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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

PARTICIPATION IN THE CAPITAL INCREASE OF ANJI CASTING

On 22 December 2017, the Company entered into the Capital Increase Agreement with AVIC, Guizhou Aviation Group, AVIC Heavy Machinery, Anji Casting and the Shareholding Companies for Anji Casting Employees. Pursuant to the Capital Increase Agreement, the Company agreed to contribute RMB50 million for participation in the capital increase of Anji Casting. Upon completion of the capital increase, the Company, AVIC, Guizhou Aviation Group, AVIC Heavy Machinery and the Shareholding Companies for Anji Casting Employees will hold 14.83%, 31.63%, 14.96%, 29.67% and 8.90% of the equity interest of Anji Casting, respectively.

As at the date of this announcement, AVIC is the controlling shareholder of the Company, and Guizhou Aviation Group and AVIC Heavy Machinery are the subsidiaries of AVIC. Therefore, AVIC, Guizhou Aviation Group and AVIC Heavy Machinery are connected persons of the Company and the entering into of the Capital Increase Agreement of the Company with the above connected persons 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 in respect of the Capital Increase Agreement exceeds 0.1% but is less than 5%, the entering into of the Capital Increase Agreement is subject to the reporting and announcement requirement but is exempt from the independent Shareholders' approval requirement.

A. INTRODUCTION

On 22 December 2017, the Company entered into the Capital Increase Agreement with AVIC, Guizhou Aviation Group, AVIC Heavy Machinery, Anji Casting and the Shareholding Companies for Anji Casting Employees. Pursuant to the Capital Increase Agreement, the Company agreed to contribute RMB50 million for participation in the capital increase of Anji Casting.

B. THE CAPITAL INCREASE AGREEMENT

The principal terms of the Capital Increase Agreement are summarized as follows:

1. Date

22 December 2017

2. Parties

- (i). The Company;
- (ii). AVIC;
- (iii). Guizhou Aviation Group;
- (iv). AVIC Heavy Machinery;
- (v). Anji Casting;
- (vi). Anshun Jinyinshan;
- (vii). Anshun Xingfuding; and
- (viii). Anshun Xingjuxin.

3. Capital contribution

The original registered capital of Anji Casting was RMB33,393,547, with 67.89% of its equity interest held by AVIC and 32.11% of its equity interest held by Guizhou Aviation Group as at the date of this announcement. The net asset evaluation value of Anji Casting is approximately RMB157,049,000 (subject to the filing of the valuation) with the valuation base date as 31 March 2017.

Upon arm's length negotiation among the parties and after taking into account of various factors (including but not limited to the business development, historical financial figures and valuation of Anji Casting), the Company agreed to contribute RMB50 million in cash. Upon completion of the capital increase under the Capital Increase Agreement, the Company, AVIC, Guizhou Aviation Group, AVIC Heavy Machinery and the Shareholding Companies for Anji Casting Employees will hold 14.83%, 31.63%, 14.96%, 29.67% and 8.90% of the equity interest of Anji Casting, respectively.

The supervisory committee of Anji Casting consists of three supervisors, one of which will be appointed by the Company.

4. Business scope

Anji Casting is mainly engaged in the research and development and manufacturing of precision casting products made out of titanium alloy, high-temperature alloy, aluminum alloy, magnesium alloy, steel alloy, etc.

5. Terms of effectiveness

The Capital Increase Agreement will become effective after the parties obtain the relevant approvals or authorizations and complete necessary internal decision procedures.

C. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE CAPITAL INCREASE AGREEMENT

The entering into of the Capital Increase Agreement is an important measure of the Company to participate in the implementation of the national military-civilian integration strategy and the performance of military-civilian integration and integration of production, teaching and research, and is beneficial for the Company to improve its investment profitability.

The Capital Increase Agreement is entered into by the parties on normal commercial terms after arm's length negotiation. The Directors (including the independent non-executive Directors) are of the view that the terms of the Capital Increase Agreement 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, AVIC is the controlling shareholder of the Company, and Guizhou Aviation Group and AVIC Heavy Machinery are the subsidiaries of AVIC. Therefore, AVIC, Guizhou Aviation Group and AVIC Heavy Machinery are connected persons of the Company and the entering into of the Capital Increase Agreement of the Company with the above connected persons 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 in respect of the Capital Increase Agreement exceeds 0.1% but is less than 5%, the entering into of the Capital Increase Agreement is subject to the reporting and announcement requirement but is exempt from the independent Shareholders' approval requirement.

Each of Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Wu Xiandong and Mr. Li Yao, Directors, who are chairman, general manager, vice general manager and chief accountant of AVIC, respectively, had abstained from voting on the relevant Board resolution approving the Capital Increase 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 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, development, manufacture and sales of aviation products, and relevant engineering services.

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. AVIC is the controlling shareholder of the Company, holding 58.57% equity interest in the Company directly and indirectly as at the date of this announcement.

Information on AVIC Heavy Machinery

AVIC Heavy Machinery is a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange (stock code: 600765) and a subsidiary of AVIC.

Information on Guizhou Aviation Group

Guizhou Aviation Group is a limited liability company established in the PRC and a subsidiary of AVIC.

Information on Anji Casting

Anji Casting is a limited liability company established in the PRC, with 67.89% of its equity interest held by AVIC and 32.11% of its equity interest held by Guizhou Aviation Group as at the date of this announcement.

Pursuant to the unaudited financial statement of Anji Casting prepared according to the PRC Accounting Standards, as at 30 June 2017, the total assets and net assets of Anji Casting were RMB1,144,730,000 and RMB241,970,000, respectively. Pursuant to the audited financial report of Anji Casting prepared according to the PRC Accounting Standards, for the year ended 31 December 2015, the net profits of Anji Casting (before and after taxation and extraordinary items) were RMB7,000,000 and RMB6,260,000, respectively. For the year ended 31 December 2016, the net profits of Anji Casting (before and after taxation and extraordinary items) were RMB11,750,000 and RMB10,140,000, respectively.

F. DEFINITIONS

“Anji Casting” AVIC Guizhou Anji Aviation Investment Casting Co., Ltd.* (貴州安吉航空精密鑄造有限責任公司), a limited liability company established in the PRC, with 67.89% of its equity interest held by AVIC and 32.11% of its equity interest held by Guizhou Aviation

Group as at the date of announcement

“Anshun Jinyinshan”	Anshun Jinyinshan Project Investment & Consultation Service Center* (安順金銀山項目投資諮詢服務中心), is one of the shareholding platforms established for employee stock option plan by Anji Casting, with all its partners being the employees of Anji Casting
“Anshun Xingfuding”	Anshun Xingfuding Project Investment & Consultation Service Center* (安順興複鼎項目投資諮詢服務中心), is one of the shareholding platforms established for employee stock option plan by Anji Casting, with all its partners being the employees of Anji Casting
“Anshun Xingjuxin”	Anshun Xingjuxin Project Investment & Consultation Service Center* (安順興聚鑫項目投資諮詢服務中心), is one of the shareholding platforms established for employee stock option plan by Anji Casting, with all its partners being the employees of Anji Casting
“AVIC”	China Aviation Industry Corporation* (中國航空工業集團公司), the controlling shareholder of the Company, holding 58.57% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC Heavy Machinery”	AVIC Heavy Machinery Co., Ltd.* (中航重機股份有限公司), a subsidiary of AVIC, whose shares are listed on the Shanghai Stock Exchange (stock code: 600765)
“Board”	the board of directors of the Company
“Capital Increase Agreement”	The Capital Increase Agreement entered into by the Company with AVIC, Guizhou Aviation Group, AVIC Heavy Machinery, Anji Casting, and the Shareholding Companies for Anji Casting Employees on 22 December 2017, pursuant to which, the Company agreed to contribute RMB50 million for participation in the capital increase of Anji Casting
“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
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Guizhou Aviation Group”	China National Guizhou Aviation Industry (Group) Co., Ltd.* (中國貴州航空工業(集團)有限責任公司), a subsidiary of AVIC, is a limited liability company established in the PRC
“Hong Kong Stock	The Stock Exchange of Hong Kong Limited

Exchange”

“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)

“PRC” the People's Republic of China

“RMB” Renminbi, the lawful currency of the PRC

“Shareholders” the shareholders of the Company

“Shareholding Companies for Anji Casting Employees” Anshun Jinyinshan, Anshun Xingfuding and Anshun Xingjuxin, being the companies established as shareholding platforms for employee stock option plan by Anji Casting

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

Beijing, 22 December 2017

As at the date of this announcement, the Board comprises executive Director Mr. Lin Zuoming, non-executive Directors Mr. Tan Ruisong, Mr. Wu Xiandong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai.

** For identification purpose only*