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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 JOINT VENTURE**

To seize the opportunities arising from the PRC government's development of general aviation industry, on 20 September 2012, the Company entered into the Capital Contribution Agreement with AVIC, AVIC Tongfei and Hebei Aviation Investment, pursuant to which the Company, AVIC Tongfei and Hebei Aviation Investment will establish Huabei Aircraft with a registered share capital of RMB1,500 million. Upon establishment of Huabei Aircraft, the Company, AVIC Tongfei and Hebei Aviation Investment will own 12%, 53% and 35% of the equity interest in Huabei Aircraft, respectively.

As at the date of this announcement, AVIC is the controlling shareholder of the Company, and AVIC Tongfei is the subsidiary of AVIC. Therefore, both AVIC and AVIC Tongfei are connected persons of the Company, and the entry of the Capital Contribution Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable size test percentage ratios in respect of the Company's capital contribution is more than 0.1% but less than 5%, the entry of the Capital Contribution Agreement is subject to reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

A. INTRODUCTION

On 3 May 2012, AVIC, AVIC Tongfei and Hebei Aviation Investment entered into the Original Capital Contribution Agreement. Based on the amiable negotiations among the Parties, on 20 September 2012, the Company entered into the Capital Contribution Agreement with AVIC, AVIC Tongfei and Hebei Aviation Investment, pursuant to which the rights and responsibilities of AVIC under the Original Capital Contribution Agreement will be assumed by the Company. Pursuant to the Capital Contribution Agreement, the Company, AVIC Tongfei and Hebei Aviation Investment will establish Huabei Aircraft.

B. THE CAPITAL CONTRIBUTION AGREEMENT

1. Date

20 September 2012

2. Parties

- (i) The Company;
- (ii) AVIC;
- (iii) AVIC Tongfei; and
- (iv) Hebei Aviation Investment

3. The Capital Contribution

Based on the development plan of Huabei Aircraft, the size of comparable companies and negotiations among the Parties, the proposed registered capital of Huabei Aircraft is RMB1,500 million, out of which the Company shall contribute RMB180 million in cash, accounting for 12% of the registered capital; AVIC Tongfei shall make the contribution, in an aggregate amount of RMB795 million accounting for 53% of the registered capital, partly by transferring all assets of AVIC Shijiazhuang to Huabei Aircraft and partly in cash; and Hebei Aviation Investment shall contribute RMB525 million in cash, accounting for 35% of the registered capital.

Pursuant to the Capital Contribution Agreement, the Parties agreed that the capital contribution will be made in three phases. The Company will make the capital contribution in the first and second phases. In the first phase of the capital contribution, which is expected to be completed on or before 22 September 2012, the Company will contribute RMB100 million in cash. In the second phase of the capital contribution, the Company will contribute RMB80 million in cash, which is expected to be made before 30 November 2012.

The Company intends to use the funds raised from its H share placing completed on 2 March 2012 to make the capital contribution to Huabei Aircraft. Please refer to the announcements of the Company dated 26 February 2012 and 2 March 2012 respectively for further details of the aforementioned H share placing of the Company. As the Company will own 12% of the equity interests in Huabei Aircraft, Huabei Aircraft will not become a subsidiary of the Company upon its establishment.

4. Composition of the board of directors of Huabei Aircraft

Pursuant to the Original Capital Contribution Agreement (as supplemented by the Capital Contribution Agreement), the board of directors of Huabei Aircraft will consist of seven members, of which, one director will be recommended by the Company, two directors will be recommended by AVIC Tongfei, two directors will be recommended by the Hebei Aviation Investment, one employee representative director will be elected by the general meeting of representatives of employees and one independent director, who will have professional qualifications recognized by the Parties. The chairman of the board of directors of Huabei Aircraft is its legal representative, which will be recommended by AVIC Tongfei and approved by the board of directors of Huabei Aircraft.

5. Scope of Business of Huabei Aircraft

The scope of business of Huabei Aircraft is intended to be primarily the manufacture of general aviation aircraft, operations of and services (airport services and general aviation aircraft marketing services) for general aviation.

C. REASONS FOR AND BENEFITS OF ENTRY OF THE CAPITAL CONTRIBUTION AGREEMENT

With the gradual opening of the domestic low-altitude airspace, there is great potential in the development of PRC's general aviation industry. To seize the valuable opportunities arising from the PRC government's development of general aviation industry, AviChina will be ready to provide for the future needs of the general aviation industry by participating in the establishment of Huabei Aircraft. This will benefit the Company in the expansion of its aviation business and enrich its aviation industry chain.

The transactions under the Capital Contribution Agreement are determined on normal commercial terms. Having considered the above, the Directors (including the independent non-executive Directors) are of the opinion that the terms of the Capital Contribution Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

None of the Directors has a material interest in the transactions contemplated under the Capital Contribution Agreement and thus no Director was required to abstain from voting on the relevant resolution at the relevant Board meeting.

D. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC is the controlling shareholder of the Company, and AVIC Tongfei is the subsidiary of AVIC. Therefore, both AVIC and AVIC Tongfei are connected persons of the Company, and the entry of the Capital Contribution Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable size test percentage ratios in respect of the Company's capital contribution is more than 0.1% but less than 5%, the entry of the Capital Contribution Agreement is subject to reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

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 aviation products.

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.

Information on AVIC Tongfei

AVIC Tongfei is mainly engaged in the research, development and manufacture of aviation products, operations, customer support and service support of general aviation.

Information on Hebei Aviation Investment

Hebei Aviation Investment is mainly engaged in the transportation, ground services, trade logistics, integrated processing and sales of aviation related products, development and investment of air transportation and related industries and other aviation businesses and aviation related businesses.

DEFINITIONS:

“AVIC”	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
“AVIC Tongfei”	China Aviation Industry General Aircraft Co., Ltd.* (中航通用飛機有限責任公司), a subsidiary of which 70% of the equity interest is held by AVIC as at the date of this announcement
“AVIC Shijiazhuang”	AVIC Shijiazhuang Aircraft Industry Ltd.* (石家莊飛機工業有限責任公司), a wholly-owned subsidiary of AVIC Tongfei as at the date of this announcement
“Board”	the board of directors of the Company
“Directors”	the director(s) of the Company
“Capital Contribution Agreement”	the supplemental shareholders’ capital contribution agreement for the establishment of Huabei Aircraft entered into among the Company, AVIC, AVIC Tongfei and Hebei Aviation Investment on 20 September 2012
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司)
“Hebei Aviation Investment”	Hebei Aviation Investment Group Co., Ltd.* (河北航空投資集團有限公司)
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huabei Aircraft”	AVIC Huabei Aircraft Industry Co., Ltd. * (中航通飛華北飛機工業有限公司)

“Original Capital Contribution Agreement”	the shareholders’ capital contribution agreement for the establishment of Huabei Aircraftentered into among AVIC, AVIC Tongfei and Hebei Aviation Investment on 3 May 2012
“Party(ies)”	a Party or Parties (as the case may be) to the Capital Contribution Agreement
“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*

Yan Lingxi

Company Secretary

Hong Kong, 20 September 2012

As at the date of this announcement, the Board comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and non-executive directors Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Sheng Mingchuan, 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.*