THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AVIC International Holdings Limited**, you should at once hand this circular with the enclosed form of proxy and confirmation slip to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for shares or any other securities of the Company.

中航國際控股股份有限公司
AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 00161)

DISCLOSEABLE AND CONNECTED TRANSACTION

FURTHER DEVELOPMENT IN RELATION TO VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION INVOLVING ISSUE OF PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders

ANGLO CHINESE 英高
CORPORATE FINANCE, LIMITED

A letter from the Independent Board Committee is set out on pages 24 to 25 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 44 of this circular.

Notice convening the EGM to be held on Monday, 26 August 2013 at 10:00 a.m. at Level 25, Hangdu Building, CATIC Zone, Shennan Road Central, Futian District, Shenzhen, the PRC is set out on pages 60 to 61 of this circular. Form of proxy and confirmation slip for use by the Shareholders in relation to the EGM (or any adjournment thereof) are enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the legal address of the Company at Level 25, Hangdu Building, CATIC Zone, Shennan Road Central, Futian District, Shenzhen, the PRC (for holders of Domestic Shares) or to the H Share Registrar of the Company, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) as soon as possible and in any event not later than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not prevent the Shareholders from attending and voting in person at the EGM (or any adjournment thereof) should they so wish.

5 July 2013

CONTENTS

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

"2012 PSCS"	perpetual subordinated convertible securities issued by the Company on 5 September 2012
"Acquisition Agreement 1"	acquisition agreement (including equity interest purchase agreement and PSCS subscription agreement) entered into between the Company and AVIC International dated 16 November 2011 in relation to the acquisition of the Sale Interests 1 at a consideration of RMB1,311,110,000 (Consideration 1), to be satisfied by the issue of PSCS by the Company in the principal amount of RMB1,311,110,000 convertible into 368,289,325 new Domestic Shares at the initial conversion price of RMB3.56 per Domestic Share. Details of the Acquisition Agreement 1 are set out in the VSA Circular and the announcement of the Company dated 27 June 2012
"Acquisition Agreement 2"	acquisition agreement (including equity interest purchase agreement and PSCS subscription agreement) entered into between the Company and AVIC Shenzhen dated 16 November 2011 in relation to the acquisition by the Company of 55.91% of the equity interest in Chengdu Ya Guang Electronic Company Limited (成都亞光電子股份有限公司) and 51% of the equity interest in Shenzhen AVIC Bite Communication Technology Company Limited (深圳市中航比特通訊技術有限公司) at a consideration of RMB637,920,000, to be satisfied by the issue of PSCS by the Company in the principal amount of RMB637,920,000 convertible into 179,191,011 new Domestic Shares at the initial conversion price of RMB3.56 per Domestic Share. Details of the Acquisition Agreement 2 are set out in the VSA Circular and the announcement of the Company dated 27 June 2012

"Acquisition Agreement 3"	acquisition agreement (including equity interest purchase agreement and PSCS subscription agreement) entered into between the Company and AVIC Shenzhen dated 16 November 2011 in relation to the acquisition by the Company of 316,257,000 shares of Rainbow Department Store Co., Ltd. (天虹商場股份有限公司) at a consideration of RMB6,328,302,570, to be satisfied by the issue of PSCS by the Company in the principal amount of RMB6,328,302,570 convertible into 1,777,613,081 new Domestic Shares at the initial conversion price of RMB3.56 per Domestic Share. Details of the Acquisition Agreement 3 are set out in the VSA Circular
"Acquisition Agreements"	Acquisition Agreement 1, Acquisition Agreement 2 and Acquisition Agreement 3
"associate(s)"	has the meaning as ascribed to it under the Listing Rules
"Aviation Industry"	Aviation Industry Corporation of China (中國航空工業集團公司), an enterprise owned by the whole people (全民所有制企業) established in the PRC, and as at the Latest Practicable Date, it held 76.83% of the equity interest in AVIC International
"AVIC International"	AVIC International Holding Corporation (中國航空技術國際控股有限公司), a limited liability company established in the PRC, a controlling shareholder of the Company
"AVIC Shenzhen"	AVIC International Shenzhen Company Limited (中國航空技術深圳有限公司), a limited liability company established in the PRC, a controlling shareholder of the Company, and as at the Latest Practicable Date, its entire equity interest was owned by AVIC International
"Beijing Raise"	Beijing Raise Science Company Limited (北京瑞賽科技有限公司), a limited liability company established in the PRC
"Board"	the board of Directors

"Coal Logistics Company"	AVIC-INTL Coal Logistics Company Limited (中航國際煤炭物流有限公司) (formerly known as Guizhou CATIC Resources Company Limited (貴州中航資源有限公司)), a limited liability company established in the PRC
"Company"	AVIC International Holdings Limited (中航國際控股股份有限公司) (formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司)), a joint stock limited company incorporated in the PRC with limited liability, whose H Shares are listed on the Stock Exchange
"connected person(s)"	has the meaning as ascribed to it under the Listing Rules
"Consideration 1"	RMB1,311,110,000, being the original consideration for the sale and purchase of the Sale Interests 1 under the Acquisition Agreement 1
"controlling shareholder(s)"	has the meaning as ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	ordinary domestic share(s) of nominal value of RMB1.00 each in the capital of the Company which are subscribed for and traded in RMB
"EGM"	the extraordinary general meeting of the Company to be convened and held on 26 August 2013 for the purpose of considering and, if thought fit, approving the Supplemental Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign invested share(s) of nominal value of RMB1.00 each in the capital of the Company, which are listed on the Stock Exchange and subscribed for and traded in HK$
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China

"Independent Board Committee"	an independent committee of the Board comprising all independent non-executive Directors, namely, Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Zhang Ping, to advise the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "Anglo Chinese"	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
"Independent Shareholders"	Shareholders other than AVIC International and its associates (including AVIC Shenzhen)
"Latest Practicable Date"	28 June 2013, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lutong Company"	AVIC Lutong Company Limited (中航路通實業有限公司), a limited liability company established in the PRC
"PRC"	The People's Republic of China, and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Project Engineering Company"	AVIC-INTL Project Engineering Company (中航國際成套設備有限公司), a limited liability company established in the PRC
"PSCS"	perpetual subordinated convertible securities to be issued by the Company pursuant to the Acquisition Agreements, and proposed to be amended by the Supplemental Agreement
"Revised Sale Interests 1"	50% equity interest in Lutong Company, 90% equity interest in Coal Logistics Company and 100% equity interest in Project Engineering Company

"Sale Interests 1"	100% equity interest in Shanghai Company, 50% equity interest in Lutong Company, 90% equity interest in Coal Logistics Company and 100% equity interest in Project Engineering Company
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Company"	China National Aero-Technology Corporation Shanghai Company Limited (中國航空技術上海有限公司), a limited liability company established in the PRC; the 100% equity interests in Shanghai Company is proposed to be excluded from the Sale Interests 1 pursuant to the Supplemental Agreement
"Share(s)"	share(s) of the Company, including Domestic Share(s) and H Share(s)
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement dated 16 May 2013 entered into between the Company and AVIC International to amend certain terms of the Acquisition Agreement 1
"VSA Circular"	circular of the Company dated 23 December 2011 in relation to, among other things, the Acquisition Agreements
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent

In this circular, the English names of the PRC entities are translation of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

Unless otherwise specified in this circular, amounts denominated in RMB have been converted into Hong Kong dollars at HK$1.00 to RMB0.81. No representation has been made by the Company that any amount has been, could have been or could be converted at the above rate or at any other rates or at all.

中航國際控股股份有限公司
AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 00161)

Executive Directors:
Mr. Wu Guang Quan
Mr. You Lei
Mr. Pan Lin Wu
Mr. Chen Hong Liang
Mr. Liu Jun

Independent Non-executive Directors:
Ms. Wong Wai Ling
Mr. Wu Wei
Mr. Zhang Ping

Legal Address:
Level 25, Hangdu Building
CATIC Zone
Shennan Road Central
Futian District
Shenzhen
PRC

Principal Place of Business in Hong Kong:
Suites 2001–2005
20th Floor, Jardine House
1 Connaught Place, Central
Hong Kong

5 July 2013

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

FURTHER DEVELOPMENT IN RELATION TO VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION INVOLVING ISSUE OF PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

INTRODUCTION

Reference is made to the announcements of the Company dated 16 May 2013.

The purpose of this circular is to provide you with among other things, (i) details of the Supplemental Agreement and the transactions contemplated thereunder; (ii) the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iv) a notice of the EGM; and (v) certain information as required by the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 21 November 2011 and the VSA Circular. On 16 November 2011, the Company entered into the Acquisition Agreements, pursuant to which the Company conditionally agree to acquire equity interests in certain companies established in the PRC from AVIC International and AVIC Shenzhen. The Acquisition Agreements and the transactions contemplated thereunder were approved by independent Shareholders at the extraordinary general meeting and the class meeting for holders of H Shares held on 8 February 2012.

As disclosed in the announcement of the Company dated 27 June 2012, the Company entered into a supplemental agreement with each of AVIC International and AVIC Shenzhen on 27 June 2012, pursuant to which the inter-conditional and simultaneous completion requirement of the Acquisition Agreement 1 and the Acquisition Agreement 2 was cancelled.

As at the Latest Practicable Date, the Acquisition Agreements had not yet completed. Agreements in writing were reached among the Company, AVIC International and AVIC Shenzhen to extend the latest time for fulfillment of conditions precedent under each of the Acquisition Agreements to 31 December 2013.

The overall proposals for the transactions contemplated under each of the Acquisition Agreement 1 and the Acquisition Agreement 3 (including the issue of PSCS to satisfy the consideration thereunder) were approved by the SASAC. The Company also received approval from the China Securities Regulatory Commission waiving the Company's obligation for a general takeover offer of shares of Rainbow Department Store Co., Ltd. (天虹商場股份有限公司) arising out of the transactions contemplated under the Acquisition Agreement 3 in October 2012.

As at the Latest Practicable Date, together with the conditions precedent to the Supplemental Agreement as stipulated in the paragraph headed "Conditions Precedent to the Supplemental Agreement" in this circular, completion of the transactions contemplated under the Acquisition Agreement 1 (as supplemented by the Supplemental Agreement) was still subject to the condition that all necessary consents and approvals from, and all filings with, any relevant governmental or regulatory authorities in the PRC, Hong Kong or elsewhere for the entering into and the performance of the Acquisition Agreement 1 (as supplemented by the Supplemental Agreement) and the respective transactions contemplated thereunder having been obtained or made, including without limitation, business registration, and filings in relation thereto at relevant administration for industry and commerce.

As at the Latest Practicable Date, completion of the transactions contemplated under the Acquisition Agreement 3 was still subject to the conditions that all necessary consents and approvals from, and all filings with, any relevant governmental or regulatory authorities in the PRC, Hong Kong or elsewhere for the entering into and the performance of the Acquisition Agreement 3 and the respective transactions contemplated thereunder having been obtained or made, including without limitation, business registration, and filings in relation thereto at relevant administration for industry and commerce, and that trading in the shares of Rainbow Department Store Co., Ltd. on the Shenzhen Stock Exchange not being revoked or withdrawn, and the shares of Rainbow Department Store Co., Ltd. continuing to be traded on the Shenzhen Stock Exchange upon completion.

The proposal for the transactions contemplated under the Acquisition Agreement 2 (including the issue of PSCS to satisfy the consideration thereunder) had not yet been approved by the SASAC as at the Latest Practicable Date. While the Company is still in communication with the relevant authority, the Directors note that the proposal for the transactions contemplated under the Acquisition Agreement 2 may not be approved by the SASAC. Notwithstanding the above, the Directors are of the view that no adverse impact would be bought to the Company in general in the event that transactions contemplated under the Acquisition Agreement 2 cannot be proceeded as the businesses engaged in by the target companies under the Acquisition Agreement 2 and those of the Group are independent of each other.

For the reasons as detailed in the paragraph headed "Reasons for and benefits of entering into the Supplemental Agreement and acquisition of the Revised Sale Interests 1" below, on 16 May 2013, the Company and AVIC International entered into the Supplemental Agreement to amend certain terms of the Acquisition Agreement 1, and pursuant to which parties conditionally agreed that, among other things, the 100% equity interest in Shanghai Company be excluded from the Sale Interests 1, and the consideration for the Revised Sale Interests 1 be revised to RMB552,814,600.

Principal terms of the Supplemental Agreement are set out below.

SUPPLEMENTAL AGREEMENT

Date:

16 May 2013

Parties:

(1) The Company (as purchaser under the Acquisition Agreement 1)

(2) AVIC International (as vendor under the Acquisition Agreement 1)

Subject Matters:

Pursuant to the Supplemental Agreement, the Company and AVIC International conditionally agreed:

(1) the subject matters to be acquired by the Company under the Acquisition Agreement 1 be changed to 50% equity interest in Lutong Company, 90% equity interest in Coal Logistics Company and 100% equity interest in Project Engineering Company; and

(2) the consideration for the Revised Sale Interests 1 be revised to RMB552,814,600 (equivalent to approximately HK$682,487,160) accordingly, to be satisfied by issue of PSCS in the principal amount of RMB552,814,600 convertible into 155,285,000 new Domestic Shares at the initial conversion price of RMB3.56 (equivalent to approximately HK$4.40) per Domestic Share by the Company.

The adjustment to the consideration for the Revised Sale Interests 1 was determined after arm's length negotiation between the Company and AVIC International, having taking into account the value of Shanghai Company and its then subsidiaries appraised by an independent valuer as at 30 June 2011 (a summary of such valuation report is set out in Appendix I to this circular).

As disclosed in the VSA Circular, the original Consideration 1 of RMB1,311,110,000 (equivalent to approximately HK$1,618,654,321) was determined after arm's length negotiations between the Company and AVIC International at the time of entering into of the Acquisition Agreement 1 on normal commercial terms with reference to a number of factors at the relevant time including, among other things:

(1) financial condition of the target companies comprising the Sale Interests 1, especially the book value of the then newly established target companies comprising the Sale Interests 1, and the earning of the stably operating target companies comprising the Sale Interests 1 at the relevant time;

(2) market environment and comparables at the relevant time;

(3) the then future prospect of the target companies comprising the Sale Interests 1, including the application of advanced technology, the synergy of the Acquisitions, the expected enhancement to the Company's position in the market and competitiveness upon completion of the Acquisition Agreement 1 and the transactions contemplated thereunder;

(4) the strong background of AVIC International, including its historical records and global reputation, competitive advantage in government project, the domestic and global distribution networks, etc.; and

(5) confidence in the economy of and related industries in the PRC.

The transactions contemplated under each of the Acquisition Agreements were subject to the approvals and/or consents from the competent authorities in the PRC, among which includes SASAC. The overall proposal for the transactions contemplated under the Acquisition Agreement 1 was approved by the SASAC in June 2012. The transactions contemplated under the Acquisition Agreement 1 was not completed before the latest time for fulfillment of conditions precedent as originally stipulated under the Acquisition Agreement 1 (being 31 December 2012), the Board was keeping reviewing the business and financial prospects of the target companies under the Acquisition Agreement 1. In this relation, the Board reviewed the audited consolidated financial statements of Shanghai Company and its subsidiaries which were issued in February 2013 and noted that Shanghai Company and its subsidiaries recorded substantial net loss and would not be able to meet the Company's requirement for acquisition. Upon negotiation with AVIC International, the Company and AVIC International entered into the Supplemental Agreement to amend certain terms of the Acquisition Agreement 1, and pursuant to which the parties conditionally agreed that, among other things, the 100% equity interest in Shanghai Company be excluded from the Sale Interests 1.

The acquisition of the Revised Sale Interests 1 represents the continuance of the performance of the Company's obligations under the Acquisition Agreement 1. Apart from the exclusion of the 100% equity interest in Shanghai Company, the rest of the Sale Interests 1 (Revised Sale Interests 1) remained unchanged. Although the entering into of the Supplemental Agreement was around 1.5 years after the issue of the VSA Circular, the Board considers that the business development of the target companies under the Revised Sale Interests 1 have met the expectations of the Company in general and the Board also considers that no significant changes on such companies had taken place and hence the value of the Revised Sale Interests 1 has no substantial change. Therefore, notwithstanding that the entering into of the Supplemental Agreement was around 1.5 years after the date of the Acquisiton Agreement 1, the Board considers that the basis of determining the original Consideration 1 remain fair and reasonable.

In light of the above, the Directors consider that such adjustment by deducting from the Consideration 1 (representing the parties' agreed value of the Sale Interests 1 at or around the time of entering into of the Acquisition Agreement 1) the values of Shanghai Company and its subsidiaries at or around the time of entering into of the Acquisition Agreement 1 (i.e. 30 June 2011) as appraised by an independent party to be on normal commercial terms and fair and reasonable.

Save for the aforesaid amendments, other terms of the Acquisition Agreements (supplemented as detailed in the paragraph headed "Background" above) remain unchanged.

Conditions Precedent to the Supplemental Agreement:

The Supplemental Agreement is conditional upon fulfillment of the following conditions before 31 December 2013 (or such later time as may be agreed by the Company and AVIC International):

(1) the Supplemental Agreement being signed by the legal representative or authorised representative of the Company and AVIC International, and stamped by the Company and AVIC International, respectively;

(2) the respective approval procedures of the board of directors of each of the Company and AVIC International having been completed;

(3) all necessary or appropriate approvals and consents for the Company as a company listed on the Stock Exchange in relation to the entering into of the Supplemental Agreement and the transactions contemplated thereunder having been obtained;

(4) all necessary approvals and/or consents from SASAC for the transactions contemplated under the Supplemental Agreement having been obtained; and

(5) all necessary consents or approvals from, and filings with, relevant government or regulatory authorities in the PRC, Hong Kong or other regions having been obtained and made by the Company and AVIC International in relation to the entering into and performance of the Supplemental Agreement.

The SASAC's approval obtained by the Company regarding the overall proposals for the transactions contemplated under each of the Acquisition Agreement 1 and the Acquisition Agreement 3 remain effective under the PRC laws and regulations. However, as the Supplemental Agreement is subject to, among other things, approval of the Independent Shareholders under the Listing Rules, the Company will also submit the Supplemental Agreement and related information to the SASAC for confirmation and/or approval (where required) for prudence. The Company expects to obtain the SASAC's confirmation and/or approval (where required) on the Supplemental Agreement within 2013.

INFORMATION OF THE SALE INTERESTS 1

The excluded interests – 100% equity interest in Shanghai Company

Shanghai Company is a limited liability company established in the PRC by AVIC International. It had a registered capital of RMB401,000,000 as at the Latest Practicable Date. Shanghai Company and its subsidiaries are principally engaged in manufacturing and trading of chemical tankers and trading of air separation equipment, etc and commodity trading.

Set out below is the key audited consolidated financial information of Shanghai Company and its subsidiaries prepared in accordance with the generally accepted accounting principles in the PRC:

	Unit: RMB'000 **For the year ended 31 December**	
	2011	**2012**
Total assets	2,912,943	3,236,160
Net assets (attributable to the owner(s) of Shanghai Company)	537,935	339,184
Turnover	2,888,088	2,899,236
Gross profit	90,152	122,312
Net profit/(loss) (before tax and extraordinary items)	(19,168)	(241,633)
Net profit/(loss) (after tax and extraordinary items)	(12,172)	(241,965)

To the best knowledge of the Directors, having taking into account at the relevant time that as Shanghai Company are mainly engaged in import and export business, and its future operation would be affected by various factors, such as the environment of the macro-economics as well as international and domestic trading policies, the valuer considered that adopting the income approach to valuate the future income of Shanghai Company would have great uncertainties. The valuer thus considered that the asset-based approach would be more steady, as it would objectively reflect the market value of the net asset of the enterprise from the perspective of asset construction. Therefore, the valuer applied the asset-based approach as the only approach to conduct valuation on Shanghai Company for the valuation report in relation to the value of Shanghai Company (a summary of such report is set out in Appendix I to this circular) (the "Valuation Report").

The Board noted from the Valuation Report that in relation to the value of Shanghai Company and its then subsidiaries appraised by an independent valuer as at 30 June 2011, there was an significant appreciation of RMB325,951,900 in the valuation of the assets, which was due to increase in value of the assets of Shanghai Company and its subsidiaries categorised as follows:

1. Long term investment for subsidiaries: There was an appreciation of RMB203,060,000, representing an increase of 52%, due to the increase of value in the investment property.

2. Fixed asset of Shanghai Company. There was an appreciation of buildings and investment property, including the increase in value of investment property amount to RMB32,870,000, representing an increase of 118%, and the increase in value of buildings amount to RMB87,160,000, representing an increase of 133%. The increase in valuation of property investment was due to the recent improvement of ancillary activities in the Shanghai city and the value of commodity property has increased substantially.

Revised Sale Interests 1 – 50% equity interest in Lutong Company, 90% equity interest in Coal Logistics Company and 100% equity interest in Project Engineering Company

Each of Lutong Company, Coal Logistic Company and Project Engineering Company is a limited liability company established in the PRC by AVIC International. As at the Latest Practicable Date, the registered capital of each of Lutong Company, Coal Logistic Company and Project Engineering Company was RMB300,000,000, RMB100,000,000 and RMB210,000,000, respectively.

Lutong Company and its subsidiaries are principally engaged in asphalt related projects. Coal Logistics Company and its subsidiaries are principally engaged in trading and logistics of coal, while Project Engineering Company and its subsidiaries are principally engaged in trading business of complete set of equipment and general contracting of governmental projects.

As at the Latest Practicable Date:

(1) Lutong Company was a 50%-owned subsidiary of the Company. The remaining 50% equity interest, being part of the Sale Interests 1, was owned by AVIC International;

(2) Coal Logistics Company was owned as to 90% by AVIC International and as to 10% by Shenzhen AVIC Resources Co., Ltd. (深圳中航資源有限公司) (a wholly-owned subsidiary of the Company); and

(3) Project Engineering Company was wholly-owned by AVIC International.

The financial results of Lutong Company are currently consolidated into the accounts of the Group. Following completion of the transactions contemplated under the Acquisition Agreement 1 (as amended by, among other things, the Supplemental Agreement), the financial results of each of Coal Logistics Company and Project Engineering Company would also be consolidated into the accounts of the Group.

Set out below is the key audited consolidated financial information of Lutong Company, Coal Logistics Company and Project Engineering Company and their respective subsidiaries, respectively, prepared in accordance with the generally accepted accounting principles in the PRC:

Lutong Company and its subsidiaries:

	Unit: RMB'000	
	For the year ended 31 December	
	2011	**2012**
Total assets	791,678	1,303,455
Net assets (attributable to the owner(s) of Lutong Company)	308,092	322,734
Turnover	444,110	1,444,200
Gross profit	42,559	114,751
Net profit/(loss) (before tax and extraordinary items)	12,336	38,369
Net profit/(loss) (after tax and extraordinary items)	8,926	28,648

Coal Logistics Company and its subsidiaries:

	Unit: RMB'000	
	For the year ended 31 December	
	2011	**2012**
Total assets	708,643	727,997
Net assets (attributable to the owner(s) of Coal Logistics Company)	99,316	81,067
Turnover	1,734,094	2,140,888
Gross profit	37,074	27,876
Net profit/(loss) (before tax and extraordinary items)	3,548	(19,268)
Net profit/(loss) (after tax and extraordinary items)	3,417	(18,641)

Project Engineering Company and its subsidiaries:

	Unit: RMB'000 For the year ended 31 December 2011	2012
Total assets	296,142	401,016
Net assets (attributable to the owner(s) of Project Engineering Company)	244,413	226,728
Turnover	122,124	220,955
Gross profit	23,060	34,995
Net profit/(loss) (before tax and extraordinary items)	19,999	9,786
Net profit/(loss) (after tax and extraordinary items)	14,819	6,867

PSCS IN RELATION TO REVISED SALE INTERESTS 1

The principal terms of the PSCS proposed to be issued in relation to the Revised Sale Interests 1, which remain unchanged save for matters contemplated in the paragraph headed "Background" above and those contemplated under the Supplemental Agreement, are summarised as follows:

Issuer:	The Company
Target subscriber:	AVIC International
Aggregate principal amount of the PSCS:	RMB552,814,600
Status and subordination:	The PSCS constitutes direct, unsecured and subordinated obligations of the Company and ranks pari passu without any preference or priority among themselves In the event of winding-up of the Company, the rights and claims of holder(s) of the PSCS shall (i) rank ahead of those persons whose claims are in respect of any class of share capital of the Company, (ii) be subordinated in right of payment to claims of all other present and future preference creditors of the Company, and (iii) rank pari passu with holder(s) of other perpetual subordinated convertible securities of the Company, if any, from time to time
Issue price of the PSCS:	100% of the principal amount of the PSCS

Form:	The PSCS will be issued in registered form
Distribution(s):	Receive distribution(s) from and including the date of issue of the relevant PSCS at the rate of distribution payable annually in arrears on 31 July each year, subject to the terms of the PSCS
Rate of distribution:	1% per annum on any outstanding principal amount
Optional deferral of distribution(s):	The Company may, at its sole discretion, elect to defer a distribution pursuant to the terms of the PSCS
Issue date:	Upon the delivery of the Revised Sale Interests 1 and the registration of the Revised Sale Interests 1 under the Company's name in the Administration of Industry and Commerce Bureau having been completed, the PSCS certificates would be issued to AVIC International pursuant to the terms of the relevant PSCS, upon which the PSCS shall be considered as issued
Maturity date:	There is no maturity date
Conversion period:	Conversion of the PSCS into conversion shares may take place at any time from the date of issue of the relevant PSCS, subject to relevant terms as provided for in the terms of the PSCS
Conversion price:	Initially RMB3.56 (equivalent to approximately HK$4.40) per Domestic Share, subject to adjustment as provided for in the terms of the PSCS
Restriction on conversion:	Holder(s) of the PSCS may convert such portion of the PSCS on condition that (i) the conversion would not cause the Company to contravene provisions of the Listing Rules, including but not limited to the minimum public float requirement under the Listing Rules; and (ii) the conversion would comply with all applicable laws and regulations (including but not limited to the Listing Rules and The Hong Kong Code on Takeovers and Mergers)
Fractional shares:	Any conversion shall relate to 100 Domestic Shares or the multiple(s) thereof, and cash payment will be made by the Company to holder(s) of the PSCS in respect of any fraction relating to less than 100 Domestic Shares

Conversion price adjustment:	The conversion price shall be subject to adjustment for bonus issues, conversion of capital reserve and other dilutive events
Issuer's option for compulsory conversion:	On or at any time after 12 months following the date of issue of the relevant PSCS, the Company may, at its sole discretion and pursuant to the terms of the PSCS, elect to convert the relevant PSCS in whole or in part into Domestic Shares, subject to the provisions of restriction on conversion set out in the terms of the PSCS
Voting:	Holder(s) of the PSCS will not be entitled to receive notice of, attend or vote at general meetings (including class meetings) of the Company by virtue of its being a holder of the PSCS
Transferability:	Subject to the terms of the PSCS, including the pre-emption right set out below, and compliance with all applicable laws and regulations (including but not limited to the Listing Rules and The Hong Kong Code on Takeovers and Mergers) and laws and regulations in respect of state-owned assets, holder(s) of the PSCS may transfer the PSCS to other third parties by delivering the certificate(s) issued in respect of such PSCS, with the duly completed and signed form of transfer and registration as set out in the terms of the PSCS, to the registrar of the Company or any securities registration office specified by the Company. New certificate(s) will be issued to the transferee

Pre-emption right:	Upon any proposed transfer of the PSCS in whole or in part by holder(s) of the PSCS, the Company will, on equal terms, be entitled to a pre-emption right in respect of such PSCS that the holder(s) of the PSCS intends to transfer. The holder(s) of the PSCS should give 15-day prior written notice to the Company, whereas the Company should, subject to the requirements of the Listing Rules, decide its willingness to purchase as soon as possible and give a written reply to the holder(s) of the PSCS within 10 days. If the Listing Rules or any applicable laws and regulations prohibit the Company or its designated entities from electing to purchase the PSCS and/or from completing the purchase and cancellation of the PSCS in a specified period, the latest time for exercise of the pre-emption right may be postponed accordingly. If the Company elects not to purchase, or fails to complete the purchase after electing to purchase, the holder(s) of the PSCS may, subject to compliance with all applicable laws and regulations and the terms of the PSCS, transfer those PSCS to other third parties as approved by the Company

Domestic Shares upon Conversion of PSCS in relation to Revised Sale Interests 1

An aggregate of 155,285,000 new Domestic Shares will be allotted and issued by the Company upon full conversion of the PSCS proposed to be issued in relation to the Revised Sale Interests 1 at the initial conversion price of RMB3.56. Assuming there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the date of allotment and issue of such Shares, the aggregate number of such Shares represents:

a) approximately 13.98% of the issued share capital of the Company as at the Latest Practicable Date; and

b) approximately 12.27% of the issued share capital of the Company as enlarged by the allotment and issue of such Shares upon full conversion of such PSCS at the initial conversion price of RMB3.56.

Such Shares, when allotted and issued, will rank pari passu in all respects among themselves, and with the Domestic Shares then in issue on the day of allotment and issue, and be entitled to all dividends and other rights attached to the Domestic Shares from the date of allotment.

Considering that save for the amendments as disclosed in this circular, other terms of the Acquisition Agreements remain unchanged, and considering the basis of determining the consideration under the Acquisition Agreement 2 and the Acquisition Agreement 3 and the respective terms of the PSCS, the Board considers that the terms of the PSCS under the Acquisition Agreement 1 shall remain unchanged. The Board believes that the terms of PSCS remain fair and reasonable to the parties to the Acquisition Agreements and such arrangement is in the interests of the Company and the Independent Shareholders as a whole.

EFFECT ON THE SHAREHOLDING STRUCTURE

Assuming there is no other change in the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date, set out below is the shareholding structure of the Company as at the Latest Practicable Date, and under different scenarios immediately after completion of the Acquisition Agreement 1 for illustrative purpose only:

	As at the Latest Practicable Date		Immediately after completion of the Acquisition Agreement 1 (assuming full conversion of the relevant PSCS to be issued at the initial conversion price for illustrative purpose only) *(Note 2)*		Immediately after completion of the Acquisition Agreement 1 (assuming no conversion of the relevant PSCS, and full conversion of the 2012 PSCS at its initial conversion price, for illustrative purpose only) *(Notes 1 & 3)*		Immediately after completion of the Acquisition Agreement 1 (assuming full conversion of the relevant PSCS, and full conversion of the 2012 PSCS, at their respective initial conversion price, for illustrative purpose only) *(Notes 1, 2 & 3)*	
Name of Shareholders	*Number of Shares*	*Appropriate %*	*Number of Shares*	*Appropriate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
Domestic Shares								
AVIC International	437,264,906	39.37%	592,549,906	46.81%	899,724,990	47.05%	1,055,009,990	51.03%
AVIC Shenzhen	395,709,091	35.63%	395,709,091	31.26%	429,774,574	22.47%	429,774,574	20.79%
Beijing Raise	0	0%	0	0%	305,109,228	15.96%	305,109,228	14.76%
H Shares								
Public Shareholders	277,657,999	25.00%	277,657,999	21.93%	277,657,999	14.52%	277,657,999	13.43%
Total	1,110,631,996	100.00%	1,265,916,996	100.00%	1,912,266,791	100.00%	2,067,551,791	100.00%

Notes:

1. As at the Latest Practicable Date:

   (1) AVIC International held: (A) 437,264,906 Domestic Shares; and (B) 2012 PSCS in the outstanding amount of RMB1,604,736,493 which may be converted into 462,460,084 Domestic Shares at the initial conversion price of RMB3.47 (subject to adjustment pursuant to the terms of the 2012 PSCS);

   (2) AVIC Shenzhen held: (A) 395,709,091 Domestic Shares; and (B) 2012 PSCS in the outstanding amount of RMB118,207,225 which may be converted into 34,065,483 Domestic Shares at the initial conversion price of RMB3.47 (subject to adjustment pursuant to the terms of the 2012 PSCS); and

   (3) Beijing Raise (a company owned as to 60% by Aviation Industry and as to 4% by AVIC International) held 2012 PSCS in the outstanding amount of RMB1,058,729,021 which may be converted into 305,109,228 Domestic Shares at the initial conversion price of RMB3.47 (subject to adjustment pursuant to the terms of the 2012 PSCS).

2. For illustration purpose only. According to the terms of the PSCS, the conversion rights under the PSCS may only be exercised by the holder(s) of PSCS if, among others, conversion of the PSCS would not cause the public float of the Company to fall below the minimum percentage as prescribed under the Listing Rules.

3. For illustration purpose only. According to the terms of the 2012 PSCS, the conversion rights under the 2012 PSCS may not be exercised by the holder(s) of the 2012 PSCS if, among others, conversion of the 2012 PSCS would cause the public float of the Company to fall below the minimum percentage as prescribed under the Listing Rules. Up to the Latest Practicable Date, the aforesaid restriction on conversion had been observed by the holders of the 2012 PSCS.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT AND ACQUISITION OF THE REVISED SALE INTERESTS 1

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of high-tech electronic products, retails and high-end consumer products, real estate and hotel, trading and logistics, and resources investment and development.

The Board considers that Shanghai Company would not be able to meet the Company's requirement for acquisition in light of the financial performance and status of Shanghai Company and its subsidiaries subsequent to the entering into of the Acquisition Agreement 1. Shanghai Company recorded net loss for two consecutive years, where the net loss for the year ended 2012 was more than RMB200,000,000. To the best knowledge, information and belief of the Directors, Shanghai Company is facing immense difficulties in its business operations as evidenced by its recent financial performance, and hence the Directors consider that the existing and expected future performance of Shanghai Company and its subsidiaries as a whole would not be able to meet the Company's requirement for acquisition.

Besides, the Directors consider that the financial performance of Shanghai Company will bring negative impact to the Group's financial position if the acquisition of Shanghai Company proceeded and the financial statement of Shanghai Company and its subsidiaries be consolidated to the financial statements of the Group.

Further, the Company has subsequently completed integration of its ship trading business through the acquisition of, among others, China National Aero Technology Beijing Company Limited (中國航空技術北京有限公司) (including its subsidiary AVIC International Maritime Holdings Limited (中航國際船舶控股有限公司, formerly known as AVIC International Investment Limited) principally engaged in investment holding in shipping related businesses) in September 2012. Therefore, the original objective of acquisition of equity interests in Shanghai Company, namely to carry out integration of ship trading business through acquisition of equity interests in Shanghai Company, is no longer necessary.

Given the aforementioned circumstances in relation to the financial performance and business development of Shanghai Company and its subsidiaries, the Board considers that proceeding with the acquisition of equity interest in Shanghai Company may no longer be in the interests of the Company and the Independent Shareholders as a whole.

The acquisition of the Revised Sale Interests 1 would enable the Company to further refine its business position, expand its businesses portfolio and create synergy among the various industries in which the Group has invested or will invest. It aligns with the business development strategy of the Company as disclosed in the VSA Circular, and reflects the strategic initiative of the continual acquisition of high-quality assets by the Company from its controlling shareholder and its associates. The Board noted that the performance of certain target companies under the Revised Sale Interests 1 was negatively impacted by the overall regional economy. However, the Board considers that the business conditions and fundamentals of such companies are not in a bad shape and their development meet the expectation of the Board in general. Therefore, the Board considers that the acquisition of the Revised Sale Interests 1 is in the interests of the Company and the Independent Shareholders as a whole.

Although the performance of Coal Logistics Company and Project Engineering Company was negatively affected by the overall regional economy, the Board considers that their business conditions and fundamentals are not in a bad shape.

Project Engineering Company and its subsidiaries are principally engaged in trading business of complete set of equipment and general contracting of governmental projects. It had recorded net profit for two consecutive years since its establishment. The decrease of its net profit for the year ended 31 December 2012 as compared with that for the year ended 31 December 2011 was due to its project cycle which affects its project delivery and payment settlement. Considering the number of orders placed by its customers up to the Latest Practicable Date, it is expected that Project Engineering Company shall have a better financial performance for the year ending 31 December 2013. The Board also considers that the future business development in complete set of equipment and government projects will be favourable in a long run.

As the coal logistics industry was in a stage of inventory reduction and was going through a trough period, the financial performance of Coal Logistics Company was negatively affected. Further, Coal Logistics Company was established for a relatively short period of time and it takes time for it to accumulate its industry experience and customers. It is expected that its performance shall gradually improve as demand for coal recovers and its customers and business expertise accumulate.

Although the performance of Coal Logistics Company and Project Engineering Company was negatively affected by the overall regional economy, the Board considers that the business development of the target companies under the Revised Sale Interests 1 has in general met the Company's expectations and no significant changes on such companies had taken place. Therefore, the Board considers that the market value of the target companies under Revised Sale Interests 1 was basically similar to their market value in 2011 and the proceeding with the acquisition of the Revised Sale Interest 1 is in the interests of the Company and the Independent Shareholders as a whole, and that the consideration for the Revised Sale Interests 1 is fair and reasonable.

The synergy effect expected to be brought from the acquisition in relation to the Acquisition Agreement 1, excluding Shanghai Company, involved the further development of the existing business platform of the Group, the sharing of domestics and overseas customer base and distribution channels, the obtaining of more packager orders (for example, through acquisition of equity interests of Project Engineering Company, the Group would be able to utilise its existing overseas channels and resources to develop overseas government projects) and smoothing the cyclical fluctuations among different business sections and achieving stable operating performance.

The synergy effect expected to be brought from the acquisition of Shanghai Company was the integration of the Group's ship trading business at the time of entering into of the Acquisition Agreement 1. As the Company has completed integration of its ship trading business through the acquisition of, among others, China National Aero Technology Beijing Company Limited (中國航空技術北京有限公司) (including its subsidiary AVIC International Maritime Holdings Limited (中航國際船舶控股有限公司, formerly known as AVIC International Investment Limited) principally engaged in investment holding in shipping related businesses) in September 2012, the Board considers that the exclusion of Shanghai Company in the acquisition will not result in any reduction of synergy effect or has any material adverse impact to the Company.

Taking into account the aforesaid, the Directors (including the independent non-executive Directors, after taking into account the advice of the Independent Financial Adviser) are of the view that the Supplemental Agreement and the transactions contemplated thereunder (including the basis of determining the Consideration 1 and the terms of PSCS, as amended pursuant to the Supplemental Agreement) are fair and reasonable and on normal commercial terms, and that the entering into of the Supplemental Agreement are in the interests of the Company and the Independent Shareholders as a whole.

In addition, save for Mr. Wu Guang Quan and Mr. You Lei, both executive Directors, should abstain from voting for their being directors of AVIC International, none of other Directors has material interest in the Supplemental Agreement and the transactions contemplated thereunder or is required to abstain from voting on the Board resolutions in relation thereto.

INFORMATION OF AVIC INTERNATIONAL

AVIC International is a state-owned enterprise in the PRC. As the comprehensive platform under Aviation Industry, AVIC International's core businesses consist of international aviation, trading and logistics, retail and luxurious goods, real estate and hotel, electronics technology, and resources investment and development.

AVIC International is owned as to 76.83% of Aviation Industry, the ultimate holding company of the Company. As at the Latest Practicable Date, AVIC International held approximately 39.37% of the issued share capital of the Company, and owned 100% equity interest in AVIC Shenzhen, which in turns held approximately 35.63% of the issued share capital of the Company. Aviation Industry and AVIC International held, in aggregate, 64% interest in Beijing Raise, AVIC International, AVIC Shenzhen and Beijing Raise held 2012

PSCS which, in aggregate, may be converted into 801,634,795 Domestic Shares at the initial conversion price of RMB3.47 (subject to adjustment according to the terms thereof) as at the Latest Practicable Date. AVIC International is thus a connected person of the Company.

LISTING RULES IMPLICATIONS

As certain applicable percentage ratios under the Listing Rules in relation to the Supplemental Agreement and the transactions contemplated thereunder are higher than 5% but less than 25%, the entering into of the Supplemental Agreement and the transactions contemplated thereunder constitute a discloseable transaction of the Company subject to, among other things, reporting and announcement requirements under Chapter 14 of the Listing Rules.

As AVIC International is a connected person of the Company, the entering into of the Supplemental Agreement and the transactions contemplated thereunder also constitute a connected transaction of the Company subject to, among other things, approval of the Independent Shareholders under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Zhang Ping, being all independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder. None of the members of the Independent Board Committee has any material interest in the Supplemental Agreement and the transactions contemplated thereunder. The letter from the Independent Board Committee is set out on pages 24 to 25 of this circular.

The Company has also appointed Anglo Chinese as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder. The letter from the Independent Financial Adviser is set out on pages 26 to 44 of this circular.

EGM

The EGM will be convened by the Company at Level 25, Hangdu Building, CATIC Zone, Shennan Road Central, Futian District, Shenzhen, the PRC on Monday, 26 August 2013 at 10:00 a.m., at which resolution will be proposed to consider and, if thought fit, approve the Supplemental Agreement and the transactions contemplated thereunder. Notice convening the EGM is set out on pages 60 to 61 of this circular.

AVIC International and its associates (including AVIC Shenzhen), holding an aggregate of 832,973,997 Shares, representing 75% of the issued share capital of the Company as at the Latest Practicable Date are required to abstain from voting at the EGM in respect of such resolution. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no Shareholder other than AVIC International and its associates (including AVIC Shenzhen) is required to abstain from voting at the EGM.

Form of proxy and confirmation slip for use by the Shareholders in relation to the EGM (or any adjournment thereof) are enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the legal address of the Company at Level 25, Hangdu Building, CATIC Zone, Shennan Road Central, Futian District, Shenzhen, the PRC (for holders of Domestic Shares) or to the H Share Registrar of the Company, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) as soon as possible and in any event not later than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not prevent the Shareholders from attending and voting in person at the EGM (or any adjournment thereof) should they so wish.

As the register of members of the Company has been closed from Thursday, 20 June 2013 to Friday, 19 July 2013 (both days inclusive) for the purpose of determining shareholders of the Company who are entitled to attend the extraordinary general meeting of the Company to be held on Friday, 19 July 2013 (please also refer to the notice of extraordinary general meeting of the Company dated 29 May 2013 for details), shareholders of the Company who intend to attend the EGM are reminded to deliver all instruments of transfer, accompanied by the relevant share certificates, for registration from Monday, 22 July 2013 to Friday, 26 July 2013.

RECOMMENDATION

The Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) believe that the terms of the Supplemental Agreement and the transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors, after taking into account the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Supplemental Agreement and the transactions contemplated thereunder.

By order of the Board
AVIC International Holdings Limited
Wu Guang Quan
Chairman

中航國際控股股份有限公司
AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 00161)

5 July 2013

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

FURTHER DEVELOPMENT IN RELATION TO VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION INVOLVING ISSUE OF PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

References are made to the circular of AVIC International Holdings Limited dated 5 July 2013 (the "Circular"), of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in relation to the Supplemental Agreement and the transactions contemplated thereunder.

Anglo Chinese has also been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Supplemental Agreement and the transactions contemplated thereunder.

Your attention is drawn to the letter from the Board (as set out on pages 6 to 23 of this Circular) and the letter of advice from Anglo Chinese (as set out on pages 24 to 25 of this Circular).

Having taken into account the advice of Anglo Chinese and the terms of the Supplemental Agreement and the transactions contemplated thereunder, we are of the view that the terms of the Supplemental Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Independent Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Supplemental Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee of
AVIC International Holdings Limited
Wong Wai Ling
Wu Wei
Zhang Ping
Independent Non-Executive Directors

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

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.
www.anglochinesegroup.com
英高財務顧問有限公司

To the Independent Board Committee
and the Independent Shareholders

5 July 2013

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

FURTHER DEVELOPMENT IN RELATION TO VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION INVOLVING ISSUE OF PERPETUAL SUBORDINATED CONVERTIBLE SECURITIES

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder. Details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 5 July 2013, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context requires otherwise.

Reference is made to the announcements of the Company dated 21 November 2011, 27 June 2012 and 16 May 2013 and the VSA Circular. On 16 November 2011, the Company entered into the Acquisition Agreements, pursuant to which the Company conditionally agree to acquire equity interests in 7 companies established in the PRC from AVIC International and AVIC Shenzhen. The Acquisition Agreements and the transactions contemplated thereunder were approved by independent Shareholders at the extraordinary general meeting and the class meeting for holders of H Shares held on 8 February 2012. On 27 June 2012, the Company entered into a supplemental agreement with each of AVIC International and AVIC Shenzhen, pursuant to which the inter-conditional and simultaneous completion requirement of the Acquisition Agreement 1 and the Acquisition Agreement 2 was cancelled. As at the Latest Practicable Date, the Acquisition Agreements had not yet completed and the latest time for fulfilment of conditions precedent under each of the Acquisition Agreements has been agreed in writing among the Company, AVIC International and AVIC Shenzhen to extend to 31 December 2013.

On 16 May 2013, the Company and AVIC International entered into the Supplemental Agreement to amend certain terms of the Acquisition Agreement 1, and pursuant to which parties conditionally agreed that, among other things, the 100% equity interest in Shanghai Company be excluded from the Sale Interests 1, and the consideration for the Revised Sale Interests 1 be revised to RMB552,814,600.

As the highest applicable percentage ratio calculated pursuant to the Listing Rules in respect of the Supplemental Agreement and the transactions contemplated thereunder is higher than 5% but less than 25%, the entering into the Supplemental Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, AVIC International held approximately 39.37% of the issued share capital of the Company, and owned 100% equity interest in AVIC Shenzhen, which in turns held approximately 35.63% of the issued share capital of the Company. As AVIC International is a connected person of the Company under Chapter 14A of the Listing Rules, the entering into the Supplemental Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, and is subject to, among other things, the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder.

Votes of the Independent Shareholders at the EGM shall be taken by poll. As at the Latest Practicable Date, AVIC International and its associates (including AVIC Shenzhen) holding an aggregate of 832,973,997 Shares, representing 75% of the issued share capital of the Company, will abstain from voting at the EGM as they have a material interest in the Supplemental Agreement and the transactions contemplated thereunder. Save for the approval from the Independent Shareholders at the EGM, the Supplemental Agreement is also subject to the conditions precedent as set out on pages 10 to 11 of this circular. Independent Shareholders should be noted that if any of the conditions precedent to the Supplemental Agreement could not be fulfilled before 31 December 2013 and no further extension supplemental agreement is agreed by parties, the Acquisition Agreement 1, as amended, will be terminated and the Company would purchase neither the Sale Interests 1 nor the Revised Sale Interests 1.

BASIS OF OUR OPINION

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

The Directors confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in this circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in this circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted any form of independent in-depth investigation into the business and affairs or the prospects of the Company, Shanghai Company, Lutong Company, Coal Logistics Company and Project Engineering Company or any of their respective subsidiaries or associates.

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

PRINCIPLE FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement and the transactions contemplated thereunder, we have taken into account the following principal factors:

Background of the Supplemental Agreement

1. Business and financial information of the Group

The Company is an investment holding company. On 5 September 2012, the Company completed a very substantial acquisition and connected transaction through which assets and businesses of 12 companies held by the controlling shareholders, AVIC International, AVIC Shenzhen and connected companies were injected into the Company. As such, the business scope of the Group expanded to five business sections: high-tech electronic products, retailing and high-end consumer products, real estate and hotel, trading and logistics, and resources investment and development.

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

Consolidated income statement

	For the year ended 31 December				
	2012	**2011**	**2010**	**2009**	**2008**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(restated)*	*(audited)*	*(audited)*	*(audited)*
Revenue	31,252,572	27,817,178	6,964,551	5,092,883	4,077,074
Profit/(loss) before taxation	1,447,392	1,181,726	454,888	(288,849)	5,919
Profit/(loss) after taxation	1,265,378	907,962	342,590	(288,780)	(41,665)
Profit/(loss) attributable to equity holders of the Company	969,839	674,556	193,561	(165,566)	1,282
Basic earnings per share attributable to equity holders of the Company *(RMB)*	0.8482	0.5823	0.2874	(0.2458)	0.0019
Dividends per share attributable to equity holders of the Company *(RMB)*	–	0.03	–	–	–

Consolidated balance sheet

	As at 31 December				
	2012	**2011**	**2010**	**2009**	**2008**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
	(audited)	*(restated)*	*(audited)*	*(audited)*	*(audited)*
Total assets	40,085,045	36,856,769	17,267,413	13,626,354	11,795,652
Total liabilities	28,523,352	26,139,276	12,318,964	9,802,017	8,100,414
Total equity	11,561,693	10,717,493	4,948,449	3,824,337	3,695,238
Net assets attributable to equity holders of the Company	7,572,614	6,638,777	1,977,482	1,698,513	1,872,783
Net assets per share attributable to equity holders of the Company *(RMB)*	4.3137	3.4729	2.94	2.52	2.76

As shown above, the Group maintained steady growth on revenue in the past five financial years and recorded profit attributable to equity holders of the Company in each financial year except for 2009. For the year ended 31 December 2009, the Group recorded loss attributable to equity holders of the Company of approximately RMB166 million, as the global financial crisis adversely affected the Group's overall operating performance. The Group recorded consolidated revenue from continuing operations of approximately RMB31,253 million for the year ended 31 December 2012, representing an increase of approximately 12% over the previous year. The profit attributable to owners of the Company was approximately RMB970 million for the year ended 31 December 2012, representing an increase of approximately 44% over the previous year.

2. *Business and financial information of the Sale Interests 1*

The excluded interest – 100% equity interest in Shanghai Company

Shanghai Company is a limited liability company established in the PRC by AVIC International. Shanghai Company and its subsidiaries are principally engaged in manufacturing and trading of chemical tankers, trading of air separation equipment and commodity trading. As at the Latest Practicable Date, Shanghai Company was a wholly-owned subsidiary of AVIC International.

Tabularised below is a summary of the financial results of Shanghai Company as extracted from the financial statements for the years ended 31 December 2011 and 2012 prepared in accordance with Accounting Standard for Business Enterprises in the PRC and audited by RSM China Certified Public Accountants (中瑞岳華會計師事務所).

Consolidated Income Statement

	For the year ended 31 December		**Year on year change**
	2012	**2011**	
	RMB'000	*RMB'000*	%
Revenue	2,899,236	2,888,088	0.39%
Operating profit/(loss)	(246,343)	(22,339)	
Operating profit margin	–8.50%	–0.77%	
Net profit/(loss) before tax	(241,633)	(19,168)	
Net profit/(loss) after tax	(241,965)	(12,172)	
Net profit/(loss) attributable to the equity holders	(198,751)	15,834	–1355.22%

Consolidated Balance Sheet

	As at 31 December		**Year on year change**
	2012	**2011**	
	RMB'000	*RMB'000*	%
Total assets	3,236,160	2,912,943	11.10%
Net asset value (net of minority interest)	339,184	537,935	–36.95%
Cash and cash equivalents	116,641	223,837	–47.89%
Total borrowings	1,103,560	924,919	19.31%
Gearing ratio (total borrowings/total assets)	34.10%	31.75%	

Revised Sale Interests 1 – 50% equity interest in Lutong Company, 90% equity interest in Coal Logistics Company and 100% equity interest in Project Engineering Company

Companies comprising the Revised Sale Interests 1 are 3 non-listed companies established in the PRC with limited liability and mainly engaged in trading business.

Tabularised below is the summation of the financial results of Project Engineering Company, Coal Logistics Company and Lutong Company according to their respective audited financial statements for each of the two years ended 31 December 2011 and 2012. As the three companies operated independently and did not have inter-company transactions with each other during such period, no adjustment is made for such purpose and the figures below are only an arithmetic summation of the financial results of the companies comprising the Revised Sale Interests 1 taking into account the percentage of interest to be acquired. The following financial figures are for illustration purpose only and should not be viewed as a consolidated financial statement or pro-forma financial information.

Income Statement

	For the year ended 31 December		**Year on year**
	2012	**2011**	**change**
	RMB'000	*RMB'000*	%
Aggregate revenue	2,869,854	1,904,863	50.66%
Aggregate net profit attributable to the equity holders of the Revised Sale Interests 1	1,341	20,883	–93.58%

Balance Sheet

	As at 31 December		**Year on year**
	2012	**2011**	**change**
	RMB'000	*RMB'000*	%
Aggregate equity attributable to equity holders of the Revised Sale Interests 1	461,055	487,843	–5.49%

As shown above, the operation of the Revised Sales Interests 1 as a whole remained profitable for each of the two years ended 31 December 2011 and 2012 and equity attributable to holders of the Revised Sales Interests 1 maintained at a stable level over the same periods. Further financial information and background of the Revised Sale Interests 1 are summarised below.

Lutong Company

Lutong Company is a limited liability company established in the PRC in February 2011. Lutong Company and its subsidiaries are principally engaged in asphalt related projects. As at the Latest Practicable Date, Lutong Company was a 50% owned subsidiary of the Company and the remaining 50% equity interest of Lutong Company was owned by AVIC International.

Tabularised below is a summary of the financial results of Lutong Company as extracted from the financial statements for the years ended 31 December 2011 and 2012 prepared in accordance with Accounting Standard for Business Enterprises in the PRC and audited by RSM China Certified Public Accountants (中瑞岳華會計師事務所).

Consolidated Income Statement

	For the year ended 31 December		Year on year
	2012	**2011**	**change**
	RMB'000	*RMB'000*	%
Revenue	1,444,200	444,111	225.19%
Operating profit	38,505	12,375	211.15%
Operating profit margin	2.67%	2.79%	
Net profit before tax	38,369	12,336	211.04%
Net profit after tax	28,648	8,926	220.95%
Net profit attributable to the equity holders	21,795	5,965	265.36%

Consolidated Balance Sheet

	As at 31 December		Year on year
	2012	**2011**	**change**
	RMB'000	*RMB'000*	%
Total assets	1,303,455	791,678	64.64%
Net asset value (net of minority interest)	322,734	308,092	4.75%
Cash and cash equivalents	170,586	61,953	175.35%
Total borrowings	592,736	170,000	248.67%
Gearing ratio (total borrowings/total assets)	45.47%	21.47%	

Project Engineering Company

Project Engineering Company is a limited liability company established by AVIC International in the PRC in April 2011. Project Engineering Company and its subsidiaries are principally engaged in trading business of complete set of equipment and general contracting of governmental projects. As at the Latest Practicable Date, Project Engineering Company was a wholly owned subsidiary of AVIC International.

Tabularised below is a summary of the financial results of Project Engineering Company as extracted from the financial statements for the years ended 31 December 2011 and 2012 prepared in accordance with Accounting Standard for Business Enterprises in the PRC and audited by RSM China Certified Public Accountants (中瑞岳華會計師事務所).

Consolidated Income Statement

	For the year ended 31 December		Year on year
	2012	**2011**	**change**
	RMB'000	*RMB'000*	%
Revenue	220,955	122,124	80.93%
Operating profit	9,767	19,999	–51.16%
Operating profit margin	4.42%	16.38%	
Net profit before tax	9,786	19,999	–51.06%
Net profit after tax	6,867	14,819	–53.66%
Net profit attributable to the equity holders	6,869	14,825	–53.67%

Consolidated Balance Sheet

	As at 31 December		Year on year
	2012	**2011**	**change**
	RMB'000	*RMB'000*	%
Total assets	401,016	296,142	35.41%
Net asset value (net of minority interest)	226,728	244,413	–7.24%
Cash and cash equivalents	140,494	114,436	22.77%
Total borrowings	0	0	
Gearing ratio (total borrowings/total assets)	0.00%	0.00%	

Coal Logistics Company

Coal Logistics Company is a limited liability company established in the PRC in 2008. Coal Logistics Company and its subsidiaries are principally engaged in trading and logistics of coal. As at the Latest Practicable Date, Coal Logistics Company was owned as to 90% by AVIC International and as to 10% by a wholly owned subsidiary of the Company.

Tabularised below is a summary of the financial results of Coal Logistics Company as extracted from the financial statements for the years ended 31 December 2011 and 2012 prepared in accordance with Accounting Standard for Business Enterprises in the PRC and audited by RSM China Certified Public Accountants (中瑞岳華會計師事務所).

Consolidated Income Statement

	For the year ended 31 December		Year on year
	2012	**2011**	**change**
	RMB'000	*RMB'000*	%
Revenue	2,140,888	1,734,094	23.46%
Operating profit/(loss)	(31,491)	3,552	–986.50%
Operating profit margin	–1.47%	0.20%	
Net profit/(loss) before tax	(19,268)	3,548	–643.03%
Net profit/(loss) after tax	(18,641)	3,417	–645.53%
Net profit/(loss) attributable to the equity holders	(18,250)	3,417	–634.08%

Consolidated Balance Sheet

	As at 31 December		Year on year
	2012	**2011**	**change**
	RMB'000	*RMB'000*	%
Total assets	727,997	708,643	2.73%
Net asset value (net of minority interest)	81,067	99,316	–18.38%
Cash and cash equivalents	70,506	13,029	441.16%
Total borrowings	380,500	250,000	52.20%
Gearing ratio (total borrowings/total assets)	52.27%	35.28%	

As shown above, each of these three companies has been developing in terms of revenue and total assets during the two years ended 31 December 2012. According to the Company, the decrease of net profit of Project Engineering Company during such period is mainly due to project delivery and settlement cycle, while Coal Logistics Company recorded loss for the year ended 31 December 2012 which is mainly due to the decreased demand for coal impacted by the macro-economic slowdown and the oversupply in the overall coal industry in the PRC caused by new increased production capability. In addition, as a company with a relative short operating track record and still under incubation period, it takes time for Coal Logistics Company to accumulate its industry experience and customers. The Company is confident in long term prospect of each of these three companies and we concur with the Company that the acquisition of the Revised Sale Interests 1 is in line with the development strategy of the Group and in the interest of the Company and the Shareholders as a whole. We have further analysed the strategic rationale and benefits of the acquisition under the section headed "Reasons for the Supplemental Agreement" below and also analysed the financial impacts to the Company after completion of the Supplemental Agreement under the section headed "POSSIBLE FINANCIAL EFFECTS" below.

Principal terms of the Supplemental Agreement

1. The consideration

The consideration for the Revised Sale Interests 1 is approximately RMB553 million (equivalent to approximately HK$682 million).

i. Basis of the consideration

Consideration 1 was determined with reference to a number of factors which includes (i) financial conditions especially the book value of the newly established target companies comprising the Sale Interests 1, and earnings of the stably operating target companies Sale Interests 1; (ii) market environment and comparables; (iii) future prospect of the target companies Sale Interests 1; (iv) strong background of AVIC International; and (v) confidence in the economy and related industries in the PRC. The consideration for the Revised Sale Interests 1 was determined after the arm's length negotiation between the Company and AVIC International, having taking into account the value of Shanghai Company and its then subsidiaries appraised by China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司) (the "Valuer"). The asset-based approach was adopted as the appropriate valuation methodology by the Valuer to arrive at the valuation of Shanghai Company as at 30 June 2011. For further details regarding the valuation report, please refer to Appendix I to this circular. As the valuation report was not commissioned by the Group and was prepared according to the valuation standard in the PRC, we have not relied on such valuation report but relied on our analysis on comparable companies and possible financial effects to the Group to form our opinion and recommendation given in this letter.

ii. Payment method

Pursuant to the Supplemental Agreement, the consideration will be satisfied by the Company by issuing the PSCS convertible into 155,285,000 Domestic Shares at the initial conversion price of RMB3.56 (equivalent to approximately HK$4.40) per Domestic Share. Such payment method will allow the Group to complete the acquisition contemplated under the Supplemental Agreement of considerable size without deploying its internal cash resources.

We understand from the Company that apart from the PSCS, the Company has also considered other financing methods such as bank borrowing or issue of Shares. However, the Group had net current liability of approximately RMB1,784 million as at 31 December 2012. Bank borrowing will generate additional finance costs to the Group and will also increase the gearing ratio of the Group substantially and hence affect adversely the cash flow position of the Group. Given the public float of the Company was 25% as at the Latest Practicable Date, in order to comply with the Listing Rules, the Company could not directly issue Domestic Shares to AVIC International as the consideration for the Supplemental Agreement which will further reduce the public float. Therefore, the Company considers using the PSCS to finance the Supplemental Agreement is more suitable.

2. *PSCS*

Pursuant to the Acquisition Agreement 1, as amended, PSCS in principle amount of RMB552,814,600 will be issued by the Company to AVIC International, upon completion of the Supplemental Agreement.

i. Conversion price

The initial conversion price of RMB3.56 (equivalent to approximately HK$4.40) per Domestic Share represents:

(a) a premium of 10.00% over the closing price of HK$4.00 per H Share as quoted on the Stock exchange on 16 November 2011, being the last trading day of the H Shares on the Stock Exchange immediately prior to the entering into of the Agreements (the "Last Trading Day");

(b) a premium of approximately 22.22% over the average closing price of approximately HK$3.60 per H Share as quoted on the Stock exchange for the 5 consecutive trading days up to and including the Last Trading Day;

(c) a premium of approximately 27.91% over the average closing price of approximately HK$3.44 per H Share as quoted on the Stock exchange for the 10 consecutive trading days up to and including the Last Trading Day;

(d) a premium of approximately 31.34% over the average closing price of approximately HK$3.35 per H Share as quoted on the Stock exchange for the 30 consecutive trading days up to and including the Last Trading Day;

(e) a premium of approximately 26.80% over the average closing price of approximately HK$3.47 per H Share as quoted on the Stock exchange for the 60 consecutive trading days up to and including the Last Trading Day;

(f) a premium of approximately 27.54% over the average closing price of approximately HK$3.45 per H Share as quoted on the Stock exchange for the 90 consecutive trading days up to and including the Last Trading Day; and

(g) a premium of approximately 47.16% over the closing price of HK$2.99 per H Share as quoted on the Stock exchange on the Latest Practicable Date.

The chart below illustrates the movement of the daily closing prices of the Shares during a period starting from 16 November 2010, being one year prior to the signing of the Acquisition Agreements, up to and including the Latest Practicable Date (the "Review Period"):

Source: Bloomberg

During the Review Period, the closing prices of the Shares ranged from HK$2.45 per Share to HK$4.00 per share. The average closing price during the Review Period was approximately HK$3.15 per Share. As shown in the chart above, the initial conversion price of HK$4.40 per Share is above the closing prices of the Shares during the Review Period.

The PSCS will be subject to adjustment for bonus issues, conversion of capital reserve and other dilutive events.

Based on the above, we consider the initial conversion price, which represents a premium over the prevailing closing price of H Shares, is fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole.

ii. Distribution rate

The PSCS carries a fix distribution rate of 1% per annum on any outstanding principal amount. The Company may at its sole discretion elect to defer a distribution pursuant to the terms of the PSCS.

Based on our review of the Company's borrowing costs, we noted that the distribution rate of 1% under the PSCS is significantly lower than the best rates it can borrow from the market. As at 31 December 2012, the Group had total borrowings of approximately RMB16,662 million (2011: approximately RMB14,498 million) with annual interest rates from 1.26% to 12.5% (2011: 0.49% to 12%).

Based on the above discussion, we consider that the Group will not suffer from excessive financial burden in relation to the payment of the fixed distribution of the PSCS. Besides, the Company may, as its sole discretion, elect to defer a distribution which gives more flexibility to the Company on the timing of payment. We are therefore of the view that the distribution rate of 1% per annum is fair and reasonable.

iii. Restriction on conversion

Holder(s) of the PSCS may convert such portion of the PSCS on condition that (i) the conversion would not cause the Company to contravene provisions of the Listing Rules including but not limited to the minimum public float requirement; and (ii) the conversion would comply with all applicable laws and regulations including but not limited to the Listing Rules and The Hong Kong Code on Takeovers and Mergers.

iv. Company's option for compulsory conversion

On or after first anniversary of the date of issue of the PSCS, the Company may, at its sole discretion and pursuant to the terms of the PSCS, elect to convert the PSCS in whole but not in part into Conversion Shares, subject to the provision of restriction on conversion referred in the paragraph immediately above. As the Company will have the right, but not obligation, to force the conversion of the PSCS, we are of the view that the option is favourable to the Company.

v. Pre-emption right

Prior to the holders of PSCS transferring the PSCS, the holders must notify the Company their intention to transfer the PSCS in writing. Following the receipt of such notice, the Company may elect to purchase and cancel all or some of the PSCS at the price specified in the notice. If the Company does not elect to purchase, or fails to complete the purchase after so elected, the holders of PSCS may transfer those PSCS to other third parties as approved by the Company in accordance with the terms of the PSCS. As the Company will have the pre-emption right, but not obligation, to purchase and cancel the PSCS proposed to be transferred, we are of the view that the right is favourable to the Company.

Comparable Companies

According to the Company, the revenue of Coal Logistics Company and Lutong Company was derived mainly from customers located in mainland China, while the revenue of Project Engineering Company, representing less than 10% of the aggregate revenue of the Revised Sale Interests 1 for the year ended 31 December 2012, was derived mainly from customers located overseas. To assess the fairness and reasonableness of the considerations for the Revised Sale Interests 1, we have searched for companies which are principally engaged in trading of metals, resources or construction materials with revenue derived mainly from customers located in mainland China as the three companies comprising the Revised Sale Interests 1, and listed on the Stock Exchange with market capitalisation between HK$400 million to HK$1,000 million, approximately 50% to 1.5 times of the consideration of the Revised Sale Interests 1, which we considered comparable to the Revised Sale Interests 1 in terms of business nature and size and form a representative sample. To the best of our knowledge and as far as we are aware of, there are 7 companies which is an exhaustive list of trading companies comparable to the Revised Sale Interests 1.

We have reviewed commonly used valuation ratios for trading companies implied by the closing prices of the comparable companies on the Latest Practicable Date, including price to sales ratio and price to book ratio, which we consider appropriate for this comparison purpose. As 4 comparable companies, being Apac Resources Ltd, Sinocop Resources Holdings Ltd, Burwill Holdings Ltd and Huscoke Resources Holdings Ltd, recorded loss for the last financial year, we do not consider price to earnings ratio is an appropriate ratio to review for this comparison purpose.

The aggregate revenue of the companies comprising the Revised Sale Interests 1 was approximately RMB2,870 million for the year ended 31 December 2012 and the aggregate equity attributable to equity holders of the Revised Sale Interests 1 was approximately RMB461 million as at 31 December 2012. Based on the consideration of approximately RMB553 million (equivalent to approximately HK$682 million), the price to sales ratio and the price to book ratio implied by the Revised Sale Interests 1 was approximately 0.19 times and 1.20 times, respectively. Such valuation ratios are within the range of those comparable companies as tabularised below:

Company name	Principle place of operation	Stock code	Market capitalisation *(HK$ million)*	Price to sales ratio *(times)*	Price to book ratio *(times)*
Apac Resources Ltd	Mainland China and Hong Kong	1104	858	0.82	0.18
Sinocop Resources Holdings Ltd	Mainland China and Hong Kong	476	644	2.39	4.19
Shanghai Tonva Petrochemical Co Ltd	Mainland China and Hong Kong	1103	534	0.12	0.67
Burwill Holdings Ltd	Asia (including Mainland China and Hong Kong) and Europe	24	560	0.12	0.35
Huscoke Resources Holdings Ltd	Mainland China	704	475	0.55	0.40
Van Shung Chong Holdings Ltd	Mainland China and Hong Kong	1001	430	0.11	0.60
China Pipe Group Ltd	Mainland China and Hong Kong	380	413	0.91	1.32
		Maximum	858	2.39	4.19
		Minimum	413	0.11	0.18
		Average	559	0.72	1.10
		Median	534	0.55	0.60

	Principle place of operation	Consideration *(HK$ million)*	Price to sales ratio *(times)*	Price to book ratio *(times)*
Revised Sale Interests 1	Mainland China	682	0.19	1.20

Source: Bloomberg

i. Price to sales ratio analysis

As illustrated above, the average and median of price to sales ratios of the comparable companies is approximately 0.72 times and 0.55 times, respectively. The implied price to sales ratio of the Revised Sale Interests 1 of approximately 0.19 times is within the range of price to sales ratios of comparable companies and lower than the average and the median price to sales ratio of comparable companies, and hence we consider the consideration for the Revised Sale Interests 1 is in line with the market valuation implied by price to sales ratio.

ii. Price to book ratio analysis

As illustrated above, the average and median of price to book ratios of the comparable companies is approximately 1.10 times and 0.60 times, respectively. Although the implied price to book ratio of the Revised Sale Interests 1 of approximately 1.20 times is higher than the average and median price to book ratio of comparable companies, it is within the range of price to book ratios of comparable companies. Therefore, we consider the consideration for the Revised Sale Interests 1 is in line with the market valuation implied by price to book ratio.

iii. Conclusion

Based on the above, we consider that the consideration for the Revised Sale Interests 1 is in line with the market valuation for trading companies and fair and reasonable to the Company as a whole. We have also analysed the financial impacts to the Company before and after completion of the Supplemental Agreement under the section headed "POSSIBLE FINANCIAL EFFECTS" below.

Changes in shareholding structure of the Company

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date other than the allotment and issue of 155,285,000 Domestic Shares upon full conversion of the PSCS in relation to Revised Sale Interests 1 at the initial conversion price of RMB3.56, immediately after completion of the Supplemental Agreement, AVIC International and AVIC Shenzhen will be respectively interested in approximately 46.81% and 31.26% of the issued share capital of the Company, and the public float will decrease to 21.93%. Nevertheless, there is restriction on the conversion of the PSCS to maintain the minimum public float.

Further details of the potential change in shareholding structure of the Company are illustrated on pages 18 to 19 in this circular.

Reasons for the Supplemental Agreement

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of high-tech electronic products, retails and high-end consumer products, real estate and hotel, trading and logistics, and resources investment and development.

The entering into the Supplemental Agreement follows the strategic initiative of the continual acquisition of high-quality assets by the Company from its controlling shareholder and its associates, by means of expansion of the Group's existing trading business. Given Shanghai Company continued to record operating loss for each of the two years ended 31 December 2012, and the Company has subsequently completed integration of its ship trading business in September 2012, we concur with the Board that proceeding with the acquisition of Shanghai Company is no longer in the interest of the Company and the Independent Shareholders as a whole. The acquisition of the Revised Sale Interests 1 will broaden the Company's existing manufacturing and trading platform with more variety of products and services, and therefore would create synergy with the current businesses of the Company in terms of sharing domestic and overseas customer base and distribution channels, obtaining more package orders such as overseas governmental projects, smoothing the cyclical fluctuations among different business sectors, and achieving stable operating performance, and provide the Group with opportunities for continuous development.

Having considered the above, we are of the view that the Supplemental Agreement and the transactions contemplated thereunder will enable the Group to enlarge its business scale in terms of revenue and assets, enhance the profitability and sustainable development of the Company and further increase the investment value of the Company. We concur with the Directors that the entering into the Supplemental Agreement are in the interests of the Company and the Independent Shareholders as a whole.

POSSIBLE FINANCIAL EFFECTS

The following analysis is based on the audited consolidated financial statements of the Company, Lutong Company, Coal Logistics Company and Project Engineering Company for the financial year ended 31 December 2012. The financial results of Lutong Company are currently consolidated into the accounts of the Group. Following completion of the acquisition contemplated under the Acquisition Agreement 1 (as amended by, among other things, the Supplemental Agreement), the financial results of each of Coal Logistics Company and Project Engineering Company would also be consolidated into the accounts of the Group.

Effects on equity

According to the Company's annual report 2012, the audited consolidated equity attributable to ordinary shareholders of the Company was approximately RMB4,791 million as at 31 December 2012, equity per share attributable to equity holders of the Company was approximately RMB4.31. Upon completion of the Supplemental Agreement, the consolidated equity attributable to the Company by the Revised Sale Interests 1 was approximately RMB461 million as at 31 December 2012.

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date and there is no conversion of the PSCS in relation to Revised Sale Interests 1, equity per Share attributed to equity holders of the Company would increase to approximately RMB4.73, representing an increase of approximately 9.62%.

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date other than the issue of Domestic Shares upon full conversion of the PSCS in relation to Revised Sale Interest 1 at the initial conversion price of RMB3.56, equity per Share attributed to equity holders of the Company would be diluted to approximately RMB4.15, representing a slight dilution of approximately 3.82%.

Effects on earnings

The Group recorded profit attributable to ordinary shareholders of the Company of approximately RMB942 million and basic earnings per share attributable to equity holders of the Company of approximately RMB0.85 for the year ended 31 December 2012. Upon completion of the Supplemental Agreement, the profit attributable to the Company by the Revised Sale Interests 1 was approximately RMB1.3 million for the year ended 31 December 2012. The entering into the Supplemental Agreement and the transactions contemplated thereunder would therefore improve the Group's profitability.

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date and there is no conversion of the PSCS in relation to Revised Sale Interests 1, earnings per Share attributable to equity holders of the Company would increase approximately RMB0.001, representing a slight increase of approximately 0.14%.

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the Latest Practicable Date other than the issue of Domestic Shares upon full conversion of the PSCS in relation to Revised Sale Interests 1 at the initial conversion price of RMB3.56, earnings per Share attributable to equity holders of the Company would be diluted to approximately RMB0.75, representing a dilution of approximately 12.14%.

Effects on gearing and working capital

As at 31 December 2012, the Group's total borrowings was approximately RMB16,662 million and the gearing ratio, calculated as total borrowings divided by total assets of the Company, was approximately 41.57%. Coal Logistics Company and Project Engineering Company had total borrowings of approximately RMB381 million with the gearing ratio of approximately 33.70% as at 31 December 2012. We are of the view that entering into the Supplemental Agreement will decrease the gearing ratio of the Group after completion of the Supplemental Agreement.

The Group had cash and cash equivalents of approximately RMB4,038 million and net current liabilities of approximately RMB1,784 million as at 31 December 2012. The Group will not incur any significant cash outflow pursuant to the Supplemental Agreement. Coal Logistics Company and Project Engineering Company had cash and cash equivalents of approximately RMB211 million and working capital of approximately RMB276 million as at 31 December 2012. We are of the view that entering into the Supplemental Agreement will enhance the cash position and working capital position of the Group.

RECOMMENDATION

We have considered the above principal factors and reasons and particularly (i) the strategic rationale of the Supplemental Agreement; (ii) the terms and the consideration as discussed above; and (iii) the possible financial effects to the Group. Based on the above principal factors and reasons, we consider that the Supplemental Agreement is on normal commercial terms, and the entering of the Supplemental Agreement is in the ordinary and usual course of business of the Company, fair and reasonable and in the interest of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Supplemental Agreement.

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

The following is a summary of and extract from a valuation report of Shanghai Company as at 30 June 2011 dated 27 December 2011 prepared by China United Assets Appraisal Group Co., Ltd. The report was not commissioned by the Group and was not primarily prepared for the purpose of inclusion in this circular.

The report was originally prepared in Chinese. In case of any discrepancy between the Chinese version and the English version, the Chinese version shall prevail.

Summary of Valuation Report
in respect of 100% Equity Interest in
China National Aero-Technology Corporation Shanghai Company Limited
Under the Proposed Capital Injection to CATIC Shenzhen Holdings Limited by
AVIC International Holding Corporation
Zhong Lian Ping Bao Zi [2011] No. 1070

China United Assets Appraisal Group Co., Ltd has been engaged by the AVIC International Holding Corporation to conduct a valuation in respect of the market value as at valuation date of all equity interests of the shareholders of China National Aero-Technology Corporation Shanghai Company Limited involved in the commercial decision of AVIC International Holding Corporation regarding proposed capital injection to CATIC Shenzhen Holdings Limited.

The valuation target was all equity interests of the shareholders of China National Aero-Technology Corporation Shanghai Company Limited, and the scope of which covered all assets and relevant liabilities of China National Aero-Technology Corporation Shanghai Company Limited, including current and non-current assets.

Valuation date was 30 June 2011.

The kind of the valuation was market value.

Valuation Assumptions used in the Valuation Report:

The principal assumptions:

(i) *Transaction assumption*

Transaction assumption assumes that all assets to be assessed are under transactions so that appraisers can value the assets by simulating the market based on their transaction conditions.

(ii) *Open market assumption*

The open market assumption assumes that for assets trading or to be traded on the market, both trading parties are in equal status and have the opportunities and time to obtain sufficient market information so as to make informed judgments on the assets' functions, usage and trading price.

(iii) Assumption on continuing operation of the assets

Assumption on continuing operation of the assets represents that the appraisal approach, parameters and references shall be determined based on whether the assets to be valuated will continue to be used in accordance with the current purpose, method, scale, frequency, circumstance of use or will be used with some changes thereto.

And some special assumption, among others, on the appraisal reference date, the external economic environment and the current national macro-economic situation on the appraisal reference date will not have material changes; there are no material changes in the social economic environment, tax policy and tax rates; the future enterprise management personnel fulfill their duties diligently and maintain the existing management mode; various parameters in this appraisal do not take into account some special assumption, such as inflationary factors.

The actual status of the valuation target was assessed on a consolidated basis by using on-going use and public market premises. After taking into account the applicable premises and the aim of this valuation, we adopted asset based approach to conclude the final valuation.

Upon completion of the valuation procedures involving examination, on-site inspection, market survey and inquiries, assessment and estimation, the valuation on all equity interests of the shareholders of China National Aero-Technology Corporation Shanghai Company Limited as at the valuation date (i.e. 30 June 2011) were concluded as follows:

As at the valuation date, net carrying amount of the assets of China National Aero-Technology Corporation Shanghai Company Limited was RMB432,343,500, the value of which was RMB758,295,400. Its assets were appreciated by RMB325,951,900, representing an increase of 75.39%.

RESPONSIBILITY STATEMENT

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

DISCLOSURE OF INTEREST

Directors, Supervisors and Chief Executives

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company, none of the Directors or supervisors or chief executives of the Company was interested in any share, underlying share or debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was 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 or short positions which any Director or supervisor or chief executive of the Company were taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register maintained by the Company under section 352 of the SFO or which was required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed issuers.

Substantial Shareholders

As at the Latest Practicable Date, so far as was known to the Directors or the chief executive of the Company, the following are the details of the persons (other than the Directors, supervisors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of 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 member of the Group:

Long position in the Shares:

Name of Shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total registered share
Domestic Shares				
Aviation Industry	Interest of controlled corporations	1,634,608,792 Domestic Shares *(Note 1)*	196.24%	147.18%
AVIC International	Beneficial owner and interest of controlled corporation	1,329,499,564 Domestic Shares *(Note 1)*	159.61%	119.71%
AVIC Shenzhen	Beneficial owner	429,774,574 Domestic Shares *(Note 1)*	51.60%	38.70%
Beijing Raise	Beneficial owner	305,109,228 Domestic Shares *(Note 1)*	36.63%	27.47%
H Shares				
Li Ka-Shing	Interest of controlled corporations and founder of discretionary trusts	29,644,000 H Shares *(Note 2)*	10.67%	2.67%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	29,644,000 H Shares *(Note 2)*	10.67%	2.67%
Li Ka-Shing Unity Trustee Corporation Limited	Trustee and beneficiary of a trust	29,644,000 H Shares *(Note 2)*	10.67%	2.67%
Li Ka-Shing Unity Trustcorp Limited	Trustee and beneficiary of a trust	29,644,000 H Shares *(Note 2)*	10.67%	2.67%
Li Ka-Shing Unity Trustee Company Limited	Trustee	29,644,000 H Shares *(Note 2)*	10.67%	2.67%
Cheung Kong Investment Company Limited	Interest of controlled corporation	14,823,000 H Shares *(Note 2)*	5.34%	1.33%

Name of Shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total registered share
Empire Grand Limited	Beneficial owner	14,823,000 H Shares *(Note 2)*	5.34%	1.33%
Hutchison International Limited	Beneficial owner	14,823,000 H Shares *(Note 2)*	5.34%	1.33%
Hutchison Whampoa Limited	Interest of controlled corporation	14,823,000 H Shares *(Note 2)*	5.34%	1.33%
Jiang Jian Jun	Interest of controlled corporation	18,262,000 H Shares *(Note 2)*	6.57%	1.64%
Huayin Group Investment Development Co., Ltd	Beneficial owner	18,262,000 H Shares *(Note 2)*	6.57%	1.64%

Notes:

1. Aviation Industry owns 76.83% of the equity interest in AVIC International, which in turn owns 100% of the equity interest in AVIC Shenzhen. Hence, Aviation Industry is deemed, or taken to be, interested in all Shares AVIC International and AVIC Shenzhen are interested in, respectively.

   Aviation Industry owns 60% of the equity interest in Beijing Raise. Hence, Aviation Industry is deemed, or taken to be, interested in all Shares Beijing Raise is interested in.

   AVIC International owns 100% of the equity interest in AVIC Shenzhen. Hence, AVIC International is deemed, or taken to be, interested in all Shares AVIC Shenzhen is interested in.

   As at the Latest Practicable Date:

   (1) AVIC International held: (A) 437,264,906 Domestic Shares, representing approximately 39.37% of the issued share capital of the Company; and (B) 2012 PSCS in the outstanding amount of RMB1,604,736,493 which may be converted into 462,460,084 Domestic Shares at the initial conversion price of RMB3.47 (subject to adjustment pursuant to the terms of the 2012 PSCS).

   (2) AVIC Shenzhen held: (A) 395,709,091 Domestic Shares, representing approximately 35.63% of the issued share capital of the Company; and (B) 2012 PSCS in the outstanding amount of RMB118,207,225 which may be converted into 34,065,483 Domestic Shares at the initial conversion price of RMB3.47 (subject to adjustment pursuant to the terms of the 2012 PSCS).

   (3) Beijing Raise held 2012 PSCS in the outstanding amount of RMB1,058,729,021 which may be converted into 305,109,228 Domestic Shares at the initial conversion price of RMB3.47 (subject to adjustment pursuant to the terms of the 2012 PSCS).

2. The above references refer to the same equity interest of 29,644,000 H Shares which comprises:

   (A) Empire Grand Limited ("Empire Grand") holds 14,823,000 H Shares and Empire Grand is a wholly-owned subsidiary of Cheung Kong Investment Company Limited, which in turn is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited ("CKH"); and

(B) Hutchison International Limited ("HIL") holds 14,821,000 H Shares and HIL is a wholly-owned subsidiary of Hutchison Whampoa Limited ("HWL"). Li Ka-Shing Unity Holdings Limited (of which each of Mr. Li Ka-Shing and Mr. Li Tzar Kuoi, Victor is interested in one-third and two-third of the entire issued share capital respectively) owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of CKH. Certain subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") (as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1")) and Li Ka-Shing Unity Trustcorp Limited ("TDT2") (as trustee of another discretionary trust ("DT2")). Each of TDT1 and TDT2 holds units in The Li Ka-Shing Unity Trust.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settler and regarded as the founder of each of DT1 and DT2 for the purpose of the SFO, TUT 1, TDT1, TDT2 and CKH is deemed to be interested in the aggregate 29,644,000 H Shares held by Empire Grand and HIL.

3. Jiang Jian Jun owned the interests by virtue of his 100% beneficial interest in Huayin Group Investment Development Co., Ltd.

Long position in shares of any member of the Group:

Name of shareholder	**Name of subsidiary**	**Approximate % of equity interest in the subsidiary**
State-Owned Assets Supervision and Administration Commission of the WeiHai Municipal Government	AVIC Weihai Shipyard Co., Ltd.* (中航威海船廠有限公司) (a subsidiary through China National Aero – Technology Beijing Company Limited (中國航空技術北京有限公司) ("Beijing Company"))	30.23%
Beijing Kaysun Trading Co., Ltd* (北京凱祥恒業貿易有限公司)	Beijing Kai Chang Technology Industrial and Trading Development Co., Ltd.* (北京凱昌技工貿發展有限責任公司) (a subsidiary through Beijing Company)	10%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Germany Cabao Commerce and Trading Co., Ltd.* (德國卡堡商貿有限公司)	Beijing Cabao Cleaning Equipment Co., Ltd.* (北京凱堡清潔設備有限公司) (a subsidiary through Beijing Company)	25%
Huizhou Ya Gu Industrial Co., Ltd.* (惠州雅谷實業有限公司)	AVIC Medical Investment Management Co., Ltd.* (中航醫科投資管理有限公司) (a subsidiary through China National Aero – Technology Guangzhou Company Limited (中國航空技術廣州有限公司) ("Guangzhou Company"))	30%
Transportation Material Corporation of Guizhou Province* (貴州省交通物資總公司)	Guizhou Qian He Logistics Co., Ltd.* (貴州黔和物流有限公司) (an indirect subsidiary of Guangzhou Company)	45%
Hu Nan Hong Yi Building Materials Commerce and Trading Co., Ltd.* (湖南省弘易建材商貿有限公司)	Hu Nan AVIC Lu Tong Bitumen Co., Ltd.* (湖南中航路通瀝青有限公司) (an indirect subsidiary of Guangzhou Company)	45%
Jiliang Group Qin Zhou Port Grain and Oil Transportation & Sale Co., Ltd.* (吉糧集團欽州港糧油運銷有限公司)	Guang Xi AVIC Lu Tong Bitumen Co., Ltd.* (廣西中航路通瀝青有限公司) (an indirect subsidiary of Guangzhou Company)	44%
Fuzhou Kaizelin Trading Company Co., Ltd.* (福州凱澤林經貿有限公司)	AVIC (Xiamen) Medical Technology Co., Ltd.* (中航(廈門)醫療科技有限公司) (a subsidiary through China National Aero – Technology Xiamen Corporation (中國航空技術廈門有限公司) ("Xiamen Company"))	49%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Xiamen West Coast Energy Co., Ltd* (廈門西海岸能源有限公司)	Xiamen Xingxi Coast Energy Co., Ltd* (廈門興西海岸能源有限公司) (a subsidiary through Xiamen Company)	40%
Ocean Marine & Offshore Pte Ltd.	CATIC Ocean Marine Engineering (Xiamen) Co., Ltd* (凱迪科海洋工程(廈門)有限公司) (a subsidiary through Xiamen Company)	25%
Wang Cheng (王成)	Xiamen Hang Xin Shi Ye Co., Ltd* (廈門航信石業有限公司) (a subsidiary through Xiamen Company)	25%
Chu Xingwen (朱星文)	Xiamen Hang Xin Shi Ye Co., Ltd* (廈門航信石業有限公司) (a subsidiary through Xiamen Company)	24%
Xiamen You Nai De Import and Export Co., Ltd*(廈門市優耐德進出口有限公司)	Xiamen Hang Yi Shi Cai Co., Ltd* (廈門航義石材有限公司) (a subsidiary through Xiamen Company)	30%
Luan Wei (欒巍)	Xiamen Hang Yi Shi Cai Co., Ltd* (廈門航義石材有限公司) (a subsidiary through Xiamen Company)	10%
Taichuan Yi Chen Steel Processing Storage Trading Co., Ltd* (泰川億宸鋼材加工倉儲貿易有限公司)	Tai Xing AVIC Ocean Marine Engineering Shipping Co., Ltd* (泰興中航海洋工程船舶有限公司) (a subsidiary through Xiamen Company)	25%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Teampro Resources Limited	Kai Di Ke International Apartment (Tanzania) Co., Ltd* (凱迪克國際公寓(坦桑尼亞)有限公司) (a subsidiary through China National Aero – Technology International Engineering Corporation Limited (中國航空技術國際工程有限公司) ("International Engineering Company"))	20%
Zhou Yulin (周裕林)	Hai Nan Hang Cheng Real Estate Development Co., Ltd* (海南航澄房地產開發有限公司) (a subsidiary through International Engineering Company)	10%
Nice View Investment Limited	AVIC International Hotels Lanka Limited (an indirect subsidiary of International Engineering Company)	15%
Beijing Qian Kun Jian Ye Science and Technology Co., Ltd* (北京乾坤建業科技有限公司)	AVIC Wang Xin (Beijing) Science and Technology Co., Ltd* (中航網信(北京)科技有限公司) (a subsidiary of CATIC International Trade and Economic Development Ltd ("TED Company"))	15%
Shi Duanzheng (石端正)	a subsidiary of TED Company	15%
Gao Chunlu (高春陸)	a subsidiary of TED Company	15%
Qiu Xintao (邱信濤)	a subsidiary of TED Company	15%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Zhu Wei (朱巍)	AVIC Vision (Beijing) Technology Co., Ltd.* (中航遠景(北京)科技股份有限公司) (an indirect subsidiary of TED Company)	28%
Deng Hua (鄧華)	AVIC Vision (Beijing) Technology Co., Ltd.* (中航遠景(北京)科技股份有限公司) (an indirect subsidiary of TED Company)	17%
Jin Si Fang Investment (Beijing) Co., Ltd.* (金四方投資(北京)有限公司)	Zhong He Zhong (Beijing) Guang Dian Technology Co., Ltd.* (中和中(北京)光電科技有限公司) (an indirect subsidiary of the Company)	34.7%
CATIC Building Facilities Co., Ltd.* (深圳市中航樓宇設備有限公司)	Zhong He Zhong (Beijing) Guang Dian Technology Co., Ltd.* (中和中(北京)光電科技有限公司) (an indirect subsidiary of the Company)	20%
Zhu Chunming (朱春明)	CATIC (Beijing) Project Management Co., Ltd.* (中航技(北京)工程管理有限公司) (an indirect subsidiary of the Company)	25%
Shi Xiaohong (施曉紅)	CATIC (Beijing) Project Management Co., Ltd.* (中航技(北京)工程管理有限公司) (an indirect subsidiary of the Company)	20%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
Shi Huanghong (施黃紅)	CATIC (Beijing) Project Management Co., Ltd.* (中航技(北京)工程管理有限公司) (an indirect subsidiary of the Company)	20%
AVIC Kai Xin Industrial Company Limited (中航凱信實業有限公司)	Beijing Zhonghang Ruixin Management and Investment Company Limited (北京中航瑞信投資管理有限責任公司) ("Beijing Ruixin")	10%
Tangshan Kun Da Mechanical Equipment Installation and Engineering Company Limited (唐山坤達機電設備安裝工程有限公司)	Zunhua Raise Real Estate Development Company Limited (遵化瑞賽房地產開發有限公司) (a subsidiary through Beijing Ruixin)	20%
Chengdu Aircraft Design Research Institute (成都飛機設計研究所)	Chengdu AVIC Raise Real Estate Company Limited (成都中航瑞賽置業有限公司) ("Chengdu Raise")	30%
Chengdu Aircraft Industry (Group) Company Limited (成都飛機工業(集團)有限責任公司)	Chengdu Raise	10%
Suzhou Chang Feng Company Limited (蘇州長風有限公司)	Wuxi AVIC Raise Real Estate Company Limited (無錫中航瑞賽置業有限公司) ("Wuxi Raise")	30%
Wuxi City Lei Hua Industrial Company (無錫市雷華實業公司)	Wuxi Raise	30%

Name of shareholder	Name of subsidiary	Approximate % of equity interest in the subsidiary
AVIC (Suzhou) Radar and Electric Technology Co., Ltd.* (中航(蘇州)雷達與電子技術有限公司)	Wuxi Raise	30%
Xi'an Aviation Power Control Company Limited (西安航空動力控制有限責任公司)	Xi'an AVIC Raise Xikong Real Estate Company Limited (西安中航瑞賽西控置業有限公司) ("Xi'an Xi Kong")	49%
Xiamen Han Xuan Real Estate Co., Ltd.* (廈門漢瑄置業有限公司)	Xi'an Ming City Real Estate Co., Ltd.* (西安名城置業有限公司) (a subsidiary of Xi'an Xi Kong)	32.12%
Xi'an XinRun Real Estate Co., Ltd.* (西安新潤置業有限公司)	Xi'an Ming City Real Limited (西安名城置業有限公司) (a subsidiary of Xi'an Xi Kong)	21.60%

* The English names of these companies represent management's best efforts at translating the Chinese names of these companies as no English names have been registered or available.

Save as disclosed above and so far as was known to the Directors, as at the Latest Practicable Date, no other person (other than the Directors, the supervisors or chief executives of the Company) had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of 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 member of the Group.

Interests in the Group's Assets or Contracts or Arrangements Significant to the Group

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest in any asset which have been, since 31 December 2012 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are 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 or supervisors of the Company was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the businesses of the Group.

Competing Interests

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group's businesses) which competes or is likely to compete either directly or indirectly with the Group's businesses (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling shareholder).

Service Contracts

As at [the Latest Practicable Date], there was no existing or proposed service contract, excluding contract expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation) between any of the Directors or supervisors of the Company and any member of the Group.

Material Adverse Changes

On 28 September 2012, Xiamen Company filed a request for delivery of goods or otherwise a claim for damages of RMB36,680,000 and legal costs of RMB150,000 for failure to deliver goods stored by the counterparty at the Intermediate People's Court of Nanjing City (南京市中級人民法院). Intermediate People's Court of Nanjing City accepted the case on 20 November 2012. In light of the request made by the defendant for an investigation on the ownership of the goods, the Intermediate People's Court of Nanjing City suspended this case until the judicial authority has verified the ownership of the goods.

Save as disclosed above, the Directors confirm that there was no material adverse changes in the financial or trading position of the Group since 31 December 2012 (being the date to which the latest published audited accounts of the Company were made up).

Experts

(a) The following are the qualifications of the experts who have given opinion or advice contained in this circular:

Name	**Qualification**
Anglo Chinese	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
China United Assets Appraisal Group Co., Ltd. (中聯資產評估集團有限公司) ("China United")	Certified Public Valuer

(b) As at the Latest Practicable Date, each of Anglo Chinese and China United did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of Anglo Chinese and China United has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its letter and references to its name in the form and context in which it appears.

(d) As at the Latest Practicable Date, each of Anglo Chinese and China United had no interest in any asset which have been since 31 December 2012 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

MISCELLANEOUS

Saved as otherwise stipulated in this circular, in the event of any inconsistency between the English version and the Chinese version, the English version shall prevail.

Documents for inspection

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Suites 2001–2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong from the date of this circular up to and including the date of the EGM:

(i) the Acquisition Agreement 1 and the Supplemental Agreement;

(ii) the Acquisition Agreement 2;

(iii) the Acquisition Agreement 3;

(iv) the articles of association of the Company;

(v) the letter from the Board, the text of which is set out on pages 6 to 23 of this circular;

(vi) the letter from the Independent Board Committee, the text of which is set out on pages 24 to 25 of this circular;

(vii) the letter from the Independent Financial Adviser, the text of which is set out on pages 26 to 44 of this circular;

(viii) the written consents of the experts referred to in the paragraph headed "Experts" in this appendix;

(ix) a copy of each circular issued by the Company pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules since 31 December 2012; and

(x) this circular.

中航國際控股股份有限公司
AVIC INTERNATIONAL HOLDINGS LIMITED

(formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司))
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 00161)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of AVIC International Holdings Limited (the "Company") will be held at Level 25, Hangdu Building, CATIC Zone, Shennan Road Central, Futian District, Shenzhen, the People's Republic of China on Monday, 26 August 2013 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution:

ORDINARY RESOLUTION

"**THAT** the supplemental agreement entered into between the Company and AVIC International Holding Corporation (中國航空技術國際控股有限公司) ("AVIC International") dated 16 May 2013 (the "Supplemental Agreement", a copy of which has been produced to the EGM marked "A" and initialed by the Chairman of the EGM for the purpose of identification) to the effect that, among other things, the proposed acquisition by the Company pursuant to the acquisition agreement entered into between the Company and AVIC International dated 16 November 2011 shall be amended to 50% equity interest in AVIC Lutong Company Limited (中航路通實業有限公司), 90% equity interest in AVIC-INTL Coal Logistics Company Limited (中航國際煤炭物流有限公司) and 100% equity interest in AVIC-INTL Project Engineering Company (中航國際成套設備有限公司) at the consideration of RMB552,814,600, to be satisfied by issue of perpetual subordinated convertible securities in the principal amount of RMB552,814,600 convertible into 155,285,000 new ordinary domestic shares of a nominal value of RMB1.00 each in the capital of the Company (the "Domestic Shares") at the initial conversion price of RMB3.56 per Domestic Share by the Company, and the transactions contemplated thereunder be approved, confirmed and ratified, and any one of the directors of the Company be authorised to sign, execute, perfect, deliver, negotiate, agree and ratify all such documents, and take all such steps which may be in his/her opinion consider necessary, reasonable or expedient to implement and/or to give effect to the Supplemental Agreement and the transactions contemplated thereunder and/or agree to such variations, amendments or waivers of matters relating thereto as are, in the opinion of such director, in the interest of the Company."

By Order of the Board
AVIC International Holdings Limited
Wu Guang Quan
Chairman

Shenzhen, the People's Republic of China, 5 July 2013

Notes:

1. **Eligibility for the EGM**

   Shareholders of the Company who intend to attend the EGM must deliver all instruments of transfer, accompanied by the relevant share certificates, to the legal address of the Company (for holders of domestic shares) or to the H Share Registrar of the Company, Hong Kong Registrars Limited at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares) on or before 4:30 p.m. on Friday, 26 July 2013.

2. **Registration procedures for the EGM**

   (a) A shareholder or his proxy should produce proof of identity when attending the EGM;

   (b) Shareholders of the Company who intend to attend the EGM should return the confirmation slip for the EGM to the Company on or before Monday, 5 August 2013; and

   (c) Shareholders of the Company may send the above confirmation slip to the legal address of the Company in person, by post or by facsimile.

3. **Proxy**

   (a) A shareholder of the Company eligible to attend the EGM is entitled to appoint one or more proxies to attend and vote on his behalf in accordance with the articles of association of the Company. A proxy need not be a shareholder of the Company;

   (b) A proxy shall be appointed by a written instrument signed by the appointer or its attorney. If the form of proxy is signed by the attorney of the appointer, the power of the attorney or other authorisation document(s) of such attorney should be notarised;

   (c) To be valid, the power of attorney or other authorisation document (s) which have been notarised together with the completed form of proxy, must be delivered to the legal address of the Company (for holders of domestic shares) or to the H Share Registrar of the Company, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares) not later than 24 hours before the time appointed for the holding of the EGM or adjournment thereof; and

   (d) A shareholder of the Company who has appointed more than one proxy shall only vote on a poll at the EGM.

4. **Closure of register of members of the Company**

   The register of members of the Company will be closed from Saturday, 27 July 2013 to Monday, 26 August 2013 (both days inclusive), during which no transfer of shares of the Company will be effected. Holders of shares whose names stand on the register of members of the Company at 4:30 p.m. on Friday, 26 July 2013 are entitled to attend and vote at the EGM.

   As the register of members of the Company has been closed from Thursday, 20 June 2013 to Friday, 19 July 2013 (both days inclusive) for the purpose of determining shareholders of the Company who are entitled to attend the extraordinary general meeting of the Company to be held on Friday, 19 July 2013 (please also refer to the notice of extraordinary general meeting of the Company dated 29 May 2013 for details), shareholders of the Company who intend to attend the EGM are reminded to deliver all instruments of transfer, accompanied by the relevant share certificates, for registration from Monday, 22 July 2013 to Friday, 26 July 2013.

5. The EGM is expected not to last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.

Legal address of the Company:

Level 25, Hangdu Building
Shennan Road Central, CATIC Zone
Futian District, Shenzhen
Guangdong Province
the People's Republic of China
Tel.: 0755-8379 3891
Fax: 0755-8379 0228
Postal code: 518031