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

If you have sold or transferred all your shares in **AviChina Industry & Technology Company Limited**, you should at once hand this circular and the enclosed proxy form and reply slip 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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AviChina

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

中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

**(1) PROPOSED ISSUE OF SHARES BY HONGDU AVIATION;
(2) CONNECTED TRANSACTION: SUBSCRIPTION OF
HONGDU AVIATION SHARES BY A CONNECTED PERSON;
(3) MAJOR TRANSACTION: DEEMED DISPOSAL AND
MATERIAL DILUTION OF INTEREST IN
HONGDU AVIATION BY THE COMPANY
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



SOMERLEY LIMITED

A letter from the Independent Board Committee is set out on page 18 of this circular. A letter from Somerley to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 33 of this circular.

A notice convening an extraordinary general meeting ("EGM") of AviChina Industry & Technology Company Limited to be held at Beijing Jinjiang Fuyuan Hotel, No. 11 Ronghua Road, Beijing Economic & Technological Development Area, Beijing, the People's Republic of China on Monday, 31 March 2008 at 9:00 a.m. is set out on 45 to 48 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed and are also published on the website of the Hong Kong Stock Exchange (www.hkex.com.hk). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon on or before Tuesday, 11 March 2008. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding 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 the EGM and voting in person if you so wish.

**For identification purpose only.*

25 February 2008

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DEFINITIONS

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

“AVIC II”	中國航空工業第二集團公司 China Aviation Industry Corporation II, the controlling shareholder of the Company and holding as to 61.06% equity interests in the Company
“Board”	the board of directors of the Company
“Company”	中國航空科技工業股份有限公司 AviChina Industry & Technology Company Limited, the H Shares of which are listed on the Hong Kong Stock Exchange
“Completion”	completion of the subscriptions by the Company and Hongdu Group of new Hongdu Shares contemplated under the Subscription Agreements, as amended by Supplemental Agreements
“CSRC”	中國證券監督管理委員會 China Securities Regulatory Commission
“Directors”	the director(s) of the Company
“Domestic Shares”	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for in Renminbi by PRC nationals and/or PRC incorporated entities
“EGM”	an extraordinary general meeting to be held on 31 March 2008 to approve, ratify and confirm the entering into of the Subscription Agreements and the Supplemental Agreements and the proposed Placing of the remaining Hongdu Shares to not more than 8 qualified investors
“Group”	the Company and its subsidiaries
“HK\$” or “HK dollars”	Hong Kong dollar, the lawful currency of the Hong Kong Special Administrative Region, the PRC
“Hongdu Aviation”	江西洪都航空工業股份有限公司 Jiangxi Hongdu Aviation Industry Co., Ltd., a joint stock limited company whose shares are listed on the Shanghai Stock Exchange (stock code: 600316) and owned as to 55.29% by the Company
“Hongdu Aviation 2007 Dividend Policy”	The dividend policy of Hongdu Aviation for 2007 resolved by the board of directors of Hongdu Aviation on 4 February 2008, comprising (i) an issue of four bonus Hongdu Shares and (ii) a cash dividend of RMB2.00 for every ten issued Hongdu Shares held by Hongdu Aviation’s Existing Shareholders

DEFINITIONS

“Hongdu Aviation’s Existing Shareholders”	holders of the issued shares of Hongdu Aviation listed on the Shanghai Stock Exchange (who are entitled to the bonus share and cash dividend under Hongdu Aviation 2007 Dividend Policy)
“Hongdu Group”	江西洪都航空工業集團有限公司 Jiangxi Hongdu Aviation Industrial Group Corporation, a wholly-owned subsidiary of AVIC II
“Hongdu Group Assets”	the assets of Hongdu Group to be transferred to Hongdu Aviation as consideration for the issue of new Hongdu Shares to be subscribed by Hongdu Group pursuant to Subscription Agreement II, as amended by Supplemental Agreement II
“Hongdu Shares”	the A shares of Hongdu Aviation which are listed on the Shanghai Stock Exchange
“H Shares”	overseas listed foreign invested shares of nominal value RMB1.00 each in the ordinary share capital of the Company, which were traded on the Hong Kong Stock Exchange in HK dollars
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent board committee comprising independent non-executive Directors, namely, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis
“Independent Shareholders”	Shareholders (other than AVIC II and its associates) who are not required to abstain from voting on the resolution to be proposed at the EGM of the Company to approve the entering into of the Subscription Agreement II and Supplemental Agreement II under the Hong Kong Listing Rules
“Latest Practicable Date”	22 February 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Placing” or “proposed Placing”	the proposed placing of not more than 98,000,000 new Hongdu Shares to the Company, Hongdu Group and not more than eight qualified investors by Hongdu Aviation at the Subscription Price
“PRC”	the People’s Republic of China

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	國務院國有資產監督管理委員會 Stated-owned Assets Supervision and Administration Commission of the State Council
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) as amended from time to time
“Shareholders”	holders of Domestic Shares and holders of H Shares
“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
“Subscription”	the subscription of new Hongdu Shares pursuant to the Placing
“Subscription Agreements”	Subscription Agreement I and Subscription Agreement II
“Subscription Agreement I”	the conditional share subscription agreement entered into between the Company and Hongdu Aviation on 29 December 2007
“Subscription Agreement II”	the conditional share subscription agreement entered into between Hongdu Group and Hongdu Aviation on 29 December 2007
“Subscription Price”	being not less than RMB25.4 per new Hongdu Share, which will be finally determined in accordance with the relevant PRC regulations, based on the bidding prices offered by the targeted investors
“Supplemental Agreements”	Supplemental Agreement I and Supplemental Agreement II
“Supplemental Agreement I”	the supplemental agreement entered into between the Company and Hongdu Aviation on 22 February 2008 to amend and vary certain terms under Subscription Agreement I
“Supplemental Agreement II”	the supplemental agreement entered into between Hongdu Group and Hongdu Aviation on 22 February 2008 to amend and vary certain terms under Subscription Agreement II

All amounts in RMB have been translated into HK\$ at the rate of HK\$1.00 = RMB0.9163 in this circular for illustration purpose.

LETTER FROM THE BOARD



AviChina

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

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. Zhang Hongbiao

Mr. Wu Xiandong

Mr. Tan Ruisong

Non-executive Director:

Mr. Liang Zhenhe

Mr. Tian Min

Mr. Song Jingang

Mr. Wang Bin

Mr. Chen Huaiqiu

Mr. Wang Yong

Mr. Maurice Savart

Registered Office:

No. 16, Hong Da Bei Lu

Beijing Economical-Technological

Development Area

Beijing, PRC

Principal place of business

in Hong Kong:

Unit B, 15/F, United Centre

Queensway 95,

Hong Kong

Independent non-executive Directors:

Mr. Guo Chongqing

Mr. Li Xianzong

Mr. Lau Chung Man, Louis

25 February 2008

To the Shareholders:

Dear Sir or Madam,

**(1) PROPOSED ISSUE OF SHARES BY HONGDU AVIATION;
(2) CONNECTED TRANSACTION: SUBSCRIPTION OF
HONGDU AVIATION SHARES BY A CONNECTED PERSON;
(3) MAJOR TRANSACTION: DEEMED DISPOSAL AND
MATERIAL DILUTION OF INTEREST IN
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LETTER FROM THE BOARD

INTRODUCTION

On 9 January 2008, the Company announced that Hongdu Aviation, a non-wholly owned subsidiary of the Company, resolved on 30 December 2007 the proposed issue and placing of not more than 70,000,000 new Hongdu Shares for subscription by qualified investors as determined by Hongdu Aviation at the subscription price of not less than RMB35.76 and such new Hongdu Shares will be listed on the Shanghai Stock Exchange. On 22 February 2008, the Company further announced Hongdu Aviation 2007 Dividend Policy and as a result of which, pursuant to the Subscription Agreements (Section 4.5 of Subscription Agreement I and Section 5.5 of Subscription Agreement II stipulate that if there is any declaration of dividend by Hongdu Aviation before Completion, the total number of new Hongdu Shares to be issued under the proposed Placing and the minimum subscription price will be adjusted accordingly) and the Supplemental Agreements, the total number of new Hongdu Shares to be issued under the proposed Placing will be adjusted to not more than 98,000,000 and the subscription price of each new Hongdu Share will be adjusted to not less than RMB25.4 which is determined in accordance with Rule 4.3.1 and Rule 4.3.2 of the Trading Rules of Shanghai Stock Exchange, subject to the approval of Hongdu Aviation 2007 Dividend Policy by the shareholders of Hongdu Aviation at the general meeting. The Company currently holds a 55.29% interest in Hongdu Aviation, and is eligible to vote on the Hongdu Aviation 2007 Dividend Policy at the general meeting. The Company and Hongdu Group have entered into the Subscription Agreements as well as the Supplemental Agreements with Hongdu Aviation to subscribe, subject to conditions and completion, for part of the new Hongdu Shares. The classification of the proposed Placing in terms of being a connected transaction and a major transaction will not be changed if the Company undertakes to subscribe the new Hongdu Shares at the adjusted subscription price. The Subscription Agreements and the Supplemental Agreements will be subject to Independent Shareholders' approval. The overall proposed Placing is subject to approval by the relevant PRC authorities including SASAC, CSRC and National Science Technology Industrial Commission.

The purposes of this circular are: (1) to provide you with further details of the proposed Placing including (a) the proposed issue of new Hongdu Shares by Hongdu Aviation to the Company, Hongdu Group and not more than 8 other qualified investors; (b) the major transaction constituted by the deemed disposal and material dilution of the interest of the Company in Hongdu Aviation; and (2) to set out the letter from the Independent Board Committee and the recommendation from the independent financial adviser on the proposed Placing including the connected transaction which will be constituted by Hongdu Group's proposed subscription of new Hongdu Shares.

THE PROPOSED PLACING OF SHARES BY HONGDU AVIATION

Particulars of the proposed terms of the proposed Placing by Hongdu Aviation are as follows:

1. Nominal value of the new Hongdu Shares

RMB1.00 per Hongdu Share.

2. Placing Methods

Private placing of new Hongdu Shares at an appropriate time within 6 months from the date of approval by CSRC.

LETTER FROM THE BOARD

3. Number of Hongdu Shares to be issued

Not more than 98,000,000 Hongdu Shares.

4. Placing Targets

The Company, Hongdu Group and not more than 8 other qualified investors, who shall be independent parties. Hongdu Aviation has entered into Subscription Agreements and Supplemental Agreements with the Company and Hongdu Group, respectively. No placing agreement has been entered into by Hongdu Aviation with any other qualified investors. The placing agreements with the qualified investors and Subscription Agreements are inter-conditional. As the Company intends to conduct the RMB2,500 million placing as a package, the Subscription Agreements would not proceed if Hongdu Aviation cannot reach agreements with the other qualified investors. If upon completion of the proposed Placing, the aggregate interests of the Company and Hongdu Group fall below 50%, Hongdu Group undertakes to subscribe such additional Hongdu Shares so that the aggregate interests of the Company and Hongdu Group will exceed 50%.

5. Placing Price

Not less than the average price of the Hongdu Shares for the last 20 trading days on the Shanghai Stock Exchange immediately preceding the date of suspension of trading of the Hongdu Shares on the Shanghai Stock Exchange on 2 November 2007 and with reference to Rule 4.3.1 and Rule 4.3.2 of the Trading Rules of Shanghai Stock Exchange, being not less than RMB25.4 for each Hongdu Share, after taking into account of Hongdu Aviation 2007 Dividend Policy. The new Hongdu Shares will not be entitled to the bonus share or cash dividend under the Hongdu Aviation 2007 Dividend Policy. The placing price per Hongdu Share for other qualified investors shall be the same as the Subscription Price. The final placing price will be the optimum price at which the targeted amount can be raised. It is expected that the placing price will be finally determined on or before 30 June 2008.

6. Pricing Principles

- (a) The Subscription Price shall not be less than the net asset value per Hongdu Share based on the latest audited accounts of Hongdu Aviation;
- (b) To be determined based on the market price of the Hongdu Shares, which will be determined by the bidding process; and
- (c) The Hongdu Shares to be placed to the Company and Hongdu Group shall be subject to a lock-up period of 36 months and those of other qualified investors locked-up for 12 months, both from the date of issue of such Hongdu Shares.

LETTER FROM THE BOARD

7. Use of proceeds

The total proceeds are estimated to be not more than RMB2,500 million (inclusive of the amount to be paid by the Company and the value of Hongdu Group Assets under the Subscription Agreements); the cash proceeds thereof shall be used for the following purposes:

- (a) approximately RMB789 million on the construction project to expand the productivity of Type L15 advanced training planes;
- (b) approximately RMB304 million on reconstructing project of subcontract production technique for foreign aviation products;
- (c) approximately RMB329 million on the construction project relating to amelioration and expansion of productivity of K8 type planes;
- (d) approximately RMB136 million on the constructing project to expand the productivity of N5B agricultural and forestry multi-purposes type planes;
- (e) approximately RMB49 million on the reconstructing project relating to production technique for domestic aviation products;
- (f) approximately RMB41 million on the hardware and software conditions for new primary training aircraft developing project;
- (g) approximately RMB50 million on the reconstructing project for improving the operation ability of general aviation business;
- (h) approximately RMB49 million on the supplementary construction project of basic conditions relating to special foundation;
- (i) approximately RMB46 million on the supplementary construction project of basic conditions relating to physical and/or chemical computation;
- (j) approximately RMB100 million on the investment in AviChina Undercarriage Limited Liability Company, which is owned as to 62.54% by AVIC II; and
- (k) the remaining proceeds will be used for general working capital purposes of Hongdu Aviation.

LETTER FROM THE BOARD

THE SUBSCRIPTION AGREEMENTS

In respect of the proposed Placing, the Company has entered into Subscription Agreement I and Supplemental Agreement I to undertake to subscribe, subject to conditions and adjustment, for approximately 9,842,520 new Hongdu Shares and Hongdu Group has entered into Subscription Agreement II and Supplemental Agreement II to undertake to subscribe, subject to conditions and adjustment, for approximately 13,779,527 new Hongdu Shares. A summary of the major terms of the Subscription Agreements and Supplemental Agreements are as follows:

Subscription Agreement I and Supplemental Agreement I

Date

29 December 2007 (Subscription Agreement I) and 22 February 2008 (Supplemental Agreement I)

Parties

- (1) the Company as the subscriber; and
- (2) Hongdu Aviation as the issuer.

Principal Terms

Pursuant to Subscription Agreement I, as amended by Supplemental Agreement I, Hongdu Aviation will issue and the Company will undertake, subject to conditions and completion, to subscribe for approximately 9,842,520 new Hongdu Shares, subject to adjustment, among the 98,000,000 new Hongdu Shares to be issued by Hongdu Aviation. Upon Completion, the total number of Hongdu Shares held by the Company will increase from 195,049,680 Hongdu Shares (after taking into account of Hongdu Aviation 2007 Dividend Policy) to 204,892,200 Hongdu Shares, representing a dilution from approximately 55.29% to approximately 46.09%.

Consideration

Subject to final determination of the Subscription Price per Hongdu Share, it is estimated that the total consideration for the subscription by the Company of the 9,842,520 new Hongdu Shares will amount to approximately RMB250 million (equivalent to approximately HK\$273 million) which will be satisfied by the Company's internal resources.

Subscription Price

The Subscription Price will be finally determined in accordance with the requirements of the relevant PRC regulations, which will be based on the bidding prices for the new Hongdu Shares submitted by the targeted investors, subject to the minimum price of not less than RMB25.4 per Hongdu Share (which is determined based on the average closing price of the Hongdu Shares on the

LETTER FROM THE BOARD

Shanghai Stock Exchange for the last 20 trading days immediately preceding the date of suspension of trading of the Hongdu Shares on the Shanghai Stock Exchange on 2 November 2007 and with reference to Rule 4.3.1 and Rule 4.3.2 of the Trading Rules of Shanghai Stock Exchange, after taking into account of Hongdu Aviation 2007 Dividend Policy). If the Subscription Price so determined is more than RMB25.4 per Hongdu Share, the number of Hongdu Shares to be issued to the Company will be adjusted accordingly.

Conditions on which Subscription Agreement I, as amended by Supplemental Agreement I, will become effective

Subscription Agreement I, as amended by Supplemental Agreement I, is subject to, among other things, the following conditions:

- (1) approval of the board of directors of Hongdu Aviation;
- (2) approval of the independent shareholders of Hongdu Aviation at the general meeting;
- (3) approvals of the proposed issue of new Hongdu Shares by the relevant PRC authorities including SASAC, CSRC and National Science Technology Industrial Commission;
- (4) waiver by CSRC in relation to the Company and/or AVIC II's material acquisition of the new Hongdu Shares;
- (5) approval by the Board and Independent Shareholders at the EGM of the Company of Subscription Agreement I, as amended by Supplemental Agreement I and the transaction contemplated thereunder in accordance with the Hong Kong Listing Rules;
- (6) the Company having completed all the necessary corporate procedures, obtained the approval(s) required (including approval by the Hong Kong Stock Exchange) and fully complied with all the requirements under the Hong Kong Listing Rules and other applicable laws and regulations; and
- (7) Subscription Agreement I, as amended by Supplemental Agreement I, having been executed by the legal representative or authorized person(s) of the parties.

Rights of the subscribed new Hongdu Shares

The new Hongdu Shares to be subscribed by the Company will on issue rank equally with the existing Hongdu Shares.

Completion

Completion of Subscription Agreement I, as amended by Supplemental Agreement I, will occur on the date upon which the conditions set out above have been satisfied (or such other date as may be agreed in writing between the parties).

LETTER FROM THE BOARD

Upon Completion, the interest held by the Company in Hongdu Aviation will be diluted from 55.29% to 46.09% whereas the interest of Hongdu Group in Hongdu Aviation will increase from 1.03% to 3.92%. To ensure Hongdu Aviation will continue to remain as a subsidiary of the Company, the Company and Hongdu Group entered into an agreement on 29 December 2007 whereby it was agreed that (1) subsequent to Completion, Hongdu Group undertakes to vote the voting rights held by it in Hongdu Aviation in accordance with the instructions of the Company; and (2) Hongdu Group ensures that persons who acquired Hongdu Shares from it shall vote in accordance with the instructions of the Company. Accordingly, upon Completion, Hongdu Aviation will continue to be consolidated in the group accounts of the Company following the Completion.

The Company does not subscribe the new Hongdu Shares to the extent that it can maintain its percentage interest in Hongdu Aviation. This is because (1) The Company has other investment opportunities available to it and intends to optimize its available resources; and (2) Arrangements have been made with Hongdu Group so that the position of Hongdu Aviation as a subsidiary will not change post-Completion.

Subscription Agreement II and Supplemental Agreement II

Date

29 December 2007 (Subscription Agreement II) and 22 February 2008 (Supplemental Agreement II)

Parties

- (1) Hongdu Group as the subscriber; and
- (2) Hongdu Aviation as the issuer.

Principal Terms

Pursuant to Subscription Agreement II, as amended by Supplemental Agreement II, Hongdu Aviation will issue and Hongdu Group will undertake to subscribe, subject to conditions and completion, for approximately 13,779,527 new Hongdu Shares, subject to adjustment, among the 98,000,000 new Hongdu Shares to be issued by Hongdu Aviation. Upon Completion, the total number of Hongdu Shares held by Hongdu Group will increase from 3,630,620 Hongdu Shares (after taking into account of Hongdu Aviation 2007 Dividend Policy) to 17,410,147 Hongdu Shares, representing an increase from the existing 1.03% to approximately 3.92% of the entire issued share capital of Hongdu Aviation, as enlarged by the issue of new Hongdu Shares.

Consideration

Subject to final determination of the Subscription Price per Hongdu Share, it is estimated that the total consideration for the subscription by Hongdu Group of approximately 13,779,527 new Hongdu Shares will amount to approximately RMB350 million (equivalent to approximately

LETTER FROM THE BOARD

HK\$382 million), which will be satisfied by Hongdu Group transferring to Hongdu Aviation the legal and beneficial interests of the Hongdu Group Assets, which have been preliminarily valued by China Assets Appraisal Company Limited., a qualified PRC valuer, to have a net asset value of approximately RMB350 million. The value of the Hongdu Group Assets has to be confirmed by SASAC. If the valuation confirmed by SASAC is less than RMB350 million, Hongdu Group undertakes to pay the difference in the valuation and RMB350 million in cash. In respect of the Hongdu Group Assets, a summary asset valuation report by China Assets Appraisal Company Limited is included in Appendix II of this circular. In this respect, the Company applied to the Hong Kong Stock Exchange on 4 February 2008 for waivers from the strict requirements of Rule 14A.59(6) and Rule 5.03 of the Hong Kong Listing Rules for inclusion of (i) the full asset valuation report in respect of Hongdu Group Assets and (ii) a valuation report in respect of the “Buildings” referred to in Appendix II hereto with an appraised value of RMB88.42 million prepared in accordance with the requirements under Chapter 5 of the Hong Kong Listing Rules respectively. The Hong Kong Stock Exchange granted the relevant waivers to the Company on 15 February 2008 specifically, (a) a waiver from strict compliance with Rule 14A.59(6) of the Hong Kong Listing Rules such that the summary asset valuation report of the Hongdu Group Assets will be included in this circular provided that (i) the full asset valuation report will be made available on the Hong Kong Stock Exchange’s website and proper reference to the Hong Kong Stock Exchange’s website will be included in the circular; and (ii) the full asset valuation report in Chinese language will be available for public inspection; and (b) a waiver from strict compliance with Rule 5.03 of the Hong Kong Listing Rules to include a property valuation report on the Buildings in the circular.

The Company hereby confirms that the contents stated in the summary asset valuation report are in compliance with the requirements of Rule 2.13.

Hongdu Group Assets will include without limitation to:

- (1) all the assets in Hongdu Mechanical and Electrical Services Workshop, which relate to manufacturing of aircraft parts and components;
- (2) all the assets in Hongdu Industrial Assembly and Equipment Workshop which relate to manufacturing of aircraft assembly equipment;
- (3) all the assets in Hongdu Landing Gears Manufacturing Workshop which relate to manufacturing of aircraft landing gears;
- (4) all the assets in Hongdu Standard Equipment Workshop which relate to manufacturing of standard aircraft components;
- (5) the assets held by Hongdu Group and located at Chang Nan Industrial Park for production of landing gears for civilian aircrafts;
- (6) the assembly equipment held by Hongdu Group for production of civilian aircrafts;
- (7) the flight experimentation facilities for civilian aircrafts held by Hongdu Group; and

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- (8) the assets held by Hongdu Group for research and development experimentation of civilian aircrafts.

Based on the unaudited management accounts of Hongdu Group, the total asset value and net asset value of the Hongdu Group Assets as at 30 September 2007 were RMB378.1 million and RMB353.4 million, respectively. China Assets Appraisal Company Limited has valued the Hongdu Group Assets as at 30 September 2007 at RMB350.3 million. The Hongdu Group Assets are assets which form part of a manufacturing process of an aircraft and are not equity interests in limited companies. As the Hongdu Group Assets have not been separately audited, no information on the net profits and revenue is available.

Subscription Price

The Subscription Price will be finally determined in accordance with the relevant PRC regulations, which will be based on the bidding prices for the new Hongdu Shares submitted by the targeted investors, subject to the minimum price of not less than RMB25.4 per Hongdu Share (which is determined based on the average closing price of the Hongdu Shares on the Shanghai Stock Exchange for the last 20 trading days immediately preceding the date of suspension of trading of the Hongdu Shares on the Shanghai Stock Exchange on 2 November 2007 and with reference to Rule 4.3.1 and Rule 4.3.2 of the Trading Rules of Shanghai Stock Exchange, after taking into account of Hongdu Aviation 2007 Dividend Policy). If the Subscription Price so determined is more than RMB25.4 per Hongdu Share, the number of Hongdu Shares to be issued to Hongdu Group will be adjusted accordingly.

Conditions on which the Subscription Agreement II, as amended by Supplemental Agreement II, will become effective

Subscription Agreement II, as amended by Supplemental Agreement II, is subject to, among other things, the following conditions:

- (1) approval of the board of directors of Hongdu Aviation;
- (2) approval of the independent shareholders of Hongdu Aviation at the general meeting;
- (3) approvals of the proposed issue of new Hongdu Shares by the relevant PRC authorities including SASAC, CSRC and National Science Technology Industrial Commission;
- (4) waiver by CSRC in relation to the Company and/or AVIC II's material acquisition of the new Hongdu Shares;
- (5) Hongdu Group having completed all the necessary corporate procedures and fully complied with all the requirements under the relevant PRC laws and regulations;
- (6) approval and filing of the valuation results of the assets of Hongdu Group (to be transferred to Hongdu Aviation as consideration for the issue of 13,779,527 new Hongdu Shares) by SASAC;

LETTER FROM THE BOARD

- (7) Subscription Agreement II, as amended by Supplemental Agreement II, having been executed by the legal representative or authorized person(s) of the parties; and
- (8) approval by the Board and the Independent Shareholders at the EGM of the Company of Subscription Agreement II, as amended by Supplemental Agreement II and the transaction contemplated thereunder in accordance with the Hong Kong Listing Rules.

Rights of the subscribed new Hongdu Shares

The new Hongdu Shares to be subscribed by Hongdu Group will on issue rank equally with the existing Hongdu Shares.

Completion

Completion of Subscription Agreement II, as amended by Supplemental Agreement II, will occur on the date upon which the conditions set out above have been satisfied (or such other date as may be agreed in writing between the parties). Subscription Agreements I and II are inter-conditional.

LETTER FROM THE BOARD

EFFECTS OF THE SUBSCRIPTION AND FINANCIAL IMPLICATIONS

Upon Completion of the proposed Placing, the assets of the Group will be increased by approximately RMB2,240 million (equivalent to approximately HK\$2,445 million) and there is no impact on the Group's liabilities.

The table below sets out the shareholding structures of Hongdu Aviation before and upon Completion (on the assumption that the final Subscription Price per new Hongdu Share is RMB25.4):

Shareholder of Hongdu Aviation	Number of Hongdu Shares before Completion (after taking into account of Hongdu Aviation 2007 Dividend Policy)	Approximate % of the issued share capital before Completion	Approximate Number of Hongdu Shares upon Completion	Approximate % of the issued share capital upon Completion
The Company	195,049,680	55.29	204,892,200	46.09
Hongdu Group	<u>3,630,620</u>	<u>1.03</u>	<u>17,410,147</u>	<u>3.92</u>
Sub-total:	<u>198,680,300</u>	<u>56.32</u>	<u>222,302,347</u>	<u>50.01</u>
Public shareholders	<u>154,119,700</u>	<u>43.68</u>	<u>222,213,444</u>	<u>49.99</u>
Total	<u>352,800,000</u>	<u>100</u>	<u>444,515,791</u>	<u>100</u>

Note: The gain/loss (*) on the deemed disposal is calculated by the change in the attributable net asset values of Hongdu Aviation held by the Company before and after the proposed Placing based on the difference between the net asset value of Hongdu Aviation attributable to the Company before the proposed Placing (which is 55.29% x net asset value of Hongdu Aviation) and the net asset value of Hongdu Aviation attributable to the Company after the proposed Placing (which is 46.09% (subject to adjustment) x {net asset value of Hongdu Aviation + RMB 2,490 million net placement proceeds}), less RMB 250 million Placing proceeds contributed directly by the Company pursuant to Subscription Agreement I, as amended by Supplemental Agreement I.

(*) The gain/loss will be reflected as a credit/debit movement to reserves and will not be included in the consolidated income statement of the Group.

LETTER FROM THE BOARD

Reasons for the Placing and Subscription of new Hongdu Shares

1. Upon completion of the proposed Placing, Hongdu Aviation will make use of the Placing proceeds to invest or acquire a more complete aviation business relating to aircraft research, production and aviation testing and production of ancillary aviation products.
2. There are certain connected transactions between Hongdu Aviation and the aviation assets of Hongdu Group to be transferred to Hongdu Aviation. Upon completion of the transfer of such aviation assets to Hongdu Aviation as consideration for subscription of new Hongdu Shares by Hongdu Group, the connected transactions between Hongdu Aviation and the aviation assets of Hongdu Group to be so transferred to Hongdu Aviation would be substantially reduced.
3. The aviation assets of Hongdu Group to be transferred to Hongdu Aviation pursuant to the Placing provide production and assembly services to Hongdu Aviation. For example, the landing gears manufacturing workshop produces landing gears for the aircrafts produced by Hongdu Aviation. The flight experimentation assets provide flight experiments for Hongdu Aviation. Upon acquisition of such assets, Hongdu Aviation will have greater independence and less reliance on Hongdu Group in terms of its aircraft manufacturing business.

HONG KONG LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, AVIC II holds an aggregate of approximately 56.32% (including 55.29% interests held by the Company) of the issued share capital of Hongdu Aviation. As AVIC II is the controlling shareholder of the Company, holding 61.06% equity interests in the Company and Hongdu Group is a wholly-owned subsidiary of AVIC II, pursuant to Chapter 14A of the Hong Kong Listing Rules, AVIC II is a connected person of the Company and Hongdu Group is an associate of AVIC II. Therefore, the subscription of new Hongdu Shares by AVIC II through Hongdu Group and the transfer of the Hongdu Group Assets by Hongdu Group in exchange for the new Hongdu Shares will constitute a connected transaction of the Company under the Hong Kong Listing Rules and will be subject to approval by Independent Shareholders.

Further, upon Completion, the aggregate shareholding of Hongdu Aviation held by the Company will be diluted from 55.29% to approximately 46.09%. To ensure that Hongdu Aviation will remain as a subsidiary of the Company, the Company and Hongdu Group has entered into an agreement whereby after Completion, Hongdu Group undertakes to vote its voting rights in Hongdu Aviation in accordance with the instructions of the Company. Such dilution constitutes a deemed disposal and material dilution of the interest held by the Company in Hongdu Aviation pursuant to Rules 14.29 and 13.36(1)(a)(ii) as well as a major transaction under the Hong Kong Listing Rules, which will be subject to approval by the Independent Shareholders.

LETTER FROM THE BOARD

GENERAL

Information on the Company

The Company is mainly engaged in the research and development, manufacture and sales of vehicles and civilian aircraft. The Company is held as to 61.06% by AVIC II.

Information on Hongdu Aviation

Hongdu Aviation is a joint stock limited company whose shares are listed on the Shanghai Stock Exchange and is owned as to 55.29% by the Company. Hongdu Aviation is mainly engaged in research, development, manufacture, sale and maintenance of basic training aircrafts, general civilian aircrafts as well as aviation spare parts. It is also engaged in contract manufacturing of aviation products, research and development and provision of consultation services relating to as well as the import and transfer of aviation technology. The profits before and after tax of Hongdu Aviation were RMB61.3 million and RMB57.7 million for the financial year ended 31 December 2005 and RMB80.8 million and RMB70.8 million for the year ended 31 December 2006. Based on the unaudited management accounts of Hongdu Aviation, the latest asset value of Hongdu Aviation as at 30 September 2007 was approximately RMB4,353 million.

Information on Hongdu Group

Hongdu Group is a wholly-owned subsidiary of AVIC II and mainly engaged in the manufacture and sale of aviation products.

Information on AVIC II

AVIC II is mainly engaged in the manufacture, assembly and sale of military aviation products.

EGM

As the applicable ratios under Rule 14A.10 of the Hong Kong Listing Rules exceed 2.5%, the entering into the Subscription Agreement II, as amended by Supplemental Agreement II, which constitutes a connected transaction as aforesaid, is subject to the approval of the Independent Shareholders at the EGM. The Independent Board Committee consisting of Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, all of whom are independent non-executive Directors, has been set up to advise the Independent Shareholders on the terms and conditions of the Subscription Agreement II and Supplemental Agreement II. The Company has appointed Somerley as an independent financial adviser to advise the Independent Shareholders and the Independent Board Committee as to, inter alia, whether the terms of the Subscription Agreement II and Supplemental Agreement II are fair and reasonable and the entering into the Subscription Agreement II and Supplemental Agreement II is in the interests of the Company and Shareholders as a whole.

LETTER FROM THE BOARD

In addition, as Hongdu Aviation is a major subsidiary of the Company, the proposed Placing also constitutes a deemed disposal and a material dilution of the interest in Hongdu Aviation by the Company pursuant to Rules 14.29 and 13.36(1)(a)(ii) and a major transaction under the Hong Kong Listing rules which will be subject to approval by the Independent Shareholders.

An EGM will be convened at 9:00 a.m. on Monday, 31 March 2008. Ordinary resolution to approve, confirm and ratify the proposed Placing of new Hongdu Shares by Hongdu Aviation to raise not more than RMB 2,500 million by issuing not more than 98,000,000 new Hongdu Shares, subject to adjustment, for subscription by not more than 10 qualified investors and specifically, (a) Subscription Agreement I, as amended by Supplemental Agreement I, entered into between the Company and Hongdu Aviation; (b) Subscription Agreement II, as amended by Supplemental Agreement II, entered into between Hongdu Group and Hongdu Aviation; and (c) the proposed Placing of the remaining Hongdu Shares by Hongdu Aviation to not more than 8 qualified investors, will be proposed at the EGM. AVIC II, being the controlling shareholder (as defined in the Listing Rules) of the Company and its associates (as defined in the Hong Kong Listing Rules) will abstain from voting in respect of the ordinary resolution which requires approval from Independent Shareholders at the EGM. The procedures for demanding a poll are set out in Appendix IV to this circular. The Company will announce the results of the poll in accordance with the Hong Kong Listing Rules following the EGM.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee which is set out on page 18 of this circular. The Independent Board Committee, having taken into account the advice of Somerley, considers that the terms of the Subscription Agreement II, as amended by Supplemental Agreement II, are fair and reasonable and the Subscription Agreement II, as amended by Supplemental Agreement II, are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of ordinary resolution to be proposed at the EGM.

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

Yours faithfully,
By Order of the Board
Zhang Hongbiao
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)

25 February 2008

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “Circular”) dated 25 February 2008 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to advise the Independent Shareholders on whether the terms of the Subscription Agreement II and the Supplemental Agreement II 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 Subscription Agreement II and the Supplemental Agreement II.

We wish to draw your attention to the letter from the Board set out on pages 4 to 17 of the Circular and the letter from Somerley set out on pages 19 to 33 of the Circular.

Having considered the advice given by Somerley, we are of the opinion that the terms of the Subscription Agreement II and the Supplemental Agreement II are fair and reasonable and the entering into the Subscription Agreement II and the Supplemental Agreement II, 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 resolution 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

25 February 2008

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

SUBSCRIPTION OF HONGDU AVIATION SHARES BY A CONNECTED PERSON

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the proposed issue by a non-wholly owned subsidiary of the Company, namely Hongdu Aviation, of new Hongdu Shares to Hongdu Group. Hongdu Aviation is a company whose A shares are listed on the Shanghai Stock Exchange. Hongdu Aviation intends to conduct an approximately RMB2,500 million placing of new Hongdu Shares, which includes the above placing to Hongdu Group, placing of new Hongdu Shares to the Company as well as placing to independent third parties. Details of the Placing and the Subscription Agreement I, as amended by the Supplemental Agreement I, and Subscription Agreement II, as amended by the Supplemental Agreement II, entered into by Hongdu Aviation with the Company and Hongdu Group respectively are contained in the circular to the Shareholders dated 25 February 2008 (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.

Hongdu Group is a wholly-owned subsidiary of AVIC II which is the Company's controlling shareholder with an approximately 61% equity interests in the Company. Hongdu Group is therefore a connected person of the Company and the subscription of new Hongdu Shares by Hongdu Group pursuant to the Subscription Agreement II, as amended by the Supplemental Agreement II, will constitute a connected transaction of the Company. The above transaction is subject to approval by Independent Shareholders by way of poll at the EGM pursuant to the Hong Kong 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 Subscription Agreement II and the Supplemental Agreement II entered into between Hongdu Aviation and Hongdu Group. 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, 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 time they were made and up to the date of the EGM. We have also sought and received confirmation from the Directors 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. However, we have not conducted any independent investigation into the business and affairs of Hongdu Group or the Group including Hongdu Aviation.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Subscription Agreement II, as amended by the Supplemental Agreement II, entered into between Hongdu Aviation and Hongdu Group 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. Business and financial information of the Group

The Company is a joint stock limited company whose shares are listed on the Hong Kong Stock Exchange since 2003. AVIC II currently has an approximately 61% equity interest in the Company. Prior to the reorganisation (the “Reorganisation”) carried out for the purpose of facilitating the listing of shares of the Company in 2003, the businesses of the Group were carried out by the AVIC II Group. As part of the Reorganisation, AVIC II, together with three other promoters, established the Company by injecting most of the assets and equity interests relating to the development and manufacturing of civilian aviation products, vehicles and vehicle engines into the Company. AVIC II retained enterprises which are primarily engaged in, among other things, the production of military aviation products. Despite this general business delineation, there is cross-provision of materials and services and other continuing connected transactions between the Group and AVIC II or its subsidiaries, which is not unusual in our experience for a business which was spun off from a much bigger group. This type of transactions includes certain continuing connected transactions entered into between the Group and Hongdu Group which is a wholly-owned subsidiary of AVIC II and is mainly engaged in the manufacture and sale of aviation products.

LETTER FROM SOMERLEY

As above-mentioned, the business of the Group comprises principally the aviation segment and the automobile segment. Set out below is the condensed segment information of the Group for the year ended 31 December 2006 as extracted from the Group's 2006 annual report:

	Aviation	Automobiles	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	4,427,598	12,682,910	17,110,508
Segment results	404,140	(619,988)	(215,848)
Segment assets	7,720,276	15,976,945	23,697,221
Segment liabilities	5,119,222	11,051,521	16,170,743

As shown in the condensed segment analysis above, although sales contributed by the automobile segment represented majority of the total sales of the Group, the automobile segment was still loss making for the year ended 31 December 2006. On the other hand, the aviation segment was able to make positive contribution to the results of the Group for the same year.

Set out below is the consolidated results and financial positions of the Group for the six months ended 30 June 2007 and for the two years ended 31 December 2005 and 2006 respectively as extracted from the Group's 2007 interim report and 2006 annual report, prepared in accordance with the International Financial Reporting Standards:

	Six months	Year ended 31 December	
	ended 30 June	2006	2005
	2007	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
Turnover	8,031,971	17,110,508	14,266,108
(Loss)/profit before tax	(78,232)	(473,263)	239,674
(Loss)/profit after tax	(75,273)	(486,662)	187,596
Net assets	7,094,802	8,122,112	8,709,206

Turnover for the year ended 31 December 2006 of approximately RMB17,111 million represented an approximately 19.9% increase when compared to the year ended 31 December 2005, which was mainly resulted from the expanding automobile and aviation market in the PRC. In particular, turnover for the year ended 31 December 2006 from the automobile segment recorded an increase of approximately 18.4% to approximately RMB12,683 million, and the aviation segment recorded an increase of approximately 24.7% to approximately RMB4,428 million. A loss before tax was recorded in 2006, which was primarily due to a drop in gross margin and increase in selling and distribution expenses recorded by the automobile segment.

Turnover for the six months ended 30 June 2007 continued to increase when compared to the same period in 2006. However, a loss before tax was recorded for the period as a result of the negative contribution from the automobile segment.

LETTER FROM SOMERLEY

The Company is yet to announce its consolidated results for the year ended 31 December 2007. However, on 13 February 2008, Hongdu Aviation, a subsidiary of the Company, has announced its 2007 results, which showed a significant improvement over its 2006 results. Further discussion of the 2007 results of Hongdu Aviation is contained in the below section headed “Business and financial information of Hongdu Aviation”. Besides the improvement in results of Hongdu Aviation, on 16 January 2008, the Company announced that based on the unaudited management account figures, the 2007 results of Harbin Dongan Auto Engine Co., Ltd., another subsidiary of the Company, is expected to increase by more than 100% as compared to the figures recorded for the year ended 31 December 2006.

2. Business and financial information of Hongdu Aviation

Hongdu Aviation is a joint stock limited company whose A shares are listed on the Shanghai Stock Exchange since 2000. The Company currently has an approximately 55.29% interest in the Hongdu Aviation and its results and assets and liabilities are consolidated into the accounts of the Group.

Hongdu Aviation is mainly engaged in design, development, manufacture and sale of basic training aircrafts, general purpose aeroplanes and other aerial products including parts and components.

The following table summarises the consolidated financial information of Hongdu Aviation, prepared in accordance with the Generally Accepted Accounting Principles in the PRC, for the year ended 31 December 2007, the six months ended 30 June 2007 and the two years ended 31 December 2005 and 2006:

	Year ended	Six months	Year ended	Year ended
	31 December	ended	31 December	31 December
	2007	30 June	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
Turnover	1,783,038	719,680	590,106	624,266
Profit before tax	129,203	22,614	80,780	61,315
Profit after tax	115,555	19,635	70,359	57,317
Net assets	1,873,995	1,496,936	1,489,644	1,209,250

Turnover for the year ended 31 December 2006 of approximately RMB590 million represented an approximately 5.5% decrease when compared to the year ended 31 December 2005. The decrease in turnover was primarily due to decrease in sales to customers outside the PRC by approximately 63.0% when compared to 2005. Starting from 2007, sales of materials are recorded as turnover, which in the previous accounting period contribution from sales of materials was recognised as other operating profit. Turnover for the six months ended 30 June 2007 increased significantly when compared to the same period in 2006, due principally to the recognition of sales of materials in the

LETTER FROM SOMERLEY

sum of approximately RMB387 million as turnover (six months ended 30 June 2006: RMB13 million). Turnover for the year ended 31 December 2007 increased substantially when compared to 2006, also due principally to the recognition of sales of materials amounting to RMB995 million as turnover in 2007 (2006: RMB556 million).

Profit before tax in 2005 included an impairment losses in long-term investments of approximately RMB25 million. Taking out the impairment losses, profit before tax in 2006 was approximately RMB12 million lower than the figure recorded in 2005, which was mainly resulted from the higher selling and distribution costs incurred in 2006. Profit for the six months ended 30 June 2007 was lower when compared to the profit for the six months ended 30 June 2006, which was mainly due to the higher administrative expenses incurred in the first half of 2007. Profit for the year ended 31 December 2007 showed an improvement when compared with 2006, which was largely attributable to the economy of scale resulted from increase in overall sales.

Based on the audited accounts of Hongdu Aviation, the net asset value of Hongdu Aviation as at 31 December 2007 was approximately RMB1,874 million.

3. Principal terms of the Placing and the Subscription Agreements (as amended)

On 9 January 2008, Hongdu Aviation proposes to raise not more than RMB2,500 million by issuing a maximum of 70,000,000 new Hongdu Shares at a price of not less than RMB35.76 per Hongdu Share by way of private placement. The Placing would be made to not more than 8 qualified investors through a sponsor which is a PRC approved security house (the "Independent Placing"), and to the Company and Hongdu Group pursuant to the Subscription Agreement I, as amended in the following manner, and Subscription Agreement II, as amended in the following manner, respectively. No definitive agreement has been entered into between Hongdu Aviation and the qualified investors as regards the Independent Placing. It is expected that the agreements relating to the Independent Placing would be on substantially the same terms as the Subscription Agreements (as amended).

On 13 February 2008, Hongdu Aviation announced its full year 2007 results and proposed a dividend of RMB0.2 per Hongdu Share and a 4 for 10 bonus issue to shareholders of Hongdu Aviation. The Hongdu Aviation 2007 Dividend Policy is subject to approval by a majority of shareholders of Hongdu Aviation at a general meeting. The Company currently holds a 55.29% interest in Hongdu Aviation, and is eligible to vote on the Hongdu Aviation 2007 Dividend Policy at the general meeting. As the Hongdu Shares to be issued under the Independent Placing and the Subscription Agreements will be on ex-distribution basis, the minimum price for the Subscription Agreements will, subject to the approval of Hongdu Aviation 2007 Dividend Policy by the Shareholders of Hongdu Aviation at a general meeting, be adjusted from RMB35.76 to RMB25.4 per Hongdu Share which is determined in accordance with the Trading Rules of Shanghai Stock Exchange. Maximum number of Hongdu Shares to be issued under the Placing will accordingly be increased to approximately 98,000,000 new Hongdu Shares.

LETTER FROM SOMERLEY

Principal terms of the RMB2,500 million placing, including those made to the Company and Hongdu Group, are largely the same and are set out as follows:

1. Nominal value of the new Hongdu Shares:

RMB1 per Hongdu Share.

2. Placing Method:

Private placing of new Hongdu Shares at an appropriate time within 6 months from the date of approval by CSRC.

3. Placing price:

The price for the Independent Placing and the Subscription Prices for the Subscription Agreements (as amended by the Supplemental Agreement I and the Supplemental Agreement II) shall be the same. Pursuant to the relevant PRC rules and regulations, the above prices shall be determined by a book-building process, subject to the minimum price of not less than RMB25.4 per Hongdu Share. The theoretical ex-distribution price of RMB25.4 per Hongdu Share is equivalent to the cum-distribution unit price of RMB35.76, which is the average price of Hongdu Share for the last 20 trading days on the Shanghai Stock Exchange preceding the date of announcement of the Placing. The sponsor for the Independent Placing shall provide the bidding invitation to the targeted investors. The bidding invitation will set out information including the principles for selection of the targeted investors and the procedures for determining the price for the Independent Placing. The final price for the Independent Placing and the Subscription Agreements (as amended) is expected to be the optimum price at which the targeted amount can be raised.

4. Placing Targets:

The Company, Hongdu Group and not more than 8 other qualified investors (the "Independent Places"), who shall be parties independent from Hongdu Aviation, the Company and their respective associates (as defined under the Hong Kong Listing Rules). Hongdu Aviation has entered into with the Company the Subscription Agreement I and the Supplemental Agreement I; and with Hongdu Group the Subscription Agreement II and the Supplemental Agreement II. No placing agreement has been entered into by Hongdu Aviation with any other qualified investors. Management of the Company informs that Hongdu Aviation intends to conduct the RMB2,500 million placing as a package, hence the Subscription Agreements (as amended) would not proceed if Hongdu Aviation cannot reach agreements with the other qualified investors in respect of the Independent Placing.

5. Number of Hongdu Shares to be issued:

Hongdu Aviation intends to issue such number of Hongdu Shares so as to raise approximately RMB2,500 million in total. The exact number of Hongdu Shares to be issued

LETTER FROM SOMERLEY

can only be fixed after the prices for the Independent Placing and the Subscription Agreements (as amended by the Supplemental Agreement I and the Supplemental Agreement II) are fixed. It is expected that not more than 98,000,000 Hongdu Shares would be issued by Hongdu Aviation.

Pursuant to the Subscription Agreements (as amended by the Supplemental Agreement I and the Supplemental Agreement II), the Company shall subscribe RMB250 million and Hongdu Group shall subscribe RMB350 million for new Hongdu Shares. The exact numbers of Hongdu Shares to be issued to the Company and Hongdu Group shall be calculated on the basis of the final Subscription Price, which is the same as the Placing price to be determined through a bidding process. Based on the minimum unit subscription price of RMB25.4, it is expected that pursuant to the Subscription Agreements (as amended by the Supplemental Agreement I and the Supplemental Agreement II) entered into by Hongdu Aviation with the Company and Hongdu Group respectively, the Hongdu Shares to be issued to the Company shall amount to not more than 9,842,520 Hongdu Shares, and the Hongdu Shares to be issued to the Hongdu Group shall not exceed 13,779,527 in number.

6. Lock-up arrangement:

In accordance with the relevant PRC rules and regulations, the Hongdu Shares to be issued to the Company and Hongdu Group shall be subject to a lock-up period of 36 months, while those to be issued to the Independent Placees shall be locked up for 12 months.

4. Method of Payment

The consideration for the Independent Placing and the subscription of Hongdu Shares by the Company shall be satisfied in cash.

Consideration for subscription of Hongdu Shares by Hongdu Group pursuant to Subscription Agreement II (as amended by the Supplemental Agreement II) will be satisfied by Hongdu Group transferring to Hongdu Aviation the legal and beneficial interests of the Hongdu Group Assets, and the liabilities attributable to those assets. The Hongdu Group Assets form part of the manufacturing process of aircrafts produced by Hongdu Aviation and include the following:

- (1) all the assets in Hongdu Mechanical and Electrical Services Workshop, which relate to manufacturing of aircraft parts and components;
- (2) all the assets in Hongdu Industrial Assembly and Equipment Workshop which relate to manufacturing of aircraft assembly equipment;
- (3) all the assets in Hongdu Landing Gears Manufacturing Workshop which relate to manufacturing of aircraft landing gears;
- (4) all the assets in Hongdu Standard Equipment Workshop which relate to manufacturing of standard aircraft components;

LETTER FROM SOMERLEY

- (5) the assets located at Chang Nan Industrial Park for production of landing gears for civilian aircrafts;
- (6) the assembly equipment for production of civilian aircrafts;
- (7) the flight testing facilities for civilian aircrafts; and
- (8) the assets used in research and development of civilian aircrafts.

This method of payment for Subscription Agreement II (as amended by the Supplemental Agreement II) enables Hongdu Aviation to acquire the essential assets which are currently being used in its operation. Upon acquisition of such assets, Hongdu Aviation can be more independently operated and the volume of continuing connected transactions currently being conducted between Hongdu Aviation and Hongdu Group would be substantially reduced, which, in our view, is in the interest of the Company and its Independent Shareholders.

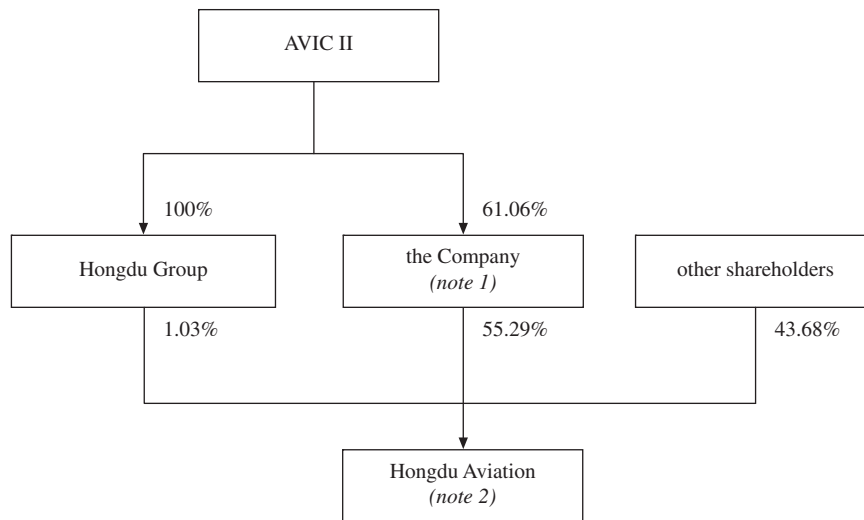
The Hongdu Group Assets and their attributable liabilities have been valued by China Assets Appraisal Co., Ltd. (the “Valuer”) to have a net asset value of approximately RMB350 million. China Assets Appraisal Company Limited is a qualified assets valuation company for securities-related businesses as recognized by both the National State-owned Assets Management Bureau and the PRC Securities Supervision and Management Committee. An extract of the valuation report is contained in Appendix II of the Circular. The full report will be available for inspection at the Company’s principal place of business in Hong Kong and shall be uploaded to the Company’s website and the Hong Kong Stock Exchange’s website for ready access by the Shareholders. The net asset value of the Hongdu Group Assets is subject to confirmation by SASAC. If the confirmed net asset value of the Hongdu Group Assets is less than RMB350 million, Hongdu Group undertakes to make up the shortfall by cash, which is a fair and reasonable term to the Company and its Independent Shareholders.

LETTER FROM SOMERLEY

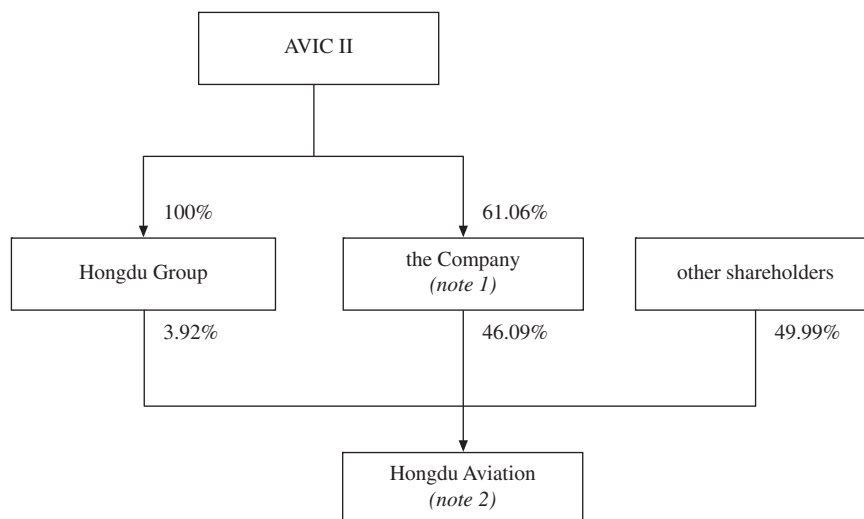
5. Shareholding structure

Completion of the Placing and the Subscription Agreements (as amended) will result in a change in percentage of shareholdings in Hongdu Aviation held by the Company, Hongdu Group and public shareholders. Set out below is the shareholding structure of Hongdu Aviation before and after completion of the Placing and the Subscription Agreements (as amended), assuming the price per new Hongdu Share for the Placing is RMB25.4:

Before the Independent Placing and the Subscription Agreements (as amended)



After the Independent Placing and the Subscription Agreements (as amended)



Notes:

- (1) shares of the Company are listed on the Hong Kong Stock Exchange
- (2) Hongdu Shares are listed on the Shanghai Stock Exchange

LETTER FROM SOMERLEY

Upon completion of the Independent Placing and the Subscription Agreements (as amended), the interest held by the Company in Hongdu Aviation will be diluted from 55.29% to 46.09%. The Company has on 29 December 2007 entered into an agreement whereby it was agreed that (1) subsequent to completion of the Subscription Agreements (as amended), Hongdu Group undertakes to vote the voting rights held by it in Hongdu Aviation in accordance with the instructions of the Company; and (2) Hongdu Group ensures that persons who acquired Hongdu Shares from it shall vote in accordance with the instructions of the Company. On this basis and given that the aggregate interest of the Company and Hongdu Group in Hongdu Aviation will amount to over 50% of the equity interest of Hongdu Aviation, results of Hongdu Aviation will continue to be consolidated into the accounts of the Group following completion of the Independent Placing and the Subscription Agreements (as amended).

If upon completion of the Independent Placing and the Subscription Agreements (as amended), the aggregate interests of the Company and Hongdu Group will fall below 50%, Hongdu Group will subscribe such additional Hongdu Shares so that the aggregate interests of the Company and Hongdu Group will exceed 50%.

6. Reasons for the Independent Placing and the Subscription Agreements (as amended by the Supplemental Agreement I and the Supplemental Agreement II)

To further enhance its business, Hongdu Aviation decided to embark on an expansion plan which would be financed by the Independent Placing and the Subscription Agreements (as amended by the Supplemental Agreement I and the Supplemental Agreement II). The Independent Placing and the Subscription Agreements (as amended), if completed, will raise for Hongdu Aviation net cash of approximately RMB2,140 million and aviation assets with an appraised value of approximately RMB350 million. It is expected that upon completion of the Independent Placing and the Subscription Agreements (as amended), Hongdu Aviation will make use of the cash proceeds and the Hongdu Group Assets to develop itself into an integrated aviation entity.

The aggregate net cash proceeds from the Independent Placing and the Subscription Agreement I (as amended by the Supplemental Agreement I) of approximately RMB2,140 million shall be applied by Hongdu Aviation in the following manner:

- (a) approximately RMB789 million on the construction project to expand the production capacity of Type L15 advanced training planes;
- (b) approximately RMB304 million on the reconstruction project to improve the production technique for foreign aviation products;
- (c) approximately RMB329 million on the construction project relating to enhancing and expanding productivity of K8 type planes;
- (d) approximately RMB136 million on the construction project to expand the productivity of N5B agricultural and forestry multi-purpose type planes;
- (e) approximately RMB49 million on the reconstruction project relating to production technique for domestic aviation products;

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- (f) approximately RMB41 million on the acquisition of testing and monitor facilities for new elementary training aircrafts;
- (g) approximately RMB50 million on the reconstruction project for improving the business operation of general aviation business;
- (h) approximately RMB49 million on the acquisition of analysis and testing equipments and related software for production of aircrafts;
- (i) approximately RMB46 million on the supplementary construction project involving acquisition of computation equipments and other technical aviation equipments;
- (j) approximately RMB100 million on investing into AviChina Undercarriage Limited Liability Company, which is principally engaged in the production of aircraft landing gears and related products. AviChina Undercarriage Limited Liability Company is currently owned as to 62.54% by AVIC II; and
- (k) the remaining proceeds will be used as general working capital.

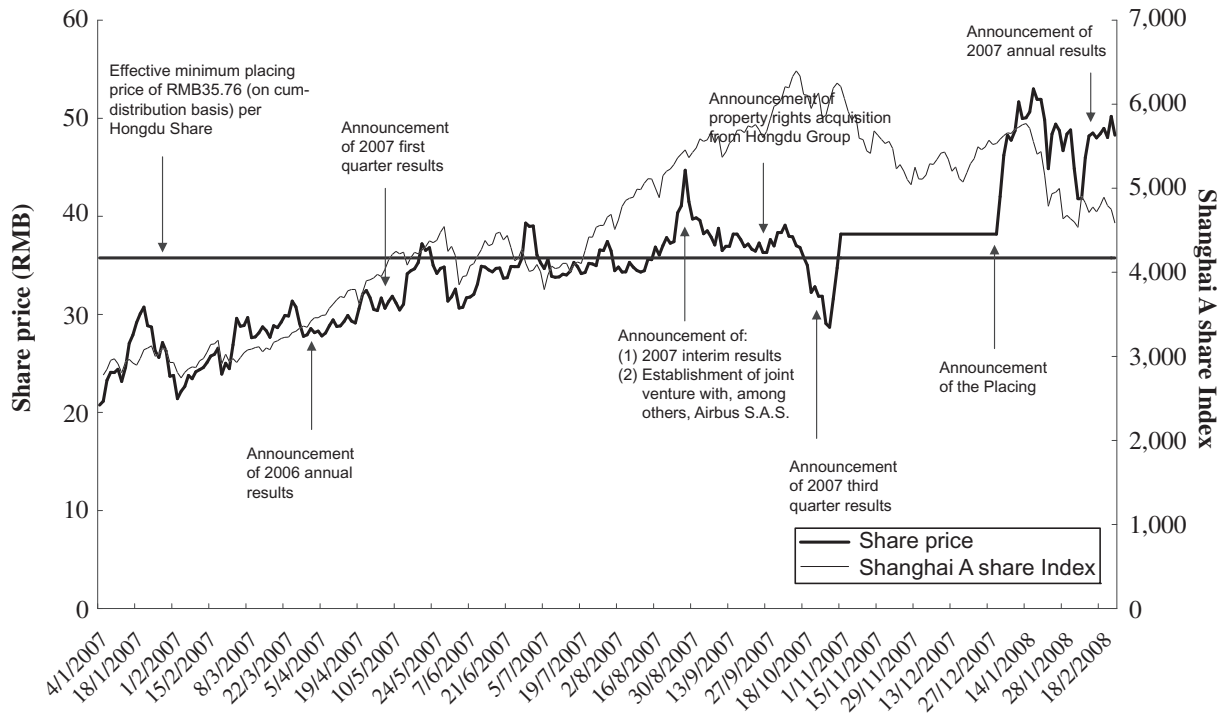
The aviation assets of Hongdu Group to be transferred to Hongdu Aviation pursuant to the Subscription Agreement II (as amended by the Supplemental Agreement II) form part of the manufacturing process of aircrafts being produced by Hongdu Aviation. For example, the landing gears manufacturing workshop produces landing gears for the aircrafts produced by Hongdu Aviation. The flight testing equipments are used in flight testing by Hongdu Aviation. Upon acquisition of such assets, Hongdu Aviation will have greater independence and less reliance on Hongdu Group in terms of its aircraft manufacturing business and the volume of continuing connected transactions currently being conducted between Hongdu Aviation and Hongdu Group would be substantially reduced.

We are advised by the Directors that in order to raise funds of significant size through private placement from the A share market, it is preferable from the marketing point of view to have the existing shareholders subscribing part of the placing shares. Moreover, given the positive contribution and the business prospect of Hongdu Aviation, the Company would like to maintain Hongdu Aviation as a subsidiary and be able to continue to consolidate its results into the accounts of the Group. The size of cash subscription as set out in the Subscription Agreement I (as amended by the Supplemental Agreement I) is determined by the Company after reviewing the internal resources of the Group and considered the other investment opportunities available to it. Though upon completion of the proposed Placing and the Subscription Agreements (as amended), the interest held by the Company in Hongdu Aviation will be diluted to below 50%, the Company is able to, through arrangement entered into with Hongdu Group (as discussed in detail above), maintain Hongdu Aviation as a subsidiary.

LETTER FROM SOMERLEY

7. Share Price Performance

Set out below is the daily closing price of Hongdu Shares during a period starting from 4 January 2007 (approximately one year preceding the date of the Subscription Agreements (as amended)) up to and including the Latest Practicable Date:



Source: Bloomberg

As shown in the above chart, the closing prices of the Hongdu Shares were steadily increasing in the first seven months of 2007, which was in general in line with the market. Prices of Hongdu Shares surged from the lowest of RMB34.32 in early August 2007 to a record closing high of RMB44.70 on 28 August 2007 and then dropped. On 28 August 2007, Hongdu Aviation announced its 2007 interim results and establishment of a joint venture with a subsidiary of Airbus S.A.S. and other investors to provide research, development, design and consultancy services.

Prices of Hongdu Shares fluctuated within a range of RMB36.30 to RMB39.59 in September 2007. On 26 September 2007, Hongdu Aviation announced an acquisition from Hongdu Group of the remaining property rights of an office building which is being used by Hongdu Aviation.

Prices of Hongdu Shares dropped sharply during mid-October 2007, and suddenly surged again from RMB29.06 on 26 October 2007 to RMB38.19 on 1 November 2007 (“Last Trading Day”). Trading in the Hongdu Shares was suspended on 2 November 2007 pending the release of the announcement as regards the Independent Placing and the Subscription Agreements, which was released on 3 January 2007.

LETTER FROM SOMERLEY

After the release of the announcement as regards the Placing, the Subscription Agreements and the resumption of trading, price of Hongdu Shares surged during the next few days from RMB38.19 to a closing high of RMB53.00 on 16 January 2008. Such increase in the price of Hongdu Shares, in our opinion, reflects a broadly positive response to the Placing and the Subscription Agreements by the market. On 13 February 2008, Hongdu Aviation announced its 2007 annual results, and the prices of Hongdu Shares remained steady between RMB48.00 and RMB50.00 since then. As at the Latest Practicable Date, the Hongdu Shares closed at RMB48.28.

8. Subscription Price

The Subscription Price will be finally determined in accordance with the requirements of the relevant PRC regulations, which will be based on the bidding prices for the new Hongdu Shares submitted by the targeted investors, subject to the minimum price of not less than RMB25.4 per Hongdu Share. The minimum unit price of RMB25.4 is determined based on the average closing price of the Hongdu Shares on the Shanghai Stock Exchange for the last 20 trading days up to and including the Last Trading Day (after adjusting for the Hongdu Aviation 2007 Dividend Policy), and with reference to Hongdu Aviation's latest audited net asset value per share of RMB7.44 as at 31 December 2007. Pursuant to the relevant PRC rules and regulations, Hongdu Aviation shall not issue any Hongdu Shares at lower than their latest audited net asset value per share. The ex-distribution minimum prices for the Independent Placing and the Subscription Agreements (as amended by the Supplemental Agreement I and the Supplemental Agreement II) of RMB25.4 are equivalent to the cum-distribution unit price of RMB35.76, which represents:

- (a) the average price of the Hongdu Shares for the last 20 trading days on the Shanghai Stock Exchange up to and including the Last Trading Day;
- (b) a premium of approximately 10.5% over the average closing price of approximately RMB32.35 per Hongdu Share on the Shanghai Stock Exchange over the period from 24 October 2007, the first trading day after the announcement of the 2007 third quarter results by Hongdu Aviation, up to and including the Latest Trading Day;
- (c) a premium of approximately 8.4% over the average closing price of approximately RMB33.00 per Hongdu Share on the Shanghai Stock Exchange over the ten trading days up to and including the Last Trading Day;
- (d) a premium of approximately 10.2% over the average closing price of approximately RMB32.44 per Hongdu Share on the Shanghai Stock Exchange over the five trading days up to and including the Last Trading Day;
- (e) a discount of approximately 6.4% to the closing price of RMB38.19 per Hongdu Share on the Shanghai Stock Exchange on the Last Trading Day;
- (f) a discount of approximately 25.9% to the closing price of RMB48.28 per Hongdu Share on the Shanghai Stock Exchange as at the Latest Practicable Date;

LETTER FROM SOMERLEY

- (g) a premium of approximately 380.6% over the latest audited net asset value per Hongdu Share of RMB7.44 as at 31 December 2007; and
- (h) a price/earning ratio of 77.7 based on the latest published audited consolidated profit attributable to equity holders of Hongdu Aviation of RMB0.46 per Hongdu Share for the year ended 31 December 2007.

The final Subscription Price will be the same as the market price at which the new Hongdu Shares are issued to the Independent Placees, which will be established through a book-building process. This process would enable Hongdu Aviation to obtain the optimum price for raising the targeted amount of proceeds. We consider it fair and reasonable and in the interest of the Company to establish the common pricing for the entire RMB2,500 million through a bidding process. The price for the Subscription Agreement II (as amended by the Supplemental Agreement II) which is entered into with a connected person will be the same as the price for the Independent Placing, which is fair and reasonable to the Company and the Independent Shareholders.

The aggregate subscription money of RMB350 million for the issue of Hongdu Shares pursuant to Subscription Agreement II (as amended by the Supplemental Agreement II) will be satisfied by transfer of the Hongdu Group Assets, and their attributable liabilities, to Hongdu Aviation. The Hongdu Group Assets have been valued by the Valuer using the replacement cost method, which value the subject matter at the cost of replacing the assets with comparable material and quality at current market price. The Valuer has also performed work to verify the existence and amount of the liabilities attributable to the Hongdu Group Assets. The Hongdu Group Assets, after netting off liabilities, were valued at RMB350 million as at 30 September 2007, which approximates their unaudited net asset value of RMB353.4 million on the same date. We have discussed with the Valuer the basis and assumptions used by it in valuing the Hongdu Group Assets and consider that those assumptions are fair and reasonable and the basis used is a normal one for valuing operating assets.

We also consider it fair and reasonable for Hongdu Aviation to acquire the Hongdu Group Assets at appraised net asset value. This pricing method is in accordance with the relevant PRC rules and regulations which require that any transfer of state assets be at or above net asset value. Hongdu Group is a state-owned enterprise. The appraised value of the Hongdu Group Assets is subject to confirmation by SASAC.

9. Financial effect

Hongdu Aviation is accounted for as a subsidiary of the Company. It is expected that following completion of the Independent Placing and the Subscription Agreement (as amended), the results and assets and liabilities of Hongdu Aviation would continue to be consolidated into the accounts of the Group.

Completion of the Independent Placing and the Subscription Agreement (as amended) would result in a substantial increase in the Group's net assets, which is in the interest of the Company. The magnitude of the increase would be calculated by deducting the RMB250 million subscription money payable by the Company to Hongdu Aviation from the net proceeds from the Independent Placing and the Subscription Agreements (as amended) of approximately RMB2,490 million.

LETTER FROM SOMERLEY

The above enhancement in Group's net assets would be shared by the minority shareholders of Hongdu Aviation and the equity holders of the Company. The amount attributable to the equity holders of the Company would be recorded in the Company's accounts as a gain on deemed disposal of the Company's interest in Hongdu Aviation by approximately 9.20% from 55.29% to 46.09%. The gain will be credited to reserves and will not be included in the consolidated income statement of the Group.

RECOMMENDATION

Having taken into account the above principal factors, we consider that the Subscription Agreement II and the Supplemental Agreement II are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. As the Subscription Agreements, the Supplemental Agreements and the Independent Placing would be effected as a package deal, the Company intends to seek Independent Shareholders' approval of all of the above in one single resolution. We advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve, among others, the Subscription Agreement II and the Supplemental Agreement II.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Sylvia Leung
Director

1. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Benefiting from the steady growth in the macro-economy of the PRC during 2007, the revenue of the Group's aviation business kept growing. However, the unsteady supply of parts and components caused delay in the delivery of some aviation products and, as a result, restricted the extent of growth in the revenue of the Group's aviation products.

Looking forward, the Board believes that China's economy will maintain stable and moderate growth, which will lead to improvements in the aviation manufacturing industry. The Board also expects that the Group's aviation business will maintain its steady growth in the next few years, benefiting from the steady growth in the macro-economy of the PRC and the continued development of the civil aviation market. With the proceeds from the proposed Placing, the Group would be able to further invest or acquire a more complete aviation business relating to aircraft research, production and aviation testing and production of ancillary aviation products.

2. INDEBTEDNESS STATEMENT OF THE GROUP**Borrowings**

As at 31 December 2007, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB5,875 million*, comprising secured borrowings of approximately RMB4,069 million*, unsecured borrowings of approximately RMB1,806 million*.

Commitments and contingent liabilities

As at 31 December 2007, the Group had a total commitment of approximately RMB1,683 million*, comprising RMB 360 million* for acquisition of property, plant and equipment; RMB 1,323 million* for construction.

As at 31 December 2007, the Group had no significant contingent liabilities.

Pledge of assets

As at 31 December 2007, the Group's secured borrowings pledged by assets amounted to approximately RMB55 million*. These borrowings were secured by notes receivable with a book value of approximately RMB60 million*.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at the close of business on 31 December 2007.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group since 31 December 2007.

** The financial figures are unaudited as at the Latest Practicable Date*

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that after taking into account available banking facilities and internal resources of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular, in the absence of any unforeseen circumstances.

Proposed Assets Injection
in Jiangxi Hongdu Aviation Industry Co., Ltd.
(“Hongdu Aviation”)
by Jiangxi Hongdu Aviation Industrial Group Corporation
(“Hongdu Group”)
as Consideration for the Subscription of new Hongdu Aviation’s Shares
(“Proposed Assets Injection”)

ASSETS APPRAISAL REPORT
Zhong Zi Ping Bao Zi [2007] No. 228

As instructed by Hongdu Group and Hongdu Aviation (“the Assignors”), we, China Asset Appraisal Company Limited, have conducted an assets valuation appraisal on the relevant assets and liabilities entailed in the proposed assets injection in accordance with the prescribed requirements of the State in relation to assets valuation appraisal, based on the principles of independence, objectiveness, scientificness and fairness, as well as generally accepted assets appraisal methods in order to fairly reflect the market value of such assets and liabilities as of the Appraisal Date (30 September 2007).

During the process of the valuation appraisal, the appraisers undertook necessary surveys and verification work on the relevant assets and liabilities, and conducted necessary verification/authentication work on the construction documents, financial information and other related appraisal information provided by Hongdu Group, and carried out other necessary generally accepted appraisal procedures, adopting the ‘Cost’ method during the process. The assets valuation appraisal has now been completed, and results of the appraisal are as follows:

As appraised, based on the assumption of continuity of usage, the appraisal results on the relevant assets and liabilities in respect of the proposed assets injection as of 30 September 2007 are as follows:

Summary of Assets Appraisal Results

Name of asset owner: Hongdu Aviation Industry Group Unit: RMB10,000

Items	Book value	Adjusted book value	Appraised value	Appreciation/ Impairment	Appreciation/ Impairment %
Current assets	7838.09	7838.09	7838.09	0.00	0.00
Long-term investments	0.00	0.00	0.00	0.00	0.00
Fixed assets	29969.28	29969.28	29663.42	-305.86	-1.02
Including:					
Construction-in-progress	0.00	0.00	0.00	0.00	0.00
Buildings	8516.65	8516.65	8842.68	326.03	3.83
Equipment	21452.64	21452.64	20820.74	-631.90	-2.95
Intangible assets	0.00	0.00	0.00	0.00	0.00

Items	Book value	Adjusted book value	Appraised value	Appreciation/ Impairment	Appreciation/ Impairment %
Including:					
Land use rights	0.00	0.00	0.00	0.00	0.00
Other assets	0.00	0.00	0.00	0.00	0.00
Total assets	37807.38	37807.38	37501.51	-305.86	-0.81
Current liabilities	2463.11	2463.11	2463.11	0.00	0.00
Long-term liabilities	0.00	0.00	0.00	0.00	0.00
Total liabilities	2463.11	2463.11	2463.11	0.00	0.00
Net assets	35344.26	35344.26	35038.40	-305.86	-0.87

The appraisal results are valid for one year, commencing from the Appraisal Date of 30 September 2007, and ending on 29 September 2008. After 29 September 2008, re-appraisal has to be performed on the assets by a qualified party.

This report has been prepared specifically for the purpose stated in this report and for submission to relevant assets appraisal authorities. The right of use of this report resides with the Assignors. In the absence of the consent of the Assignors, this report, or any part thereof, shall not be provided or disclosed to other parties. Unless required by Law, the report, or any part thereof, should not be publicised via any public media means.

Professional qualification of China Assets Appraisal Company Limited

China Assets Appraisal Company Limited is a qualified Assets Valuation Company for securities-related businesses as recognized by both the National State-owned Assets Management Bureau and the PRC Securities Supervision and Management Committee since 5 October 1993 (Cert. no. 0000057). China Assets Appraisal Company Limited is authorized to undertake assets valuation businesses by Beijing Finance Bureau commencing 28 April 2007 (Cert. no. 11020017). It was established on 12 December 1992 (Business Licence Reg. no. 110000001427461).

Valuers participated in the said valuation are registered valuers as approved by and registered with the National Assets Valuation Association as follows:

Name	Company	Cert./Reg. No.	Certificate Issuance Date	Registered since
Mr. Wu Jiang	China Assets Appraisal Company Limited	23020047	15 September 2006	28 November 2002
Ms. Di Xueyun	China Assets Appraisal Company Limited	11000182	14 December 2006	31 December 1997

China Assets Appraisal Company Limited
27 December 2007

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Hong Kong 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, CHIEF EXECUTIVE AND SUPERVISORS IN THE SECURITIES OF THE COMPANY

As at the Latest Practicable Date, none of the Directors, chief executive and supervisors 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 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 which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Hong Kong Listing Rules to be notified to the Company and the Stock Exchange.

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

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

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

As at the Latest Practicable Date, so far as is known to any Directors, chief executive or supervisors of the Company, the following persons (not being a Director, chief executive or a 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	Percentage of shareholdings to the same class of shares	Percentage of shareholdings to share capital in issue	Nature of shares held
AVIC II	Domestic shares	Main Shareholder	2,835,305,636	95.66%	61.06%	Long position
European Aeronautic Defence and Space Company — EADS N.V.	H shares	Interest of a party to an agreement to acquire interests in a listed corporation under s.317(1)(a) and s.318	232,180,425	13.82%	5%	Long position
The Hamon Investment Group Pte Limited	H shares	Investment manager	204,580,000 (Note 1)	12.18%	4.41%	Long position
The Bank of New York Mellon Corporation	H shares	Interests of controlled corporations	101,412,000 (Note 2)	6.04%	2.18%	Long position
Montpelier Asset Management Limited	H shares	Investment manager	90,420,000	5.38%	1.95%	Long position
Mellon Financial Corporation	H shares	Interests of controlled corporations	85,706,000	5.1%	1.85%	Long position

Notes:

1. These shares were held by various wholly-owned subsidiaries of Hamon Investment Group Pte Limited, of which 58,072,000 shares were held by Hamon Asset Management Limited, 105,394,000 shares were held by Hamon U.S. Investment Advisors Limited and 41,114,000 shares were held by Hamon Investment Management Limited.
2. These shares were held by The Dreyfus Corporation, an indirect subsidiary of The Bank of New York Mellon Corporation.

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. MATERIAL CONTRACTS

The particulars of material contracts (not being contracts entered into in the ordinary course of business) entered into by the member of the Group within the two years immediately preceding the issue of this circular are set out as follows:

- (a) The joint venture agreement entered into between the Company and AVIC II and its associates and other non-connected persons on 19 October 2007 regarding the establishment of a joint venture to invest in the manufacture and sale of wind power generation equipments in China. Details of the agreement are set out in the announcement of the Company dated 22 October 2007.
- (b) The agreement entered into between Hongdu Aviation and Hongdu Group on 24 September 2007 regarding the acquisition of Hongdu Group's property rights in the Science Building from Hongdu Group. Details of the agreement are set out in the announcement of the Company dated 27 September 2007.
- (c) The subscription agreement entered into between the Company and Hongdu Aviation on 29 December 2007 whereby the Company undertakes to subscribe, subject to conditions and adjustment for approximately 9,842,520 new Hongdu Shares (Subscription Agreement I).
- (d) The subscription agreement entered into between Hongdu Group and Hongdu Aviation on 29 December 2007 whereby Hongdu Group undertakes to subscribe, subject to conditions and adjustment, for approximately 13,779,527 new Hongdu Shares (Subscription Agreement II).
- (e) The supplemental agreement entered into between the Company and Hongdu Aviation on 22 February 2008 to amend and vary certain terms under Subscription Agreement I (Supplemental Agreement I).

- (f) The supplemental agreement entered into between Hongdu Group and Hongdu Aviation on 22 February 2008 to amend and vary certain terms under Subscription Agreement II (Supplemental Agreement II).

6. LITIGATION

As at the Latest Practicable Date, there is no litigation or claim of material importance pending or threatened against any member of the Group known to the Directors.

7. 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 2006, 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.

8. CONSENT AND QUALIFICATION OF EXPERT

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
Sommerley	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.
China Assets Appraisal Company Limited	PRC qualified valuers

As at the Latest Practicable Date, neither Sommerley nor China Assets Appraisal Company Limited has 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, neither Sommerley nor China Assets Appraisal Company Limited had any direct or indirect interest in any assets which has been, since 31 December 2006, 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.

Sommerley and China Assets Appraisal Company Limited have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letter, report and references to their names included in this circular in the form and context in which they respectively included.

9. 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.

10. NO MATERIAL ADVERSE CHANGE

Since 31 December 2006, being the date to which the latest published audited accounts of the Company have been made up, there have been no material adverse changes in the financial and trading position of the Group.

11. MISCELLANEOUS

- (a) Mr. Yan Lingxi and Mr. Ip Kun Wan, Kiril are the company secretaries of the Company. Mr. Ip Kun Wan, Kiril is a solicitor of the High Court of Hong Kong.
- (b) Reference is made to the announcement of the Company dated 1 December 2005 (the “2005 Announcement”). Since Mr. Li Yao (“Mr. Li”), a Vice President and the Chief Financial Officer of the Company, is able to meet all requirements as set out in Rule 3.24 save for being a fellow or associate member of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) (“HKICPA”) or a similar body of accountants recognized by HKICPA for the purpose of granting exemptions from the examination requirement for membership of HKICPA, the Company has arranged Mr. Lo Wah Wai (“Mr. Lo”), who is a fellow of HKICPA, to assist Mr. Li in discharging his duty as the qualified accountant of the Company for a term of three years.

As set out in the 2005 Announcement, the Hong Kong Stock Exchange had agreed to grant to the Company a conditional waiver from the strict requirement of Rule 3.24 of the Hong Kong Listing Rules for a term of three years from 13 May 2005.

As at the Latest Practicable Date, Mr. Lo still assists Mr. Li in discharging his duty as the qualified accountant of the Company.

- (c) The registered address of the Company is situated at No. 16 Hong Da Bei Lu, Beijing Economic-Technological Development Area, Beijing, PRC. The registrar of the Company is Computershare Hong Kong Investor Services Limited, whose address is at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (d) The principal place of business of the Company in Hong Kong is at Unit B, 15/F, United Center, Queensway 95, Hong Kong.
- (e) The English text of this circular and the proxy form shall prevail over their respective Chinese text in the case of inconsistency.

12. 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 Monday, 31 March 2008:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2006;
- (c) the interim report of the Company for the six months ended 30 June 2007;
- (d) the material contracts referred to in the section headed “Material Contracts” in this Appendix;
- (e) a copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A which has been issued since 31 December 2006 (being the date of the latest published audited accounts);
- (f) the Subscription Agreements;
- (g) the Supplemental Agreements;
- (h) the letter dated 25 February 2008 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 18 of this circular;
- (i) the letter of advice dated 25 February 2008 from Somerley to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 19 to 33 of this circular;
- (j) the written consent of Somerley referred to in paragraph 8 of this Appendix;
- (k) the full asset valuation report dated 27 December 2007 from China Assets Appraisal Company Limited; and
- (l) the written consent of China Assets Appraisal Company Limited referred to in paragraph 8 of this Appendix.

According to Article 66 of the Articles and subject to the rules prescribed by the Hong Kong Stock Exchange or any relevant stock exchange from time to time, at any shareholders' general meeting a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (i) by the chairman of the meeting;
- (ii) by at least two shareholders or proxies entitled to vote; or
- (iii) by one or more shareholders (including proxy of shareholder) alone or jointly representing 10 percent or more (inclusive) of all Shares carrying the right to vote at such meeting.

Unless a poll is demanded otherwise, the declaration of the results on a show of hands by the chairman of the meeting on the approval of the resolution proposed and recorded in the minutes of the meeting will be final, without inclusion of evidences on the number or proportion of the votes recorded for or against the resolution proposed in such meeting. The demand for a poll may be withdrawn by the party who has made such demand.

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 IS HEREBY GIVEN that an Extraordinary General Meeting (“EGM”) of AviChina Industry & Technology Company Limited will be held at 9:00 a.m. on Monday, 31 March 2008, at Beijing Jinjiang Fuyuan Hotel, No. 11 Ronghua Road, Beijing Economic & Technological Development Area, 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 resolution shall have the same meanings as those defined in the circular of the Company dated 25 February 2008:

ORDINARY RESOLUTION

1. **“THAT** the terms of the proposed Placing of Hongdu Aviation, a non-wholly owned subsidiary of the Company, to raise not more than RMB2,500 million by issuing not more than 98,000,000 new Hongdu Shares, subject to adjustment, for subscription by the Company, Hongdu Group and not more than 8 other qualified investors be approved, ratified and confirmed as follows:
 - (a) Subscription Agreement I, as amended by Supplemental Agreement I, entered into between the Company and Hongdu Aviation in relation to the subscription by the Company of approximately 9,842,520 new Hongdu Shares, subject to adjustment, amounting to approximately RMB250 million (equivalent to approximately HK\$273 million), a copy of which is produced to the meeting marked “A” and signed by the Chairman of the meeting for the purpose of identification, be and is hereby approved, confirmed and ratified, and all the transactions contemplated under Subscription Agreement I, as amended by Supplemental Agreement I, be and are hereby approved, confirmed and ratified and that the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete Subscription Agreement I, as amended by Supplemental Agreement I, and to sign and execute any other documents or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to Subscription Agreement I, as amended by Supplemental Agreement I, as it may in its absolute discretion deem fit;
 - (b) Subscription Agreement II, as amended by Supplemental Agreement II, entered into between the Hongdu Group and Hongdu Aviation in relation to the subscription by Hongdu Group of approximately 13,779,527 new Hongdu Shares, subject to adjustment, amounting to approximately RMB350 million (equivalent to approximately HK\$382 million), a copy

* For identification purpose only.

NOTICE OF EXTRAORDINARY GENERAL MEETING

of which is produced to the meeting marked “B” and signed by the Chairman of the meeting for the purpose of identification, be and is hereby approved, confirmed and ratified, and all the transactions contemplated under Subscription Agreement II, as amended by Supplemental Agreement II, including satisfaction of consideration by way of Hongdu Group Assets be and are hereby approved, confirmed and ratified and that the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete Subscription Agreement II, as amended by Supplemental Agreement II, and to sign and execute any other documents or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to Subscription Agreement II, as amended by Supplemental Agreement II, as it may in its absolute discretion deem fit;

- (c) the proposed Placing of the remaining Hongdu Shares to not more than 8 qualified investors to raise the remaining proceeds of RMB1,900 million (equivalent to approximately HK\$2,074 million) be and is hereby approved, confirmed and ratified and that the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the proposed Placing of the new Hongdu Shares to not more than 8 qualified investors and to enter into, sign and execute any other documents or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the Subscription Agreements as it may in its absolute discretion deem fit.”

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

Hong Kong, 25 February 2008

Notes:

- (1) Closure of register of members and eligibility to attend the extraordinary general meeting (“EGM”)**

Pursuant to Article 38 of the Articles of Association of the Company, the H Share register of the Company will be closed from Tuesday, 11 March 2008 to Monday, 31 March 2008 (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 name appear on the Company’s Register of members before the close of business hours on Monday, 31 March 2008 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 Monday, 10 March 2008 at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queens’ Road East, Wanchai, Hong Kong.

NOTICE OF EXTRAORDINARY GENERAL MEETING

(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 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. no later than Tuesday, 11 March 2008.
- (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 wish to appoint a proxy should first review the form of proxy for use in the EGM.
- (b) For any shareholder who has appointed more than one proxy, such proxies shall only vote on a poll. Whether or not the voting is conducted by way of a show of hands or by way of a poll, the results of the voting shall be calculated on the basis of number of shares relevant.
- (c) 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 legal person, the instrument shall be signed by its directors or attorneys duly authorizing that 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 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: Xu Bin, Wang Yongzhi

- (5) **The ordinary resolution will be voted by poll by the Independent Shareholders.**

As at the date of this notice, the Board of the Company comprises executive directors Mr. Zhang Hongbiao, Mr. Wu Xiandong and Mr. Tan Ruisong and non-executive directors Mr. Liang Zhenhe, Mr. Tian Min, Mr. Song Jingang, Mr. Wang Bin, Mr. Chen Huaiqiu, 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.