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

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

(Stock Code: 2357)

**CONNECTED TRANSACTIONS:
SUBSCRIPTION OF NEW SHARES OF AVIC CABIN;
DISPOSAL OF EQUITY INTEREST IN ALI-JIATAI**

In order to become an important partner of the world's leading commercial aircraft manufacturer in cabin interior trimming system and a major supplier to the global cabin interior trimming market, AVIC intends to carry out equity integration, controlling several cabin interior trimming enterprises including FACC AG, Thompson Aero Seating Ltd., AIM Altitude Ltd., Ali-Jiatai and Fesher Aviation Components (Zhenjiang) Co., Ltd.* (菲舍爾航空部件(鎮江)有限公司) through AVIC Cabin. In view of the good prospects for the demand of cabin interior trimming system in the global commercial aircraft market, the subscription of New Shares of AVIC Cabin by the Company and AviChina Hong Kong will benefit the Company to join in the supply chain of global commercial aircraft.

On 6 November 2018, AviChina Hong Kong entered into the Subscription Agreement with AVIC Cabin and AVIC Capital International, pursuant to which, AVIC Cabin has conditionally agreed to allot and issue 276,281,994 shares and each of AviChina Hong Kong and AVIC Capital International has conditionally agreed to subscribe for 138,140,997 shares of AVIC Cabin for a consideration of RMB500 million in cash, respectively.

On the same date, the Company entered into the Equity Transfer Agreement with AVIC Life-Support, AVIC International Development and AVIC Cabin, pursuant to which, the Company, AVIC Life-Support and AVIC International Development have conditionally agreed to transfer all their equity interest in Ali-Jiatai, representing 24.78%, 54.35% and 10.00% of equity interest, to AVIC Cabin for a consideration of 15,777,395, 34,604,577 and 6,366,987 New Shares of AVIC Cabin, respectively.

Upon completion of the Subscription Agreement and the Equity Transfer Agreement, AVIC Cabin will not become a subsidiary of the Company, and the financial results of AVIC Cabin will not be consolidated into the consolidated financial statements of the Company. In addition, the Company will no longer hold any direct interest in Ali-Jiatai.

As at the date of this announcement, AVIC is the controlling shareholder of the Company and each of AVIC Cabin, AVIC Capital International, AVIC Life-Support and AVIC International Development is a subsidiary of AVIC. AviChina Hong Kong is a wholly-owned subsidiary of the Company. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVIC Cabin, AVIC Capital International, AVIC Life-Support and AVIC International Development is a connected person of the Company, and the entering into of each of the Subscription Agreement and the Equity Transfer

Agreement constitutes a connected transaction of the Company under the Hong Kong Listing Rules.

As each of the highest applicable size test percentage ratio in respect of the subscription of shares of AVIC Cabin by AviChina Hong Kong and the Company under the Subscription Agreement and the Equity Transfer Agreement on an aggregated basis and the disposal of equity interest held by the Company in Ali-Jiatai under the Equity Transfer Agreement is more than 0.1% but less than 5%, the entering into of each of the Subscription Agreement and the Equity Transfer Agreement is subject to reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

A. INTRODUCTION

On 6 November 2018, AviChina Hong Kong entered into the Subscription Agreement with AVIC Cabin and AVIC Capital International, pursuant to which, AVIC Cabin has conditionally agreed to allot and issue 276,281,994 shares and each of AviChina Hong Kong and AVIC Capital International has conditionally agreed to subscribe for 138,140,997 shares of AVIC Cabin for a consideration of RMB500 million in cash, respectively.

On the same date, the Company entered into the Equity Transfer Agreement with AVIC Life-Support, AVIC International Development and AVIC Cabin, pursuant to which, the Company, AVIC Life-Support and AVIC International Development have conditionally agreed to transfer all their equity interest in Ali-Jiatai, representing 24.78%, 54.35% and 10.00% of equity interest, to AVIC Cabin for a consideration of 15,777,395, 34,604,577 and 6,366,987 New Shares of AVIC Cabin, respectively.

Upon completion of the Subscription Agreement and the Equity Transfer Agreement, AVIC Cabin will not become a subsidiary of the Company, and the financial results of AVIC Cabin will not be consolidated into the consolidated financial statements of the Company. In addition, the Company will no longer hold any direct interest in Ali-Jiatai.

B. THE SUBSCRIPTION AGREEMENT

A summary of the principal terms of the Subscription Agreement is set out as follows:

1. Date

6 November 2018

2. Parties

- (i) AviChina Hong Kong and AVIC Capital International, each as the subscriber; and
- (ii) AVIC Cabin as the issuer.

3. Subject Matter

Pursuant to the Subscription Agreement, AVIC Cabin has conditionally agreed to allot and issue 276,281,994 shares and each of AviChina Hong Kong and AVIC Capital International has conditionally agreed to subscribe for 138,140,997 shares of AVIC Cabin.

4. Consideration

The consideration for the Subscription payable by each of AviChina Hong Kong and AVIC Capital International under the Subscription Agreement is RMB500 million in cash, respectively. AviChina Hong Kong and AVIC Capital International shall pay the consideration to AVIC Cabin on or before the Completion Date in a lump sum by telegraph transfer.

The consideration payable under the Subscription Agreement was arrived at after arm's length negotiations between the parties and with reference to, inter alia, the valuation result of AVIC Cabin as of 31 December 2017 which was prepared by a professional independent valuer based on the asset-based approach.

5. Conditions precedent

The Subscription Agreement shall become effective upon the fulfillment of, among other things, the following conditions:

- (i) the subscribers having obtained all the necessary approvals from relevant Chinese authorities, including but not limited to, the approvals from the Ministry of Commerce, the National Development and Reform Commission, the administration department of foreign exchange and/or local counterparts of such authorities;
- (ii) the parties having obtained all the internal authorisations, including but not limited to, the approvals at the board meeting or general meeting; and
- (iii) the parties having complied with the relevant requirements of the stock exchange (if necessary).

If the above conditions precedent are not fulfilled on or before 30 June 2019 (or such later date as agreed by the parties), the Subscription Agreement will be terminated and cease to be valid.

C. THE EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are summarized as follows:

1. Date

6 November 2018

2. Parties

- (i) the Company, AVIC Life-Support and AVIC International Development, each as the vendor for the shares of Ali-Jiatai and the subscriber for the shares of AVIC Cabin; and
- (ii) AVIC Cabin as the purchaser for the shares of Ali-Jiatai and the issuer for its New Shares.

3. Subject Matter

Pursuant to the Equity Transfer Agreement, the Company, AVIC Life-Support and AVIC International Development will transfer all their respective equity interest in Ali-Jiatai, representing 24.78%, 54.35% and 10.00% of equity interest, to AVIC Cabin for a consideration of 15,777,395, 34,604,577 and 6,366,987 New Shares of AVIC Cabin, respectively.

4. Consideration

AVIC Cabin will issue New Shares to the Company, AVIC Life-Support and AVIC International Development or their respective designated entity under the Equity Transfer Agreement.

The above share consideration was determined after arm's length negotiations between the parties with reference to, inter alia, (i) the valuation report on the equity interest of Ali-Jiatai as of 31 December 2017 which was prepared by a professional independent PRC valuer based on asset-based

approach, and (ii) the valuation report on the equity interest of AVIC Cabin as of 31 December 2017 which was prepared by a professional independent valuer based on asset-based approach.

5. Procedures and Formalities

Upon signing of the Equity Transfer Agreement, all parties shall make every effort to assist and cooperate with the designated entities of AVIC as soon as possible to apply to the relevant development and reform authorities, the commercial authorities, the industrial and commercial administration authorities and the foreign exchange administration authorities:

- (i) state-owned assets supervision and management procedures, foreign investment approval/filing formalities, and industrial and commercial change registration formalities in relation to the transfer of equity interest; and
- (ii) overseas investment filing formalities in relation to the subscription of consideration shares of AVIC Cabin by each of the vendors.

If the above procedures and formalities are not completed on or before 30 June 2019 (or such later date as agreed by the parties), the Equity Transfer Agreement will be terminated and cease to be valid.

D. REASONS FOR AND BENEFITS OF ENTERING INTO OF THE SUBSCRIPTION AGREEMENT AND THE EQUITY TRANSFER AGREEMENT

In order to become an important partner of the world's leading commercial aircraft manufacturer in cabin interior trimming system and a major supplier to the global cabin interior trimming market, AVIC intends to carry out equity integration, controlling several cabin interior trimming enterprises including FACC AG, Thompson Aero Seating Ltd., AIM Altitude Ltd., Ali-Jiatai and Fesher Aviation Components (Zhenjiang) Co., Ltd.* (菲舍爾航空部件(鎮江)有限公司) through AVIC Cabin. In view of the good prospects for the demand of cabin interior trimming system in the global commercial aircraft market, the subscription of New Shares of AVIC Cabin by the Company and AviChina Hong Kong will benefit the Company to join in the supply chain of global commercial aircraft.

Each of the Subscription Agreement and the Equity Transfer Agreement is entered into by the parties on normal commercial terms after arm's length negotiations. The Directors (including the independent non-executive Directors) are of the view that the terms of each of the Subscription Agreement and the Equity Transfer Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

E. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC is the controlling shareholder of the Company and each of AVIC Cabin, AVIC Capital International, AVIC Life-Support and AVIC International Development is a subsidiary of AVIC. AviChina Hong Kong is a wholly-owned subsidiary of the Company. Therefore, pursuant to Chapter 14A of the Hong Kong Listing Rules, each of AVIC Cabin, AVIC Capital International, AVIC Life-Support and AVIC International Development is a connected person of the Company, and the entering into of each of the Subscription Agreement and the Equity Transfer Agreement constitutes a connected transaction of the Company under the Hong Kong Listing Rules.

As each of the highest applicable size test percentage ratio in respect of the subscription of shares of AVIC Cabin by AviChina Hong Kong and the Company under the Subscription Agreement and the Equity Transfer Agreement on an aggregated basis and the disposal of equity interest held by the Company in Ali-Jiatai under the Equity Transfer Agreement is more than 0.1% but less than 5%, the entering into of each of the Subscription Agreement and the Equity Transfer Agreement is subject to reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Each of Mr. Tan Ruisong, Mr. Chen Yuanxian, Mr. Li Yao and Mr. Wang Xuejun, the Directors, who are chairman, vice general manager, chief accountant and a department director of AVIC, respectively, had abstained from voting on the relevant Board resolution approving the Subscription Agreement and the Equity Transfer Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save for disclosed above, none of the other Directors has or is deemed to have a material interest in the transactions under the Subscription Agreement and the Equity Transfer Agreement.

F. GENERAL

Information on the Company

The Company is a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange. The Company is mainly engaged in the research, development, manufacture and sales of aviation products, and relevant engineering services.

Information on AviChina Hong Kong

AviChina Hong Kong is a limited liability company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company as at the date of the announcement. It is mainly engaged in the development, design and sales of aviation product, the importation and exportation of aviation products and technologies, finance and investment.

Information on AVIC Capital International

AVIC Capital International is a limited liability company incorporated in Hong Kong and is a subsidiary of AVIC as at the date of the announcement. It is mainly engaged in the industrial investment, equity investment and investment consulting.

Information on AVIC Cabin

AVIC Cabin is a limited liability company incorporated in Hong Kong and is a subsidiary of AVIC as at the date of the announcement. It is mainly engaged in the cabin interior trimming system business.

According to the China Accounting Standards for Business Enterprises, the net profits (before and after taxation) of AVIC Cabin for the financial years ended 31 December 2016 and 31 December 2017 are set out below:

	For the year ended 31 December 2016 (RMB)	For the year ended 31 December 2017 (RMB)
<i>Net profit (loss) before taxation</i>	972,547.20	788,970.24
<i>Net profit (loss) after taxation</i>	(2,209,949.70)	788,970.24

The book value of the net assets of AVIC Cabin as at 30 June 2018 prepared in accordance with Chinese Accounting Standards for Business Enterprises was approximately RMB1,160.65 million.

Information on AVIC Life-Support

AVIC Life-Support is a limited liability company incorporated in the PRC and is a subsidiary of AVIC as at the date of the announcement. It is mainly engaged in the research and manufacture of aviation protection and life rescue equipment, airborne and airdrop equipment.

Information on AVIC International Development

AVIC International Development is a limited liability company incorporated in the PRC and is a subsidiary of AVIC as at the date of the announcement. It is mainly engaged in the import and export business of transportation and mechanical equipment and joint investment and manufacture business.

Information on Ali-Jiatai

Ali-Jiatai is a limited liability company incorporated in the PRC and is a subsidiary of AVIC as at the date of the announcement. It is mainly engaged in the development, manufacturing, sales of and providing technical services for non-ejection seats for aeronautic and astronautic use, aircraft cabin equipment, ship equipment, aircraft interior trimming, equipment and interior trimming for trains, metallic material and special non-metallic material. As at the date of this announcement, Ali-Jiatai is held as to 24.78% by the Company.

According to the China Accounting Standards for Business Enterprises, the net profits (before and after taxation) of Ali-Jiatai for the financial years ended 31 December 2016 and 31 December 2017 are set out below:

	For the year ended 31 December 2016 (RMB)	For the year ended 31 December 2017 (RMB)
<i>Net profit (loss) before taxation</i>	3,431,062.77	1,573,283.26
<i>Net profit (loss) after taxation</i>	3,295,990.08	1,270,226.19

The book value of the net assets of Ali-Jiatai as at 30 June 2018 prepared in accordance with Chinese Accounting Standards for Business Enterprises was approximately RMB138.1291 million.

G. DEFINITIONS

“Ali-Jiatai”	AVIC Hubei Ali-Jiatai Aircraft Equipment Co., Ltd.* (湖北航宇嘉泰飛機設備有限公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of this announcement
“AVIC”	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), the controlling shareholder of the Company, holding 58.66% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC Cabin”	AVIC Cabin System Co., Limited* (中航客艙系統有限公司), a limited liability company incorporated in Hong Kong and a subsidiary of AVIC as at the date of this announcement
“AVIC Capital International”	AVIC Capital International Holding Co., Limited*(中航資本國際控股有限公司), a limited liability company incorporated in Hong Kong and a subsidiary of AVIC as at the date of this announcement

“AVIC International Development”	AVIC International Development Aero-Development Corporation* (中航國際航空發展有限公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of this announcement
“AVIC Life-Support”	AVIC Aerospace Life-Support Industries, Ltd. * (航宇救生裝備有限公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of this announcement
“AviChina Hong Kong”	AviChina Hong Kong Limited*(中航科工香港有限公司), a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company as at the date of this announcement
“Board”	the board of Directors of the Company
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange
“Completion Date”	the date on which the Subscription is completed pursuant to the Subscription Agreement
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	the equity transfer agreement dated 6 November 2018 entered into between the Company, AVIC Life-Support, AVIC International Development and AVIC Cabin in relation to the transfer of equity interest in Ali-Jiatai to AVIC Cabin for a consideration of New Shares of AVIC Cabin
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

“New Shares”	The shares issued by AVIC Cabin under the Subscription Agreement and Equity Transfer Agreement
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the shares of the Company
“Subscription”	the subscription by AviChina Hong Kong and/or AVIC Capital International for 138,140,997 shares of AVIC Cabin pursuant to the Subscription Agreement, respectively
“Subscription Agreement”	the subscription agreement dated 6 November 2018 entered into between AviChina Hong Kong, AVIC Cabin and AVIC Capital International in relation to the Subscription
“subsidiary(ies)”	has the same meaning as defined in the Hong Kong Listing Rules
“%”	per cent

By order of the Board
AviChina Industry & Technology Company Limited*
Xu Bin
Company Secretary

Beijing, 6 November 2018

As at the date of this announcement, the Board comprises executive Directors Mr. Tan Ruisong and Mr. Chen Yuanxian, non-executive Directors Mr. Li Yao, Mr. Wang Xuejun, Mr. He Zhiping and Mr. Patrick de Castelbajac as well as independent non-executive Directors Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin.

**For identification purposes only.*