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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)*

Continuing Connected Transactions

Products and Services Mutual Supply and Guarantee Agreement

Following the completion of Hafei Aviation Assets Reorganization, the Company directly and indirectly holds 35.10% equity interest in Hafei Aviation, and AVIC Helicopter and AVIC Hafei, both of which are subsidiaries of AVIC, hold 18.78% and 8.15% equity interest in Hafei Aviation, respectively. As AVIC has more than 10% indirect equity interest in Hafei Aviation and Hafei Aviation remains to be a subsidiary of the Company following the completion of Hafei Aviation Assets Reorganization, according to Chapter 14A of the Hong Kong Listing Rules, Hafei Aviation is a connected subsidiary of the Company. Accordingly, the transactions between the Group and Hafei Aviation Group contemplated under the Products and Services Mutual Supply and Guarantee Agreement constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

On 18 December 2013, the Company entered into the Products and Services Mutual Supply and Guarantee Agreement with Hafei Aviation in respect of the continuing connected transactions between the Group and Hafei Aviation Group. As the highest of the applicable size test percentage ratios in respect of the continuing connected transactions under the Products and Services Mutual Supply and Guarantee Agreement is more than 0.1% but less than 5%, the entry into of the Products and Services Mutual Supply and Guarantee Agreement is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement.

A. INTRODUCTION

References are made to the announcements of the Company dated 25 May 2012, 14 June 2012, 11 July 2012, 6 September 2012, 22 March 2013, 3 April 2013, 8 August 2013, 31 October 2013, 6 November 2013 and 13 November 2013, respectively, and the circulars of the Company despatched to the Shareholders on 20 July 2012 and 13 May 2013, respectively, in relation to, among other things, the Hafei Aviation Assets Reorganization and the completion of such reorganization.

Following the completion of Hafei Aviation Assets Reorganization, the Company directly and indirectly holds 35.10% equity interest in Hafei Aviation, and AVIC Helicopter and AVIC Hafei, both of which are subsidiaries of AVIC, hold 18.78% and 8.15% equity interest in Hafei Aviation, respectively. As AVIC has more than 10% indirect equity interest in Hafei Aviation and Hafei Aviation remains to be a subsidiary of the Company following the completion of Hafei Aviation Assets Reorganization, according to Chapter 14A of the Hong Kong Listing Rules, Hafei Aviation is a connected subsidiary of the Company. Accordingly, the transactions between the Group and Hafei Aviation Group in their respective ordinary and usual course of businesses and on a continuing basis would constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

B. PRODUCTS AND SERVICES MUTUAL SUPPLY AND GUARANTEE AGREEMENT

On 18 December 2013, the Company entered into the Products and Services Mutual Supply and Guarantee Agreement with Hafei Aviation in respect of certain continuing connected transactions between the Group and Hafei Aviation Group. A summary of the principal terms of the agreement is set out as follows:

1. Date

18 December 2013

2. Parties

- (i) The Company;
- (ii) Hafei Aviation.

3. Term

From 13 November 2013, being the completion date of Hafei Aviation Assets Reorganization, to 31 December 2014.

4. Scope

The Company (for and on behalf of the Group) has agreed to provide aviation parts and components, raw materials and related production and labour services to Hafei Aviation Group, as well as provide continuing guarantees to Hafei Aviation Group in relation to the bank loans obtained by them during their ordinary and usual course of business.

Hafei Aviation (for and on behalf of Hafei Aviation Group) has agreed to provide aviation parts and components, raw materials and related production and labour services to the Group.

5. Pricing

The pricing for the provision of products and services under the Products and Services Mutual Supply and Guarantee Agreement will be determined on the following basis in the order of priority:

- (i) the price prescribed by the PRC government (if any); where no government-prescribed price is available, the guidance price set by the PRC government (if any);
- (ii) where neither the government-prescribed price nor the government-guided price is available, the market price which is offered by independent third parties on normal commercial terms or for the same type of products or services in the same area or nearby in the PRC;
- (iii) where none of the government-prescribed price, the government-guided price or the market price is available, the price which is offered by or to independent third parties for non-connected transactions; and
- (iv) where none of the above prices is applicable, the agreed price between the relevant parties for the provision of the aforesaid products or services.

6. Payment

The relevant parties will enter into separate agreements to set out the specific payment terms for the provision of products and services according to the principles and scope provided for under the Products and Services Mutual Supply and Guarantee Agreement.

7. Proposed annual caps and rationale

The Board estimated that the amounts of the Group's expenditure and revenue under the Products and Services Mutual Supply and Guarantee Agreement for the period from 13 November 2013, being the date of completion of Hafei Aviation Assets Reorganization, to 31 December 2013 will not exceed RMB27 million and RMB170 million, respectively. No guarantee will be provided by the Group to Hafei Aviation Group during the period from 13 November 2013 to 31 December 2013.

Before the completion of Hafei Aviation Assets Reorganization, the historical revenue in respect of the transactions between the Group and Hafei Aviation Group (excluding the helicopter related assets and businesses transferred under Hafei Aviation Assets Reorganization), which did not constitute continuing connected transactions of the Company for the purpose of the Hong Kong Listing Rules at that time, for the two financial years ended 31 December 2012 and the nine months ended 30 September 2013 is approximately RMB475 million, RMB491 million, and RMB470 million, respectively. The historical expenditure in respect of the transactions between the Group and Hafei Aviation Group (excluding the helicopter related assets and businesses transferred under Hafei Aviation Assets Reorganization), which did not constitute continuing connected transactions of the Company for the purpose of the Hong Kong Listing Rules at that time, for the two financial years ended 31 December 2012 and the nine months ended 30 September 2013 is insignificant. The expenditure transactions will mainly arise following the completion of Hafei Aviation Assets Reorganization.

The proposed annual caps for the continuing connected transactions under the Products and Services Mutual Supply and Guarantee Agreement for the year ending 31 December 2014 are as follows:

Types of transactions

Proposed annual caps for the year ending 31 December 2014

(RMB million)

The Group's expenditure for the purchase

65

of products and services	
The Group's revenue for the provision of products and services	830
Provision of guarantee(s) by the Group	100

The proposed annual cap for the expenditure transactions under the Products and Services Mutual Supply and Guarantee Agreement is primarily determined with reference to the increase in the supply of parts and components of helicopter products and the ancillary services to the Group due to the increased number of the subsidiaries injected to Hafei Aviation Group following the completion of Hafei Aviation Assets Reorganization.

The proposed annual cap for the revenue transactions under the Products and Services Mutual Supply and Guarantee Agreement is determined with reference to: (i) the expected increase in the demand for parts and components of helicopter products and the ancillary services by Hafei Aviation Group from the Group in light of the potential growth in the business of Hafei Aviation Group, which leads to an increase in the revenue transaction between Hafei Aviation Group and the Group; and (ii) the historical transactions and transaction amounts in respect of the provision of products and services by the Group to Hafei Aviation Group.

The proposed annual cap for the guarantee(s) to be provided by the Group to Hafei Aviation Group for the year ending 31 December 2014 is determined with reference to the potential business needs and financing requirements of Hafei Aviation Group.

C. REASONS FOR AND BENEFITS OF THE PRODUCTS AND SERVICES MUTUAL SUPPLY AND GUARANTEE AGREEMENT

The revenue transactions and the expenditure transactions between the Group and Hafei Aviation Group are necessary for the supply of aviation parts and components, raw materials and related production and labour services to meet the production requirements of aviation products of the Group. The provision of guarantees by the Group to Hafei Aviation Group will enable them to obtain bank loans to meet their respective general working capital requirements, which will provide the Group with sufficient financial resources and thereby facilitating the overall business development of the Group. The terms of the Products and Services Mutual Supply and Guarantee Agreement are determined after arm's length negotiation between the parties and conducted on normal commercial terms. The Directors, including the independent non-executive Directors, are of the opinion that the terms of the Products and Services Mutual Supply and Guarantee Agreement and the proposed annual caps for the year ending 31 December 2014 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

D. HONG KONG LISTING RULES IMPLICATIONS

As described in the section headed “Introduction” of this announcement, Hafei Aviation has become a connected subsidiary of the Company following completion of the Hafei Aviation Asset Reorganization and accordingly, the transactions between the Group and Hafei Aviation Group contemplated under the Products and Services Mutual Supply and Guarantee Agreement constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the highest of the applicable size test percentage ratios in respect of the continuing connected transactions under the Products and Services Mutual Supply and Guarantee Agreement for the period up to 31 December 2013 and the year ending 31 December 2014 is more than 0.1% but less than 5%, the entry into of the Products and Services Mutual Supply and Guarantee Agreement is subject to the reporting and announcement requirements but is exempt from the independent Shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

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 transactions contemplated under the Products and Services Mutual Supply and Guarantee Agreement and accordingly, they had abstained from voting on the board resolution approving the Products and Services Mutual Supply and Guarantee Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules.

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, development, manufacture and sales of civil 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 Hafei Aviation

Hafei Aviation is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. Hafei Aviation is a subsidiary of the Company, with 35.10% of its equity interest held by the Company, and is mainly engaged in the development, research and manufacture of helicopter products.

DEFINITIONS

Unless the context requires otherwise, terms and expressions used in this announcement should be defined as follows:

“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 Hafei”	Harbin Aircraft Industry Group Limited (哈爾濱飛機工業集團有限責任公司), which is held as to 95.72% by, and a subsidiary of, AVIC Helicopter as at the date of this announcement
“AVIC Helicopter”	AVIC Helicopter Limited (中航直升機有限責任公司), which is held as to 68.75% by, and a subsidiary of, AVIC as at the date of this announcement
“Board”	the board of Directors of the Company
“Cash Subscription Price”	the price of RMB20.00 per new Hafei Aviation A Share for the subscription of 55,300,000 new Hafei Aviation A Shares by not more than ten independent qualified investors
“Company”	AviChina Industry & Technology Company Limited (中國航空科技工業股份有限公司)
“Directors”	the directors of the Company
“Group”	the Company and/or its subsidiaries, excluding Hafei Aviation Group

“Hafei Aviation”	Hafei Aviation Industry Co., Ltd. (哈飛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 and is a non wholly-owned subsidiary of the Company with 35.10% equity interests directly and indirectly held by the Company as at the date of this announcement
“Hafei Aviation A Share(s)”	A share(s) of Hafei Aviation listed on the Shanghai Stock Exchange
“Hafei Aviation Assets Reorganization”	the placing of new Hafei Aviation A Shares to (i) AVIC Helicopter, AVIC Hafei and the Company in consideration of the transfer of related helicopter business assets held by them, respectively to Hafei Aviation; and (ii) not more than ten independent qualified investors in consideration of payment of the Cash Subscription Price
“Hafei Aviation Group”	Hafei Aviation and/or its subsidiaries
“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)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Products and Services Mutual Supply and Guarantee Agreement”	the framework agreement entered into between the Company and Hafei Aviation on 18 December 2013, pursuant to which (1) the Company (for and on behalf of the Group) has agreed to provide aviation parts and components, raw materials, production and labour services to Hafei Aviation Group, as well as provide continuing guarantees to Hafei Aviation Group in relation to the bank loans obtained by them during their ordinary and usual course of business; and (2) Hafei Aviation (for and on behalf of Hafei Aviation Group) has agreed to provide aviation parts and components, raw materials, production and labour services to the Group
“RMB”	Renminbi, the lawful currency of the PRC

“PRC” the People’s Republic of China

“Shareholder(s)” the holder(s) of shares of the Company

By Order of the Board

AviChina Industry & Technology Company Limited*

Yan Lingxi

Company Secretary

Beijing, 18 December 2013

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.*