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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)**

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**SUBSCRIPTION OF NEW CITC A SHARES  
BY THE COMPANY AND AVIC AVIONICS**

CITC (whose A shares are listed on the Shenzhen Stock Exchange) is proposing to launch a major assets reorganization, including issuing shares to AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group to acquire 100% equity interest held by them in each of Shenyang Aircraft Group, Chengdu Aircraft Group and Hongdu Technology, thereby to realize the listing of the assets of defense equipment business of AVIC.

To participate in new aviation manufacturing business, and improve the investment structure of the Group, on 16 May 2014, the Company and AVIC Avionics, a non wholly-owned subsidiary of the Company, entered into share subscription agreements with CITC respectively, subject to conditions, one of which is the Share Issuance and Asset Purchase Agreement(s) executed between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group having become effective. Pursuant to the Share Subscription Agreements, the Company has conditionally agreed to subscribe for not more than 100,301,200 new CITC A Shares for a total consideration of not more than RMB1,665 million in cash; and AVIC Avionics has conditionally agreed to subscribe for 33,132,500 new CITC A Shares for a total consideration of not more than RMB550 million in cash.

The Company indirectly holds 0.95% equity interest in CITC currently and the Group will in aggregate hold approximately 8.45% equity interest in CITC upon completion of the Share Subscriptions. The final number of shares to be subscribed by and the consideration to be paid by the Company and AVIC Avionics respectively shall be subject to the shareholders' approval of CITC at its general meeting after the same have been approved by the competent government authorities.

As at the date of this announcement, AVIC holds 51.26% equity interest in the Company and is the controlling shareholder of the Company. AVIC also holds 51.33% equity interest in CITC. Pursuant to the Hong Kong Listing Rules, CITC is a connected person of the Company. The entering into of the Share Subscription Agreement of the Company between the Company and CITC therefore constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As AVIC Avionics is a non wholly-owned subsidiary of the Company, the entering into of the Share Subscription Agreement of AVIC Avionics between AVIC Avionics and CITC therefore also 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 Share Subscription of the Company and the Share Subscription of AVIC Avionics on an aggregate basis is more than 5% but less than 25%, the Share Subscriptions also constitute a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. As such, the Share Subscriptions are subject to the reporting, announcement and Independent Shareholders' approval requirements.

An Independent Board Committee comprising all of the independent non-executive Directors will be established by the Company to advise the Independent Shareholders on the Share Subscriptions. An independent financial adviser will also be appointed to advise the Independent Board Committee and the Independent Shareholders on the Share Subscriptions.

The EGM will be convened and held by the Company to consider and, if thought fit, approve the Share Subscriptions. The notice convening the EGM will be despatched to the shareholders as soon as possible. A circular containing, among other things, (i) further details of the Share Subscriptions; (ii) a letter from the Independent Board Committee containing its opinion and recommendation to the Independent Shareholders in respect of the Share Subscriptions; and (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its opinion and recommendation in respect of the Share Subscriptions will be despatched to the Shareholders on or before 10 June 2014.

## **A. INTRODUCTION**

On 23 December 2013, CITC (whose A shares are listed on the Shenzhen Stock Exchange) published an announcement on suspension of trading due to a proposed major assets reorganization. On 16 May 2014, CITC entered into the Share Issuance and Asset Purchase Agreement(s) with AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group, pursuant to which, CITC will issue shares to AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group to acquire 100% equity interest held by them in each of Shenyang Aircraft Group,

Chengdu Aircraft Group and Hongdu Technology, thereby to realize the listing of the assets of defense equipment business of AVIC.

On 16 May 2014, the Company and AVIC Avionics entered into Share Subscription Agreements with CITC respectively, subject to conditions, one of which is the Share Issuance and Asset Purchase Agreement(s) executed between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group having become effective. CITC intends to place new CITC A Shares to ten specific investors including the Company and AVIC Avionics, with a total issuance value of not more than RMB5,282.41 million. Pursuant to the Share Subscription Agreements, the Company has conditionally agreed to subscribe for not more than 100,301,200 new CITC A Shares for a total consideration of not more than RMB1,665 million in cash; and AVIC Avionics has conditionally agreed to subscribe for 33,132,500 new CITC A Shares for a total consideration of not more than RMB550 million in cash.

The Company indirectly holds 0.95% equity interest in CITC currently and the Group will in aggregate hold approximately 8.45% equity interest in CITC upon completion of the Share Subscriptions. The final number of shares to be subscribed by and the consideration to be paid by the Company and AVIC Avionics respectively shall be subject to the shareholders' approval of CITC at its general meeting after the same have been approved by the competent government authorities.

## **B. THE SHARE SUBSCRIPTION AGREEMENT OF THE COMPANY**

A summary of the principal terms of the Share Subscription Agreement of the Company is set out as follows:

### **1. Date**

16 May 2014

### **2. Parties**

- (i) the Company as the subscriber; and
- (ii) CITC as the issuer.

### **3. Consideration**

Not more than RMB1,665 million in cash

### **4. Price**

Pursuant to the Share Subscription Agreement of the Company, the subscription price of the new CITC A Shares to be placed by CITC is RMB16.60 per share, being the average trading price of CITC A Shares quoted on the Shenzhen Stock Exchange for the 20 trading days immediately preceding the Price Determination Date after considering the profit distribution plan of CITC for the year 2013. If any ex-dividend

or ex-entitlement event occurs during the period between the Price Determination Date and the issue date of new CITC A Shares, the subscription price of new CITC A Shares to be placed by CITC and the number of shares to be subscribed by the Company shall be adjusted accordingly. The subscription price of new CITC A Shares and the number of shares to be subscribed by the Company will be subject to the shareholders' approval of CITC at its general meeting after the same have been approved by the competent government authorities.

#### **5. Lock-up period**

Pursuant to the Share Subscription Agreement of the Company, the new CITC A Shares to be subscribed by the Company shall be subject to a lock-up period of 36 months commencing from the date of listing.

#### **6. Conditions precedent to the Share Subscription Agreement of the Company becoming effective**

The Share Subscription Agreement of the Company shall become effective upon the fulfillment of, among other things, the following conditions:

- (i) the Share Subscription Agreement of the Company having been duly executed by the authorised representatives or legal representatives of the parties;
- (ii) the CITC Placing having been approved by the board of directors and the general meeting of CITC;
- (iii) the Share Issuance and Asset Purchase Agreement(s) executed between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group having become effective;
- (iv) the Company having performed all necessary internal approval procedures pursuant to its articles of association and the Hong Kong Listing Rules, including but not limited to, the approvals of the Board and general meeting on the Share Subscriptions;
- (v) the transactions contemplated under the CITC Placing having been approved by SASAC; and
- (vi) the transactions contemplated under the CITC Placing having been approved by the CSRC.

### **C. THE SHARE SUBSCRIPTION AGREEMENT OF AVIC AVIONICS**

A summary of the principal terms of the Share Subscription Agreement of AVIC Avionics is set out as follows:

#### **1. Date**

16 May 2014

#### **2. Parties**

- (i) AVIC Avionics as the subscriber; and
- (ii) CITC as the issuer.

### **3. Consideration**

Not more than RMB550 million in cash

### **4. Price**

Pursuant to the Share Subscription Agreement of AVIC Avionics, the subscription price of the new CITC A Shares to be placed by CITC is RMB16.60 per share, being the average trading price of CITC A Shares quoted on the Shenzhen Stock Exchange for the 20 trading days immediately preceding the Price Determination Date after considering the profit distribution plan of CITC for the year 2013. If any ex-dividend or ex-entitlement event occurs during the period between the Price Determination Date and the issue date of new CITC A Shares, the subscription price of new CITC A Shares to be placed by CITC and the number of shares to be subscribed by AVIC Avionics shall be adjusted accordingly. The subscription price of new CITC A Shares and the number of shares to be subscribed by AVIC Avionics will be subject to the shareholders' approval of CITC at its general meeting after the same have been approved by the competent government authorities.

### **5. Lock-up period**

Pursuant to the Share Subscription Agreement of AVIC Avionics, the new CITC A Shares to be subscribed by AVIC Avionics shall be subject to a lock-up period of 36 months commencing from the date of listing.

### **6. Conditions precedent to the Share Subscription Agreement of AVIC Avionics becoming effective**

The Share Subscription Agreement of AVIC Avionics shall become effective upon the fulfillment of, among other things, the following conditions:

- (i) the Share Subscription Agreement of AVIC Avionics having been duly executed by the authorised representatives or legal representatives of the parties;
- (ii) the CITC Placing having been approved by the board of directors and the general meeting of CITC;
- (iii) the Share Issuance and Asset Purchase Agreement(s) executed between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group having become effective;
- (iv) AVIC Avionics having performed all necessary internal approval procedures pursuant to its articles of association and the Hong Kong Listing Rules, including but not limited to, the approvals of the board of directors and general meeting on the Share Subscription of AVIC Avionics;
- (v) the Company having performed all necessary internal approval procedures pursuant to its articles of association and the Hong Kong Listing Rules, including but not limited to, the approvals of the Board and general meeting on the Share Subscriptions;
- (vi) the transactions contemplated under the CITC Placing having been approved by SASAC; and

(vii) the transactions contemplated under the CITC Placing having been approved by the CSRC.

#### **D. REASONS FOR AND BENEFITS OF THE SHARE SUBSCRIPTIONS**

As the defense equipment assets to be acquired by CITC are important assets of AVIC, the subscriptions of new CITC A Shares by the Company and AVIC Avionics are in line with the development strategies of the Company, facilitate the participation by the Group in a more diversified aviation business and improve the Group's investment structure.

The Directors (excluding the independent non-executive Directors who will give their opinions in the letter of the Independent Board Committee) are of the view that the terms of the Share Subscription Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Each of the Directors, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, who is general manager, vice general manager and vice general manager of AVIC, respectively, is deemed to have a material interest in the Share Subscriptions and accordingly, they had abstained from voting on the Board resolution approving the Share Subscription Agreements in accordance with the Company Law of the PRC and the Hong Kong Listing Rules.

#### **E. HONG KONG LISTING RULES IMPLICATIONS**

As at the date of this announcement, AVIC holds 51.26% equity interest in the Company and is the controlling shareholder of the Company. AVIC also holds 51.33% equity interest in CITC. Pursuant to the Hong Kong Listing Rules, CITC is a connected person of the Company. The entering into of the Share Subscription Agreement of the Company between the Company and CITC therefore constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As AVIC Avionics is a non wholly-owned subsidiary of the Company, the entering into of the Share Subscription Agreement of AVIC Avionics between AVIC Avionics and CITC therefore also 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 Share Subscription of the Company and the Share Subscription of AVIC Avionics on an aggregate basis is more than 5% but less than 25%, the Share Subscriptions also constitute a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules. As such, the Share Subscriptions are subject to the reporting, announcement and Independent Shareholders' approval requirements.

An Independent Board Committee comprising all of the independent non-executive Directors will be established by the Company to advise the Independent Shareholders

on the Share Subscriptions. An independent financial adviser will also be appointed to advise the Independent Board Committee and the Independent Shareholders on the Share Subscriptions.

## **F. GENERAL INFORMATION**

### *Information on the Company*

The Company is a joint stock company with limited liability 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 CITC*

CITC is a joint stock company with limited liability listed on the Shenzhen Stock Exchange with a registered capital of RMB345,188,382. It is principally engaged in the development and research, manufacture and sales of the products such as automotive panel die, parts and components of auto body and lithium battery new energy. CITC is held as to 51.33% equity interest by AVIC as at the date of this announcement.

Based on the audited financial statements of CITC prepared in accordance with the PRC accounting standards, as at 31 December 2013, the total assets and the net assets value of CITC amounted to RMB3,093,522,525.24 and RMB1,602,282,033.45 respectively. For the year ended 31 December 2013, the net profits (before and after tax and extraordinary items) of CITC amounted to RMB52,817,956.19 and RMB38,176,268.35, respectively. For the year ended 31 December 2012, the net profits (before and after tax and extraordinary items) of CITC amounted to RMB60,059,409.43 and RMB51,602,935.90, respectively.

### *Information on AVIC Avionics*

AVIC Avionics is a joint stock company with limited liability 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% equity interest by the Company. AVIC Avionics is mainly engaged in the manufacture of avionics products and related accessories.

### *Information on AVIC*

AVIC is directly 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. As at the date of the announcement, AVIC holds 51.26% equity interest of the Company and is the controlling shareholder of the Company.

*Information on Shenyang Aircraft Group*

Shenfei Aircraft Group is a subsidiary of AVIC with 94.15% of its equity interest being held by AVIC as at the date of the announcement. It is mainly engaged in the research and bulk production of fighter aircraft of various types and models, and parts and components of fighter aircraft.

*Information on Chengdu Aircraft Group*

Chengdu Aircraft Group is a wholly-owned subsidiary of AVIC. It is mainly engaged in the research, manufacture, export of fighter aircraft and manufacture of parts and components of civil aircraft.

*Information on Hongdu Technology*

Hongdu Technology is an indirect subsidiary of AVIC. It is mainly engaged in the research and manufacture of air-to-ground missiles and manufacture of aviation parts and components.

**G. EGM**

The EGM will be convened and held by the Company to consider and, if thought fit, approve the Share Subscriptions. The notice convening the EGM will be despatched to the shareholders as soon as possible. A circular containing, among other things, (i) further details of the Share Subscriptions; (ii) a letter from the Independent Board Committee containing its opinion and recommendation to the Independent Shareholders in respect of the Share Subscriptions; and (iii) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its opinion and recommendation in respect of the Share Subscriptions will be despatched to the Shareholders on or before 10 June 2014.

**DEFINITIONS:**

<b>“AVIC”</b>	Aviation Industry Corporation of China* (中國航空工業集團公司), the controlling shareholder of the Company holding 51.26% equity interest in the Company as at the date of this announcement
<b>“AVIC Avionics”</b>	China AVIC Electronics Co., Ltd. (中航機載電子股份有限公司, a non wholly-owned subsidiary of the Company with its 43.22% equity interest held by the Company as at the date of this announcement
<b>“Board”</b>	the board of directors of the Company
<b>“Chengdu Aircraft</b>	Chengdu Aircraft Industrial (Group) Co., Ltd. (成都飛機工



<b>Group”</b>	業（集團）有限責任公司), a wholly-owned subsidiary of AVIC
<b>“CITC”</b>	Sichuan Chengfei Integration Technology Co., Ltd. (四川成飛集成科技股份有限公司), a company incorporated in the PRC whose A shares are listed on the Shenzhen Stock Exchange
<b>“CITC A Shares”</b>	A shares of CITC listed on the Shenzhen Stock Exchange with a par value of RMB1.00 per share
<b>“CITC Placing”</b>	the proposed placing by CITC of not more than 318,217,500 new CITC A Shares placed to ten specific investors including the Company to raise liquidity funds for the development of the defense assets to be acquired under the Share Issuance and Asset Purchase Agreement(s), details of which can be referred to in the announcement of CITC made on the Shenzhen Stock Exchange on 16 May 2014
<b>“Company”</b>	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司)
<b>“CSRC”</b>	China Securities Regulatory Commission (中國證券監督管理委員會)
<b>“Directors”</b>	the director(s) of the Company
<b>“EGM”</b>	an extraordinary general meeting of the Company to be convened and held for the purposes of considering and, if thought fit, approving, among other things, the Share Subscription Agreements and the Share Subscriptions
<b>“Group”</b>	the Company and its subsidiaries
<b>“Hongdu Aviation Group”</b>	Jiangxi Hongdu Aviation Industry (Group) Corporation Limited (江西洪都航空工業集團有限責任公司), a wholly-owned subsidiary of AVIC
<b>“Hongdu Technology”</b>	Jiangxi Hongdu Technology Corporation Limited (江西洪都科技有限責任公司), a wholly-owned subsidiary of Hongdu Aviation Group
<b>“Hong Kong Listing Rules”</b>	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to

time)

<b>“Hong Kong Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Independent Board Committee”</b>	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, to advise the Independent Shareholders in respect of the Share Subscriptions
<b>“Independent Shareholders”</b>	Shareholders of the Company (other than AVIC and its associates) who are not required to abstain from voting on the resolution to be proposed at the EGM to approve the Share Subscriptions
<b>“PRC”</b>	the People’s Republic of China
<b>“Price Determination Date”</b>	17 May 2014
<b>“RMB”</b>	Renminbi, the lawful currency of the PRC
<b>“SASAC”</b>	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
<b>“Share Issuance and Asset Purchase Agreement(s)”</b>	the share issuance and asset purchase agreement(s) entered into between CITC and AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group on 16 May 2014, pursuant to which, CITC will place new CITC A Shares to AVIC, China Huarong Assets Management Co., Ltd. and Hongdu Aviation Group to acquire relevant defense assets held by them
<b>“Share Subscriptions”</b>	the Share Subscription of AVIC Avionics and the Share Subscription of the Company
<b>“Share Subscription Agreements”</b>	the Share Subscription Agreement of AVIC Avionics and the Share Subscription Agreement of the Company
<b>“Share Subscription Agreement of AVIC Avionics”</b>	a conditional share subscription agreement entered into between AVIC Avionics and CITC on 16 May 2014, pursuant to which, the Company has conditionally agreed to subscribe

for 33,132,500 new CITC A Shares for a total consideration of not more than RMB550 million in cash

**“Share Subscription Agreement of the Company”** a conditional share subscription agreement entered into between the Company and CITC on 16 May 2014, pursuant to which, the Company has conditionally agreed to subscribe for not more than 100,301,200 new CITC A Shares for a total consideration of not more than RMB1,665 million in cash

**“Share Subscription of AVIC Avionics”** Pursuant to the Share Subscription Agreement of AVIC Avionics, AVIC Avionics has conditionally agreed to subscribe for 33,132,500 new CITC A Shares for a total consideration of not more than RMB550 million in cash

**“Share Subscription of the Company”** Pursuant to the Share Subscription Agreement of the Company, the Company has conditionally agreed to subscribe for not more than 100,301,200 new CITC A Shares for a total consideration of not more than RMB1,665 million in cash

**“Shenyang Aircraft Group”** Shenyang Aircraft Corporation (瀋陽飛機工業(集團)有限公司), a subsidiary of AVIC with 94.15% equity interest held by AVIC as at the date of the announcement

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

Beijing, 16 May 2014

*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. Sheng Mingchuan and Mr. Maurice Savart as well as independent non-executive Directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.*

*\* For identification purposes only.*