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中国航空科技工业股份有限公司

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

REVISION OF THE ANNUAL CAPS FOR THE EXPENDITURE TRANSACTIONS OF THE MUTUAL PROVISION OF SERVICES AGREEMENT

Reference is made to the announcement dated 26 August 2014 on the continuing connected transactions of the Company and in particular, among other things, the principal terms of the Mutual Provision of Services Agreement and the Existing Annual Caps.

The Company closely monitors its continuing connected transactions, including the Expenditure Transactions. Due to changes in the progress and settlement period of certain construction projects undertaken by AVIC Group and in respect of new construction projects arising from the Group's business expansion for which AVIC Group has been engaged to provide construction services, and also taking into account the growth rate of the actual amounts of the Expenditure Transactions incurred during 2014 and the six months ended 30 June 2015 as well as the increase in domestic consumer prices, the Board estimates that the actual amounts of the Expenditure Transactions for the three financial years ending 31 December 2017 will exceed the Existing Annual Caps. Therefore, the Board proposes to revise the annual caps for the Expenditure Transactions for the three financial years ending 31 December 2017.

As the highest of the applicable size test percentage ratios for the Revised Annual Caps is more than 0.1% but less than 5%, the Proposed Revision is only 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.

I. BACKGROUND

Reference is made to the announcement dated 26 August 2014 on the continuing connected transactions of the Company and in particular, among other things, the principal terms of the Mutual Provision of Services Agreement and the proposed annual caps in respect of the Expenditure Transactions (as defined below) for the three financial years ending 31 December 2017 (the “**Existing Annual Caps**”).

According to the Mutual Provision of Services Agreement, AVIC Group provides certain services relating to the production and business operations of the Group (the “**Expenditure Transactions**”) including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labor services; (iv) equipment maintenance, repair and leasing; (v) construction and transportation; (vi) design, consultancy and network related services; (vii) cultural, hygienic, social security and logistic services; (viii) import and export services; (ix) test flight and information and quality monitoring services; and (x) other relevant services.

The Company closely monitors its continuing connected transactions, including the Expenditure Transactions. Due to changes in the progress and settlement period of certain construction projects undertaken by AVIC Group and in respect of new construction projects arising from the Group’s business expansion for which AVIC Group has been engaged to provide construction services, and also taking into account the growth rate of the actual amounts of the Expenditure Transactions incurred during 2014 and the six months ended 30 June 2015 as well as the increase in domestic consumer prices, the Board estimates that the actual amounts of the Expenditure Transactions for the three financial years ending 31 December 2017 will exceed the Existing Annual Caps. Therefore, the Board proposes to revise the annual caps for the Expenditure Transactions for the three financial years ending 31 December 2017 (the “**Revised Annual Caps**”).

II. HISTORICAL AMOUNTS OF THE EXPENDITURE TRANSACTIONS FOR THE PRECEDING PERIODS

Set out below are the historical amounts of the Expenditure Transactions for the years 2013, 2014 and the six months ended 30 June 2015:

	Unit: in RMB million		
Expenditure Transactions	2013	2014	For the six months ended 30 June 2015 (unaudited)
Actual Amounts	535	687	400

III. DETAILS OF THE REVISED ANNUAL CAPS

Detail of the Revised Annual Caps for the Expenditure Transactions:

Unit: in RMB million

Expenditure Transactions	2015	2016	2017
Existing Annual Caps	605	411	378
Revised Annual Caps	1200	1250	1250

The Revised Annual Caps for the Expenditure Transactions under the Mutual Provision of Services Agreement are determined with reference to, among other things, the following factors: (i) changes in the progress and settlement periods of certain construction projects undertaken by AVIC Group for the Group, including the corresponding deferred settlements of the unsettled amounts of certain contracts signed in 2014 by the Group to AVIC Group in 2015 and subsequent years, of which approximately RMB410 million is expected to be settled in the second half of 2015; (ii) certain subsidiaries of the Company, by reason of business expansion, have set up construction projects for new R&D centres and factory plants, for which the estimated annual expenditures for the three financial years ending 31 December 2017 are approximately RMB30 million, RMB120 million and RMB130 million, respectively; (iii) the historical amounts and growth rate of the Expenditure Transactions under the Mutual Provision of Services Agreement (please refer to section II above for details); and (iv) the estimated increase in expenditures for labor services and miscellaneous services relating to the production and business operations of the Group.

Other than the Revised Annual Caps, the principal terms of the Mutual Provision of Services Agreement will remain unchanged. Please refer to paragraph 2.2 under section I in the announcement dated 26 August 2014 on the continuing connected transactions of the Company for details.

The Directors (including the independent non-executive Directors) consider that the revision of the Existing Annual Caps for the Expenditure Transactions under the Mutual Provision of Services Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

IV. GENERAL INFORMATION

1. 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. As at the date of this announcement,

AVIC and its subsidiaries hold 54.85% of the equity interest in the Company and AVIC is a controlling shareholder of the Company. The Company is mainly engaged in the research and development, manufacturing and sales of civil aviation products.

2. Information on AVIC

AVIC is held and controlled by the State Council of the PRC, and is mainly engaged in the development and manufacturing of aviation products and non-aviation products (including but are not limited to mechanical equipment).

V. HONG KONG LISTING RULES IMPLICATIONS

As the highest of the applicable size test percentage ratios for the Revised Annual Caps is more than 0.1% but less than 5%, the Proposed Revision is only 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. Lin Zuoming, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, who is the chairman, general manager, vice general manager and vice general manager of AVIC, respectively, is deemed to have a material interest in the Proposed Revision and accordingly, they had abstained from voting on the Board resolution approving the Proposed Revision in accordance with the Company Law of the PRC and the Hong Kong Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“AVIC”	Aviation Industry Corporation of China (中國航空工業集團公司), the controlling shareholder of the Company. As at the date of this announcement, AVIC and its subsidiaries hold 54.85% of the equity interest in the Company
“AVIC Group”	AVIC and its subsidiaries
“Board”	The board of directors of the Company
“Company”	AviChina Industry & Technology Company Limited, a joint stock limited company incorporated in the PRC with limited liability, whose H shares are listed on the Hong Kong Stock Exchange
“Directors”	The directors of the Company

“Group”	The Company and 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
“Mutual Provision of Services Agreement”	The mutual provision of services agreement entered into between the Company and AVIC on 26 August 2014 for a term of three years commencing from 1 January 2015 to 31 December 2017, details of which are set out in paragraph 2.2 under section I of the announcement dated 26 August 2014 on the continuing connected transactions of the Company
“PRC”	The People’s Republic of China
“Proposed Revision”	The proposed revision by the Board of the annual caps for the relevant expenditure transactions of the Mutual Provision of Services Agreement for the three financial years ending 31 December 2017
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	The holders of shares in the capital of the Company, with nominal value of RMB1.00 each

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

Beijing, 26 August 2015

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. Guo Chongqing and Mr. Maurice Savart as well as independent non-executive directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Jason Chi Wai.

**For identification purpose only.*