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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 1 February 2018, the Company entered into the Joint Venture Agreement with AVIC Manufacturing Institute, AVIC High-Technology and Hangyi Zhongchi in relation to the proposed establishment of Hangwei High-Technology. Pursuant to the Joint Venture Agreement, the Company agreed to make a capital contribution of RMB95 million in cash, representing 38% of the total capital contribution of Hangwei High-Technology.

As at the date of this announcement, AVIC is the controlling shareholder of the Company. AVIC Manufacturing Institute is a subsidiary of AVIC. AVIC High-Technology is owned as to 42.86% by AVIC High-Technology Development Co., Ltd.* (中航高科技發展有限公司), a wholly-owned subsidiary of AVIC, and is therefore a 30%-controlled company of AVIC High-Technology Development Co., Ltd.* Therefore, both AVIC Manufacturing Institute and AVIC High-Technology are connected persons of the Company and the entering into of the Joint Venture Agreement 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 transaction under the Joint Venture Agreement is more than 0.1% but less than 5%, the entering into of the Joint Venture Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

A. INTRODUCTION

On 1 February 2018, the Company entered into the Joint Venture Agreement with AVIC Manufacturing Institute, AVIC High-Technology and Hangyi Zhongchi in relation to the proposed establishment of Hangwei High-Technology.

B. THE JOINT VENTURE AGREEMENT

The principal terms of the Joint Venture Agreement are summarized as follows:

1. Date

1 February 2018

2. Parties

- (i) the Company;
- (ii) AVIC Manufacturing Institute;
- (iii) AVIC High-Technology; and
- (iv) Hangyi Zhongchi

3. Capital contribution

The registered capital of Hangwei High-Technology shall be RMB250 million, among which the Company shall contribute RMB95 million in cash, representing 38% of the registered capital; AVIC Manufacturing Institute shall contribute RMB100 million (RMB72 million in non-monetary properties (subject to valuation) and the outstanding amount in cash), representing 40% of the registered capital; AVIC High-Technology shall contribute RMB45 million in cash, representing 18% of the registered capital; and Hangyi Zhongchi shall contribute RMB10 million in cash, representing 4% of the registered capital.

The capital contribution of Hangwei High-Technology shall be paid as follows:

- (i) The contribution in cash of AVIC Manufacturing Institute, the Company and AVIC High-Technology shall be paid within 60 days after the date of establishment of Hangwei High-Technology (i.e., the date of issuance of its certificate of incorporation, the “**Date of Establishment**”);
- (ii) The contribution in cash of Hangyi Zhongchi shall be paid by two installments: (a) 30% of the contribution amount shall be paid within 60 days after the Date of Establishment, and (b) the outstanding amount shall be paid within two years after the Date of Establishment; and
- (iii) The contribution in non-monetary properties of AVIC Manufacturing Institute shall be realised by transferring the relevant property rights and delivering the properties for use to Hangwei High-Technology within six months after the Date of Establishment.

4. Board composition

The board of directors of Hangwei High-Technology will consist of five members, of which two directors will be nominated by the Company, one director will be nominated by AVIC Manufacturing Institute, one director will be nominated by AVIC High-Technology and one director will be an employee representative director.

5. Business scope

The business scope of Hangwei High-Technology is expected to include research and development of aviation connection technology and assembly technology, research and development, manufacture and sales of related technology products; research and development, manufacture and sales of special tools and equipment for aviation connection technology and assembly technology; development of related software; consultation and technical services of related technologies (subject to the approval by the industrial and commercial administrative organs).

6. Terms of effectiveness

The Joint Venture Agreement shall become effective after being signed by all parties and having obtained the relevant approvals from the relevant State-owned assets management department.

7. Share transfer

The parties are not allowed to transfer their shares in Hangwei High-Technology within three years after the Date of Establishment of Hangwei High-Technology without unanimous consensus of all the shareholders. The transfer of all or part of the shares in Hangwei High-Technology by the shareholder to a third party other than the current shareholders shall be subject to the approval of more than half of the other shareholders and shall be given a thirty-day notice to other shareholders. The other shareholders shall have the pre-emptive right under the same conditions .

The parties agreed that AVIC Manufacturing Institute will consolidate the financial statements of Hangwei High-Technology as its subsidiary. All other shareholders shall provide assistance according to the respective laws and financial accounting standards in this regard.

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

Upon establishment of Hangwei High-Technology, Hangwei High-Technology will be owned as to 38%, 40%, 18% and 4% by the Company, AVIC Manufacturing Institute, AVIC High-Technology and Hangyi Zhongchi, respectively.

The entering into of the Joint Venture Agreement will help the Group to continuously expand its industrial investment in aviation high-tech industries, especially for entering into the area of aviation connection technology and assembly technology for the first time as well as obtain benefits from investment, which is in line with the business strategies of the Group, i.e. continuingly improving the related industry chains.

The transaction under the Joint Venture Agreement has been 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 Joint Venture 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. AVIC Manufacturing Institute is a subsidiary of AVIC. AVIC High-Technology is owned as to 42.86% by AVIC High-Technology Development Co., Ltd.* (中航高科技發展有限公司), a wholly-owned subsidiary of AVIC, and is therefore a 30%-controlled company of AVIC High-Technology Development Co., Ltd.* Therefore, both AVIC Manufacturing Institute and AVIC High-Technology are connected persons of the Company and the entering into of the Joint Venture Agreement 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 transaction under the Joint Venture Agreement is more than 0.1% but less than 5%, the entering into of the Joint Venture Agreement 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. 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 Joint Venture 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 and development, manufacture and sales of civil aviation products, and relevant engineering services.

Information on AVIC Manufacturing Institute

AVIC Manufacturing Institute is mainly engaged in the foundation research, application and engineering transformation research for aviation materials, manufacturing processes, special equipment, etc.

Information on AVIC High-Technology

AVIC High-Technology is mainly engaged in aviation new materials business, real estate business and equipment business (with focus on machine tools).

Information on Hangyi Zhongchi

Hangyi Zhongchi is the shareholding platform enterprise established for the management and technical team of Hangwei High-Technology.

F. DEFINITIONS

“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 58.57% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC High-Technology”	AVIC Aviation High-Technology Co. Ltd.* (中航航空高科技股份有限公司), a joint stock limited liability company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange (stock code: 600862)
“AVIC Manufacturing Institute”	AVIC Manufacturing Technology Institute* (中國航空製造技術研究院), a comprehensive research institute in aviation manufacturing technology and 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
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hangwei High-Technology”	Beijing Hangwei High-Technology Connection Technology Co., Ltd.* (北京航為高科連接技術有限公司), a limited liability company proposed to be established in the PRC, the name of which is subject to the approval by the industrial and commercial administrative organs
“Hangyi Zhongchi”	Beijing Hangyi Zhongchi Science and Technology Centre (Limited Partnership)* (北京航藝眾持科技中心(有限合伙)), the shareholding platform enterprise established for the management and technical team of Hangwei High-Technology
“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 Agreement”	the joint venture agreement entered into by the Company with AVIC Manufacturing Institute, AVIC High-

Technology and Hangyi Zhongchi on 1 February 2018 in relation to the establishment of Hangwei High-Technology

“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*
Xu Bin
Company Secretary

Beijing, 1 February 2018

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*