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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)

ANNOUNCEMENT

(1) CONNECTED TRANSACTIONS - PROVISIONS OF FINANCIAL ASSISTANCE; AND (2) DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION - DEEMED DISPOSAL OF AVIC AVIONICS

On 25 December 2017, AVIC Avionics exercised the Issuance of Convertible Corporate Bonds with a total amount of proceeds being RMB2.4 billion, and the Company, AVIC and AVIC Avionics Systems subscribed for RMB500,000,000, RMB188,470,000 and RMB431,719,000 of the Convertible Corporate Bonds, respectively, the amount of which are all within the amount entitled by their respective Pre-emptive Right.

As at the date of this announcement, the Company holds 43.22% of the equity interest in AVIC Avionics. Meanwhile, AVIC, AVIC Avionics Systems and Hanzhong Aviation Industry (Group) Co., Ltd.* hold 7.85%, 17.99% and 6.23% of the equity interest in AVIC Avionics, respectively. Therefore, AVIC Avionics is a connected subsidiary of the Company.

The Subscription of the Company for the Convertible Corporate Bonds constitutes the provision of financial assistance by the Company to its connected subsidiary, and thus constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio for the provision of financial assistance by the Company exceeds 0.1% but is less than 5%, the provision of financial assistance by the Company is subject to reporting and announcement requirements, but exempt from independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

The Subscriptions of AVIC and AVIC Avionics Systems for the Convertible Corporate Bonds constitute the provisions of financial assistance by the connected persons of the Company to the Group, and thus constitute connected transactions of the Company under Chapter 14A of the

Hong Kong Listing Rules. The full irrevocable joint liability guarantee provided by AVIC for the redemption at maturity of the Issuance of Convertible Corporate Bonds also constitutes the provision of financial assistance by a connected person to the Group, and thus constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the abovementioned Subscriptions and guarantee are conducted on normal commercial terms, are not required to be secured by providing any asset of the Group for AVIC and AVIC Avionics Systems, and the highest applicable percentage ratios for the Subscriptions by AVIC and AVIC Avionics are both less than 5%, the abovementioned provisions of financial assistance are exempt from all the reporting and announcement requirements and the independent Shareholders' approval requirement under rule 14A.90 of the Hong Kong Listing Rules.

Assuming the Convertible Corporate Bonds held by all the other CB Holders (so far as the Company is aware, other than AVIC and AVIC Avionics Systems, the other CB Holders are independent third parties of the Company) are converted into A shares of AVIC Avionics, while the Convertible Corporate Bonds held by the Company are not converted, the Company's shareholding ratio in AVIC Avionics will be diluted from 43.22% to 40.18%, representing an approximate 3.04% decrease, which constitutes a deemed disposal under Chapter 14 of the Hong Kong Listing Rules. As the highest applicable percentage ratio for such Deemed Disposal exceeds 5% but is less than 25%, such Deemed Disposal constitutes a discloseable transaction of the Company and is subject to reporting and announcement requirements but exempt from Shareholders' approval requirement under Chapter 14 of the Hong Kong Listing Rules.

Assuming the Convertible Corporate Bonds held by AVIC and AVIC Avionics Systems are converted into A shares of AVIC Avionics, while the Convertible Corporate Bonds held by the Company and CB Holders other than AVIC and AVIC Avionics Systems are not converted, the Company's shareholding ratio in AVIC Avionics will be diluted from 43.22% to 42.18%, representing an approximate 1.04% decrease, which constitutes a deemed disposal under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio for such Deemed Disposal exceeds 0.1% but is less than 5%, such Deemed Disposal is subject to reporting and announcement requirements, but exempt from independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

I. INTRODUCTION

References are made to the announcements of the Company dated 11 May, 18 May, 1 August, 6 November and 21 December 2017 in relation to the Issuance of Convertible Corporate Bonds by AVIC Avionics.

On 25 December 2017, AVIC Avionics exercised the Issuance of Convertible Corporate Bonds with a total amount of proceeds being RMB2.4 billion.

II. PRINCIPAL TERMS OF THE ISSUANCE OF CONVERTIBLE CORPORATE BONDS

The principal determined terms of the Issuance of Convertible Corporate Bonds are summarized as below:

1. Type of Securities to be Issued

The Convertible Corporate Bonds can be converted into A shares of AVIC Avionics

The Convertible Corporate Bonds and the A shares to be converted into will be listed on the Shanghai Stock Exchange

2. Issue Size and Issue Quantity

The total amount of proceeds from the issuance is RMB2.4 billion; the quantity of the issuance is 24,000,000 pieces (i.e., 2,400,000 lots)

3. Nominal Value and Issue Price

Issued at par with a nominal value of RMB100 each

4. Term of the Bonds

Six years from the date of issue, i.e., from 25 December 2017 to 24 December 2023

5. Interest Rate of the Bonds

0.20% for the first year; 0.50% for the second year; 1.00% for the third year; 1.50% for the fourth year; 1.80% for the fifth year; 2.00% for the sixth year

6. Term and Method of Interest Payment

Interest will be paid once a year and the principal amount and the interest for the last year will be repaid at maturity

7. Share Conversion Period

From the trading day immediately following the expiry of six months after the date of issue of the Convertible Corporate Bonds until the maturity date of the Convertible Corporate Bonds

8. Determination and Adjustment of Share Conversion Price

The initial share conversion price of Convertible Corporate Bonds is RMB14.29 per share, which is not lower than the average trading price of shares within 20 trading days preceding the date of publication of the offering document of the Convertible Corporate Bonds (the “**Offering Document**”) (subject to certain adjustments) and the average trading price of shares on the day immediately before the said date of publication of the Offering Document. Meanwhile, the initial share conversion price is not lower than the net asset value per share based on the latest audited financial statements and the nominal value per share.

After the issue of the Convertible Corporate Bonds, upon occurrences of events such as despatching bonus shares, transferring share capital, issuing additional new shares (excluding the increase in share capital due to the conversion of the Convertible Corporate Bonds), allotment, despatching cash dividends, share repurchase, merger, separation or any other circumstances that taken by AVIC Avionics and may change the class of shares, the quantity of shares and/or the shareholders’ interests of AVIC Avionics, and therefore may affect the bonds interest or the conversion derivative interest held by the CB Holders in this issuance, AVIC Avionics will make adjustment to the conversion price according to relevant laws and regulations.

9. Terms of Redemption

(1) Terms of redemption at maturity

Within five trading days after the maturity of the Convertible Corporate Bonds, AVIC Avionics will redeem all the Convertible Corporate Bonds which have not been converted into shares from the investors at the redemption price being 105% of the nominal value of the Convertible Corporate Bonds (including the interest for the last period).

(2) Terms of conditional redemption

During the share conversion period of the Convertible Corporate Bonds, AVIC Avionics has the right to redeem all or part of unconverted Convertible Corporate Bonds based on the nominal value plus the accrued interest upon the occurrence of any of the two following situations.

- (a) if the closing price of the shares of AVIC Avionics is equal to or not lower than 130% of the share conversion price in at least 15 trading days out of any 30 consecutive trading days during the share conversion period of the Convertible Corporate Bonds; or
- (b) if the outstanding balance of the unconverted Convertible Corporate Bonds is below RMB30 million.

10. Terms of Sale Back

(1) Terms of conditional sale back

During the last two interest accrual years of the Convertible Corporate Bonds, if the closing price of the shares of AVIC Avionics is lower than 70% of the prevailing Conversion Price in any 30 consecutive trading days, the CB Holders have the right to sell back all or part of the Convertible Corporate Bonds held by them to AVIC Avionics at the nominal value plus the current accrued interest.

(2) Additional terms of sale back

During the term of the Convertible Corporate Bonds, if the actual implementation of the investment projects using the proceeds from the Convertible Corporate Bonds significantly differs from the undertakings set out in the Offering Document, and the difference was identified by CSRC as a change in the use of proceeds, the CB Holders will have a one-off right to sell all or part of the Convertible Corporate Bonds held by them back to AVIC Avionics at the nominal value plus the current accrued interest.

11. Status of Shares Converted by the Convertible Corporate Bonds

The additional shares of AVIC Avionics to be issued as a result of the conversion of the Convertible Corporate Bonds shall rank *pari passu* with all the existing shares, and are entitled to dividend of that period for all ordinary shareholders (including shareholders derived from the conversion of the Convertible Corporate Bonds) registered on the date of share registration for dividend distribution in *pari passu*.

12. Method of Issuance and Target Investors

The actual method of the issuance of the Convertible Corporate Bonds will be determined by the board of AVIC Avionics as authorized by its shareholders' general meetings in consultation with the sponsor (lead underwriter).

The target investors of the Convertible Corporate Bonds are natural persons, legal persons, securities investment funds and other investors that meet the conditions prescribed by the laws who have maintained securities accounts with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited (except those prohibited by the State laws and regulations).

13. Placing Arrangement for the Existing Shareholders

The Convertible Corporate Bonds are subject to pre-emptive placement to the existing shareholders of AVIC Avionics whose names appear on its registrar of members at the close of business on 22 December 2017 (the “**Pre-emptive Right**”). The existing shareholders of AVIC Avionics are entitled to waive their Pre-emptive Rights to subscribe.

14. Use of Proceeds

The total amount of proceeds from the Issuance of Convertible Corporate Bonds will be RMB2.4 billion, all of which, after deducting the issue cost, are expected to be used in the industrialization projects relevant to the electronic business of AVIC Avionics and the supplementation of its working capital.

15. Credit Rating

The corporate credit rating of AVIC Avionics is AA+ and the credit rating of the Convertible Corporate Bonds is AAA.

16. Guarantee

AVIC provides full irrevocable joint liability guarantee for the redemption at maturity of the Issuance of Convertible Corporate Bonds.

17. Restriction

The Issuance of Convertible Corporate Bonds does not set restrictions on holding period. The Convertible Corporate Bonds placed to the CB Holders can be traded since the first day of listing.

III. SUBSCRIPTION FOR THE CONVERTIBLE CORPORATE BONDS BY THE COMPANY, AVIC AND AVIC AVIONICS SYSTEMS

1. Background

As at the close of business on 22 December 2017, the Company, AVIC and AVIC Avionics Systems hold 43.22%, 7.85% and 17.99% of the equity interest in AVIC Avionics, respectively. Accordingly, the Company, AVIC and AVIC Avionics Systems are entitled to the Pre-emptive

Rights to subscribe for approximately 1,037 million, 188.5 million and 431.8 million of the Convertible Corporate Bonds.

On 25 December 2017, to support the development of avionics business and based on the financial situation of the Company, the Company, AVIC and AVIC Avionics Systems subscribed for RMB500,000,000, RMB188,470,000 and RMB431,719,000 of the Convertible Corporate Bonds, respectively, the amount of which are all within the amount entitled by their respective Pre-emptive Right.

2. Funding of the Subscription Amount

The amount of Subscription by the Company of RMB500,000,000 will be funded by internal funds of the Company.

3. Deemed Disposal of AVIC Avionics by the Company

Upon the Subscription and the potential exercise of conversion rights by the CB Holders, the Company's shareholding ratio in AVIC Avionics may increase or decrease (depending on the actual subscription price and the actual exercise of the conversion rights).

Based on the information available to the Company, assuming the Convertible Corporate Bonds held by all the other CB Holders (so far as the Company is aware, other than AVIC and AVIC Avionics Systems, the other CB Holders are independent third parties of the Company) are converted into A shares of AVIC Avionics, while the Convertible Corporate Bonds held by the Company are not converted, the Company's shareholding ratio in AVIC Avionics will be diluted from 43.22% to 40.18%, representing an approximate 3.04% decrease. In that case, AVIC Avionics will remain as a connected subsidiary of the Company and the accounts of AVIC Avionics will continue to be consolidated into the accounts of the Group.

4. Financial Effects of the Subscription and the Deemed Disposal

Under the abovementioned assumption of Deemed Disposal that all CB Holders (other than the Company) exercise their conversion rights, based on the amount of pro forma net assets attributable to the parent company as at 30 September 2017 and after the Issuance of Convertible Corporate Bonds, prior to taking into account of the financial performance of AVIC Avionics for the period from 1 October 2017 to the date of the announcement, the estimated gain on the Deemed Disposal of 3.04% of the equity interest in AVIC Avionics by the Company is approximately RMB600 million and the estimated gain will be recorded into the equity accounts.

The exact financial effects of the Deemed Disposal are subject to calculation according to the final actual conversion situation of all the Convertible Corporate Bonds and the financial information as at the time point of conversion.

The Company is considering selling the Convertible Corporate Bonds it holds in the market at the right time in the future, thus the final financial effects may be different from what disclosed above. The Company will comply with the applicable Hong Kong Listing Rules in due course.

IV. REASONS FOR AND BENEFITS OF CONDUCTING THE SUBSCRIPTION

The Subscription is beneficial to optimizing the capital structure of the Group, raising the working capital and the funds for investment project funds of AVIC Avionics, promoting the constant development of the avionics business of the Group and achieving strategic

transformation of the member companies of the Group.

Directors (including independent non-executive Directors) are of the opinion that, the Subscription is on normal commercial terms, and the terms of the Subscription and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

V. 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 AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. As at the date of this announcement, AVIC Avionics is held as to 43.22% by the Company. AVIC Avionics is mainly engaged in the manufacture of avionics products and related accessories.

Set out below are the audited consolidated financial information of AVIC Avionics prepared in accordance with Chinese Accounting Standards for Business Enterprises for the two years ended 31 December 2015 and 2016:

	For the years ended 31 December	
	2015	2016
	<i>(RMB 100 million)</i>	<i>(RMB 100 million)</i>
Net profit (loss) before taxation and extraordinary items	4.77	4.60
Net profit (loss) after taxation and extraordinary items	2.64	3.25

The book value of the net assets of AVIC Avionics as at 30 September 2017 prepared in accordance with Chinese Accounting Standards for Business Enterprises was approximately RMB6,202 million.

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 Avionics Systems

AVIC Avionics Systems is a limited liability company incorporated in the PRC and a wholly-owned subsidiary of AVIC, and is mainly engaged in the development, production, sales and services of aircraft and engine airborne avionics systems and equipment.

VI. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, the Company holds 43.22% of the equity interest in AVIC Avionics. Meanwhile, AVIC, AVIC Avionics Systems and Hanzhong Aviation Industry (Group) Co., Ltd.* hold 7.85%, 17.99% and 6.23% of the equity interest in AVIC Avionics, respectively. Therefore, AVIC Avionics is a connected subsidiary of the Company.

The Subscription of the Company for the Convertible Corporate Bonds constitutes the provision of financial assistance by the Company to its connected subsidiary, and thus constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio for the provision of financial assistance by the Company exceeds 0.1% but is less than 5%, the provision of financial assistance by the Company is subject to reporting and announcement requirements, but exempt from independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

The Subscriptions of AVIC and AVIC Avionics Systems for the Convertible Corporate Bonds constitute the provisions of financial assistance by the connected persons of the Company to the Group, and thus constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. The full irrevocable joint liability guarantee provided by AVIC for the redemption at maturity of the Issuance of Convertible Corporate Bonds also constitutes the provision of financial assistance by a connected person to the Group, and thus constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the abovementioned Subscriptions and guarantee are conducted on normal commercial terms, are not required to be secured by providing any asset of the Group for AVIC and AVIC Avionics Systems, and the highest applicable percentage ratios for the Subscriptions by AVIC and AVIC Avionics are both less than 5%, the abovementioned provisions of financial assistance are exempt from all the reporting and announcement requirements and the independent Shareholders' approval requirement under rule 14A.90 of the Hong Kong Listing Rules.

Assuming the Convertible Corporate Bonds held by all the other CB Holders (so far as the Company is aware, other than AVIC and AVIC Avionics Systems, the other CB Holders are independent third parties of the Company) are converted into A shares of AVIC Avionics, while the Convertible Corporate Bonds held by the Company are not converted, the Company's shareholding ratio in AVIC Avionics will be diluted from 43.22% to 40.18%, representing an approximate 3.04% decrease, which constitutes a deemed disposal under Chapter 14 of the Hong Kong Listing Rules. As the highest applicable percentage ratio for such Deemed Disposal exceeds 5% but is less than 25%, such Deemed Disposal constitutes a discloseable transaction of the Company and is subject to reporting and announcement requirements but exempt from Shareholders' approval requirement under Chapter 14 of the Hong Kong Listing Rules.

Assuming the Convertible Corporate Bonds held by AVIC and AVIC Avionics Systems are converted into A shares of AVIC Avionics, while the Convertible Corporate Bonds held by the Company and CB Holders other than AVIC and AVIC Avionics Systems are not converted, the Company's shareholding ratio in AVIC Avionics will be diluted from 43.22% to 42.18%, representing an approximate 1.04% decrease, which constitutes a deemed disposal under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratio for such Deemed Disposal exceeds 0.1% but is less than 5%, such Deemed Disposal is subject to reporting and announcement requirements, but exempt from independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Wu Xiandong and Mr. Li Yao, the Directors, who are chairman, general manager, vice general manager and chief accountant of AVIC, respectively, have been abstained from voting on the relevant Board resolution approving the Convertible Corporate Bonds and the Subscription in accordance with the Company Law of the PRC and the

Hong Kong Listing Rules. Save for Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Wu Xiandong and Mr. Li Yao, none of the other Directors has or is deemed to have a material interest in the abovementioned connected transactions.

VII. DEFINITIONS

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

“AVIC”	China Aviation Industry Corporation* (中國航空工業集團公司), a controlling shareholder of the Company holding 58.57% of the equity interest in the Company as at the date of this announcement
“AVIC Avionics”	China Avionics Systems Co., Ltd.* (中航航空電子系統股份有限公司), a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange, a non-wholly-owned subsidiary of the Company with 43.22% of its equity interest held by the Company as at the date of this announcement
“AVIC Avionics Systems”	AVIC Avionics Systems Co., Ltd.* (中航航空電子系統有限公司), a wholly-owned subsidiary of AVIC
“Board”	the board of directors of the Company
“CB Holder(s)”	holder(s) of the Convertible Corporate Bonds
“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”	has the same meaning as defined in the Hong Kong Listing Rules
“connected subsidiary”	has the same meaning as defined in the Hong Kong Listing Rules
“Convertible Corporate Bonds”	the convertible corporate bonds issued by AVIC Avionics with a total amount of proceeds being RMB2.4 billion which are convertible into A shares of AVIC Avionics
“CSRC”	China Securities Regulatory Commission
“Deemed Disposal”	the deemed disposal of AVIC Avionics by the Company as a result of the Issuance of Convertible Corporate Bonds and the Subscription
“Director(s)”	the director(s) of the Company

“Group”	the Company and its subsidiaries
“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
“Issuance of Convertible Corporate Bonds”	the issuance of the Convertible Corporate Bonds of AVIC Avionics with a total amount of RMB2.4 billion
“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 exercise of Pre-emptive Rights by the Company, AVIC or AVIC Avionics Systems (as the case may be) to subscribe for the Convertible Corporate Bonds
“%”	per cent

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

Beijing, 26 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 purposes only*