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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 15 March 2018, to promote the industrialization for the aviation high-tech achievements of aviation research institutes, the Company entered into the Joint Venture Agreement with Electronics Research Institute, Avionics Systems, Aviclub Holding, Advanced Avionics and Hanggong Management in relation to the proposed establishment of AVIC ATM System. Pursuant to the Joint Venture Agreement, the Company agreed to make a capital contribution of RMB198 million in cash, representing 33% of the total capital contribution of AVIC ATM System.

As at the date of this announcement, AVIC is the controlling shareholder of the Company. Electronics Research Institute is a subsidiary institute of AVIC. Avionics Systems, Aviclub Holding and Advanced Avionics are subsidiaries of AVIC. Therefore, Electronics Research Institute, Avionics Systems, Aviclub Holding and Advanced Avionics are connected persons of the Company. 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

A. INTRODUCTION

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B. THE JOINT VENTURE AGREEMENT

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

1. Date

15 March 2018

2. Parties

- (i) Electronics Research Institute;
- (ii) the Company;
- (iii) Avionics Systems;
- (iv) Aviclub Holding;
- (v) Advanced Avionics; and
- (vi) Hanggong Management

3. Capital contribution

The registered capital of AVIC ATM System shall be RMB600 million, among which Electronics Research Institute shall contribute RMB192 million in non-monetary properties (subject to valuation), representing 32% of the registered capital; the Company shall contribute RMB198 million in cash, representing 33% of the registered capital; Avionics Systems shall contribute RMB90 million in cash, representing 15% of the registered capital; Aviclub Holding shall contribute RMB60 million in cash, representing 10% of the registered capital; Advanced Avionics shall contribute RMB42 million in non-monetary properties (subject to valuation), representing 7% of the registered capital; and Hanggong Management shall contribute RMB18 million in cash, representing 3% of the registered capital.

The capital contribution of AVIC ATM System shall be paid as follows:

- (i) The first 20% of the contribution in cash of each party shall be paid within 60 days from the establishment date of AVIC ATM System, and the remaining 80% of the contribution in cash shall be paid within six months from the establishment date of AVIC ATM System; and
- (ii) The contribution in non-monetary properties shall be transferred to AVIC ATM System within six months from the establishment date of AVIC ATM System (for those non-monetary properties that could be transferred directly, the transfer shall be completed within the aforesaid time limit; for those non-monetary properties whose transfer is subject to registration or filing formalities according to relevant laws and regulations, the transfer registration or filing procedures shall be completed within the aforesaid time limit).

4. Board composition

The board of directors of AVIC ATM System will consist of five members, of which, each of Electronics Research Institute, the Company, Avionics Systems and Aviclub Holding could nominate one director, and the remaining director will be an employee representative director.

5. Business scope

The business scope of AVIC ATM System is expected to mainly include research and development, manufacture, sales, service and subcontracting manufacture of various types of aviation parts and components, avionics products and accessories, air traffic management system and ancillary equipment, communication and navigation system and equipment, microelectronics and other avionics products.

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 AVIC ATM System within three years from the establishment date of AVIC ATM System without unanimous consensus of all the shareholders. After three years from the establishment date of AVIC ATM System, the transfer of all or part of the shares in AVIC ATM System 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 sixty-day notice to other shareholders. The other shareholders shall have the pre-emptive right under the same conditions.

8. Accounting treatment

The parties agreed that Electronics Research Institute will consolidate the financial statements of AVIC ATM System 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 AVIC ATM System, AVIC ATM System will be owned as to 32%, 33%, 15%, 10%, 7% and 3% by Electronics Research Institute, the Company, Avionics Systems, Aviclub Holding, Advanced Avionics and Hanggong Management, respectively.

The entering into of the Joint Venture Agreement will contribute to the industrialization development of the civil-military integration of aviation industry of the Company. Through participating in the investment of airspace integrated management business, the industrialization for the aviation high-tech achievements of aviation research institutes will be realized.

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. Electronics Research Institute is a subsidiary institute of AVIC. Avionics Systems, Aviclub Holding and Advanced Avionics are subsidiaries of AVIC. Therefore, Electronics Research Institute, Avionics Systems, Aviclub Holding and Advanced Avionics are connected persons of the Company. 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. Gu Huizhong and Mr. Gao Jianshe, Directors as at 15 March 2017, who were 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 Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules at the Board meeting convened by the Company on 15 March 2017. Save for disclosed above, none of the other Directors as at 15 March 2017 had or was 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 Electronics Research Institute

Electronics Research Institute is mainly engaged in research of avionics integrated technology, research and manufacture of avionic and aeronautical radio communication and navigation systems and products for military and civilian aircrafts; research and development as well as achievement transformation of relevant civilian electronic products.

Information on Avionics Systems

Avionics Systems is a subsidiary of AVIC, mainly engaged in the production of all kinds of aircrafts and engine-matching airborne avionics systems and equipment.

Information on Aviclub Holding

Aviclub Holding is a subsidiary of AVIC, mainly engaged in navigation town construction, fuel management, navigation operations, aviation clubs, pilot training, airport management, etc.

Information on Advanced Avionics

Advanced Avionics is a subsidiary of AVIC, mainly engaged in research and development, design, manufacture, sales and services of intelligent navigation and intelligent testing businesses, and is also focusing on intelligent manufacturing of sea-air integration.

Information on Hanggong Management

Hanggong Management is a shareholding platform enterprise established for the management and technical team of AVIC ATM System.

F. DEFINITIONS

“Advanced Avionics”	Shanghai Advanced Avionics Company Ltd.* (上海埃威航空電子有限公司), a limited liability company established in the PRC
“Hanggong Management”	Shanghai Hanggong Enterprise Management Centre (Limited Partnership)* (上海航恭企業管理中心 (有限合夥)), a limited partnership established in the PRC
“AVIC”	Aviation Industry Corporation of China, Ltd.* (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 ATM System”	AVIC Air Traffic Management System Equipment Co., Ltd.* (中航工業空管系統裝備有限責任公司) (subject to the approval by the industrial and commercial administrative organs), the limited liability company to be established in the PRC pursuant to the Joint Venture Agreement
“Aviclub Holding”	Aviclub Holding Co., Ltd.* (愛飛客控股有限責任公司), a limited liability company established in the PRC
“Avionics Systems”	AVIC Avionics Systems Co., Ltd.* (中航航空電子系統有限責任公司), a limited liability company established in the PRC
“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
“Electronics Research Institute”	Chinese Aeronautical Radio Electronics Research Institute* (中國航空無線電電子研究所), a research institute established in the PRC
“Group”	the Company and its subsidiaries
“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 Electronics Research Institute, Avionics Systems, Aviclub Holding, Advanced Avionics and Hanggong Management on 15 March 2018 in relation to the establishment of AVIC ATM System
“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, 15 March 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*