.5 under Section I
Revenue of the Group				
Mutual Supply of Products Agreement	15,631	21,772	30,339	Paragraph 2.1 under Section I
Mutual Provision of Services Agreement	416	581	746	Paragraph 2.2 under Section I
Reporting and Announcement required (0.1% \leq Size Tests < 5%)				
Expenditure of the Group				
Trademarks and Technology Cooperation Framework Agreement	61	74	86	Paragraph 2.3 under Section I
Land Use Rights and Properties Leasing Agreement	50	50	50	Paragraph 2.4 under Section I
Revenue of the Group				
Trademarks and Technology Cooperation Framework Agreement	20	25	30	Paragraph 2.3 under Section I
AVIC Avionics CCT Agreement	80	104	135	Paragraph 2.5 under Section I

LETTER FROM THE BOARD

4.2 *Basis of determination of the proposed annual caps*

a. *Mutual Supply of Products Agreement*

The proposed annual caps for the expenditure transaction under the Mutual Supply of Products Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of provision of products by AVIC Group to the Group; (ii) with the expected increase in the sales orders for aviation products to be received by the Group in the future considering the implementation of China's Economic and Social Development in the 12th Five-year Plan (the "**Twelfth Five-year Plan**") by the PRC government, pursuant to which the aviation industry will be explicitly included as one of the national strategic emerging industries, the Group will demand more aviation parts and components from AVIC Group for production of its current and new products and (iii) continuous development on new models with higher value to enhance the Group's competitiveness in both the domestic and international markets and thus the Group will purchase aviation parts of higher technology content and higher value from AVIC Group.

The proposed annual caps for the revenue transaction under the Mutual Supply of Products Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products by the Group to AVIC Group; (ii) with the corresponding increase in the sales of the Group to AVIC Group resulting from the expected rapid growth of China aviation industry in the forthcoming three years due to the implementation of the Twelfth Five-year Plan by the PRC government, pursuant to which the aviation industry will be explicitly included as one of the national strategic emerging industries; (iii) current sales order status of the Group, especially the development and production of new models which result in an increase in the types and volumes of products of the Group and transaction volumes between the Group and AVIC Group; and (iv) the increase in the number of avionics enterprises injected to the Company following the completion of the assets reorganization of China Aviation Optical-Electrical Technology Co., Ltd and AVIC Avionics, which leads to an increase in the sales of the Group's avionic products to AVIC Group.

LETTER FROM THE BOARD

b. Mutual Provision of Services Agreement

The proposed annual caps for the expenditure and revenue transactions under the Mutual Provision of Services Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the mutual provision of services between the parties; (ii) the expansion of the Group's and AVIC Group's business which leads to an increase in the number of enterprises injected to the Company and the widening of the scope of services covered under the Mutual Provision of Services Agreement to include more ancillary services to be provided in relation to the production and business operations of the Group and AVIC Group, such as technological transformation, construction services, etc; and (iii) the expected continuous increase in the inflation rate in the PRC which leads to a significant increase in the costs of provision of such services.

c. Trademarks and Technology Cooperation Framework Agreement

The proposed annual caps for the expenditure transaction under the Trademarks and Technology Cooperation Framework Agreement are determined with reference to, among other things, the following factor: the estimated costs to be involved in various projects to be undertaken by the Group and AVIC Group such as the on-going research involving the joint development of new model helicopters, modification of current helicopters, advance jet trainers and other new models of aviation products.

The proposed annual caps for the revenue transaction under the Trademarks and Technology Cooperation Framework Agreement are determined with reference to, among other things, the following factor: due to the enhancement of the Group's overall research capability following the assets reorganization, it is expected that there will be an increase in the types of technology that the Group will be engaged by AVIC Group to develop pursuant to the framework agreement and accordingly, the revenue to be generated to the Group from such entrusted technologies development arrangement will increase.

d. Land Use Rights and Properties Leasing Agreement

The proposed annual caps for the expenditure transaction under the Land Use Rights and Properties Leasing Agreement are determined with reference to, among other things, the following factors: (i) the land use rights and properties leased by AVIC Group to the Group under the framework agreement as appraised by Vigers Appraisal & Consulting Limited, an independent valuer of the Company; (ii) the potential expansion of the business of the Group and the consequential increase in demand for additional land use rights and properties, which may be leased from AVIC Group and (iii) the expected continuous rise in the PRC land use rights and property prices.

LETTER FROM THE BOARD

e. AVIC Avionics CCT Agreement

The proposed annual caps for the expenditure transaction under the AVIC Avionics CCT Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products and services by AVIC Avionics Group to the Group (excluding AVIC Avionics Group); (ii) the increase in the parts and components of avionics products and the ancillary services provided to the Group (excluding AVIC Avionics Group) due to the increase in the numbers of the subsidiaries injected to AVIC Avionics Group following the completion of assets reorganization in June 2011; and (iii) the estimated growth of the entire aircraft business of the Group and hence the increase in the demand for avionic products.

The proposed annual caps for the revenue transaction under the AVIC Avionics CCT Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products and services by the Group (excluding AVIC Avionics Group) to AVIC Avionics Group; (ii) the expected increase in the demand for parts and components of aviation products and the ancillary services by AVIC Avionics Group from the Group (excluding AVIC Avionics Group) in light of the potential growth in the business of AVIC Avionics and (iii) following the completion of the assets reorganization of JONHON Optronics, JONHON Optronics and its subsidiaries will provide more optronic products and ancillary services to AVIC Avionics Group, which leads to an increase in the revenue transaction between AVIC Avionics Group and the Group (excluding AVIC Avionics Group) transaction under the AVIC Avionics CCT Agreement.

5. Reasons for and benefits of continuation of the existing continuing connected transactions

The above continuing connected transactions are and will be conducted in the ordinary and usual course of business of the Group. Such transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company. Due to the historical connection and long-term cooperation relationship between the Group and AVIC Group and AVIC Avionics Group, the Directors (including the independent non-executive Directors) considers that it is beneficial to continue the continuing connected transactions by way of entering into the new framework agreements as set out in Section I above, as these transactions have facilitated and will continue to facilitate the overall operations and growth of the Group's business. In addition, AVIC, AVIC Avionics and their respective associates generally have better understanding of the Group's business and can better ensure the standards of technology, quality, delivery and technical support of the products to meet the Group's requirements. Further, the transactions contemplated under the new framework agreements will be conducted on normal commercial terms (or better to the Group) or on terms not less favorable than those offered to or obtained from Independent Third Parties under comparable market conditions, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed annual caps are fair and reasonable.

LETTER FROM THE BOARD

The independent non-executive Directors constituting the Independent Board Committee will give their view on the Non-Exempt Continuing Connected Transactions and the proposed caps in respect of the Non-Exempt Continuing Connected Transactions after considering the advice from the independent financial adviser, and their view will be given in the circular to be despatched to the Shareholders.

II. REVISION OF 2011 ANNUAL CAPS FOR AVIC AVIONICS CCT

Reference is made to the announcements of the Company dated 2 June 2010 and 23 June 2011 and the circular despatched to the Shareholders on 12 July 2010, in relation to the assets reorganization of AVIC Avionics through the acquisition of certain aviation assets including six avionics companies by way of the issue of consideration shares by AVIC Avionics to the Company and AVIC and its associates. Following the completion of the abovementioned assets reorganization in June 2011, the continuing connected transactions between the Company and AVIC Avionics contemplated under the existing products and services mutual supply and guarantee provision agreement have substantially increased. Based on the unaudited management accounts of the Company, the Board estimates that the actual transaction amounts in respect of the Group's expenditure and the Group's revenue under the framework agreement will exceed the original 2011 annual caps. The Board therefore proposes to revise the relevant 2011 annual caps as follows:

Transaction	Actual transaction amount for the 6 months ended 30 June 2011 (RMB million)	Original 2011 annual cap (RMB million)	Revised 2011 annual cap (RMB million)
The Group's expenditure for purchase of products and services from AVIC Avionics Group under the AVIC Avionics CCT	48	86	508
The Group's revenue for provision of products and services to AVIC Avionics Group under the AVIC Avionics CCT	3.8	4	46

The revised annual caps are determined with reference to, among other things, (i) the historical transactions and transaction amounts between the parties; (ii) the increasing need for avionics products and ancillary services by the Group considering the development of its entire aircraft business; and (iii) the anticipated transaction volume between the Group and AVIC Avionics in respect of each category of transactions under the existing products and services mutual supply and guarantee provision agreement. Save for the revision to the annual caps for the year ending 31 December 2011, all the other terms and conditions under the existing products and services mutual supply and guarantee provision agreement remain unchanged.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider that the proposed revision to the 2011 annual caps for the revenue and expenditure transactions under AVIC Avionics CCT is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

III. INFORMATION OF THE PARTIES

1. 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 Stock Exchange. As at the date of this circular, the Company is held as to 56.70% by AVIC, being the controlling shareholder of the Company. The Company is mainly engaged in the research and development, manufacture and sale of aviation products.

2. Information relating to 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, which include but are not limited to mechanical equipment.

3. Information relating to AVIC Avionics

AVIC Avionics is a 44.49% owned subsidiary of the Company and is accounted for and consolidated in the audited accounts of the Company. It is mainly engaged in the manufacture of avionics products and related accessories.

IV. LISTING RULES IMPLICATIONS

AVIC is a controlling shareholder of the Company holding 56.70% equity interest in the Company. AVIC Avionics is directly and indirectly owned as to 35.16% by AVIC (excluding the interest held by AVIC through the Company). Accordingly, each of AVIC and AVIC Avionics is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

As some of the applicable size test percentage ratios (as defined in the Listing Rules) for the continuing connected transactions contemplated under the new framework agreements, namely, the (i) expenditure transaction under the Land Use Rights and Properties Leasing Agreement, (ii) the Trademarks and Technology Cooperation Framework Agreement and (iii) the revenue transaction under the AVIC Avionics CCT Agreement are more than 0.1% but less than 5%, such continuing connected transactions are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. The Directors (including independent non-executive Directors) are of the view that such continuing connected transactions are entered into in the ordinary and usual course of business of the Group, and are on normal commercial terms and their respective annual caps are fair and reasonable, and are in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

As some of the applicable size test percentage ratios (as defined in the Listing Rules) for the continuing connected transactions contemplated under the new framework agreements, namely, the (i) Mutual Supply of Products Agreement, (ii) Mutual Provision of Services Agreement and (iii) the expenditure transaction under the AVIC Avionics CCT Agreement are more than 5%, such Non-Exempt Continuing Connected Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Directors (excluding the independent non-executive Directors) are of the view that these Non-Exempt Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group, and are on normal commercial terms and the proposed annual caps are fair and reasonable, and are in the interest of the Company and its Shareholders as a whole.

As the highest of the applicable size test percentage ratios (as defined in the Listing Rules) for the revenue transaction under the Land Use Rights and Properties Leasing Agreement is less than 0.1%, such transaction constitutes de minimis transaction of the Company and is exempt from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In relation to the proposed revision of the 2011 annual caps for AVIC Avionics CCT, as the highest of the applicable size test percentage ratios in respect of the revised 2011 annual cap for the revenue transaction under the AVIC Avionics CCT is more than 0.1% but less than 5%, such revision is only subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under the Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratios in respect of the revised 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT is more than 5%, such proposed revision is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the 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 resolutions in accordance with the Listing Rules.

V. THE EGM

An EGM will be convened to obtain the approval of Independent Shareholders regarding, among other things, the proposed terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT.

For the purpose of the EGM, the Board will appoint (1) an Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT; and (2) an independent financial adviser to advise the Independent Board Committee on the terms of the Non-Exempt Continuing Connected Transactions, the proposed

LETTER FROM THE BOARD

annual caps in respect thereof for the three financial years ending 31 December 2014, the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT and to opine on, among other things, the term of the Land Use Rights and Properties Leasing Agreement, which is to be entered into by the parties for a period exceeding three years as well as to confirm that it is normal business practice for agreements of this type to be of such duration pursuant to Rule 14A.35(1) of the Listing Rules. AVIC and its associate(s), if any, will abstain from voting on the ordinary resolutions to be proposed at the EGM.

VI. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 23 of this circular. The Directors and the Independent Board Committee, having taken into account the advice of Anglo Chinese, consider that the proposed terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT are in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

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

(Stock Code: 2357)

23 September 2011

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) dated 23 September 2011 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the proposed terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Anglo Chinese has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the abovementioned matters.

We wish to draw your attention to the letter from the Board set out on pages 5 to 22 of the Circular and the letter from Anglo Chinese set out on pages 24 to 34 of the Circular.

Having considered the advice given by Anglo Chinese, we are of the opinion that the proposed terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT are in the ordinary and usual course of business of the Group and on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider the entering into of the framework agreements in respect of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,

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

Guo Chongqing,

Li Xianzong,

Lau Chung Man, Louis

Independent Non-executive Directors

* *For identification purpose only.*

LETTER FROM ANGLO CHINESE

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

ANGLO CHINESE CORPORATE FINANCE, LIMITED

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



*To the Independent Board Committee
and the Independent Shareholders*

23 September 2011

Dear Sirs,

**RENEWAL OF THE ANNUAL CAPS FOR CERTAIN EXISTING
CONTINUING CONNECTED TRANSACTIONS;
AND
REVISION OF THE 2011 ANNUAL CAPS FOR AVIC AVIONICS CCT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of certain new framework agreements including the terms of the Non-Exempt Continuing Connected Transactions and the proposed annual caps thereof for the three financial years ending 31 December 2014, the term of the Land Use Rights and Properties Leasing Agreement which is entered for a period exceeding three financial years and the revision of annual cap for the expenditure transaction under the AVIC Avionics CCT for the financial year ending 31 December 2011. Details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 23 September 2011, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context requires otherwise.

AVIC is a controlling shareholder of the Company holding 56.70% equity interest in the Company. AVIC Avionics is directly and indirectly owned as to 35.16% by AVIC (excluding the interest held by AVIC through the Company). Therefore, pursuant to Chapter 14A of the Listing Rules, each of AVIC and AVIC Avionics is a connected person of the Company and the Non-Exempt Continuing Connected Transactions constitutes continuing connected transaction of the Company. As each of the highest applicable size test percentage ratios in relation to the Non-Exempt Continuing Connected Transactions and the proposed revised annual cap for the expenditure transaction under the AVIC Avionics CCT is over 5%, such transactions will be subject to, among other things, approval by the Independent Shareholders.

LETTER FROM ANGLO CHINESE

An Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the proposed terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014, and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT.

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

BASIS OF OUR OPINION

In formulating our opinion, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the 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 Avionics 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.

LETTER FROM ANGLO CHINESE

PRINCIPLE FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transactions and the revision of the 2011 annual caps for AVIC Avionics CCT, we have taken into account the following principal factors:

Background of the Non-Exempt Continuing Connected Transactions and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT

Business of AVIC Group

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

Business of the Group

As at the Latest Practicable Date, the Company is held as to 56.70% by AVIC, the controlling shareholder of the Company. As a member of AVIC Group, the Group is engaged in the research, development, manufacture and sales of aviation products, such as helicopters, trainers, general-purpose aircraft and regional jets as well as aviation parts and components.

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 re-allocated its resources and manpower to aviation segment. During the six months ended 30 June 2011, the Group entirely disposed of the automobile business and focused on the development of its aviation business. Following several acquisitions of equity interest in avionics enterprises in 2010, the Company entered into an acquisition agreement with AVIC Electromechanical Systems Company Limited on 25 January 2011 pursuant to which the Company has agreed to purchase, subject to conditions, the entire equity interest in Tianjin Aviation Mechanical and Electrical Co., Ltd.. The transactions contemplated under such acquisition were approved at the Company's extraordinary meeting held on 29 March 2011.

Business of AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC whose A shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, AVIC Avionics is held as to 44.49% by the Company and held directly and indirectly as to 35.16% by AVIC (excluding the equity interest in AVIC Avionics held by AVIC through the Company). AVIC Avionics was formerly named as Jiangxi Changhe Automobile Co., Ltd. ("Changhe Auto") which used to be engaged in the development, manufacture and sale of automobiles. After the assets swap completed in 2009, Changhe Auto has changed its major business to manufacturing of aviation electronics products and accessories and its name has been changed to AVIC Avionics. AVIC Avionics further underwent a new round of assets reorganisation involving injection of aviation assets including six avionics companies which has been completed on 23 June 2011.

LETTER FROM ANGLO CHINESE

Background

Reference is made to the announcement of the Company dated 29 September 2008 and the circular dated 10 November 2008 in relation to, among other things, the existing continuing connected transactions of the Company contemplated under (1) the mutual supply agreement, (2) the comprehensive services agreement, (3) the technology cooperation agreement, (4) the land use rights leasing agreement and (5) the properties leasing agreement entered into between the Company and AVIC. At the extraordinary general meeting of the Company held on 15 December 2008, the Independent Shareholders approved, among other things, the relevant continuing connected transactions contemplated under the existing mutual supply agreement, the comprehensive services agreement and the technology cooperation agreement, and their respective annual caps for the three financial years ending 31 December 2011.

Reference is also made to the announcement of the Company dated 20 December 2009 in relation to the AVIC Avionics CCT contemplated under the products and services mutual supply and guarantee provision agreement entered into between the Company and AVIC Avionics.

As the term of each of the abovementioned framework agreements (save for the land use rights leasing agreement and the properties leasing agreement) governing the relevant existing continuing connected transactions and their respective annual caps will expire on 31 December 2011, and that the Group has undergone reorganisation of its assets in the past three years leading to certain changes to the scope of the original framework agreements, the Company proposes to (1) enter into new framework agreements to govern the terms of such existing continuing connected transactions; and (2) set their respective annual caps for the three financial years ending 31 December 2014.

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

Principal terms of new framework agreements in respect of Non-Exempt Continuing Connected Transactions

On 30 August 2011, AVIC and the Company entered into Mutual Supply of Products Agreement. Comparing with the existing mutual supply agreement with AVIC, the scope of products and the ancillary services under Mutual Supply of Products Agreement will be amended to cover aviation related materials, components and products and their related sale and ancillary services, which is due to the streamlining of the Group's business to focus on the aviation business following its assets reorganisation. Pursuant to this new agreement, AVIC Group and the Group will mutually provide raw materials, parts and components, finished products and semi-finished products (including but not limited to helicopters, aircraft and aviation parts and components) required by the other party in its production and business operations as well as the specialised facilities and ancillary services related thereto. The mutual provision of products by the parties shall be made on terms not less favourable than those offered to/by Independent Third Parties under comparable conditions.

LETTER FROM ANGLO CHINESE

On 30 August 2011, AVIC and the Company entered into Mutual Provision of Services Agreement. Unlike the existing comprehensive services agreement with AVIC, the new agreement is a mutual agreement and the scope of services will not be restricted to certain social welfare and supporting services but extend to services relating to the production and business operation of each party. Pursuant to Mutual Provision of Services Agreement, AVIC Group will provide certain services relating to the production and business operations of the Group including, without limitation, (i) electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing; (v) construction and transportation; (vi) network design, consultancy and related services; (vii) cultural, hygienic, social security and logistic services; (viii) import and export services; and (ix) test flight and related information and quality monitoring services; and the Group will provide certain services relating to the production and business operation of AVIC Group including, without limitation, (i) electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing; (v) construction and transportation; (vi) network design, consultancy and related services; and (vii) enterprise management trust services. The mutual provision of services by the parties shall be made on terms not less favourable than those offered to/by Independent Third Parties under comparable conditions.

On 30 August 2011, the Company and AVIC Avionics entered into AVIC Avionics CCT Agreement, the terms of which are substantially the same as that of the existing products and services mutual supply and guarantee provision agreement with AVIC Avionics. Pursuant to AVIC Avionics CCT Agreement, (1) the Group agrees to provide aviation parts and components, raw materials, production and labour services to AVIC Avionics Group, as well as ongoing guarantee(s) to AVIC Avionics Group in relation to the bank loan(s) obtained by them during their ordinary course of business; and (2) AVIC Avionics Group agrees to provide aviation parts and components and related ancillary services to the Group.

Term

The term of each of Mutual Supply of Products Agreement, Mutual Provision of Services Agreement and AVIC Avionics CCT Agreement is three years commencing from 1 January 2012 to 31 December 2014.

Pricing

The products and services will be provided: (i) according to the State-prescribed price; (ii) if there is no State-prescribed price, then according to the State-guidance price; (iii) if there is no State-guidance price, then according to the Market Price (including bidding price); and (iv) if none of the above is applicable, then according to the Contractual Price.

Market Price is the price at which the same type of products or services (as the case may be) is provided by independent third parties under normal commercial terms in the ordinary course of their businesses in the same area, in the vicinity in the PRC, or if there is no such price; then the price at which the same type of products or services (as the case may be) is provided by independent third parties under normal commercial terms in the ordinary course of their businesses in the PRC.

LETTER FROM ANGLO CHINESE

Contractual Price is the price to be agreed between the relevant parties for the provision of the subject products or services (as the case may be) after arm's length negotiation and as permitted by the relevant accounting system/principles of the PRC (inclusive of sales tax and surcharges), represents not more than 108% of the cost for providing such products or services.

The same ceiling of 8% margin was used in the existing mutual supply agreement and the products and services mutual supply and guarantees provision agreement. Such ceiling was determined after arm's length negotiations between the Group and with each of AVIC and AVIC Avionics, and given parties of Mutual Supply of Products Agreement, Mutual Provision of Services Agreement and AVIC Avionics CCT Agreement can charge to counter parties on the same basis, we are of the view that such term is fair.

Payment

Specific payment terms are to be agreed between the parties in each specific transaction contemplated under the new framework agreement in respect of the Non-Exempt Continuing Connected Transactions.

Historical figures

Set out below are the historical annual amounts of continuing connected transactions under the existing mutual supply agreement with AVIC, existing comprehensive services agreement with AVIC and existing products and the expenditure transaction under the existing services mutual supply and guarantee provision agreement with AVIC Avionics for the preceding two financial years ended 31 December 2010 and the six months ended 30 June 2011:

	Historical figures			For the 6 months ended 30 June 2011 (RMB million)
	For the year ended 31 December		change (%)	
	2009 (RMB million)	2010 (RMB million)		
Expenditure of the Group				
Existing mutual supply agreement with AVIC	2,010	2,787	39%	1,696
Existing comprehensive services agreement with AVIC	85	39	-54%	9.85
Existing products and services mutual supply and guarantee provision agreement with AVIC Avionics	17 (Note)	69	n.a.	48
Revenue of the Group				
Existing mutual supply agreement with AVIC	3,998	6,916	73%	4,130

Note: The historical annual amount for the Group's expenditure under the existing agreement with AVIC Avionics for the year ended 31 December 2009 just covered the period from 7 July 2009 to 31 December 2009.

LETTER FROM ANGLO CHINESE

The historical annual amounts for the expenditure transaction under the existing mutual supply agreement with AVIC for the year ended 31 December 2010 increased 39% comparing with that of the previous year, while the historical annual amounts for the revenue transaction under the existing mutual supply agreement with AVIC for the year ended 31 December 2010 increased 73% comparing with that of the previous year.

The historical annual amounts for the expenditure transaction under the existing comprehensive services agreement with AVIC for the year ended 31 December 2010 decreased 54% comparing with that of the previous year. Under the existing comprehensive services agreement with AVIC, only AVIC Group would provide certain social welfare and supporting services to the Group and not vice versa. Therefore there is no historical figure of the revenue transaction under such agreement.

Proposed annual caps

Set out below are the proposed annual caps for the Non-Exempt Continuing Connected Transactions for the three financial years ending 31 December 2012, 2013 and 2014:

Non-Exempt Continuing Connected Transactions	Existing caps		Proposed annual caps				
	For the year ending 31		For the year ending 31 December				
	December 2011	2012	change	2013	change	2014	change
	(RMB million)	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)
Expenditure of the Group							
Mutual Supply of							
Products Agreement	6,545	8,749	34%	11,615	33%	15,489	33%
Mutual Provision of							
Services Agreement	170	1,965	1056%	2,224	13%	2,434	9%
AVIC Avionics							
CCT Agreement	86	645	650%	818	27%	1,039	27%
	508		27%				
	(Note 1)						
Revenue of the Group							
Mutual Supply of							
Products Agreement	10,534	15,631	48%	21,772	39%	30,339	39%
Mutual Provision of							
Services Agreement	-	416	n.a.	581	40%	746	28%
	(Note 2)						

Note 1: The annual cap for the expenditure transaction under the AVIC Avionics CCT is proposed to be revised to RMB508 million.

Note 2: Under the existing comprehensive services agreement with AVIC, only AVIC Group would provide certain social welfare and supporting services to the Group and therefore no historical figure is available.

LETTER FROM ANGLO CHINESE

The year to year growth rate of the expenditure transaction under Mutual Supply of Products Agreement based on the proposed annual caps for the three financial years ending 31 December 2014 is approximately 33%, which is general in line with the historical growth rate for the expenditure transaction under the existing mutual supply agreement with AVIC. The year to year growth rate of the proposed annual caps for the revenue transaction under Mutual Supply of Products Agreement is along the similar growth rate in the past. Since more aviation companies engaged in manufacturing aviation parts and components are expected to be injected into the Group, it is expected more parts, components and products will be supplied by the Group to AVIC Group, than from AVIC Group to the Group.

Since the nature and scope of services under Mutual Provision of Services Agreement has been broadened comparing with the existing comprehensive services agreement with AVIC, the proposed annual caps for the three financial years ending 31 December 2014 for expenditure transaction under Mutual Provision of Services Agreement are set at a level much larger than the existing caps. We have reviewed the nature and breakdown of certain expenditure and revenue transactions under Mutual Provision of Services Agreement and noticed these amounts fluctuate during the three years ending 31 December 2014. The proposed annual caps for the expenditure and revenue transaction under Mutual Provision of Services Agreement were estimated with reference to the progress of relevant projects and demand for specific services, and therefore the year to year growth rate of such proposed annual caps could fluctuate.

The year to year growth rate of the expenditure transaction under AVIC Avionics CCT Agreement based on the proposed annual caps for the three financial years ending 31 December 2014 and the proposed 2011 revised annual cap for the expenditure transaction under the AVIC Avionics CCT is approximately 27%. The growth rate was determined with reference to the increase in the parts and components of avionics products and the ancillary services provided to the Group (excluding AVIC Avionics Group) due to the increase in the numbers of the subsidiaries injected to AVIC Avionics Group following the completion of assets reorganisation in June 2011; and the estimated growth of the entire aircraft business of the Group and hence the increase in the demand for avionic products.

Basis of determination of the proposed annual caps

The proposed annual caps for the expenditure transaction under Mutual Supply of Products Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of provision of products by AVIC Group to the Group; (ii) with the expected increase in the sales orders for aviation products to be received by the Group in the future considering the implementation of China's Economic and Social Development in the 12th Five-year Plan (the "Twelfth Five-year Plan") by the PRC government, pursuant to which the aviation industry will be explicitly included as one of the national strategic emerging industries, the Group will demand more aviation parts and components from AVIC Group for production of its current and new products; and (iii) continuous development on new models with higher value to enhance the Group's competitiveness in both the domestic and international markets and thus the Group will purchase aviation parts of higher technology content and higher value from AVIC Group.

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The proposed annual caps for the revenue transaction under Mutual Supply of Products Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products by the Group to AVIC Group; (ii) with the corresponding increase in the sales of the Group to AVIC Group resulting from the expected rapid growth of China aviation industry in the forthcoming three years due to the implementation of the Twelfth Five-year Plan by the PRC government, pursuant to which the aviation industry will be explicitly included as one of the national strategic emerging industries; (iii) current sales order status of the Group, especially the development and production of new models which result in an increase in the types and volumes of products of the Group and transaction volumes between the Group and AVIC Group; and (iv) the increase in the number of avionics enterprises injected to the Company following the completion of the assets reorganisation of China Aviation Optical-Electrical Technology Co., Ltd and AVIC Avionics, which leads to an increase in the sales of the Group's avionic products to AVIC Group.

The proposed annual caps for the expenditure and revenue transactions under Mutual Provision of Services Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the mutual provision of services between the parties; (ii) the expansion of the Group's and AVIC Group's business which leads to an increase in the number of enterprises injected to the Company and the widening of the scope of services covered under Mutual Provision of Services Agreement to include more ancillary services to be provided in relation to the production and business operations of the Group and AVIC Group, such as technological transformation, construction services, etc; and (iii) the expected continuous increase in the inflation rate in the PRC which leads to a significant increase in the costs of provision of such services.

The proposed annual caps for the expenditure transaction under AVIC Avionics CCT Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products and services by AVIC Avionics Group to the Group (excluding AVIC Avionics Group); (ii) the increase in the parts and components of avionics products and the ancillary services provided to the Group (excluding AVIC Avionics Group) due to the increase in the numbers of the subsidiaries injected to AVIC Avionics Group following the completion of assets reorganisation in June 2011; and (iii) the estimated growth of the entire aircraft business of the Group and hence the increase in the demand for avionic products.

According to a statement by the chief officer of Civil Aviation Administration of China, during the implementation of the Twelfth Five-year Plan, the investment scale in civil aviation industry will amount to more than RMB1,500 billion, representing an increase of approximately 50% over the investment scale of more than RMB1,000 billion during the Eleventh Five-year Plan. In assessing the reasonableness of the proposed caps, we have reviewed the expenditure and revenue projection for the years of 2012 to 2014 prepared by the Company and discussed with the management the basis and assumptions of such projection, which we consider reasonable and consistent with the market conditions and trends. We have not been assisted by any independent market research consultants to form our view. Based on the above analysis, we are of the view that the proposed caps for each of the Non-Exempt Continuing Connected Transactions is fair and reasonable and the conduct of those

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transactions would be subject to annual review by the independent non-executive Directors and auditors of the Company as required under the Listing Rules, the Group would have flexibility in conducting its business if the proposed caps are tailored to future business growth. This is particularly so for transactions conducted with AVIC and AVIC Avionics, which involve aviation parts and products as it is unlikely that the Group can secure orders of this type directly from other suppliers and customers in the PRC.

Shareholders should note that the proposed caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group.

Reasons for revision of the annual cap for the expenditure transaction under the AVIC Avionics CCT

As mentioned above, AVIC Avionics underwent a new round of reorganisation in 2010 through the acquisition of certain aviation assets including six avionics companies and such reorganisation was recently completed on 23 June 2011. The AVIC Avionics CCT have therefore substantially increased and the Board estimates that the actual transaction amounts in respect of the Group's expenditure will exceed the existing annual cap for the year ending 31 December 2011. The Board therefore proposes to revise the relevant cap for 2011 while keep all other terms and conditions under the existing agreement unchanged.

The revised annual cap for the expenditure transaction under the AVIC Avionics CCT is determined with reference to, among other things, (i) the historical transactions and transaction amounts between the parties; (ii) the increasing need for avionics products and ancillary services by the Group considering the development of its entire aircraft business; and (iii) the anticipated transaction volume between the Group and AVIC Avionics in respect of each category of transactions under the existing products and services mutual supply and guarantee provision agreement.

In assessing the reasonableness of the proposed revision of the annual cap for the expenditure transaction under the AVIC Avionics CCT, we have reviewed the expenditure projection for the year ending 31 December 2011 under AVIC Avionics CCT, which includes such continuing connected transactions between the Group and the six companies newly injected into AVIC Avionics, and discussed with the Company the basis and assumptions of such projection, which we consider reasonable.

Reasons for terms of the Land Use Rights and Properties Leasing Agreement being in excess of three years

The existing land use rights leasing agreement was entered into by the Group on 30 April 2003 and has a term of 20 years expiring on 29 April 2023, while the existing properties leasing agreement was dated 30 April 2003 and has a term of 10 years expiring on 29 April 2013. The Board proposed to combine the two framework agreements by entering into a new framework agreement, namely, the Land Use Rights and Properties Leasing Agreement, the terms of which are substantially the same as that of the existing agreements.

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The Land Use Rights and Properties Leasing Agreement has a term of 20 years commencing from 1 January 2012. Upon becoming effective, the Land Use Rights and Properties Leasing Agreement will supersede the existing land use rights leasing agreement and the properties leasing agreement.

The 22 pieces of land to lease under the Land Use Rights and Properties Leasing Agreement are all for industrial use while the properties to lease under the Land Use Rights and Properties Leasing Agreement are mainly used as manufacturing plants and offices by the Group or AVIC Group, as the case may be. Both parties have indicated they have no intention to change the use of such land and properties currently occupied by them.

The annual rentals for the land and properties leased by the Group to or from AVIC are revised every three years and shall not be higher than the prevailing market annual rental as determined by an independent valuer with reference to the market rent of land or properties (as the case may be) with similar conditions and locations. The annual rentals for the years of 2012 to 2014 were made reference to the market rentals as determined by Vigers Appraisal & Consulting Ltd., a third party independent to the Company and its connected persons.

Based on the above factors, we are of the view that it is in the mutual interest of the Group and AVIC that both parties may have long-term use of the properties and land currently occupied to ensure smooth operation of their business and it is normal business practice for such land and properties leasing arrangement to be of a duration longer than three years.

RECOMMENDATION

We have considered the above principal factors and reasons and particularly (i) the terms of new framework agreements in respect of the Non-Exempt Continuing Connected Transactions; (ii) the proposed annual caps for the Non-Exempt Continuing Connected Transactions for the three financial years ending 31 December 2014; and (iii) the strategic rationale of entering into new framework agreements. Based on the above principal factors and reasons, we consider that the Non-Exempt Continuing Connected Transactions are in the ordinary and usual course of business of the Company, the terms of the framework agreements in respect of the Non-Exempt Continuing Connected Transactions are on normal commercial terms and such agreements, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT are fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the framework agreements in respect of the Non-Exempt Continuing Connected Transactions, the proposed annual caps for the Non-Exempt Continuing Connected Transactions and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT.

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

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

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors and Chief Executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were required: (i) to be notified to the Company and the 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 Stock Exchange are set out below:

Name of Director	Class of shares	Capacity	Number of Restricted Shares granted	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	708,590	0.04%	0.01%	Long position
Tan Ruisong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Wu Xiandong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Gu Huizhong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Xu Zhanbin	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Geng Ruguang	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Zhang Xinguo	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Gao Jianshe	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Li Fangyong	H Share	Beneficial owner	636,950	0.03%	0.01%	Long position
Chen Yuanxian	H Share	Beneficial owner	426,280	0.02%	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 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 Stock Exchange.

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

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

3. DIRECTORS' SERVICE CONTRACTS

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

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

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2010, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

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

5. CONSENT AND QUALIFICATION OF EXPERTS

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

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

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

As at the Latest Practicable Date, Anglo Chinese did not have any direct or indirect interest in any assets which has been, since 31 December 2010, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

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

6. COMPETING INTERESTS

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

7. NO MATERIAL ADVERSE CHANGE

The Directors are of the opinion that since 31 December 2010, 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 Friday, 9 December 2011:

- (a) the letter dated 23 September 2011 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 23 of this circular;
- (b) the letter of advice dated 23 September 2011 from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, the text of which is set out on page 24 to page 34 of this circular;
- (c) the written consent of Anglo Chinese referred to in paragraph 5 of this Appendix; and
- (d) the framework agreements in respect of the Non-Exempt Continuing Connected Transactions.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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

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

(Stock Code: 2357)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting (“EGM”) of AviChina Industry & Technology Company Limited (the “**Company**”) will be held at 9:00 a.m. on Friday, 9 December 2011, at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC to consider and approve the following resolutions. Unless otherwise indicated, capitalized terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 23 September 2011 (the “**Circular**”):

ORDINARY RESOLUTIONS

1. “**THAT:**

- (1) the entering into by the Company of the framework agreements in respect of the Non-Exemption Continuing Connected Transactions, namely, (i) the Mutual Supply of Products Agreement, (ii) the Mutual Provision of Services Agreement, and (iii) the AVIC Avionics CCT Agreement and the proposed annual caps for the revenue and expenditure transactions under (i) the Mutual Supply of Products Agreement, (ii) Mutual Provision of the Services Agreement and (iii) the expenditure transaction under the AVIC Avionics CCT Agreement for each of the three financial years ending 31 December 2014 be and are hereby approved; and
- (2) any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete or in connection with the transactions contemplated under the framework agreements in respect of the Non-Exempt Continuing Connected Transactions, namely, (i) the Mutual Supply of Products Agreement, (ii) the Mutual Provision of Services Agreement, and (iii) the AVIC Avionics CCT Agreement and the proposed caps thereof and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreements, as such Director or authorized representative may in his absolute discretion deem fit.”

* *For identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. **“THAT:**

the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT be and is hereby approved.”

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

Hong Kong, 23 September 2011

Notes:

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

Pursuant to Article 38 of the Articles of Association of the Company, the H Share register of the Company will be closed from Saturday, 19 November 2011 to Friday, 9 December 2011 (both days inclusive), during which period no transfer of H shares will be effected. Holders of the Company's H Shares and Domestic Shares whose names appear on the Company's Register of Members on Friday, 9 December 2011 are entitled to attend the EGM and to vote in the EGM.

In order to qualify to attend and vote in the EGM, holders of the Company's H shares shall lodge all transfers together with the relevant share certificates to Computershare Hong Kong Investor Services Limited, the Company's H Shares Registrar, not later than 4:30 p.m. on Friday, 18 November 2011 at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong.

(2) Registration procedures for attending the EGM

- (a) The shareholder or its proxies shall produce his identification proof. If a corporation shareholder's legal representative or any other person authorized by the board of directors or other governing body of such corporate shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.
- (b) Holders of H Shares or Domestic Shares who wish to attend the EGM must complete the reply slip to confirm the attendance, and return the same to the correspondence address designated by the Company not later than 20 days before the date of the EGM, i.e. before Saturday, 19 November 2011.
- (c) Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.

(3) Proxies

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) Any shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the board of the body corporate or by attorneys duly authorized. If the instrument is signed by an attorney of the appointer, the power of attorney authorizing the attorney to sign or other documents of authorization must be notarially certified. In order to be valid, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered in the case of holders of Domestic Shares, to the correspondence address designated by the Company, and in the case of holders of H Shares, to Computershare Hong Kong Investor Services Limited at the address stated in note 1 above not less than 24 hours before the time for holding the EGM and return of a form of proxy will not preclude a shareholder from attending in person and voting at the EGM if he or she so wishes.
- (4) **The EGM is expected to last for half a day. Shareholders attending the meeting are responsible for their own transportation and accommodation expenses.**

Designated address of the Company:

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

Telephone No.: 86-10-58354319

Facsimile No.: 86-10-58354310

Attention: Mr. Xu Bin

- (5) **Ordinary resolutions 1 and 2 above will be voted by poll by the Independent Shareholders.**

As at the date of this notice, the Board comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and Mr. Wu Xiandong and non-executive directors Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Gao Jianshe, Mr. Li Fangyong, Mr. Chen Yuanxian, Mr. Wang Yong, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.