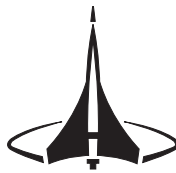


If you are in any doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



CATIC INTERNATIONAL HOLDINGS LIMITED

中國航空技術國際控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)

DISCLOSEABLE AND CONNECTED TRANSACTIONS

Financial Adviser to the Company



**PLATINUM
Securities**

Independent Financial Adviser to the Independent Board Committee



Kingsway Capital Limited

A notice convening a special general meeting of CATIC International Holdings Limited to be held at 10:30 a.m. on 20 May 2004 at Monaco Room, Basement 1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong is set out on pages 25 to 26 of this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by no later than 48 hours before the time appointed for the holding of the meeting. Completion of the form of proxy shall not preclude you from attending and voting at the meeting or any adjournment thereof should you so wish.

* For identification purpose only

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DEFINITIONS

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

“Acquisition”	the acquisition by Florex from CATIC HK of the Acquisition Shares
“Acquisition Shares”	450 shares of par value US\$1.00 (equivalent to approximately HK\$7.80), representing 45% of the entire issued capital of CISL
“Aggregate Consideration”	the aggregate consideration payable by Florex to CATIC HK for the Acquisition Shares and the Assignment under the Agreement
“Agreement”	the sale and purchase agreement dated 29 March 2004 in relation to the Acquisition and the Assignment
“Assignment”	the assignment of 45% of Shareholder’s Loan from CATIC HK to Florex pursuant to the Agreement
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than Saturday or Sunday) on which banks are open for business in Hong Kong throughout its normal business hours
“CATIC Beijing”	China National Aero-Technology Import & Export Corporation, a state-owned enterprise in the PRC and it is deemed to be interested in approximately 47.42% of the entire issued share capital of the Company as at the Latest Practicable Date
“CATIC HK”	CATIC (H.K.) Limited, a company incorporated in Hong Kong with limited liability, a wholly-owned subsidiary of CATIC Beijing
“CISL”	CATIC International Support Limited, a company incorporated in the British Virgin Islands, a wholly-owned subsidiary of CATIC HK immediately prior to the date of the Agreement

DEFINITIONS

“Company”	CATIC International Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition and the Assignment in accordance with the Agreement
“Completion Date”	two Business Days after the date on which all conditions precedent to the Agreement being fulfilled and/or waived (or such later date the parties may agree) which is the date on which Completion will take place
“Director(s)”	the director(s) of the Company
“Florex”	Florex Investment Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company
“GAAP”	generally accepted accounting principles
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s); the lawful currency used in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Chu Yu Lin, David and Mr. Li Ka Cheung, Eric being the independent non-executive Directors who have been appointed by the Board to advise the Independent Shareholders in relation to the Acquisition, the Assignment and the Put Option
“Independent Shareholders”	the Shareholders other than CATIC Beijing and its associates
“Kingsway”	Kingsway Capital Limited, a deemed licensed corporation for types 4, 6 and 9 regulated activities (as set out in Schedule 5 of the SFO), appointed as the independent financial adviser to the Independent Board Committee in relation to the Acquisition, the Assignment and the Put Option

DEFINITIONS

“Latest Practicable Date”	16 April 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Option Price”	an amount representing the sum of (i) the whole of or any part of the Aggregate Consideration paid up by Florex as at the exercise date of the Put Option (the “Paid Consideration”); and (ii) the Paid Consideration being multiplied by 5% divided by 365 and multiplied by the number of calendar days between the Completion Date and the exercise date of the Put Option, inclusive of both days
“Option Loan”	such part of or the whole of the 45% of the Shareholder’s Loan owed by CISL to Florex as at the date on which the Put Option is exercised
“Option Shares”	the Acquisition Shares together with any other shares or other securities of CISL derived from the Acquisition Shares as a result of any capitalisation issue, scrip dividend or otherwise
“PRC”	the People’s Republic of China
“Project EC120”	a project to develop, manufacture and distribute EC 120 helicopters
“Put Option”	the option granted by CATIC HK to Florex, under which Florex is entitled to sell the Option Shares and assign the Option Loan back to CATIC HK at its absolute discretion at any time commencing on the Completion Date and up to the fifth anniversary of the Completion Date
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened on 20 May 2004 to consider and, if thought fit, approve the Acquisition, the Assignment and the Put Option including any adjourned meeting thereof

DEFINITIONS

“Shareholder(s)”	holder(s) of the Shares
“Share(s)”	ordinary share(s) of nominal value of HK\$0.1 each in the capital of the Company
“Shareholder’s Loan”	a non-interest bearing loan for a sum of HK\$50 million to be advanced by CATIC HK to CISL, 45% of which will be assigned to Florex upon Completion
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	shall have the meaning ascribed to it under section 2 of the Companies Ordinance (Chapter 32 of the laws of Hong Kong)
“Transactions”	the Acquisition, the Assignment and the Put Option
“US\$”	United States dollar(s); the lawful currency used in the United States of America. Foreign exchange rate to HK\$ assumed to be US\$1.00: HK\$7.80 for the purpose of this circular

LETTER FROM THE BOARD



CATIC INTERNATIONAL HOLDINGS LIMITED

中國航空技術國際控股有限公司*

(Incorporated in Bermuda with limited liability)

Executive Directors:

Mr. Yang Chunshu (*Chairman*)
Mr. Wang Xinyan (*Deputy Chairman*)
Mr. Ji Guirong (*Deputy Chairman and
Chief Executive Officer*)
Ms. Yu Li
Mr. Pan Linwu
Mr. Ren Haifeng (*Deputy Chief Executive Officer*)

Non-executive Director:

Mr. Ip Tak Chuen, Edmond

Independent non-executive Directors:

Mr. Chu Yu Lin, David
Mr. Li Ka Cheung, Eric

Registered Office:

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal Office in Hong Kong:

21st Floor
CATIC Plaza
8 Causeway Road
Causeway Bay
Hong Kong

19 April 2004

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS

INTRODUCTION

On 30 March 2004, the Company announced that Florex, a wholly-owned subsidiary of the Company, entered into the Agreement with CATIC HK, the controlling shareholder of the Company, in relation to the Acquisition and the Assignment for a consideration amounting to the Aggregate Consideration of not more than HK\$100 million.

Pursuant to the Agreement, a Put Option has been granted by CATIC HK to Florex, under which Florex is entitled to sell the Option Shares and assign the Option Loan back to CATIC HK at its absolute discretion at any time commencing on the Completion Date and up to the fifth anniversary of the Completion Date. Upon the exercise of the Put Option, CATIC HK will be obligated to buy the Option Shares and accept the assignment of the Option Loan at the Option Price.

* For identification purpose only

LETTER FROM THE BOARD

The Acquisition and the Assignment constitute discloseable and connected transactions for the Company under the Listing Rules by virtue of CATIC HK being indirectly interested in approximately 33.83% of the issued share capital of the Company as at the Latest Practicable Date. Completion of the Agreement will be subject to, amongst others, approval by the Independent Shareholders of the Acquisition, the Assignment and the Put Option at the SGM. CATIC Beijing and its associates, will abstain from voting in respect of the ordinary resolution proposed at the SGM to approve the Acquisition, the Assignment and the Put Option.

The Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the Acquisition, the Assignment and the Put Option. Kingsway has been appointed as the independent financial advisor to advise the Independent Board Committee thereon.

The purpose of this circular is to provide you with: (i) further details on the Acquisition, the Assignment and the Put Option; (ii) the advise of the Independent Board Committee to the Independent Shareholders on the Acquisition, the Assignment and the Put Option; (iii) the advise of Kingsway to the Independent Board Committee on the Acquisition, the Assignment and the Put Option; and (vi) the notice of the SGM at which ordinary resolution will be proposed to approve, amongst other things, the Acquisition, the Assignment and the Put Option.

THE AGREEMENT

Date:

29 March 2004

Parties:

Purchaser: Florex

Vendor: CATIC HK

The Acquisition and the Assignment:

Subject to the terms and conditions of the Agreement, on the Completion Date, Florex has agreed to purchase and CATIC HK has agreed to sell the Acquisition Shares and CATIC HK has agreed to assign and Florex has agreed to accept the assignment of 45% of the Shareholder's Loan.

Aggregate Consideration and payment terms:

The Aggregate Consideration shall be equal to the lesser of (i) HK\$100 million or (ii) 45% of the product of 6.7 and average audited annual net income of CISL for the two years ending 31 December 2006. Such basis was arrived at after arm's length commercial negotiations between the parties.

LETTER FROM THE BOARD

The Aggregate Consideration will be payable by Florex to CATIC HK in cash in the following manner:

- (i) a first instalment of HK\$50 million on Completion;
- (ii) a second instalment of HK\$30 million on 15 December 2005; and
- (iii) a final instalment on 30 April 2007 in an amount equal to the average annual audited net income of CISL for the two years ending 31 December 2006 multiplied by 6.7 and 45%, minus the first and second instalments stated above. If the final instalment amount is less than HK\$0, then CATIC HK will be obligated to pay the difference to Florex instead.

Completion

Completion shall take place on the second Business Day after the conditions precedent set out in the Agreement being satisfied and/or waived in accordance with the terms of the Agreement.

Conditions precedent

The Agreement is conditional upon the satisfaction (or waiver in accordance with the Agreement) of, amongst others, (i) the Shareholder's Loan being advanced by CATIC HK to CISL; and (ii) the passing of the ordinary resolution by the Independent Shareholders at the SGM to approve the Acquisition, the Assignment and the Put Option.

Put Option

Pursuant to the Agreement, a Put Option has been granted by CATIC HK to Florex, under which Florex is entitled to sell the Option Shares and assign the Option Loan back to CATIC HK at its absolute discretion at any time commencing on the Completion Date and up to the fifth anniversary of the Completion Date. Upon the exercise of the Put Option, CATIC HK will be obligated to buy the Option Shares and accept the assignment of the Option Loan at the Option Price. Upon the exercise of the Put Option, the Company will comply with all relevant requirements of the Listing Rules.

INFORMATION ON THE COMPANY

The principal activities of the Company and its subsidiaries are undertaking building facade projects, generation and sale of electricity and steam power, and investments in aero-technology based businesses including helicopter manufacturing and aero-photographic operations. Following the completion of the acquisition of 80% interest in the net income in relation to Project EC120 in October 2002, the Group has taken a step forward in furtherance of its objective of developing into an aero-technology-based diversified enterprise.

LETTER FROM THE BOARD

INFORMATION ON CISL

CISL was incorporated on 23 December 2003 in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of CATIC HK immediately prior to the date of the Agreement. The principal business of CISL is being the exclusive agent of CATIC Beijing for:

- (i) all overseas distribution of aircraft components;
- (ii) all overseas trading of aircraft components; and
- (iii) all overseas aircraft components distribution-related services, including but not limited to, sales planning; providing technical support; repair and maintenance; and warehousing and logistic services.

The term of the exclusive agency arrangement between CATIC Beijing and CISL is for ten years expiring on 26 March 2014 with an automatic one-year renewal term after the tenth year.

Post Completion of the Acquisition, CISL will be held as to 45% by Florex and 55% by CATIC HK. With effect from the Completion Date, the Company will appoint two directors out of the five directors to the board of CISL.

REASONS FOR THE ACQUISITION AND THE ASSIGNMENT

The Directors are of the view that the Agreement are on normal commercial terms and the Acquisition and the Assignment will help the Group to further diversify itself into aero-technology-related businesses. The Directors believe that, through cooperation with its controlling shareholder, CATIC Beijing, the Group will be able to benefit from utilising the expertise and knowledge of CATIC Beijing in the area of aero-technology-based development. As such, the earnings base of the Group may be further broadened.

FINANCIAL IMPACT

Upon Completion, CISL will have an unaudited net asset value of approximately HK\$7,800 which comprises mainly of cash of approximately HK\$50 million and the Shareholder's Loan of HK\$50 million from CATIC HK. The other main asset of CISL is the exclusive agency arrangement with CATIC Beijing. CISL does not have any material trading records to-date. Upon Completion, 45% of the interest in the Shareholder's Loan, being HK\$22.5 million due from CISL to CATIC HK, will be assigned to the Company. Goodwill of approximately HK\$27.5 million arising from the Acquisition will impact the net tangible asset value of the Company upon Completion and, without regards to the potential income from CISL, income of the Company will be impacted by approximately HK\$2.75 million of goodwill amortisation for the first year after Completion. This treatment of goodwill amortisation is consistent with the existing accounting policy of the Group and conforms with the Hong Kong GAAP.

LETTER FROM THE BOARD

SGM

A notice convening the SGM of the Company to be held in Hong Kong on 20 May 2004 is set out on pages 25 to 26 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the registered office of the Company at 21st Floor, CATIC Plaza, Causeway Road, 8 Causeway Bay, Hong Kong as soon as possible but in any event no later than 48 hours before the time appointed for the holding of such meeting or any adjournment thereof. Completion of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting in person if you so wish.

As at the Latest Practicable Date, CATIC HK indirectly held approximately 33.83% of the issued share capital of the Company and CATIC Beijing was deemed to be interested in approximately 47.42% of the entire issued share capital of the Company. CATIC Beijing and its associates, will abstain from voting on the ordinary resolution proposed at the SGM.

RECOMMENDATION

The Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the Acquisition, the Assignment and the Put Option. Kingsway has been appointed as the Independent Financial Advisor to advise the Independent Board Committee on the Acquisition, the Assignment and the Put Option. The letter to the Independent Shareholders from the Independent Board Committee containing its recommendation is set out on page 10 of this circular. Having regard to the opinion of Kingsway, which is set out on page 11 to 19 of this circular, the Independent Board Committee is of the opinion that the Acquisition, the Assignment and the Put Option are fair and reasonable in so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. The Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Acquisition, the Assignment and the Put Option.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular and the notice of SGM set out in this circular.

Yours faithfully,
By order of the Board of
CATIC International Holdings Limited
Mr. Yang Chunshu
Chairman



CATIC INTERNATIONAL HOLDINGS LIMITED

中國航空技術國際控股有限公司*

(Incorporated in Bermuda with limited liability)

19 April 2004

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTIONS

We refer to the circular dated 19 April 2004 of the Company (the “Circular”), of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the Acquisition, the Assignment and the Put Option and to advise the Independent Shareholders as to whether, in our opinion, the terms of the agreements in respect of the Transactions are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. Kingsway has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Acquisition, the Assignment and the Put Option.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 9 of the Circular which contains details of the Agreements and the letter of advice from Kingsway as set out on pages 11 to 19 which contains its advice in respect of the Acquisition, the Assignment and the Put Option.

Having taken into account the advice of Kingsway, we consider that the terms of the agreements in respect of the Acquisition, the Assignment and the Put Option are fair and reasonable 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 ordinary resolution to be proposed at the SGM to approve the Acquisition, the Assignment and the Put Option.

Yours faithfully,

For and on behalf of

the Independent Board Committee

Chu Yu Lin, David Li Ka Cheung, Eric

Independent non-executive Directors

* For identification purpose only

LETTER FROM KINGSWAY

The following is the full text of the letter of advice to the Independent Board Committee from Kingsway dated 19 April 2004 prepared for incorporation in this circular.



Kingsway Capital Limited

5th Floor, Hutchison House,
10 Harcourt Road, Central, Hong Kong

19 April 2004

The Independent Board Committee
CATIC International Holdings Limited
21st Floor, CATIC Plaza
8 Causeway Road, Causeway Bay
Hong Kong

Dear Sirs

DISCLOSEABLE AND CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee in respect of the Acquisition, the Assignment and the Put Option (“Transactions”), details of which are contained in a circular dated 19 April 2004 (“Circular”) to the Shareholders, of which this letter forms part. Under our engagement, we have been retained to advise the Independent Board Committee as to whether or not the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned. The terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

CATIC HK is the wholly-owned subsidiary of CATIC Beijing and the substantial shareholder of the Company, indirectly holding approximately 33.83% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, the Transactions constitute discloseable and connected transactions for the Company within the meaning of the Listing Rules, and are subject to, amongst others, approval by the Independent Shareholders at the SGM. CATIC Beijing and their Associates will abstain from voting in respect of the ordinary resolution proposed at the SGM to approve the Transactions.

LETTER FROM KINGSWAY

In formulating our opinion with regard to the Transactions, we have relied on the information supplied, representation made and opinion expressed by the Company and its Directors. We have assumed that all such information and representations and those contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be so at the date of this letter. We have also assumed that all statements of belief, opinion and intention made by the Directors as set out in the Circular were reasonably made after due and careful enquiry. We have been advised by the Company that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading in every material respect. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company and its Directors. The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquires, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided by the Company and its Directors, nor have we conducted any independent in-depth investigation into the business affairs of the Group, CATIC HK or any of their respective subsidiaries.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Transactions are fair and reasonable, we have taken into consideration the following principal factors and reasons:

I) Reasons for and background to the Transactions

The current principal activities of the Group are undertaking building facade projects, generation and sale of electricity and steam power, and investments in aero-technology based businesses including helicopter manufacturing and aero-photographic operations.

As mentioned in the “Letter from the Board”, following the completion of the acquisition of the 80% interest in the net income in relation to the Project EC120 in October 2002, the Group has taken a step forward in furtherance of its objective of developing into an aero-technology based diversified enterprise.

As stated in the result announcement of the Company dated 6 April 2004, the turnover contributed by the aero-technology related business for year 2002 and year 2003 amounted to approximately HK\$6.28 million and HK\$6.13 million respectively.

LETTER FROM KINGSWAY

On 30 March 2004, the Company announced that Florex, a wholly-owned subsidiary of the Company, entered into the Agreement with CATIC HK, pursuant to which, the Company will own 45% equity interest in CISL after the Completion. CISL is the exclusive agent of CATIC Beijing for (1) all overseas distribution of aircraft components; (2) all overseas trading of aircraft components; and (3) all overseas aircraft components distribution-related services.

CATIC Beijing, which owned approximately 47.42% of the equity interest in the Company through CATIC HK and Catic International Finance Limited as at the Latest Practicable Date, is a trading company of diversified businesses focusing on aviation products. Its main business includes market development, sales and after-sale service of aviation products and other related activities such as import and export, public bidding, freight forwarding, civil construction, investment and financing, leasing and other professional services. According to statistic of Ministry of Commerce of People's Republic of China, CATIC Beijing was the ninth largest PRC enterprise in terms of import and export volume. During the year ended 31 December 2002, the import and export volume of CATIC Beijing amounted to approximately US\$3.1 billion (equivalent to approximately HK\$24.2 billion).

As stated in the "Letter from the Board" under the section headed "Reasons for the Acquisition and the Assignment", the Directors are of the view that the Transactions will help the Group to further diversify itself into aero-technology related businesses. The Directors believe that, through cooperation with CATIC Beijing, the Group will be able to benefit from utilising the expertise and knowledge of CATIC Beijing in the area of aero-based development. As such, the earnings base of the Group will be further broadened.

Taking into consideration the business nature of CISL and rapid expansion of the PRC aviation industry, we are of the view that the Transactions are in line with the Group's stated business strategy in developing its aero-technology related businesses and concur with the Directors' view that the Transactions are another significant step in the implementation of the above business strategy.

II) Principal terms of the Agreement

Principal terms of the Agreement are set out on pages 5 to 9 in the "Letter from the Board" under the section headed "The Agreement". In assessing the fairness and reasonableness of the terms of the Agreement, we have taken into account the principal terms of the Agreement, in particular, the following terms:

1. Interest to be acquired

Subject to the terms and conditions of the Agreement, on the Completion Date, Florex has agreed to purchase and CATIC HK has agreed to sell the

LETTER FROM KINGSWAY

Acquisition Shares and CATIC HK has agreed to assign and Florex has agreed to accept the assignment of 45% of the Shareholder's Loan. After the Completion, CISL will be held as to 45% by the Company and 55% by CATIC HK.

CISL was incorporated on 23 December 2003 in the British Virgin Islands with limited liability and was a wholly-owned subsidiary of CATIC HK immediately prior to the date of the Agreement. CISL is the exclusive agent of CATIC Beijing for (1) all overseas distribution of aircraft components; (2) all overseas trading of aircraft components; and (3) all overseas aircraft components distribution-related services. As advised by the Company, CISL is in its initial stage of development and did not have any material trading records as at the Latest Practicable Date.

The term of the exclusive agency arrangement between CATIC Beijing and CISL is for ten years expiring on 26 March 2014 with an automatic one-year renewal term after the tenth year.

With effect from the Completion Date, the Company will appoint two directors out of the five directors to the board of CISL. We concur with the Directors' view that the interest of the Company in the CISL will be protected through the aforesaid arrangement.

2. *Consideration and valuation*

We note that the Aggregate Consideration was arrived at after arm's length commercial negotiations between the parties and was determined based on the average audited annual net income of CISL for the two years ending 31 December 2006 as multiplied by a price/earnings multiple of 6.7 times ("Acquisition Multiple"), but in any event, the Aggregate Consideration will not be higher than HK\$100 million.

The Aggregate Consideration will be payable by Florex to CATIC HK in cash in the following manner:

- a first instalment of HK\$50 million on Completion;
- a second instalment of HK\$30 million on 15 December 2005; and
- a final instalment on 30 April 2007 in an amount equal to the average audited net income of CISL for the two years ending 31 December 2006 multiplied by 6.7 and 45%, minus the first and second instalment stated above. If the final instalment amount is less than HK\$0, then CATIC HK will be obligated to pay the difference to Florex.

LETTER FROM KINGSWAY

In accordance with market practice, the most common methodologies to value an enterprise include price/earning multiples, discounted cash flow analysis and net asset value. Taking into account that (1) CISL is a newly established company with uncertain future cash flow; and (2) the business nature of CISL is not an asset based business, we are of the view that comparing the Aggregate Consideration with the discounted future cash flow and/or net assets value of CISL are irrelevant.

Based on the above reasons, we have assessed the fairness and reasonableness of the Aggregate Consideration by comparing the Acquisition Multiple with the price/earning multiples of comparable companies. However, we are not aware of any other company listed on the main board (“Main Board”) and the Growth Enterprise Market (“GEM”) of the Stock Exchange which has a similar combination of businesses and activities as those of CISL. In the best of our knowledge, we have identified only four companies listed in the Main Board and GEM which are mainly engaged in trading and distribution of motor vehicles and auto parts (“Comparable Companies”) for our comparison purposes. Set out below are the Acquisition Multiple and the price/earning multiples of the Comparable Companies.

Company Name	Principle business activities	Price/ Earning Multiples (Note 1)
1) G.A. Holdings Limited (8126) (Note 2)	Distribution of passenger vehicles, provision of marketing and technical assistance to reseller and business alliance, provision of after-sales service, and trading of auto parts and accessories.	3.8
2) Lei Shing Hong Limited (238)	Trading of motor vehicles, spare parts and heavy equipment, property development and investment, financial services, and general trading and services.	14.1
3) Tan Chong International Limited (693)	Distribution of motor vehicles and property investment in Singapore & Hong Kong; industrial equipment distribution in Singapore and the manufacturing of cars, trucks and auto parts in the PRC.	11.1

LETTER FROM KINGSWAY

Company Name	Principle business activities	Price/ Earning Multiples (Note 1)
4) Yardway Group Limited (646)	Sale and distribution of vehicles and equipment covering most major transport sectors, including railway maintenance and airport ground support equipment, coaches and trucks. Also provide engineering services for coaches and trucks.	8.3
	Average:	9.3
5) The Acquisition Multiple		6.7

Sources: Bloomberg

Notes:

- 1) Based on the closing price per share of the Comparable Companies as at the Latest Practicable Date and their respective earning per share, which are extracted from the latest annual reports of the Comparable Companies.
- 2) The trading of shares of G.A. Holdings Limited has been suspended with effect from 9:30 a.m. 26 March 2004.

Despite the fact that (1) products, customers and market size of the Comparable Companies are different from those of CISL; and (2) CISL is a newly established company and so far has no track record in trading and distribution of aircraft components, we consider that the business nature of CISL is similar to those Comparable Companies since both CISL and the Comparable Companies are engaged in trading and distribution of mechanical products and/or parts. Therefore the price/earning multiples is considered as a relevant method to compare the Acquisition Multiple to the price/earning multiples of the Comparable Companies.

As noted above, the Acquisition Multiple falls below the average price/earning multiple of the Comparable Companies. Based on the above comparison, and given that the Put Option granted by CATIC HK to Florex can safeguard the commercial interest of the Company in CISL as mentioned below, we consider that the Acquisition Multiple is acceptable to the Group.

Shareholders should note that the Aggregate Consideration will be affected by two factors, namely, (1) the average audited annual net income of CISL for the two years ending 31 December 2006; and (2) the Acquisition Multiple. Taking into account that CISL is a newly established company with uncertain financial performance, we consider that this arrangement is in the interests of the Company and Shareholders as a whole since (1) the Company can have sufficient time to evaluate the financial performance and future prospect of CISL; and (2) the Aggregate Consideration, which will be adjusted by the average audited annual net income of CISL for the two years ending 31 December 2006, will reflect the value of CISL.

3. *The Put Option*

Pursuant to the Agreement, the Put Option has been granted by CATIC HK to Florex, under which Florex is entitled to sell the Option Shares back to CATIC HK and assign the Option Loan to CATIC HK at its absolute discretion at any time commencing on the Completion Date and up to the fifth anniversary of the Completion Date. Upon the exercise of the Put Option, CATIC HK will be obligated to buy the Option Shares and accept the assignment of the Option Loan at the Option Price. Shareholders should note that exercise of Put Option is subject to compliance with the Listing Rules. As stated in the “Letter from the Board”, the Directors confirm that Florex will comply with all relevant requirements of the Listing Rules upon the exercise of the Put Options.

According to the Agreement, the Option Price represents the sum of (i) the whole of or any part of the Aggregate Consideration paid up by Florex as at the exercise date of the Put Option (the “Paid Consideration”); and (ii) the Paid Consideration being multiplied by 5% divided by 365 and multiplied by the number of calendar days between the Completion Date and the exercise date of the Put Option, inclusive of both days. At the present low-interest rate environment, we consider that the annual interest rate of 5% offered by CATIC HK is acceptable.

Shareholders should note that the Put Option gives Florex the right but not the obligation to sell the Option Shares and assign the Option Loan back to CATIC HK at its absolute discretion. As a result, the Put Option may or may not be exercised.

The Directors consider that the Put Option can safeguard the commercial interests of the Company in CISL. As confirmed by the Company, the Directors will review the financial performance and potential business development of CISL periodically. Florex will obtain advice from the Directors (including the independent non-executive Directors) as to whether or not the Put Option should be exercised. On this basis, we consider that the view of the Directors in relation to the Put Option is fair and reasonable.

4. *Upper limit of the Aggregate Consideration*

As mentioned above, the Aggregate Consideration will be affected by two factors, namely, (1) the average audited annual net income of CISL for the two years ending 31 December 2006; and (2) the Acquisition Multiple. Pursuant to the Agreement, the Aggregate Consideration shall be equal to the lesser of (1) HK\$100 million or (2) 45% of the product of 6.7 and average audited annual net income of CISL for the two years ending 31 December 2006. We are of the view that such arrangement enable Florex to set the maximum investment cost for CISL even CISL achieve strong financial performance over the two years ending 31 December 2006.

5. *Conditions precedent*

The Agreement is conditional upon the satisfaction (or waiver in accordance with the Agreement) of, amongst others, (1) the Shareholder's Loan being advanced by CATIC HK to CISL; and (2) the passing of the ordinary resolution by the Independent Shareholders at the SGM to approve the Transactions.

III) Funding for the Transactions

As stated in the "Letter from the Board", the Company currently intends to finance the Transactions through internal resources. As discussed below, the Directors are of the view that based on the latest financial position of the Group, the Company will be able to finance the Transactions from internal resources. As disclosed in the result announcement of the Company for the year ended 31 December 2003 dated 6 April 2004, the audited net cash of the Group as at 31 December 2003 amounted to approximately HK\$146 million ("Net Cash Position"); and in accordance with the Agreement, the Group is required to pay the first instalment of HK\$50 million on Completion whilst the second instalment of HK\$30 million and the final instalment (if any) are payable on 15 December 2005 and 30 April 2007 respectively.

Given that the first instalment of HK\$50 million represents approximately 34.3% of the Net Cash Position, we concur with the Directors' view that the payment of the cash consideration for the Transactions will not have significant negative impact on the working capital of the Group.

LETTER FROM KINGSWAY

IV) Financial effects of the Transactions on the Group

As stated in the “Letter from the Board”, the Company currently intends to finance the Transactions through internal resources. The Transactions, therefore, will have no direct impact on the Group’s gearing and net asset value position. However, goodwill of approximately HK\$27.5 million arising from the Transactions will impact the net tangible asset value of the Company upon the Completion and, without regards to the potential income from CISL, income of the Company will be impacted by approximately HK\$2.75 million of goodwill amortisation for the first year after the Completion. This treatment of goodwill amortisation is consistent with the existing accounting policy of the Group and conforms with the Hong Kong GAAP.

RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the opinion that the Acquisition, the Assignment and the Put Option are in the interests of the Company and Independent Shareholders as a whole and the terms of the Agreement are fair and reasonable so far as the Company and Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Transactions.

Yours faithfully,
For and on behalf of
Kingsway Capital Limited
Angela Ho
Managing Director

RESPONSIBILITY STATEMENT

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

DISCLOSURE OF INTERESTS**Interests in the Company**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name	Number of Shares held
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Mr. Ren Haifeng	11,282,000
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Name	Number of Shares under options held
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Mr. Yang Chunshu	28,160,000
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Mr. Wang Xinyan	20,000,000
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Mr. Ji Guirong	20,000,000
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Ms. Yu Li	25,400,000
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Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following person (not being a Director or chief executive 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 under provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company:

Shareholders	Percentage of existing issued capital	Number of Shares held
Tacko International Limited (“Tacko”)	33.83%	1,265,767,000 (<i>Note 1</i>)
CATIC HK	33.83%	1,265,767,000 (<i>Note 1</i>)
Speed Profit Enterprises Limited	13.59%	508,616,000 (<i>Note 2</i>)
Catic International Finance Limited (“Catic Finance”)	13.59%	508,616,000 (<i>Note 2</i>)
CATIC Beijing	47.42%	1,774,383,000 (<i>Notes 1, 2 & 3</i>)
China Aviation Industries Corporation I (“AVIC I”)	47.42%	1,774,383,000 (<i>Notes 1, 2 & 3</i>)
China Aviation Industries Corporation II (“AVIC II”)	47.42%	1,774,383,000 (<i>Notes 1, 2 & 3</i>)

Notes:

1. Tacko is a wholly-owned subsidiary of CATIC HK, which is in turn a wholly-owned subsidiary of CATIC Beijing. Under the SFO, both CATIC HK and CATIC Beijing are deemed to be interested in the 1,265,767,000 Shares held by Tacko.
2. Speed Profit Enterprises Limited is a wholly-owned subsidiary of Catic Finance, which is in turn a wholly-owned subsidiary of CATIC Beijing. Under the SFO, both Catic Finance and CATIC Beijing are deemed to be interested in the 508,616,000 Shares held by Speed Profit Enterprises Limited.
3. CATIC Beijing is owned as to 50% by AVIC I and as to 50% by AVIC II. Under the SFO, each of AVIC I and AVIC II is deemed to be interested in the aggregate of the Shares stated in notes (1) and (2) above (i.e. an aggregate of 1,774,383,000 Shares held by Tacko and Speed Profit Enterprises Limited).

Saved as disclosed above, the Directors and the chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had any interest or short position in the Shares or underlying shares of the Company 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 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company.

Save as disclosed below, as at the Latest Practicable Date, as far as is known to the Directors and the chief executive of the Company, no other person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of the Group or has any option in respect of such capital:

Name of Owner	Name of subsidiary	% of shares held
Asia Capital Financial Group Limited	Hangzhou Sealand Electric Power Company Limited	30%

LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was involved in any litigation or claim of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

QUALIFICATION

The following is the qualification of the expert who has given opinion or advice which are contained in this circular:

Name	Qualification
Kingsway	A deemed licensed corporation for types 4, 6 and 9 regulated activities (as set out in Schedule 5 of the SFO)

CONSENT

- (a) As at the Latest Practicable Date, Kingsway is not interested in any shares of the Company or any of its subsidiaries or associated corporations or any right or option to subscribe for or nominate persons to subscribe for any shares of the Company or any of its subsidiaries or associated corporations.
- (b) As at the Latest Practicable Date, Kingsway does not have any direct or indirect interest in any assets which have been since 31 December 2003, the date to which the latest published audited account of the Group were made up, acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

- (c) Kingsway has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report or certificate or summary of its opinion (as the case may be) and references to its name included herein in the form and context in which it is included.

MATERIAL CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003 (the date to which the latest published audited consolidated accounts of the Group were made up).

GENERAL

- (a) As at the Latest Practicable Date, none of the Director has any existing or proposed service contract with any member of the Group which is not terminable by the employer within one year without payment of compensation other than statutory compensation.
- (b) None of the Director is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group taken as a whole.
- (c) None of the Directors has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2003, being the date to which the latest published audited accounts of the Group were made up.
- (d) The secretary of the Company is Mr. Yu Yu Cheung, Anthony, AHKSA, CA.
- (e) The transfer office of the Company is situated at the offices of its branch share registrars, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the offices of Baker & McKenzie at 14th Floor, Hutchison House, 10 Harcourt Road, Hong Kong, up to and including the date of the SGM (and any adjournment thereof):

- (a) the Agreements;
- (b) the memorandum of association and bye-laws of the Company;

- (c) the audited financial statement of the Group for each of the two financial years ended 31 December 2003;
- (d) the written consent given by Kingsway and referred to in the paragraph headed “Consent” in this appendix;
- (e) the letter from the Independent Board Committee set out in this circular; and
- (f) the letter of advice from Kingsway, the text of which is set out in this circular.



CATIC INTERNATIONAL HOLDINGS LIMITED

中國航空技術國際控股有限公司*

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of the holders of ordinary shares of HK\$0.10 each (the “**Shares**” and the holders of such Shares, the “**Shareholders**”) in the capital of CATIC International Holdings Limited (the “**Company**”) will be held on Thursday, 20 May 2004 at Monaco Room, Basement 1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 10:30 a.m. (or after any adjournment thereof) for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution:

ORDINARY RESOLUTION

“THAT:

- (a) a sale and purchase and assignment agreement (the “**Agreement**”) entered into between Florex Investment Limited (“**Florex**”), a wholly-owned subsidiary of the Company, and CATIC (H.K.) Limited (“**CATIC HK**”), a controlling shareholder of the Company, on 29 March 2004, a copy of which has been produced to the meeting marked “A” and signed by the Chairman of the meeting for identification purposes, be and are hereby approved, confirmed and ratified and the transactions contemplated under the Agreement which are further described below be and are hereby approved, confirmed and ratified:
 - (i) CATIC HK selling and Florex purchasing 450 shares of US\$1.00 each (the “**CISL Shares**”) in the share capital of CATIC International Support Limited (“**CISL**”) representing 45% of the entire issued share capital of CISL; and CATIC HK assigning and Florex accepting the assignment of 45% of a non-interest bearing loan (“**Assigned Loan**”) of a principal sum of HK\$50 million advanced by CATIC HK to CISL, for an aggregate consideration of no more than HK\$100 million payable by Florex to CATIC HK in three instalments; and
 - (ii) CATIC HK granting a put option to Florex entitling Florex to sell the CISL Shares and assign the Assigned Loan back to CATIC HK at any time

* For identification purposes only

NOTICE OF SGM

during the five years commencing on the completion date of the Agreement. Upon the exercise of the put option, CATIC HK will be obligated to buy the CISL Shares and accept the assignment of the Assigned Loan for a certain consideration as set out in the Agreement; and

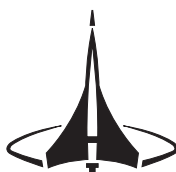
- (b) the directors of the Company be and are hereby authorized to do all such acts and things and to sign, seal and/or deliver all documents and to take any steps which in their absolute discretion, considered to be necessary, desirable or expedient for the purpose of implementing and/or giving effect to the transactions contemplated under the Agreement.”

By order of the Board
YANG Chunshu
Chairman

Hong Kong, 19 April 2004

Notes:

1. A shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his/her/its proxy to attend and vote in his/her/its stead in accordance with the bye-laws of the Company. A proxy need not be a shareholder of the Company.
2. A form of proxy for use at the meeting is enclosed.
3. To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified true copy of that power of attorney or authority must be deposited at the Company's registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the SGM (or any adjourned meeting thereof) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude shareholders of the Company from attending and voting in person at the meeting (or any adjourned meeting thereof) should they so wish.
4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of such shares.



CATIC INTERNATIONAL HOLDINGS LIMITED

中國航空技術國際控股有限公司*

(Incorporated in Bermuda with limited liability)

PROXY FORM FOR SPECIAL GENERAL MEETING

I/We _____ of _____
_____, being the
registered holder(s) of _____ ordinary shares of HK\$0.10 each in
CATIC International Holdings Limited (the “Company”), **HEREBY APPOINT THE CHAIRMAN OF THE MEETING**
or _____ of _____

(Note 2)

as my/our proxy to attend and act for me/us at the special general meeting of the Company to be held on Thursday, 20 May 2004 at Monaco Room, Basement 1, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 10:30 a.m. or at any adjournment thereof and to vote for me/us on my/our behalf at such meeting or at any adjournment thereof in respect of the resolution set out in the Notice of SGM as set out in the circular of the Company dated 19 April 2004, or if no such indication is given, as my/our proxy thinks fit (all the following resolutions are ordinary resolutions).

ORDINARY RESOLUTION	FOR (Note 3)	AGAINST (Note 3)
The Agreement (as defined in the Notice of SGM) and the transactions contemplated thereunder be approved, confirmed and ratified.		

Signature (Note 4) _____

Date: _____ 2004

Notes:

1. Please insert full name and address in block capitals.
2. You are entitled to choose any person to be your proxy. If a person other than the Chairman of the Special General Meeting is to be appointed as your proxy, please strike out the words “**THE CHAIRMAN OF THE MEETING**” and insert the full name and address of the proxy to be appointed in the space provided. **IF NO NAME IS INSERTED, THE CHAIRMAN OF THE MEETING WILL ACT AS YOUR PROXY.** You are entitled to appoint one or more proxies to attend and vote at the meeting. The proxy need not be a member of the Company. However, if you appoint more than one proxy, you should state the number of shares each of them represents. Any alteration made to this proxy form must be signed by the person who signs the proxy form.
3. Important: **IF YOU WISH TO VOTE FOR ANY RESOLUTION, TICK THE BOX MARKED “FOR”. IF YOU WISH TO VOTE AGAINST ANY RESOLUTION, TICK THE BOX MARKED “AGAINST”.** In respect of each of the resolutions, failure to tick either box or failure to indicate as to how to vote on the proxy form returned will entitle your proxy to decide whether to vote and as to how to vote at his discretion.
4. This proxy form must be signed by you or your attorney duly authorised in writing. If the attorney is a corporation or an institution, this proxy form must be executed under seal or executed by its director or a duly authorised person.
5. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of such shares
6. To be valid, this proxy form and the power of attorney or other authority, if any, under which it is signed or a certified true copy of that power of attorney or authority must be deposited at the Company’s registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 48 hours before the time designated for convening the meeting (or any adjournment thereof) and in default the form of proxy will not be treated as valid. Completion and return of proxy will not preclude shareholders of the Company from attending and voting in person at the meeting (or any adjourned meeting) should they so wish.

* For identification purpose only