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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**

### **CAPITAL INJECTION TO AVIC LITHIUM**

Reference is made to the announcement of the Company dated 6 July 2010. The Board announces that on 15 November 2010, (i) Hongdu Aviation, a non wholly-owned subsidiary of the Company, (ii) AVIC Lithium, (iii) Chengfei Integration, (iv) CAMA, (v) AVIC, (vi) AVIC Capital, (vii) Aviation Investment and (viii) Xinghang Capital entered into the Capital Increase Agreement, pursuant to which the Investors have agreed to make capital contribution of RMB1,333,000,000 in aggregate to AVIC Lithium. As of the date of this announcement, AVIC Lithium is indirectly wholly-owned by AVIC through CAMA. Upon completion of the Capital Injection, AVIC Lithium will be owned as to 63.63%, 16.84%, 3.43%, 2.81%, 9.67%, 2.37% and 1.25% by Chengfei Integration, CAMA, AVIC, AVIC Capital, Aviation Investment, Hongdu Aviation and Xinghang Capital, respectively.

As at the date of this announcement, AVIC, the Controlling Shareholder of the Company, is interested in 100%, 70.77%, 100%, 100% and 33% equity interests in AVIC Lithium, Chengfei Integration, CAMA, AVIC Capital and Aviation Investment, respectively. Pursuant to Chapter 14A of the Listing Rules, AVIC, AVIC Lithium, Chengfei Integration, CAMA, AVIC Capital and Aviation Investment are connected persons of the Company. Accordingly, the entering into of the Capital Increase Agreement by Hongdu Aviation with, among other parties, AVIC, AVIC Lithium, Chengfei Integration, CAMA, AVIC Capital and Aviation Investment will constitute a connected transaction for the Company.

As the highest of the applicable size test percentage ratios in relation to Hongdu Aviation's capital injection to AVIC Lithium is more than 0.1% but less than 5%, the entering into of the Capital Increase Agreement by Hongdu Aviation with, among other parties, AVIC, AVIC Lithium, Chengfei Integration, CAMA, AVIC Capital and Aviation Investment is subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **I. THE CAPITAL INCREASE AGREEMENT**

**Date:** 15 November 2010

**Parties:** (1) Hongdu Aviation;  
(2) AVIC Lithium;  
(3) Chengfei Integration;  
(4) CAMA;  
(5) AVIC;  
(6) AVIC Capital;  
(7) Aviation Investment; and  
(8) Xinghang Investment.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, so far as the Directors are aware, Xinghang Investment is a third party independent of the Company and its connected persons.

### **Capital Injections:**

Pursuant to the Capital Increase Agreement, the Investors have agreed to inject a total of RMB1,333,000,000 to AVIC Lithium, of which:

- (i) Hongdu Aviation will subscribe for the registered capital of RMB19,000,000 at a consideration of RMB38,000,000;
- (ii) Chengfei Integration will subscribe for the registered capital of RMB510,000,000 at a consideration of RMB1,020,000,000;
- (iii) AVIC will subscribe for the registered capital of RMB27,500,000 at a consideration of RMB55,000,000;
- (iv) AVIC Capital will subscribe for the registered capital of RMB22,500,000 at a consideration of RMB45,000,000;
- (v) Aviation Investment will subscribe for the registered capital of RMB77,500,000 at a consideration of RMB155,000,000; and
- (vi) Xinghang Investment will subscribe for the registered capital of RMB10,000,000 at a consideration of RMB20,000,000.

CAMA will not subscribe for registered capital in AVIC Lithium and its registered capital in AVIC Lithium will remain at RMB135,000,000 after completion of the Capital Injection.

The capital contribution will be made by the Investors in two phases. Phase 1 capital contribution amounting to RMB333,000,000 in aggregate will be made by the Investors within 30 days upon execution of the Capital Increase Agreement.

Phase 2 capital contribution amounting to RMB1,000,000,000 in aggregate will be made by Chengfei Integration within 30 days upon Chengfei Integration having completed its proposed non-public placing of shares and obtained the placing proceeds. The proposed non-public placing of the shares of Chengfei Integration is conditional upon the approvals by its shareholders at general meeting, SASAC and CSRC.

The Investors will make their respective capital contributions to AVIC Lithium as follows:

Investors	Form of contribution	Amount of capital contribution (RMB)	
		Phase 1	Phase 2
Hongdu Aviation	Cash	38,000,000	-
Chengfei Integration	Cash	20,000,000	1,000,000,000
AVIC	Cash	55,000,000	-
AVIC Capital	Cash	45,000,000	-
Aviation Investment	Cash	155,000,000	-
Xinghang Investment	Cash	20,000,000	-
	Sub-Total:	333,000,000	1,000,000,000
	<b>Total:</b>		<b>1,333,000,000</b>

The capital increase plan of AVIC Lithium and the subscription price of RMB2 per RMB1 registered capital of AVIC Lithium are determined with reference to the net asset value of AVIC Lithium as stated in the valuation report issued by an independent valuer namely, Shanghai Orient Certified Appraisal Co., Ltd., which has been filed with the authorized representative of SASAC. According to the valuation report, the appraised net asset value of AVIC Lithium as at 30 June 2010 was RMB270,000,000 in aggregate, amounting to a net asset value of RMB2 per RMB1 registered capital of AVIC Lithium.

The shareholding structure of AVIC Lithium before and after completion of the Capital Injection is set out as follows:

	Before completion of Capital Injection		After completion of Capital Injection	
	Amount of the registered capital of AVIC Lithium	Percentage	Amount of the registered capital of AVIC Lithium	Percentage
Hongdu Aviation	-	-	19,000,000	2.37%
Chengfei Integration	-	-	510,000,000	63.63%
CAMA	135,000,000	100%	135,000,000	16.84%
AVIC	-	-	27,500,000	3.43%
AVIC Capital	-	-	22,500,000	2.81%
Aviation Investment	-	-	77,500,000	9.67%
Xinghang Investment	-	-	10,000,000	1.25%
<b>Total:</b>	<b>135,000,000</b>	<b>100%</b>	<b>801,500,000</b>	<b>100%</b>

As of the date of this announcement, the registered capital of AVIC Lithium is RMB135,000,000. Upon completion of Capital Injection, the registered capital of AVIC Lithium will increase to RMB801,500,000.

The Investors are not under any contractual obligations and have no commitment to further funding of AVIC Lithium other than their respective capital contributions to AVIC Lithium under the Capital Increase Agreement.

#### **Business scope of AVIC Lithium:**

AVIC Lithium is principally engaged in the research and development, production, sales and marketing of lithium-ion battery and related integrated product as well as the import and export business of goods and technologies. Pursuant to the Capital Increase Agreement, AVIC Lithium will use the capital injected by the Investors for further development of its lithium-ion battery and related integrated product business.

#### **Constitution of the board of directors of AVIC Lithium:**

Upon completion of Phase 1 capital contribution, the board of directors of AVIC Lithium will comprise five (5) directors, including two (2) directors to be nominated by Chengfei Integration, one (1) director to be nominated by AVIC, one (1) director to be nominated by CAMA and one (1) director to be nominated by Aviation Investment.

Upon completion of Phase 2 capital contribution, two (2) additional directors to be nominated by Chengfei Integration will be appointed to the board of directors of AVIC Lithium. Accordingly, the board of directors of AVIC Lithium will comprise a total of seven (7) directors, including four (4) directors to be nominated by Chengfei Integration, one (1) director to be nominated by AVIC, one (1) director to be nominated by CAMA and one (1) director to be nominated by Aviation Investment.

**Sharing of profit and loss:**

Profit and loss of AVIC Lithium will be shared amongst the shareholders based on their respective actual capital contributions to the registered capital of AVIC Lithium.

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

In view of the favourable national policy support and optimistic development potential for new energy, the Company intends to gain a speedy entry to the lithium-ion battery new energy business by way of making the proposed capital injection, in order to capture the remarkable development opportunities and gain a better investment return.

The terms of the Capital Injection Agreement are agreed after arm's length negotiations amongst the Parties. The Directors consider that the terms of the Capital Injection Agreement are determined on normal commercial terms and that such terms are fair and reasonable so far as the Company and its shareholders as a whole are concerned, and that the capital contribution to be made by Hongdu Aviation to AVIC Lithium is in the interests of the Company and its shareholders as a whole.

**III. INFORMATION OF THE COMPANY AND THE PARTIES**

**The Company**

The Company is a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Stock Exchange. As at the date of this announcement, the Company is held as to 56.70% by AVIC, the Controlling Shareholder of the Company. The Company is mainly engaged in the research and development, manufacture and sales of civilian aviation products.

**Hongdu Aviation**

Hongdu Aviation, a joint stock limited company whose A shares are listed on the Shanghai Stock Exchange, is owned as to 43.63% by the Company and 4.38% by Hongdu Aviation Industry Group Ltd., a wholly-owned subsidiary of AVIC as at the date of this announcement. Hongdu Aviation is mainly engaged in the research, development, manufacture, sale and maintenance of basic training aircraft, general civilian aircraft as well as aviation spare parts. It is also engaged in subcontract manufacturing of aviation products.

## **AVIC Lithium**

AVIC Lithium is a limited liability company established in the PRC on 14 September 2009. It is a wholly-owned subsidiary of CAMA as at the date of this announcement. AVIC Lithium is principally engaged in the research and development, production, sales and marketing of lithium-ion battery and related integrated product as well as the import and export business of goods and technologies. According to the audited financial statements of AVIC Lithium prepared in accordance with the PRC Accounting Standards, the net loss of AVIC Lithium for the period ended 31 December 2009 before and after taxation and extraordinary items were approximately RMB3,000,200 and RMB2,250,200. According to the unaudited financial statements of AVIC Lithium prepared in accordance with the PRC Accounting Standards, the net profit of AVIC Lithium for the period ended 30 June 2010 before and after taxation and extraordinary items were approximately RMB5,027,800 and RMB3,694,500.

## **Chengfei Integration**

Chengfei Integration, a joint stock limited company whose A shares are listed on the Shenzhen Stock Exchange, is indirectly owned as to 70.77% by AVIC as at the date of this announcement. Chengfei Integration is mainly engaged in the design, research and manufacture of mould.

## **CAMA**

CAMA, a wholly-owned subsidiary of AVIC as at the date of this announcement.

## **AVIC**

AVIC, the Controlling Shareholder of the Company holding 56.70% equity interest in the Company as at the date of this announcement, 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 such as automobile engine and parts and components.

## **AVIC Capital**

AVIC Capital, a wholly-owned subsidiary of AVIC as at the date of this announcement, is mainly engaged in investment in enterprises, equity and investment consultant.

## **Aviation Investment**

Aviation Investment, a limited liability company established in the PRC, is owned as to 33% by AVIC through AVIC Capital as at the date of this announcement. Aviation Investment is mainly engaged in investment in stock and related consultancy service.

## **Xinghang Investment**

Xinghang Investment, a limited liability company established in the PRC, is mainly engaged in investment in industrial and investment consultancy services.

## **LISTING RULES IMPLICATIONS**

As of the date of this announcement, AVIC, the Controlling Shareholder of the Company, is interested in 100%, 70.77%, 100%, 100% and 33% equity interests in AVIC Lithium, Chengfei Integration, CAMA, AVIC Capital and Aviation Investment, respectively. Pursuant to Chapter 14A of the Listing Rules, AVIC, AVIC Lithium, Chengfei Integration, CAMA, AVIC Capital and Aviation Investment are connected persons of the Company. Accordingly, the entering into of the Capital Increase Agreement by Hongdu Aviation with, among other parties, AVIC, AVIC Lithium, Chengfei Integration, CAMA, AVIC Capital and Aviation Investment will constitute a connected transaction for the Company.

As the highest of the applicable size test percentage ratios in relation to Hongdu Aviation's capital injection to AVIC Lithium is more than 0.1% but less than 5%, the entering into of the Capital Increase Agreement by Hongdu Aviation with, among other parties, AVIC, AVIC Lithium, Chengfei Integration, CAMA, AVIC Capital and Aviation Investment is subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the transactions contemplated under the Capital Increase Agreement and thus no Director is required to abstain from voting on the board resolutions approving the Capital Increase Agreement in accordance with the Listing Rules.

## **DEFINITIONS**

<b>“Aviation Investment”</b>	Hangjian Aviation Industry Equity Investment (Tianjin) Co., Ltd.(航建航空產業股權投資(天津)有限公司), a limited liability company established in the PRC, is owned as to 33% by AVIC through AVIC Capital as at the date of this announcement.
<b>“AVIC”</b>	China Aviation Industry Corporation (中國航空工業集團公司), the Controlling Shareholder of the Company holding 56.70% equity interest in the Company
<b>“AVIC Capital”</b>	AVIC Capital Holdings Co., Ltd. (中航投資控股有限公司), a wholly-owned subsidiary of AVIC as at the date of this announcement
<b>“AVIC Lithium”</b>	China Aviation Lithium Battery (Luoyang) Co., Ltd. (中航鋰電(洛陽)有限公司), indirectly wholly-owned by AVIC through CAMA as at the date of this announcement

<b>“Board”</b>	the board of directors of the Company
<b>“CAMA”</b>	China Airborne Missile Academy (中國空空導彈研究院) a wholly-owned subsidiary of AVIC as at the date of this announcement
<b>“Capital Increase Agreement”</b>	the Capital Increase Agreement dated 15 November 2010 entered into between the Parties in respect of the Capital Injection
<b>“Capital Injection”</b>	an aggregate of RMB1,333,000,000 capital to be injected by the Investors to AVIC Lithium under the Capital Increase Agreement, details of which are set out under the section headed “Capital Injections” in this announcement
<b>“Chengfei Integration”</b>	Sichuan Chengfei Integration Technology Holdings Co., Ltd. (四川成飛集成科技股份有限公司), a joint stock limited company whose A shares are listed on the Shenzhen Stock Exchange, is indirectly owned as to 70.77% by AVIC as at the date of this announcement
<b>“Company”</b>	AviChina Industry & Technology Company Limited
<b>“connected person(s)”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Controlling Shareholder”</b>	has the meaning ascribed to it under the Listing Rules
<b>“CSRC”</b>	China Securities Regulatory Commission
<b>“Directors”</b>	the directors of the Company
<b>“Hong Kong”</b>	The Hong Kong Special Administrative Region of the PRC
<b>“Hongdu Aviation”</b>	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司), a joint stock limited company whose A shares are listed on the Shanghai Stock Exchange, is owned as to 43.63% by the Company and as to 4.38% by Hongdu Aviation Industry Group Ltd., a wholly-owned subsidiary of AVIC, as at the date of this announcement
<b>“Investors”</b>	Hongdu Aviation, Chengfei Integration, AVIC, AVIC Capital, Aviation Investment and Xinghang Investment
<b>“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>“Parties”</b>	parties to the Capital Increase Agreement, namely, (i) Hongdu Aviation, (ii) AVIC Lithium, (iii) Chengfei Integration, (iv) CAMA, (v) AVIC, (vi) AVIC Capital, (vii) Aviation Investment and (viii) Xinghang Investment
<b>“PRC”</b>	The People’s Republic of China
<b>“RMB”</b>	Renminbi, the lawful currency of the PRC
<b>“SASAC”</b>	State-owned Assets Supervision and Administration Commission of the State Council of the PRC
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Xinghang Investment”</b>	Luoyang Xinghang Investment Co.,Ltd. (洛陽興航投資有限責任公司), a limited liability company established in the PRC

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

Hong Kong, 16 November 2010

*As at the date of this announcement, the Board comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and Mr. Wu Xiandong and non-executive directors Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Gao Jianshe, Mr. Li Fangyong, Mr. Chen Yuanxian, Mr. Wang Yong, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.*