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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)

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:
FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH AVIC FINANCE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



A letter from the Independent Board Committee is set out on page 14 of this circular. A letter from Somerley to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 33 of this circular.

A notice convening the extraordinary general meeting ("EGM") of AviChina Industry & Technology Company Limited to be held at 11:00 a.m. on Wednesday, 19 May 2010 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 38 to 40 this circular.

Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon before Thursday, 29 April 2010. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed proxy form in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the EGM and voting in person if you so wish.

* For identification purpose only.

16 April 2010

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	14
Letter from Somerley	15
Appendix I — General Information	34
Notice of Extraordinary General Meeting	38

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 1 April 2010 in relation to the Financial Services Framework Agreement with AVIC Finance
“AVIC”	Aviation Industry Corporation of China (中國航空工業集團公司), a controlling shareholder of the Company holding 56.70% equity interests in the Company
“AVIC Finance”	Aviation Industry Corporation Finance Company Limited (中航工業集團財務有限責任公司), a limited liability company established in the PRC
“Board”	the board of Directors of the Company
“CBRC”	中國銀行業監督管理委員會 China Banking Regulatory Commission
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), whose H shares are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Deposit Services”	the deposit services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 19 May 2010 to consider and, if thought fit, approve, among other things, the Financial Services Framework Agreement (including Proposed Cap)
“Financial Services Framework Agreement”	the Financial Services Framework Agreement entered into between the Company and AVIC Finance on 1 April 2010
“Group”	the Company and its subsidiaries
“Guarantee Services”	the Guarantee Services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement

DEFINITIONS

“Independent Board Committee”	the independent committee of the Board comprising Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, being the independent non-executive Directors, established for the purpose of advising the Independent Shareholders of the terms of the Financial Services Framework Agreement and the Proposed Cap
“Independent Shareholders”	Shareholders of the Company other than AVIC and its associates
“Latest Practicable Date”	16 April 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Loan Services”	the Loan Services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“Other Financial Services”	apart from deposit, settlement, loan and guarantee services, other financial services AVIC Finance agreed to provide to the Group under the Financial Services Framework Agreement (subject to the terms and conditions provided therein)
“PBC”	中國人民銀行 People’s Bank of China
“PRC”	the People’s Republic of China
“Proposed Cap”	the proposed maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with AVIC Finance during the term of the Financial Services Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement Services”	the settlement services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
“Shareholders”	registered holder(s) of the shares of the Company

DEFINITIONS

“Somerley”	Somerley Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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

16 April 2010

To the Shareholders:

Dear Sir or Madam,

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:
FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH AVIC FINANCE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Reference is made to the Announcement dated 1 April 2010 in relation to the Financial Services Framework Agreement with AVIC Finance, in which AVIC Finance has agreed to provide financial services to the Group. The Deposit Services under the Financial Services Framework Agreement constitutes discloseable and continuing connected transactions under the Listing Rules.

* For identification purpose only.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (1) details of the transactions contemplated under the Financial Services Framework Agreement; (2) clarification of certain inadvertent errors made in the Announcement; (3) the letter from the Independent Board Committee; (4) the recommendations from Somerley to the Independent Board Committee and the Independent Shareholders; and (5) the notice of the EGM.

A. INTRODUCTION

On 1 April 2010, the Company and AVIC Finance entered into the Financial Services Framework Agreement, pursuant to which AVIC Finance has agreed to provide the Group with Deposit Services, Loan Services, Settlement Services, Guarantee Services and Other Financial Services subject to the terms and conditions provided therein.

AVIC Finance was established pursuant to the relevant PRC laws and regulations relating to the establishment of “group finance company” to enhance the centralized management of funds among, and to improve the fund utilization of the individual member companies of, AVIC, including the Group. AVIC Finance is a non-banking financial institution approved and regulated by PBC and CBRC. AVIC Finance only provides financial services to AVIC and its member companies in the PRC.

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

B THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. Date

1 April 2010

2. Effective Date and Term

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

3. Parties

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

4. Major Terms

- (a) Deposit Services:
 - (i) Interest rates for the Group’s deposits with AVIC Finance shall not be lower than (a) the minimum interest rate promulgated by PBC for the same type of deposit services;

LETTER FROM THE BOARD

(b) the interest rates for the same type of deposits offered by any third party to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other member companies of AVIC (including AVIC). The interests payment term is to be determined by the parties at the time of deposit;

- (ii) The maximum daily deposit amount (including accrued interests) placed by the Group with AVIC Finance shall not be more than RMB2 billion; and
- (iii) If AVIC Finance is unable to repay the Group's deposits, the Company has the right to terminate the Financial Services Framework Agreement and to set off the deposit due to the Group from AVIC Finance against the outstanding loan due to AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall compensate the Group for the full amount of the loss suffered by the Group and the Group is entitled to terminate the Financial Services Framework Agreement. In the event the amounts due to the Group from AVIC Finance (i.e. deposits by the Group) is more than the amounts due to AVIC Finance from the Group (i.e. loans from AVIC Finance), the excess portion due from AVIC Finance is not available for set off. In this case, the Group would have the same right in recovering the excess portion as the other creditors of AVIC Finance.

(b) Loan Services

Interest rates charged by AVIC Finance for the provision of Loan Services to the Group shall not be higher than (a) the interest rates promulgated by PBC for the same type of loan services; (b) the interest rates for the same type of loan offered by any third party to the Group; and (c) the interest rates for the same type of loans provided by AVIC Finance to any other member companies of AVIC (including AVIC) with the same credit rating.

(c) Settlement Services

- (i) The Settlement Services means the services provided by AVIC Finance to the Group in relation to effecting any payment out of any fund held by AVIC Finance or accepting payment of fund to the Group, in both cases on the Company's behalf and to the order of the Company; and
- (ii) The fees for Settlement Services shall not be higher than the fees then charged by any other third party for the same type of services.

(d) Guarantee Services

The Guarantee Services means the services provided by AVIC Finance to the Group in relation to the financing, finance lease, tender, contract performance of the Group and no reverse guarantee is required.

LETTER FROM THE BOARD

The fees charged by AVIC Finance for the provision of Guarantee Services shall not be higher than (a) the maximum fee promulgated by PBC for the same type of financial services (if applicable); (b) the fees charged by other financial institutions in the PRC for the same services; and (c) the fees charged for the same type of financial service offered by AVIC Finance to any other member companies of AVIC (including AVIC) with the same credit rating.

(e) Other Financial Services:

(i) AVIC Finance will, in accordance with the Company's instructions and requests, provide to the Group Other Financial Services. Before AVIC Finance providing to the Group Other Financial Services, AVIC Finance and the relevant member of the Group are required to negotiate and enter into separate agreement(s); and

(ii) The fees charged by AVIC Finance for the provision of Other Financial Services shall not be higher than (a) the maximum fee promulgated by PBC for the same type of financial services (if applicable); (b) the fees charged by other financial institutions in the PRC for the same services; and (c) the fees charged for the same type of financial service offered by AVIC Finance to any other member companies of AVIC (including AVIC) with the same credit rating.

(f) The Group may obtain financial services from other financial institutions in addition to those provided by AVIC Finance pursuant to the Financial Services Framework Agreement.

Proposed Cap and rationale

Deposit Services

Prior to the entering of the Financial Services Framework Agreement, the Company has not placed any money with AVIC Finance as deposits. The Board has considered and proposed the following cap in respect of the maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with AVIC Finance during the term of the Financial Services Framework Agreement:

Transactions	Proposed Cap	Basis of determination of the Proposed Cap
Deposit Services	RMB2,000,000,000	The Proposed Cap has been determined with reference to the control of financial risks in selecting providers of financial services, taking into account business development plans and financial needs of the Group during the term of the Financial Services Framework Agreement.

LETTER FROM THE BOARD

Reasons for and benefits expected to acquire from the Financial Services Framework Agreement

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

- (a) AVIC Finance is to provide its services under the Financial Services Framework Agreement on a non-exclusive basis. That means AVIC Finance provides an additional choice of financial services for the Group to choose from. Management of the Group believes that the regulatory control on PRC financial institutions in relation to credit approvals may become increasingly stringent in the near future, where new credit facilities are becoming more difficult to obtain. As such, management of the Group considers that AVIC Finance, as a strategic partner to the Group, would be able to provide an important source of funding in addition to the Group's existing credit facilities.
- (b) The interest rates on Deposit Services and Loan Services offered by AVIC Finance to the Group will be equal to or more favourable, depending on the case, than those offered to the Group by any third party. AVIC Finance has issued a confirmation to the Company on 12 April 2010, stating that it would extend loans to the Group, under the Loan Services, at interest rates representing 10% downward adjustments from the benchmark interest rates as stipulated by PBC. This allows the Group to potentially enjoy more favourable interest rates for its loans from AVIC Finance, thereby reducing the finance costs of the Group.
- (c) AVIC Finance is regulated by PBC and CBRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, capital risks are reduced through the introduction of risk control measures.
- (d) The Group is expected to benefit from AVIC Finance's understanding of the Group's operations which should render more expedient and efficient service provision than the commercial banks in the PRC.
- (e) Pursuant to the relevant regulations of PBC and CBRC, the customers of AVIC Finance are limited to the group members of AVIC. Restricting the customers of AVIC Finance to the group members of AVIC will reduce the risks that AVIC Finance may otherwise be exposed to its customers including other entities unrelated to AVIC.
- (f) AVIC Finance could serve as a centralised financial platform for the Group to allow surplus funds to be remitted from cash-rich subsidiaries to the more indebted subsidiaries through entrustment loan arrangements, thereby reducing the level of external borrowings and finance costs, which in turn would lead to improved profitability of the Group. The above entrustment loan arrangement will be introduced as soon as and to the extent possible.

The Directors (including the independent non-executive Directors) believe that the terms of the Financial Services Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

C LISTING RULES IMPLICATIONS

Exempt and Non-exempt Continuing Connected Transactions

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

Since (i) the Loan Services and the Guarantee Services are on normal commercial terms and no security over the assets of the Group will be granted in respect of the financial assistance; (ii) the Settlement Services will fall within the *de minimis* threshold as stipulated under the Listing Rules, and (iii) the Other Financial Services have not been fixed by the parties, the Loan Services, the Guarantee Services, the Settlement Services and the Other Financial Services are not subject to any reporting, announcement and/or Independent Shareholders' approval requirements under the Listing Rules. The Company will monitor the transaction amounts under the Settlement Services and Other Financial Services and will comply with the reporting, announcement and/or Independent Shareholders' approval requirements should the Company become aware that the Settlement Services and the Other Financial Services will become non-exempt continuing connected transactions under the Listing Rules.

Since each of the applicable percentage ratios for the Deposit Services and the Proposed Cap is more than 2.5%, the Deposit Services are subject to the reporting, announcement and the Independent Shareholders' approval requirements.

Discloseable Transactions

Since each of the applicable percentage ratios for the Deposit Services is more than 5% but less than 25%, the Deposit Services constitutes discloseable transaction and are therefore subject to the notification and announcement requirements under Rule 14.34 of the Listing Rules.

D GENERAL INFORMATION

Information relating to the Company

The Company is held as to 56.70% by AVIC, being the controlling shareholder of the Company. As at the Latest Practicable Date, the Company is mainly engaged in the research, development, manufacture and sales of aviation products.

Information relating to AVIC Finance

AVIC Finance was established on 8 April 2007 as a limited liability company in Beijing, the PRC. It is licensed by CBRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrustment loans

LETTER FROM THE BOARD

and entrustment investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory, credit certification and other advisory agency service and security to member companies, and other financial services as may be approved by CBRC.

As of 31 December 2009, the registered capital of AVIC Finance was RMB1,000,000,000. AVIC Finance also had a total asset value of approximately RMB46,833,000,000 which included liquid assets (such as bank deposits, central bank reserves, short-term loans, central bank notes and treasury bonds) of approximately RMB45,684,000,000. It has secured lines of credit of an amount up to RMB10,300,000,000 from several major commercial banks in the PRC. Based on the audited accounts of AVIC Finance prepared in accordance with PRC accounting principles, AVIC Finance's before-tax profits were approximately RMB81,652,003 (instead of 103,385,600 as disclosed in the Announcement), RMB155,210,700 and RMB178,794,300 for the years ended 31 December 2007, 2008 and 2009 respectively, and its after-tax profits were approximately RMB53,739,300, RMB117,518,100 and RMB137,130,078 (instead of 178,794,200 as disclosed in the Announcement) respectively, representing an annual return on equity of about 5.37%, 11.75% and 13.71% (instead of 17.88% as disclosed in the Announcement) for the same periods. As of 31 December 2007, 2008 and 2009, the current ratios of AVIC Finance were approximately 0.59 (instead of 1.34 as disclosed in the Announcement), 0.59 (instead of 0.57 as disclosed in the Announcement) and 0.68 respectively and its capital adequacy ratios were approximately 43.86% (instead of 42.84% as disclosed in the Announcement), 15.23% and 13.40% respectively, which are all in compliance with the requirement of CBRC with regards to the capital adequacy ratio applicable to the finance companies of enterprise groups.

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

- (a) are not allowed to engage in non-financial service business, including property investment or trading;
- (b) must comply with the following ratio requirements: (i) the capital adequacy ratio shall not be lower than 10%, (ii) the net inter-bank borrowing balance shall not exceed the total capital of the relevant finance company, (iii) the total amount of outstanding guarantees shall not be more than the total capital of the relevant finance company, (iv) the ratio of short-term securities investment to total capital shall not exceed 40%; (v) the ratio of long-term investments to total capital shall not exceed 30%; and (vi) the ratio of self-owned fixed assets to total capital shall not exceed 20%; and
- (c) are required to deposit a mandatory proportion of the deposits they have received with PBC.

LETTER FROM THE BOARD

Internal Control Measures

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

- (a) a monthly report on the status of the Group's deposits with AVIC Finance will be delivered by AVIC Finance to the Company on the third business day of the following month;
- (b) a copy of every regulatory report submitted by AVIC Finance to the CBRC will be provided to the Company on the fifth business day following submission;
- (c) financial ratios and indicators of AVIC Finance that are monitored by regulatory authorities (for example, capital adequacy ratio) will be provided to the Company on the fifth business day after the end of each quarter;
- (d) the finance department of the Company will report to the independent non-executive Directors on a quarterly basis in relation to the arrangements between the Group and AVIC Finance, including but not limited to the information specified in (a), (b) and (c) above.
- (e) AVIC Finance has established corporate governance structure to ensure the effectiveness of its internal controls including the establishment of three committees namely, the Strategy and Development Committee, the Risk and Audit Committee, and the Remuneration Committee;
- (f) AVIC Finance has in place effective internal rules and policies specifically for management and control of operational risk and credit risks. It has its own credit policies and credit approval procedures for loan approvals which are designed in accordance with the relevant PBC and CBRC regulations. It has also implemented various risk management tools to manage and monitor credit risks. The internal audit department assumes an internal independent supervisory role and is responsible for examining and auditing the business operation of other departments; and
- (g) AVIC Finance has in place intra-group check-and-balance mechanisms (such as division of duties, regular and random internal examination, re-assessment and upper level supervision) to identify operational bottlenecks and irregularities and to deal with problems (if any) in a timely and effective manner.

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

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

LETTER FROM THE BOARD

E. UNDERTAKINGS BY AVIC

Pursuant to an undertaking letter dated 1 April 2010, AVIC has undertaken to the Company that, during the term of the Financial Services Framework Agreement, AVIC will:

- (a) maintain its actual control of AVIC Finance, and guarantee the proper and orderly operation of AVIC Finance;
- (b) use its best endeavors and take reasonable steps to guarantee that AVIC Finance will fully discharge its obligations in respect of the services contemplated under the Financial Services Framework Agreement; and
- (c) indemnify all losses incurred by the Group due to any failure by AVIC Finance in performing its obligations under the Financial Services Framework Agreement, including but not limited to, loan amounts, interests and relevant expenses incurred, within ten business days of such failure.

F. EGM

The notice of the EGM to be held at 11:00 a.m. on Wednesday, 19 May 2010 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 38 to 40 of this circular, at which ordinary resolutions will be proposed to approve, among other matters, the terms of the Financial Services Framework Agreement (including the Proposed Cap).

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

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

To the best knowledge of the Directors and having made all reasonable enquiries, apart from AVIC and its associates, no other Shareholder has a material interest in the Financial Services Framework Agreement (including the Proposed Cap) and therefore no other Shareholder will be required to abstain from voting on the resolutions to approve the Financial Services Framework Agreement (including the Proposed Cap) at the EGM.

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

LETTER FROM THE BOARD

G. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 14 of this circular. The Directors and the Independent Board Committee, having taken into account the advice of Somerley, consider that the terms of the Financial Services Framework Agreement (including the Proposed Cap) are fair and reasonable and the transactions contemplated under the Financial Services Framework Agreement are 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 relating to the Financial Services Framework Agreement (including the Proposed Cap) 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
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)

16 April 2010

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “Circular”) dated 16 April 2010 of which this letter forms a part. Unless the context requires otherwise, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the terms of the Financial Services Framework Agreement and the Proposed Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Somerley has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Financial Services Framework Agreement and the Proposed Cap.

We wish to draw your attention to the letter from the Board set out on pages 4 to 13 of the Circular and the letter from Somerley set out on pages 15 to 33 of the Circular.

Having considered the advice given by Somerley, we are of the opinion that the Financial Services Framework Agreement and the Proposed Cap are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the entering into of the Financial Services Framework Agreement (including the Proposed Cap) is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the 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 SOMERLEY



SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

16 April 2010

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the provision of Deposit Services by AVIC Finance to the Group pursuant to the Financial Services Framework Agreement dated 1 April 2010 and the Proposed Cap. Details of the above transactions are contained in the circular to the Shareholders dated 16 April 2010 (the “Circular”), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

AVIC Finance is a subsidiary of AVIC which, as at the Latest Practicable Date, had an approximately 56.70% equity interest in the Company. AVIC Finance is therefore a connected person of the Company and the Deposit Services to be provided by AVIC Finance pursuant to the Financial Services Framework Agreement will constitute continuing connected transactions of the Company. The Deposit Services and the Proposed Cap are subject to approval by Independent Shareholders by way of poll at the EGM pursuant to the Listing Rules.

The Loan Services and the Guarantee Services are on normal commercial terms and no security over the assets of the Group will be granted in respect of the financial assistance, the Settlement Services will fall within the de minimis threshold under the Listing Rules, and the Other Financial Services have not been fixed by the parties. Accordingly, the Loan Services, the Guarantee Services, the Settlement Services and the Other Financial Services are exempt from Independent Shareholders’ approval under the Listing Rules.

The Independent Board Committee comprising all the three independent non-executive Directors, namely Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, has been formed to advise the Independent Shareholders in respect of the Deposit Services contemplated under the Financial Services Framework Agreement and the Proposed Cap. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM SOMERLEY

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and have assumed that they are true, accurate and complete at the date of the Circular and will remain so up to the time of the EGM. We have also sought and received confirmation from the Directors and management of the Group that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have assumed that all representations contained or referred to in the Circular are true as at the date of the Circular or the Latest Practicable Date (as the case may be) and will remain so up to the time of the EGM. However, we have not conducted any independent investigation into the business, affairs or financial position of AVIC Finance or the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Deposit Services contemplated under the Financial Services Framework Agreement and the Proposed Cap are fair and reasonable in so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below:

1. Terms of the Financial Services Framework Agreement

Pursuant to the Financial Services Framework Agreement, AVIC Finance will provide the following services to the Group:

- | | |
|------------------------------|---|
| (a) Deposit Services | Provision of different deposit services, including demand deposits and time deposits |
| (b) Loan Services | Provision of loan services without any security over the Group's assets or guarantee in favour of AVIC Finance |
| (c) Settlement Services | Provision of settlement services in relation to effecting any payment out of any fund held by AVIC Finance or accepting payment of fund to the Group, in both cases on the Company's behalf and to the order of the Company |
| (d) Guarantee Services | Provision of guarantee services in relation to, among others, the Group's financing, finance leases, tendering, and contract performance, with no counter-guarantee in favour of AVIC Finance required |
| (e) Other Financial Services | Provision of other financial services as approved by CBRC, including entrustment loan arrangements |

LETTER FROM SOMERLEY

The above services are to be provided by AVIC Finance on a non-exclusive basis, and the Company has the right to choose other or additional financial service providers in addition to AVIC Finance.

Set out below are the major terms of the different services to be provided by AVIC Finance:

Deposit Services

1. Interest rates for the Group's deposits with AVIC Finance shall not be lower than (i) the minimum interest rate promulgated by PBC for the same type of deposit services; (ii) the interest rates for the same type of deposits offered by any third party to the Group; and (iii) the interest rates for the same type of deposits offered by AVIC Finance to any other member companies of AVIC (including AVIC);
2. The maximum daily deposit balance (including accrued interests) placed by the Group with AVIC Finance shall not exceed the Proposed Cap (i.e. RMB2 billion); and
3. If AVIC Finance is unable to repay the Group's deposits, the Company has the right to terminate the Financial Services Framework Agreement and to set off the deposit due to the Group from AVIC Finance against the outstanding loan due to AVIC Finance. In the event that the Group suffers financial loss by reason of default of AVIC Finance, AVIC Finance shall compensate the Group for the full amount of the loss suffered by the Group.

As AVIC Finance is to provide the Deposit Services under the Financial Services Framework Agreement at terms no less favourable to the Group than terms available from third parties, we consider it fair and reasonable so far as the Shareholders are concerned.

Loan Services

Interest rates charged by AVIC Finance for the provision of Loan Services to the Group shall not be higher than (a) the interest rates promulgated by PBC for the same type of loan services; (b) the interest rates for the same type of loans offered by any third party to the Group; and (c) the interest rates for the same type of loans provided by AVIC Finance to any other member companies of AVIC (including AVIC) with the same credit rating.

Settlement Services

The fees charged for the provision of Settlement Services shall not be higher than the fees charged by any other third party for the same type of services.

Guarantee Services

The fees charged for the provision of Guarantee Services shall not be higher than (a) the maximum fee promulgated by PBC for the same type of services (if applicable); (b) the fees charged by other financial institutions in the PRC for the same type of services; and (c) the fees charged for the same type of services offered by AVIC Finance to any other member companies of AVIC (including AVIC) with the same credit rating.

LETTER FROM SOMERLEY

Other Financial Services

1. AVIC Finance and the relevant member of the Group would negotiate and enter into separate agreement(s) in relation to the provision of Other Financial Services at the requests of the Group; and
2. The fees charged for the provision of Other Financial Services shall not be higher than (a) the maximum fee promulgated by PBC for the same type of financial services (if applicable); (b) the fees charged by other financial institutions in the PRC for the same type of services; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other member companies of AVIC (including AVIC) with the same credit rating.

Conditions precedent

The Financial Services Framework Agreement shall become effective for a term of three years upon fulfillment of the following conditions:

1. the Financial Services Framework Agreement having been duly executed by the legal representatives or authorised person(s) of the parties; and
2. the Company having obtained the required approvals from, among others, the Board and the Shareholders, in accordance with the requirements of its articles of association and the relevant rules and regulations, including the applicable listing rules.

The Deposit Services and other services to be provided by AVIC Finance under the Financial Services Framework Agreement are to be conducted as a package. In the event that the Deposit Services and the Proposed Cap are not approved by the Independent Shareholders, the other services contemplated under the Financial Services Framework Agreement would not proceed pursuant to the above conditions precedent. We have therefore presented our analysis on the Deposit Services as well as other services to be provided by AVIC Finance pursuant to the Financial Services Framework Agreement throughout this letter.

2. Background to and reasons for entering into the Financial Services Framework Agreement

The Company is a joint stock limited company incorporated in the PRC and is currently owned as to approximately 56.70% by AVIC. The Company, through its various subsidiaries, is principally engaged in the research, development, manufacture and sales of aviation products.

The Company operates its business through a number of subsidiaries, including its independently operated A-share subsidiaries. Each of the subsidiaries operates in different locations in the PRC and has its particular financial position and capital requirement. At any given time, some of the members of the Group may be relatively cash-rich while the others may be relatively indebted. As a result, the Group may have substantial amount of cash balances and at the same time substantial amounts of interest-bearing borrowings. The substantial interest-bearing borrowings result in a significant level of finance costs for the Group.

LETTER FROM SOMERLEY

Financial information of the Group

The following is a summary of consolidated finance costs and profit/loss of the Group for each of the three years ended 31 December 2007, 2008 and 2009, as extracted from the 2008 and 2009 annual reports of the Group. The Group had undergone a reorganisation during 2009 to divest its automobile segment, which was presented as discontinued operations in the 2009 annual report. The financial information for the year 2009 as shown below represented the Group's continuing operations, with retrospective adjustments made to the 2008 comparative figures. The financial information for the year 2007 as shown below was extracted from the Group's 2008 annual report, prepared on a combined basis (continuing operations and discontinued operations).

	For the year ended 31 December		
	2009	2008	2007
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
		<i>(restated)</i>	
Finance income	45.7	44.8	58.0
Finance costs	<u>(110.0)</u>	<u>(127.4)</u>	<u>(387.4)</u>
Finance costs, net	(64.3)	(82.6)	(329.4)
Profit/(loss) for the year	337.5	279.7	(848.3)

Finance income of the Group represents interest income on bank balances and deposits, while finance costs of the Group represents principally interest expenses on bank and other borrowings. As shown above, loss of the Group in 2007 was partly attributable to the finance costs incurred in relation to its interest-bearing borrowings. The Group's finance costs in 2008 and 2009 of approximately RMB127.4 million and RMB110.0 million respectively also represent significant expense items of the Group when compared to its profits from continuing operations of approximately RMB279.7 million and RMB337.5 million in 2008 and 2009 respectively.

LETTER FROM SOMERLEY

Set out below is a summary of the Group's consolidated cash and borrowing balances, as well as their respective weighted average effective interest rates, as at 31 December 2007, 2008 and 2009, as extracted from the 2008 and 2009 annual reports of the Group:

	As at 31 December					
	2009		2008		2007	
	<i>RMB</i>	<i>Weighted</i>	<i>RMB</i>	<i>Weighted</i>	<i>RMB</i>	<i>Weighted</i>
	<i>million</i>	<i>average</i>	<i>million</i>	<i>average</i>	<i>million</i>	<i>average</i>
	<i>(audited)</i>	<i>effective</i>	<i>(audited)</i>	<i>effective</i>	<i>(audited)</i>	<i>effective</i>
		<i>interest</i>		<i>interest</i>		<i>interest</i>
		<i>rates</i>		<i>rates</i>		<i>rates</i>
		<i>%</i>	<i>(restated)</i>	<i>%</i>		<i>%</i>
Pledged deposits (<i>Note 1</i>)	58.9	0.36%- 1.98%	536.6	0.36%- 3.78%	638.4	0.72%- 3.78%
Term deposits with initial terms of over three months	1,441.5	2.20%	1,317.1	2.55%	691.8	2.36%
Cash and cash equivalents	<u>1,996.7</u>	<i>(Note 2)</i>	<u>2,418.6</u>	<i>(Note 2)</i>	<u>2,452.7</u>	<i>(Note 2)</i>
Total cash balances	3,497.1		4,272.3		3,782.9	
Bank borrowings	2,365.7	4%	6,032.8	6%	5,914.1	6%
Other borrowings	<u>108.6</u>	4%	<u>597.3</u>	3%	<u>160.1</u>	0%
Total borrowings	2,474.3		6,630.1		6,074.2	

Notes:

1. *Ranges of interest rates were disclosed in the annual reports of the Group in relation to pledged deposits, instead of using the weighted average effective interest rates.*
2. *Cash and cash equivalents include (i) term deposits with initial term of less than three months (2009: approximately RMB138.1 million), and (ii) bank balances and cash (2009: approximately RMB1,858.6 million). The weighted average effective interest rate of the Group on term deposits with initial term of less than three months were approximately 2%, 2% and 2% per annum as at 31 December 2007, 2008 and 2009 respectively. Bank balances earn interest at floating rates based on daily bank deposit rates. As at 31 December 2007, 2008 and 2009, the benchmark interest rates for demand deposits as announced by the PBC were 0.72%, 0.36% and 0.36% respectively.*

Pledged deposits of the Group are used for securing trade finance facilities of the Group for issuing notes payable to its suppliers, while term deposits with initial terms of over three months represented principally idle funds placed with PRC commercial banks as term deposits for higher interest rates.

Bank borrowings of the Group represented loans from PRC commercial banks, and other borrowings represented principally loans from PRC government authorities, fellow subsidiaries of the Group and other unrelated parties of the Group. Of the total borrowings of approximately RMB2,474.3 million as at 31 December 2009, approximately RMB1,851.5 million represented secured borrowings.

LETTER FROM SOMERLEY

The significant decrease in weighted average effective interest rate of the Group's bank borrowings, from approximately 6% as at 31 December 2008 to approximately 4% as at 31 December 2009, was mainly due to several borrowings with lower interest rates obtained by the Group in 2009 under certain preferential policies in the PRC. However, management of the Group advised that the timing and extent of similar borrowings with preferential interest rates in future are uncertain.

Benefits

AVIC Finance is to provide its services under the Financial Services Framework Agreement on a non-exclusive basis. That means AVIC Finance provides an additional choice of financial services for the Group to choose from. Management of the Group believes that the regulatory control on PRC financial institutions in relation to credit approvals may become increasingly stringent in the near future, where new credit facilities are becoming more difficult to obtain. As such, management of the Group considers that AVIC Finance, as a strategic partner to the Group, would be able to provide an important source of funding in addition to the Group's existing credit facilities from other PRC commercial banks.

Further to the above, AVIC Finance, as a subsidiary of AVIC and serves only the group members of AVIC, understands the businesses and operations of the PRC aviation industry, and the Group is expected to benefit from the more expedient and efficient services by AVIC Finance in terms of processing transactions for the Group when compared to other PRC commercial banks.

Pursuant to the Financial Services Framework Agreement, AVIC Finance is to provide Loan Services with interest rates not higher than those offered by third parties to the Group, and without the need of any security over the Group's assets or guarantee in favour of AVIC Finance. On 12 April 2010, AVIC Finance has further issued a confirmation to the Company, stating that it would extend loans to the Group, under the Loan Services, at interest rates representing 10% downward adjustments from the benchmark interest rates as stipulated by PBC, which is the highest downward adjustment from the benchmark interest rates as allowed under the relevant PRC rules and regulations. This allows the Group to potentially enjoy more favourable interest rates for its loans from AVIC Finance, thereby reducing the finance costs of the Group. In addition, AVIC issued several medium-term notes and corporate debts in 2009 at a weighted average interest rate of approximately 4.1% per annum and raised approximately RMB20 billion, which is principally used to finance the operations of AVIC's various subsidiaries through entrustment loan arrangements with AVIC Finance. If the Group is to utilise services provided by AVIC Finance, it would be able to enjoy such indirect financing from AVIC at the same interest rates, which are lower than the current short-term (period of less than or equal to six months) RMB lending rate of 4.86% as stipulated by PBC.

LETTER FROM SOMERLEY

Pursuant to the relevant PRC rules and regulations, PRC incorporated companies other than licensed financial institutions are not allowed to extend loans to one another, except through an entrustment loan arrangement with a licensed financial institution acting as an agent. Such restriction is also applicable to intra-group companies, which means cash-rich subsidiaries within the Group are not allowed to extend loans to the relatively indebted subsidiaries without the help of a licensed financial institution, such as licensed commercial bank or finance company in the PRC.

As mentioned above, the Group's subsidiaries operate in different locations in the PRC and have established business relationships with different PRC commercial banks. Currently, the principal bankers of the Group are Industrial and Commercial Bank of China Limited, Bank of China Limited, China Construction Bank Corporation and Shanghai Pudong Development Bank Ltd. Logistical difficulties arose if entrustment loan arrangement is to be used between two of the Group's subsidiaries with different bankers. As management of the Group consider relationships with all the Group's principal bankers are vital in its business operations, centralised banking relationship with only one PRC commercial bank to facilitate a centralised financial platform for the Group's treasury operations is considered not practical.

If the Group has a centralised financial platform established to conduct treasury operations within the Group, surplus funds would then be allowed to be remitted from cash-rich subsidiaries to the relatively indebted subsidiaries, thereby reducing the level of external borrowings and finance costs, which in turn would lead to improved profitability of the Group. Management of the Group considers AVIC Finance could serve as such financial platform for the Group's treasury operations, which is in the interests of the Company and its shareholders. We are also advised by the management of the Group that the above entrustment loan arrangement between subsidiaries of the Company will be introduced as soon as and to the extent possible.

3. Guarantee letter from AVIC

In connection with the Financial Services Framework Agreement, AVIC issued a guarantee letter to the Group on 1 April 2010, where AVIC agreed to unconditionally and irrevocably guarantee that it will, during the term of the Financial Services Framework Agreement:

- (1) maintain its actual control of AVIC Finance, and guarantee the proper and orderly operation of AVIC Finance;
- (2) use its best endeavors and take all reasonable steps to guarantee that AVIC Finance will fully discharge its obligations in respect of the services contemplated under the Financial Services Framework Agreement; and
- (3) indemnify all losses incurred by the Group due to any failure by AVIC Finance in performing its obligations under the Financial Services Framework Agreement, including but not limited to, loan amounts, interests and the relevant expenses incurred, within ten business days of such failure.

AVIC confirms that it has obtained all approvals and authorisations for execution of the guarantee letter and such execution does not violate any PRC laws, regulations or any agreement

LETTER FROM SOMERLEY

between the Group and the AVIC group. A PRC lawyer is engaged by the Company in relation to the above guarantee letter issued by AVIC. The PRC lawyer is of the view that the guarantee provided by AVIC is in compliance with the PRC laws, legal, valid and legal binding on AVIC under the PRC laws.

According to the rating reports issued by the China ChengXin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司) (“CCXI”), the credit rating of the medium-term notes and the corporate debts issued by AVIC in 2009 all achieved a rating of AAA, which was the highest rating under the credit rating scale of CCXI. Accordingly, the Directors consider that AVIC’s ability to honour its guarantee in favour of the Group is strong.

4. Information on AVIC Finance

(i) *Business of AVIC Finance*

AVIC Finance, incorporated in the PRC on 8 April 2007, is currently a subsidiary of AVIC. AVIC Finance is a limited company licensed by CBRC to engage in the provision of financial services to the member of AVIC. Services provided by AVIC Finance include, among others, deposit taking, loan provision, entrustment loan arrangement as well as other financial services as approved by CBRC. AVIC Finance is licensed to provide to the Group all services as stipulated under the Financial Services Framework Agreement, but is prohibited to engage in non-financial service businesses, including property investment or trading.

(ii) *Financial information of AVIC Finance*

As at 31 December 2009, AVIC Finance has a registered and fully-paid capital of RMB1,000 million. Set out below is a summary of the financial information of AVIC Finance, as extracted from its audited financial statements for each of the three years ended 31 December 2007, 2008 and 2009:

	For the year ended 31 December		
	2009	2008	2007
	RMB million	RMB million	RMB million
	(audited)	(audited)	(audited)
Net interest income	235.6	193.8	51.3
Operating income	316.4	241.0	120.5
Impairment losses	51.4	36.8	21.7
Profit before taxation	178.8	155.2	81.7
Profit after taxation	137.1	117.5	53.7

Since its incorporation in 8 April 2007, AVIC Finance’s businesses have been expanding in general. Net interest income and profit after taxation of AVIC Finance had been increasing during the above periods.

LETTER FROM SOMERLEY

	As at 31 December		
	2009	2008	2007
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Assets			
Loans to companies within AVIC group	7,313.0	6,331.7	2,434.8
Entrustment loans	26,401.1	4,939.0	153.2
Other assets (<i>Note 1</i>)	<u>13,119.4</u>	<u>5,252.8</u>	<u>2,847.8</u>
	46,833.5	16,523.5	5,435.8
Liabilities			
Deposits from companies within AVIC group	19,141.2	10,398.6	4,185.3
Entrustment loans	26,401.1	4,939.0	153.2
Other liabilities (<i>Note 2</i>)	<u>118.7</u>	<u>53.8</u>	<u>30.0</u>
	45,661.0	15,391.4	4,368.5
Equity			
Share capital	1,000.0	1,000.0	1,000.0
Reserves	<u>172.5</u>	<u>132.1</u>	<u>67.3</u>
	1,172.5	1,132.1	1,067.3
Capital adequacy ratio (<i>Note 3</i>)	13.4%	15.2%	43.9%

Notes:

1. *Other assets mainly represent cash and balances with other financial institutions and deposits with PBC.*
2. *Other liabilities mainly represent interests payable and other payables.*
3. *Capital adequacy ratio is a measurement of capital position of a financial institution in respect of its exposure to risks such as credit risk, market risk and operational risk, and is defined as the financial institution's capital base divided by its risk-weighted assets.*

As shown above, AVIC Finance has been enhancing its loan base and deposit base significantly during the above periods. The decreasing capital adequacy ratio of AVIC Finance during the above periods are primarily due to the significant increase in risk-weighted assets (mainly loan to customers) as the business of AVIC Finance started to grow. Notwithstanding such decreasing trend, the capital adequacy ratios as at 31 December 2007, 2008 and 2009 were higher than the minimum requirement of 10% as imposed by CBRC.

As at 31 December 2009, AVIC Finance had unutilised credit facilities by its bankers amounted to approximately RMB10,300 million.

LETTER FROM SOMERLEY

(iii) *Financial strengths and weaknesses of AVIC Finance*

Set out below are the financial strengths and weaknesses of AVIC Finance that we have identified:

Financial strengths

- (a) AVIC Finance has a strong net assets base (with net assets value of approximately RMB1,172.5 million as at 31 December 2009);
- (b) AVIC Finance had been profitable for each of the three years ended 31 December 2007, 2008 and 2009, and recorded an increasing annual return on equity (defined as profit after taxation divided by share capital) of approximately 5.4%, 11.8% and 13.7% respectively for the three years ended 31 December 2007, 2008 and 2009; and
- (c) AVIC Finance had capital adequacy ratios of approximately 43.9%, 15.2% and 13.4% as at 31 December 2007, 2008 and 2009 respectively, which were higher than the minimum requirement of 10% as imposed by CBRC.

Financial weaknesses

- (a) AVIC Finance faces the problem of concentration of business risk as all of its customers are members of the AVIC group, and most of these companies (including the Group) are principally engaged in the PRC aviation industry; and
- (b) AVIC Finance faces a potential problem of maturity mismatch, with its long-term and medium-term assets (mainly loans to customers) principally financed by its short-term liabilities (mainly deposits from customers).

We have discussed with the management of the Group in relation to the above financial weaknesses identified and the associated risks to the Group. Management of the Group considers that the concentration of business risk is an inherent risk faced by AVIC Finance. However, as AVIC is the only PRC state-owned enterprise specialising in the manufacturing of aircrafts and aviation products, and has been expanding its businesses in order to achieve an announced target revenue of RMB1 trillion by 2017, management of the Group considers that the prospect of AVIC's principal business is promising. In connection with the second financial weakness relating to maturity mismatch, management of the Group considers that the unutilised credit facilities available to AVIC Finance by its principal bankers would enable AVIC Finance to deal with any emergency need of liquidity. AVIC is also obligated to inject additional capital to AVIC Finance when there is such emergency need of liquidity pursuant to the relevant PRC rules and regulations. Accordingly, management of the Group considers, and we concur, that the above financial weaknesses are sufficiently covered.

(iv) *Regulatory environment of AVIC Finance*

As a licensed financial institution in the PRC, AVIC Finance is subject to supervisions by PBC and CBRC, which includes regular examination of the audited financial statements and other relevant

LETTER FROM SOMERLEY

materials required to be filed by AVIC Finance as well as on-site inspections and interviews with the senior management of AVIC Finance. According to the Measures for Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法) issued by CBRC, AVIC Finance are required to deposit a mandatory proportion of the deposits they have received with PBC, and must comply with, among others, the following ratio requirements:

	Requirements on PRC licensed banks	Requirements on PRC licensed finance companies	AVIC Finance As at 31 December		
			2009	2008	2007
Capital adequacy ratio	8%	Not lower than 10%	13.4%	15.2%	43.9%
Inter-bank borrowing balances shall not exceed total capital	N/A	Not higher than 100%	0.0%	0.0%	0.0%
Outstanding guarantee amounts shall not exceed total capital	N/A	Not higher than 100%	0.0%	0.0%	11.9%
Short-term securities investment to total capital ratio	N/A	Not higher than 40%	38.1%	39.0%	1.2%
Long-term investments to total capital ratio	N/A	Not higher than 30%	26.9%	5.1%	6.5%
Self-owned fixed assets to total capital ratio	N/A	Not higher than 20%	0.5%	0.3%	0.4%

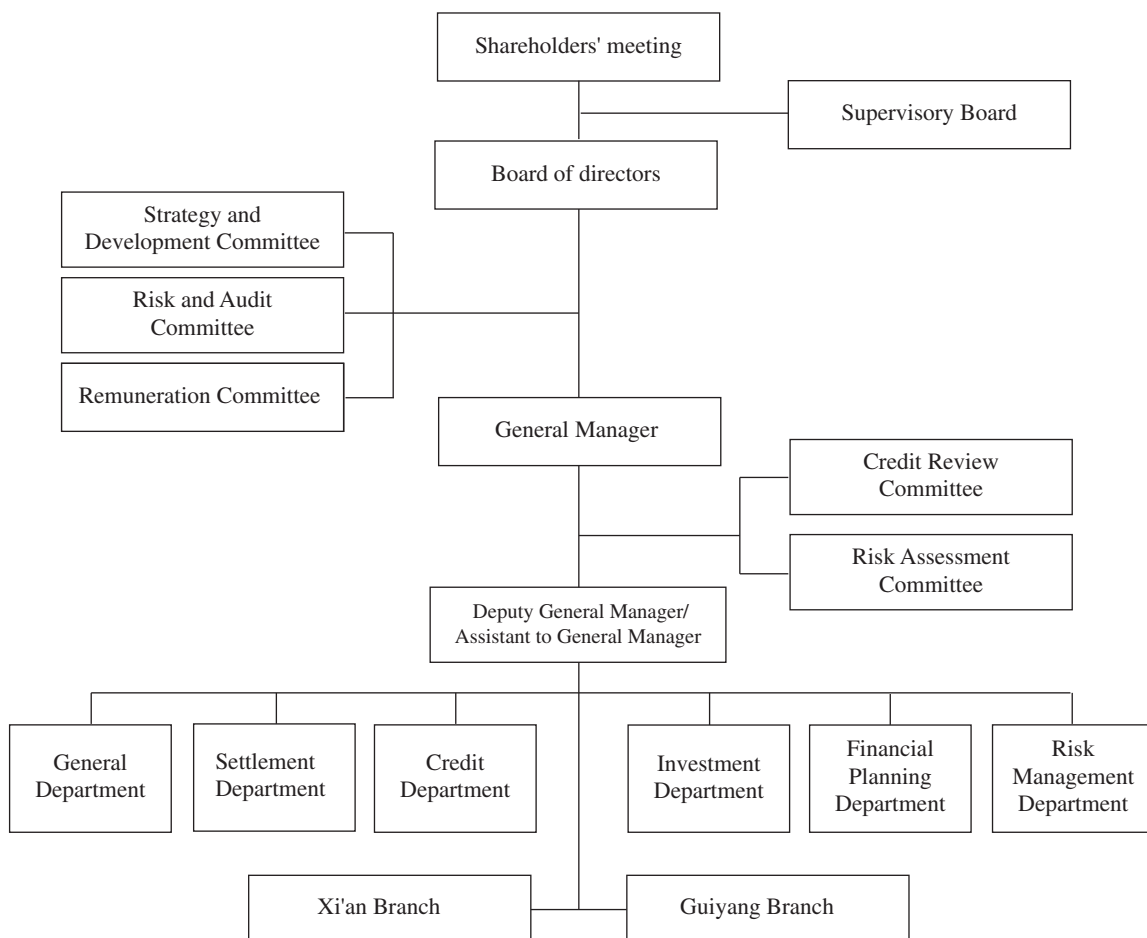
As shown in the above table, AVIC Finance fulfilled the ratio requirements as at 31 December 2007, 2008 and 2009. Except for the requirement of capital adequacy ratio of 8% for PRC licensed bank which is less stringent than PRC licensed finance companies, the other ratio requirements are not applicable to PRC licensed banks.

LETTER FROM SOMERLEY

CBRC has powers to issue corrective and/or disciplinary orders and to impose penalties and/or fines on a group finance company. As advised by the management of the Group, CBRC has not issued such corrective or disciplinary orders, or imposed penalties or fines on AVIC Finance since its incorporation.

(v) *Internal control environment and risk management function of AVIC Finance*

We are advised by the Directors that AVIC Finance has established stringent internal control measures to ensure effective risk management and compliance with the relevant laws and regulations. The following is a simplified organisational chart of AVIC Finance:



LETTER FROM SOMERLEY

Set out below are the major roles of certain key committees and departments in maintaining the internal control environment and the risk management function of AVIC Finance:

Committee / department	Major roles in maintaining the internal control environment and the risk management function
Supervisory Board	To ensure AVIC Finance's compliance with the relevant rules and regulations, and to monitor its financial conditions
Risk and Audit Committee	a) To assess the overall risk positions of AVIC Finance and to design/recommend risk management strategies b) To monitor and to recommend risk control policies
Credit Review Committee	a) To determine facility amounts to be granted and other financial services to be provided to the members of AVIC b) To assess quality of AVIC Finance's portfolio of assets
Risk Assessment Committee	a) To assess business risk of AVIC Finance's existing and potential new areas of operation b) To review internal audit reports and recommendations from the Risk Management Department
Credit Department	a) To assess the credit risks / credit rating of clients and to monitor, and to prepare relevant analysis reports. b) To perform on-going monitoring and follow-up actions in relation to outstanding loans
Risk Management Department	To assume the internal audit function of AVIC Finance

In addition, as stated in the "Letter from the Board" in this Circular, AVIC Finance has established stringent internal control measures to ensure effective risk management and compliance with laws and regulations. AVIC Finance has in place internal rules and policies specifically for management and control of operational risk and credit risks. It has established its own credit policies and credit approval procedures for loan applications which are designed in accordance with the relevant PBC and CBRC regulations. It has also adopted various risk management techniques to manage and monitor credit risks. AVIC Finance has in place intra-group check-and-balance mechanisms to identify operational bottlenecks and irregularities and to deal with any problems in a timely and effective manner.

Management of the Group advised that as at 31 December 2009, AVIC Finance has 11 directors, all of whom have extensive experience in the aviation industry and/or financial management.

LETTER FROM SOMERLEY

(vi) *Risk management measures of the Group and AVIC Finance in relation to the Financial Services Framework Agreement*

The Group and AVIC Finance will adopt various risk management measures in relation to the services to be provided by AVIC Finance pursuant to the Financial Services Framework Agreement in order to ensure protection of Shareholders' interest. In particular:

- (a) a monthly report on the status of the Group's deposits with AVIC Finance will be delivered by AVIC Finance to the Company on the third business day of the following month;
- (b) a copy of every regulatory report submitted by AVIC Finance to CBRC will be provided to the Company on the fifth business day following submission;
- (c) financial ratios and indicators of AVIC Finance that are monitored by regulatory authorities (for example, capital adequacy ratio) will be provided to the Company on the fifth business day after the end of each quarter; and
- (d) the finance department of the Company will report to the independent non-executive Directors on a quarterly basis in relation to the arrangements between the Group and AVIC Finance, including but not limited to the information specified in (a), (b) and (c) above.

Under the Financial Services Framework Agreement, where AVIC Finance applies the funds deposited with it by the Group in breach of any provisions of the Financial Services Framework Agreement or in any other inappropriate ways which results in the Group failing to recover such deposit funds, the Group will be entitled to use such deposit funds to set off any amounts payable to AVIC Finance by the Group.

In the event that the amounts due to the Group from AVIC Finance (i.e. deposits by the Group) is higher than the amounts due to AVIC Finance from the Group (i.e. loans from AVIC Finance), the excess portion due from AVIC Finance cannot be recovered by the Group under the set off arrangement. In this case, the Group would have the same right in recovering the excess portion as the other creditors of AVIC Finance. In view of (i) the monthly reports on the status of the Group's deposits with AVIC Finance will be provided to the Group; (ii) the copies of all regulatory reports submitted by AVIC Finance to CBRC will be provided to the Group; (iii) the financial ratios and indicators of AVIC Finance that are monitored by regulatory authorities will be provided to the Group; and (iv) AVIC has provided a guarantee letter to the Group to indemnify any losses arising from the failure of AVIC Finance, the Directors are of the view that the Group would be able to early identify any material adverse change of business and financial position of AVIC Finance and to implement measures to prevent from suffering losses arising from the Deposit Services, which may include withdrawal of its deposits with AVIC Finance or, failing which, offsetting the deposits placed with the loans from AVIC Finance.

We consider that the above risk management measures to be adopted by the Company are appropriate and provide sufficient assurance that the amount to be deposited by the Group with AVIC Finance pursuant to the Financial Services Agreement will be safeguarded.

LETTER FROM SOMERLEY

5. The Proposed Cap

The maximum balance of outstanding deposits placed by the Group to AVIC Finance under the Deposit Services is subject to the Proposed Cap of RMB2 billion throughout the term of the Financial Services Framework Agreement. In assessing the reasonableness of the Proposed Cap, we have discussed with the management of the Group the basis and assumptions in setting the Proposed Cap of RMB2 billion. We understand that the Proposed Cap is set with reference to the Group's total cash balances in the financial year of 2009, current business operations and the expected scale of business with AVIC Finance.

As at 31 December 2007, 2008 and 2009, total cash balances of the Group amounted to approximately RMB3,782.9 million, RMB4,272.3 million and RMB3,497.1 million respectively. Although the total cash balances as at the three year end dates are all higher than the Proposed Cap of RMB2 billion, the Directors consider that it is in the interest of the Group to have a lower Proposed Cap in order to confine the maximum risk exposure arising from the Deposit Services. In determining the Proposed Cap, management of the Group expects that in general, no more than one-third of the Group's total cash balances would be placed with AVIC Finance, taking into account the existing business relationship with the Group's other principal bankers and the potential scale of business with AVIC Finance. In addition to the above deposit estimation, management of the Group has taken into account the need for additional deposit balance for the purpose of settlement of cash payments between the Group and other members of AVIC through AVIC Finance, and the fluctuation of bank balances arising from the Group's normal business operations. As discussed in the section above headed "Terms of the Financial Services Framework Agreement", the services to be provided by AVIC Finance, including the Deposit Services, are on a non-exclusive basis, and the Company has the right to place deposits in additional financial service providers in addition to AVIC Finance.

Having considered the above, we are of the view that the Proposed Cap is fair and reasonable so far as the Shareholders are concerned.

6. Annual review of the continuing connected transactions

The procedures to be put in place for the annual review of the continuing connected transactions as set out in the Listing Rules are as follows:

- (a) the independent non-executive directors will review the continuing connected transactions and confirm in the annual report and accounts that the continuing connected transactions have been entered into:
 - (i) in the ordinary and usual course of business of the group;
 - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the group than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole;

LETTER FROM SOMERLEY

- (b) the auditors will review the continuing connected transactions and issue a letter to the board confirming that the continuing connected transactions:
- (i) have received the approval of the board of directors;
 - (ii) are in accordance with the pricing policies of the group if the transactions involve provision of goods or services by the group;
 - (iii) have been entered into in accordance with the relevant agreements governing the transactions; and
 - (iv) have not exceeded the relevant caps;
- the board must state in the annual report whether the auditors have made such confirmation in relation to the continuing connected transactions; and
- (c) the company will promptly notify the Stock Exchange and publish an announcement if it believes that the independent non-executive directors and/or the auditors will not be able to issue the aforesaid confirmation.

As the maximum balance of outstanding deposits placed by the Group to AVIC Finance under the Deposit Services would be restricted by way of the Proposed Cap and the conduct of those transactions would be reviewed by the independent non-executive directors and auditors of the Company as mentioned above, we are of the view that there exist appropriate measures to govern the future execution of the Deposit Services and to safeguard the interests of the Independent Shareholders.

DISCUSSION AND ANALYSIS

AVIC Finance was established pursuant to the relevant PRC laws and regulations relating to the establishment of “group finance company” to enhance the centralised management and utilisation of funds within AVIC group, including the Group. The Financial Services Framework Agreement was accordingly entered into between AVIC Finance and the Group, to allow AVIC Finance to provide various financial services at terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties.

In considering whether the Deposit Services and the Proposed Cap are fair and reasonable and in the interest of the Shareholders, we noted that all the services under the Financial Services Framework Agreement are to be conducted as a package, and we have accordingly also taken into account the other services to be provided by AVIC Finance in our consideration.

In summary, the services to be provided by AVIC Finance pursuant to the Financial Services Framework Agreement are expected to bring a number of benefits to the Group:

1. AVIC Finance provides an additional choice of financial services for the Group to choose from, based on the fact that AVIC Finance is to provide its services on a non-exclusive

LETTER FROM SOMERLEY

basis. As management of the Group believes that the regulatory control on PRC financial institutions in relation to credit approvals may become increasingly stringent in the near future and new credit facilities may become more difficult to obtain, AVIC Finance would be able to provide an important source of funding to the Group;

2. AVIC Finance better understands the businesses and operations of the PRC aviation industry, and the Group is expected to benefit from the more expedient and efficient services by AVIC Finance;
3. The Group would be able to obtain borrowings from AVIC through entrustment loan arrangement with AVIC Finance, and thereby enjoying the favourable lending rates obtained by AVIC, which is lower than the current RMB lending rates as stipulated by PBC; and
4. AVIC Finance has confirmed that it would extend loans to the Group, under the Loan Services, at interest rates representing 10% downward adjustments from the benchmark interest rates as stipulated by PBC, which is the highest downward adjustment from the benchmark interest rates as allowed under the relevant PRC rules and regulations.

A number of safeguards are also in place to ensure the risk of the Group's deposits to be placed with AVIC Finance is properly mitigated with:

1. AVIC Finance is a licensed financial institution in the PRC, and is accordingly subject to supervisions by PBC and CBRC. In addition to the regular compliance examination, AVIC Finance is required to comply with PBC mandatory deposit requirement as well as other ratio requirements imposed by CBRC (such as the requirement of minimum capital adequacy ratio);
2. AVIC Finance has an established internal control environment to ensure effective risk management and compliance with the relevant laws and regulations;
3. Monthly reports of the Group's deposits with AVIC, copy of every regulatory report submitted by AVIC Finance to CBRC, and the financial ratios and indicators of AVIC Finance monitored by regulatory authorities will be provided to the Company on a regular basis. Finance department of the Company will also report to the independent non-executive Directors quarterly in respect of the arrangements between the Group and AVIC Finance;
4. The maximum balance of outstanding deposits placed by the Group to AVIC Finance under the Deposit Services is subject to the Proposed Cap of RMB2 billion;
5. It was provided in the Financial Services Framework Agreement that if AVIC Finance applies the funds deposited with it by the Group in breach of any provisions of the Financial Services Framework Agreement or in any other inappropriate ways which results in the Group failing to recover such deposit funds, the Group will be entitled to use such deposit funds to set off any amounts payable to AVIC Finance by the Group; and

LETTER FROM SOMERLEY

6. AVIC agreed to indemnify all losses incurred by the Group due to any failure by AVIC Finance in performing its obligations under the Financial Services Framework Agreement.

Based on the above, we consider it in the interest of the Independent Shareholders to approve the Deposit Services and the Proposed Cap so as to enable the Group to enjoy the potential benefits that may be brought by the services to be provided by AVIC Finance under the Financial Services Framework Agreement.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the Deposit Services contemplated under the Financial Services Framework Agreement are on normal commercial terms and in the ordinary and usual course of business of the Company. We also consider the terms of the Deposit Services contemplated under the Financial Services Framework Agreement and the Proposed Cap are fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend the Independent Shareholders, and we ourselves advise the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Deposit Services contemplated under the Financial Services Framework Agreement and the Proposed Cap.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained herein misleading.

2. (a) THE INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY

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

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

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

3. THE INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN THE SECURITIES OF THE COMPANY

As at the Latest Practicable Date, so far is known to the Directors, chief executive and supervisors of the Company, the following persons (not being a Director, chief executive or supervisor of the Company) had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Name of Shareholders	Class of shares	Capacity	Number of shares	Approximate percentage of shareholdings to the same class of shares	Approximate percentage of shareholdings to share capital in issue	Nature of shares held
AVIC	Domestic Shares	Beneficial owner	2,806,088,233	95.62%	56.70%	Long position
European Aeronautic Defence and Space Company — EADS N.V.	H Shares	Interests of a party to an agreement to acquire interests in a listed corporation under s.317(1)(a) and s.318	248,909,827	12.36%	5.03%	Long position
The Hamon Investment Group Pte Limited	H Shares	Investment manager	159,220,000 (Note 1)	7.90%	3.22%	Long position
The Dreyfus Corporation (Note 2)	H Shares	Investment Manager	107,326,000	5.33%	2.17%	Long position

Notes:

- These shares are held directly by various controlled corporations of The Hamon Investment Group Pte Limited, of which 28,898,000 shares were held by Hamon Asset Management Limited, 107,326,000 shares were held by Hamon U.S. Investment Advisors Limited and 22,996,000 shares were held by Hamon Investment Management Limited.
- A corporation controlled by The Bank of New York Mellon Corporation.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified of any interests and short positions in 5% or more of shares and underlying shares of the Company which had been recorded in the register kept by the Company under section 336 of the SFO.

4. 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).

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

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

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

6. CONSENT AND QUALIFICATION OF EXPERTS

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

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

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

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

Somerley 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.

7. 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.

8. NO MATERIAL ADVERSE CHANGE

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

9. 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 19 May 2010:

- (a) the letter dated 16 April 2010 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 14 of this circular;
- (b) the letter of advice dated 16 April 2010 from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 33 of this circular;
- (c) the written consent of Somerley referred to in paragraph 6 of this Appendix; and
- (d) the Financial Services Framework Agreement.

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 11:00 a.m. on Wednesday, 19 May 2010, at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People's Republic of China to consider and approve the following resolution. 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 16 April 2010 (the “Circular”), a copy of which will be produced to the EGM marked “A” and initialed by the Chairman of the meeting for identification purpose:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the Financial Services Framework Agreement and the execution thereof and implementation of the Deposit Services thereunder (including the Proposed Cap) be and are hereby approved, ratified and confirmed; and
- (b) any director of the Company (“Director”) be and is hereby authorized to sign, execute, perfect, and deliver all such documents and do all such deeds, acts, matters and things as he may in his absolute discretion consider necessary or desirable for the purpose of or in connection with the implementation of the Financial Services Framework Agreement, the Deposit Services and the Proposed Cap and other matters contemplated thereunder or ancillary thereto, to waive compliance from and/or agree to any amendment or supplement to any of the provisions of the Financial Services Framework Agreement which in his opinion is not of a material nature and to effect or implement any other matters referred to in this resolution.”

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

Hong Kong, 16 April 2010

* *For identification purpose only.*

NOTICE OF EXTRAORDINARY GENERAL MEETING

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 Thursday 29 April 2010 to Wednesday 19 May 2010 (both days inclusive), during which period no transfer of H shares will be effected. Holders of the Company's H Shares and Domestic Shares whose names appear on the Company's Register of Members before the close of business hours on Wednesday 19 May 2010 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 Wednesday 28 April 2010 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 Thursday 29 April 2010.

(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.

(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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (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.: 86-10-64094835/06

Facsimile No.: 86-10-64094826

Attention: Mr. Xu Bin/Mr. Wang Yongzhi

- (5) **The ordinary resolution 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 Xiangdong 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.