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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 TRANSACTION

FORMATION OF A JOINT VENTURE COMPANY

On 13 June 2016, Hafei Aviation, a non-wholly owned subsidiary of the Company, entered into the Joint Venture Contract with CAIGA, a subsidiary of AVIC, and Dazheng Investment, pursuant to which Hafei Aviation proposed to contribute RMB200 million in kind in the establishment of Harbin General Aircraft. Upon the establishment of Harbin General Aircraft, Hafei Aviation, CAIGA and Dazheng Investment will hold 40%, 40% and 20% of the equity interest in Harbin General Aircraft, respectively.

As at the date of this announcement, Hafei Aviation is a non-wholly-owned subsidiary of the Company. CAIGA is a subsidiary of AVIC, which is the controlling shareholder of the Company. Therefore, CAIGA is a connected person of the Company and the entering into of the Joint Venture Contract constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios of the transaction is more than 0.1% but less than 5%, the entering into of the Joint Venture Contract is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

A. INTRODUCTION

On 13 June 2016, Hafei Aviation, a non-wholly owned subsidiary of the Company, entered into the Joint Venture Contract with CAIGA, a subsidiary of AVIC, and Dazheng Investment, pursuant to which Hafei Aviation proposed to contribute RMB200 million in kind in the establishment of Harbin General Aircraft. Upon the establishment of Harbin General Aircraft, Hafei Aviation, CAIGA and Dazheng Investment will hold 40%, 40% and 20% of the equity interest in Harbin General Aircraft, respectively.

B. THE JOINT VENTURE CONTRACT

1. Date

13 June 2016

2. Parties

- (i) Hafei Aviation;
- (ii) CAIGA; and
- (iii) Dazheng Investment

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Dazheng Investment and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company.

3. The capital contribution

The registered capital of Harbin General Aircraft proposed to be established shall be RMB500 million, of which Hafei Aviation shall contribute RMB200 million in kind, representing 40% of the registered capital, CAIGA shall contribute RMB200 million in cash, representing 40% of the registered capital and Dazheng Investment shall contribute RMB100 million in cash, representing 20% of the registered capital.

The payment of contribution by Hafei Aviation will be made after its contribution in kind being evaluated by and recorded with the relevant department of the state-owned assets supervision and administration authorities. The amount of the capital contribution under the Joint Venture Contract is determined after arm's length negotiations by reference to the projected working capital requirements of Harbin General Aircraft.

4. Composition of the board of directors of Harbin General Aircraft

The board of directors of Harbin General Aircraft will consist of six members, of which two directors will be nominated by Hafei Aviation (after being approved by AVICOPTER PLC* (中航直升機股份有限公司), the controlling shareholder of Hafei Aviation), two directors will be nominated by CAIGA, one director will be nominated by Dazheng Investment and one will be an employee representative director. The chairman of the board of directors will also serve as legal representative of Harbin General Aircraft. For the first three years after the establishment of Harbin General Aircraft, the chairman of the board of directors will be a director nominated by Hafei Aviation (after being approved by AVICOPTER PLC* (中航直升機股份有限公司), the controlling shareholder of Hafei Aviation); and from the fourth year after the establishment of Harbin General Aircraft, the chairman of the board of directors will be a director nominated by CAIGA.

5. Business scope of Harbin General Aircraft

Harbin General Aircraft shall primarily be engaged in the manufacturing and sales of general fixed-wing aircraft and relevant businesses including client service and etc.

6. Share transfer

Any of Hafei Aviation, CAIGA, and Dazheng Investment must obtain the approval from other shareholders of Harbin General Aircraft for transferring a part or the whole of its shares held in Harbin General Aircraft. Such transfer is also subject to the approval of competent authorities. Shareholders of Harbin General Aircraft, other than the transferor, are entitled to the preemptive right under the same conditions.

7. Conditions precedent to be satisfied

The Joint Venture Contract shall become effective upon the fulfillment of, among other things, the following conditions:

- i. the Joint Venture Contract having been duly executed by the legal representative or authorised representative of each of Hafei Aviation, CAIGA and Dazheng Investment and affixed with their respective company chop; and
- ii. all parties having performed all necessary approval procedures.

C. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE JOINT VENTURE CONTRACT

The establishment of Harbin General Aircraft with CAIGA and Dazheng Investment will help the Company to integrate, coordinate and enhance the development of its general aviation business by way of diversified equity, which complies with the Company's strategic objectives of continually improving aviation industry chain.

The transaction under the Joint Venture Contract is entered into upon normal commercial terms. Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Joint Venture Contract are fair and reasonable and in the interests of the Company and its shareholders as a whole.

D. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, Hafei Aviation is a non-wholly-owned subsidiary of the Company. CAIGA is a subsidiary of AVIC, which is the controlling shareholder of the Company. Therefore, CAIGA is a connected person of the Company and the entering into of the Joint Venture Contract constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios of the transaction is more than 0.1% but less than 5%, the entering into of the Joint Venture Contract is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

Each of Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. GuHuizhong and Mr. Gao Jianshe, Directors of the Company, who are chairman, general manager, vice general manager and vice general manager of AVIC, respectively, had abstained from voting on the relevant board resolution approving the Joint Venture Contract in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save for Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, none of the other Directors has or is deemed to have a material interest in the abovementioned connected transaction.

E. GENERAL INFORMATION

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 and development, manufacture and sales of civil aviation products.

Information on Hafei Aviation

Hafei Aviation is a limited liability company incorporated in the PRC and is a subsidiary of the Company. It is mainly engaged in design, development, manufacture and sales of helicopters and other aircraft.

Information on AVIC

AVIC is held and controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products.

Information on CAIGA

CAIGA is a limited liability company incorporated in the PRC and is a subsidiary of AVIC. It is mainly engaged in design, development, manufacture and sale of executive aircraft, amphibian aircraft and other multipurpose aircraft.

Information on Dazheng Investment

Dazheng Investment is a limited liability company incorporated in the PRC. It is mainly engaged in the investment business.

F. DEFINITIONS:

“AVIC”	China Aviation Industry Corporation* (中國航空工業集團公司), the controlling shareholder of the Company holding 54.85% equity interest in the Company directly and indirectly as at the date of this announcement
“CAIGA”	China Aviation Industry General Aircraft Co., Ltd.* (中航通用飛機有限責任公司), a limited liability company incorporated in the PRC and is a subsidiary of AVIC
“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

“Dazheng Investment”	Heilongjiang Dazheng Investment Group Co., Ltd. *(黑龍江大正投資集團有限責任公司), a limited liability company incorporated in the PRC
“Directors”	the director(s) of the Company
“Hafei Aviation”	Harbin Hafei Aviation Industry Co., Ltd. *(哈爾濱哈飛航空工業有限責任公司), a limited liability company incorporated in the PRC and is a subsidiary of the Company
“Harbin General Aircraft”	Harbin General Aircraft Industry Co., Ltd. *(哈爾濱通用飛機工業有限責任公司), a limited liability company proposed to be established in the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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)
“Joint Venture Contract”	the joint venture contract entered into by Hafei Aviation, CAIGA and Dazheng Investment on June 2016 in relation to the establishment of Harbin General Aircraft
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC

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

Beijing, 13 June 2016

As at the date of this announcement, the Board comprises executive Directors Mr. Lin Zuoming and Mr. Tan Ruisong and non-executive Directors Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Guo Chongqing and Mr. Kiran Rao as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Jason Chi Wai.

**For identification purposes only.*