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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)

**I. RENEWAL OF THE FRAMEWORK AGREEMENTS AND ANNUAL CAPS THEREOF FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS;
II. REVISION OF THE ANNUAL CAPS FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS FOR 2014;
AND
III. DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS: REVISION OF THE TERM OF THE EXISTING FINANCIAL SERVICES FRAMEWORK AGREEMENT**

I. RENEWAL OF THE FRAMEWORK AGREEMENTS AND ANNUAL CAPS THEREOF FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS

The Company entered into the following agreements with AVIC and AVIC Avionics on 30 August 2011: (1) the Existing Mutual Supply of Products Agreement, (2) the Existing Mutual Provision of Services Agreement, (3) the Existing Trademarks and Technology Cooperation Framework Agreement, and (4) the Land Use Rights and Properties Leasing Agreement as well as (5) the AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement.

The Company entered into the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement with Hafei Aviation on 18 December 2013.

As the terms of the aforementioned agreements will expire on 31 December 2014 (except for the Land Use Rights and Properties Leasing Agreement), the Company proposes to (1) enter into new framework agreements and, as for the Land Use Rights and Properties Leasing Agreement, to enter into a supplemental agreement, based on the original framework agreements to govern the the existing continuing connected transactions; and (2) set their respective annual caps for each of the three financial years ending 31 December 2017.

AVIC is a controlling shareholder of the Company holding 51.26% equity interest in the Company. AVIC Avionics and Hafei Aviation are directly and indirectly owned as to 34.16% and 26.93% by AVIC, respectively (excluding the interests of AVIC Avionics and Hafei Aviation held by AVIC through the Company). Both AVIC Avionics and Hafei Aviation are subsidiaries of the Company, and as AVIC holds more than 10% equity interests in each of them, they are connected subsidiaries of the Company under the Hong Kong Listing Rules. Accordingly, each of AVIC, AVIC Avionics and Hafei Aviation is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

As the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) for the continuing connected transactions contemplated under each of the new framework agreements, namely, (i) the Mutual Provision of Services Agreement, (ii) the Trademarks and Technology Cooperation Framework Agreement and (iii) the expenditure transactions under the Land Use Rights and Properties Leasing Agreement are more than 0.1% but less than 5%, such continuing connected transactions are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) for the continuing connected transactions contemplated under each of the new framework agreements, namely, (i) the Mutual Supply of Products Agreement with AVIC and (ii) the Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics and Hafei Aviation are more than 5%, such transactions (referred to and defined as the "Non-Exempt Continuing Connected Transactions" below) are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest of the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) for the revenue transactions under the Land Use Rights and Properties Leasing Agreement is less than 0.1%, such transactions constitutes *de minimis* transactions of the Company and are exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

II. REVISION OF THE ANNUAL CAPS FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS FOR 2014

Due to the increased number of subsidiaries of AVIC Avionics, a subsidiary of the Company, following the completion of its assets reorganization in 2013, the scope of the land use rights and properties rented by it from AVIC Group has expanded accordingly, which has resulted in an increase in the rental payable by the Group to AVIC Group in 2014. The Board estimates that the actual expenditure from the connected transactions under the Land Use Rights and Properties Leasing Agreement might exceed the annual cap originally set for 2014. Hence, the Board proposes to revise the relevant annual cap for 2014. As the highest of the applicable size test percentage ratios for the proposed revised 2014 annual cap is more than 0.1% but less than 5%, such 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.

The rapid growth of the business of Hafei Aviation, a subsidiary of the Company, following its assets reorganization has led to increased ancillary transactions between Hafei Aviation Group and the avionics subsidiaries of the Group. The Board estimates that the actual revenue of the Group from the connected transactions under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement might exceed the annual cap originally set for 2014. Hence, the Board proposes to revise the relevant annual cap for 2014. As the highest of the applicable size test percentage ratios for the revised 2014 annual cap for the revenue transactions under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement is more than 0.1% but less than 5%, such 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.

III. DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS: REVISION OF THE TERM OF THE EXISTING FINANCIAL SERVICES FRAMEWORK AGREEMENT

As the Existing Financial Services Framework Agreement is effective from 14 June 2013 for a term of three years, which is different from the terms of most of the existing framework agreements for continuing connected transactions of the Company. For the purpose of facilitating the unified management of all continuing connected transactions, the Company proposes that the Existing Financial Services Framework Agreement be terminated on 31 December 2014, and be replaced by the Proposed Financial Services Framework Agreement with a term of three years commencing from 1 January 2015 to 31 December 2017. Except for the revised three-year term commencing from 1 January 2015 to 31 December 2017, the terms and conditions of the Proposed Financial Services Framework Agreement are the same as the Existing Financial Services Framework Agreement.

As AVIC is a controlling shareholder of the Company and AVIC Finance is a subsidiary of AVIC, AVIC Finance is a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the Proposed Financial Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As (i) the Loan Services and the Guarantee Services will be entered into by the parties on normal commercial terms and no security over the assets of the Group will be granted in respect of the provision of financial assistance; and (ii) the Settlement Services will fall within the *de minimis* threshold as provided under the Hong Kong Listing Rules, the Loan Services, the Guarantee Services and the Settlement Services are exempt from the relevant reporting, announcement and the independent shareholders' approval requirements under the Hong Kong Listing Rules.

As the highest of the applicable test percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the proposed annual caps for the Other Financial Services under the Proposed Financial Services Framework Agreement is more than 0.1% but less than 5%, the proposed annual caps for Other Financial Services are subject to the reporting and announcement requirements, but approval by Independent Shareholders is not required.

Since the highest of the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the proposed cap for the maximum daily outstanding balance of deposits (including accrued interest) for the Deposit Services under the Proposed Financial Services Framework Agreement is more than 5% but less than 25%, the Deposit Services are subject to the reporting, announcement and the independent shareholders' approval requirements under the Hong Kong Listing Rules. Meanwhile, the Deposit Services also constitute discloseable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules and are also subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

For the purpose of convening the EGM, the Board will appoint:

(1) an Independent Board Committee to consider and advise the Independent Shareholders on (i) the proposed terms of the Non-Exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement; and

(2) an independent financial adviser to advise the Independent Board Committee on (i) the proposed terms of the Non-Exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement.

AVIC and its associate(s), if any, will abstain from voting on the relevant ordinary resolutions to be proposed at the EGM.

For the purpose of the EGM, a circular containing, among other things:

(1) (i) details relating to the Non-Exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) details relating to the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement;

(2) a letter of recommendation on (i) the Non-Exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement from the Independent Board Committee to the Independent Shareholders; and

(3) a letter of advice on (i) the Non-Exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement from an independent financial adviser to the Independent Shareholders and the Independent Board Committee will be prepared and despatched to the Shareholders. As it takes time for the Company to confirm the relevant information to be contained in the circular, the circular will be despatched to the Shareholders on or before 26 September 2014.

I. RENEWAL OF THE FRAMEWORK AGREEMENTS AND ANNUAL CAPS THEREOF FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS

1. Background

References are made to the announcement of the Company dated 30 August 2011 and the circular dated 23 September 2011 in relation to, among other things, the continuing connected transactions of the Group contemplated under (1) the existing mutual supply of products agreement, (2) the existing mutual provision of services agreement, (3) the existing trademarks and technology cooperation framework agreement, and (4) the Land Use Rights and Properties Leasing Agreement, as well as (5) the AVIC Avionics Products and Services Mutual Supply and Guarantee agreement. At the extraordinary general meeting of the Company held on 9 December 2011, the independent Shareholders had approved the non-exempt connected transactions of the aforementioned continuing connected transactions, including the continuing connected transactions contemplated under the existing mutual supply of products agreement and the existing mutual provision of services agreement as well as the expenditure transactions under the AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement, and their respective annual caps for the three financial years ending 31 December 2014.

Reference is also made to the announcement of the Company dated 18 December 2013 in relation to the continuing connected transactions between the Group and Hafei Aviation Group contemplated under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement, upon the asset reorganization of Hafei Aviation.

As the terms of each of the aforementioned framework agreements governing the relevant existing continuing connected transactions and their respective annual caps will expire on 31 December 2014 (except for the Land Use Rights and Properties Leasing Agreement), the Company proposes to (1) enter into new framework agreements and supplemental agreement (for the Land Use Rights and Properties Leasing Agreement only) based on the original framework agreements to govern such existing continuing connected transactions; and (2) set their respective annual caps for each of the three financial years ending 31 December 2017.

2. The Framework Agreements

2.1 Mutual Supply of Products Agreement

As the existing mutual supply of products agreement is due to expire on 31 December 2014, the Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the existing mutual supply of products agreement. As such, the Board proposes to renew the existing mutual supply of products agreement.

Principal terms of the proposed Mutual Supply of Products Agreement are summarized as follows:

- Parties : AVIC
The Company
- Date : 26 August 2014
- Mutual supply of products : AVIC Group and the Group to mutually provide manufacturing raw materials, parts and components, finished and semi-finished aviation products (including but not limited to helicopters, aircraft and aviation parts and components) involved in the production and operations of their respective aviation products as well as the sales and ancillary services related thereto.
- The mutual supply of products by the parties shall be made on terms not less favorable than those offered to/by Independent Third Parties under comparable conditions.
- Term : Three years, commencing from 1 January 2015 to 31 December 2017
- Pricing : The products and ancillary services will be provided: (i) if there is Government-prescribed price, according to the Government-prescribed Price; (ii) if there is no Government-prescribed Price, then according to the Market Price by tender procedures or other means (as the case may be); and (iii) if there is no Market Price, then according to the Contractual Price.
- Note: please refer to detailed definitions of “Government-prescribed Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this announcement.
- Payment : Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into specific products agreement in each transaction.

2.2 Mutual Provision of Services Agreement

As the existing mutual provision of services agreement is due to expire on 31 December 2014, the Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the existing mutual provision of services agreement. As such, the Board proposes to renew the existing mutual provision of services agreement.

Principal terms of the proposed Mutual Provision of Services Agreement are summarized as follows:

- Parties : AVIC
The Company
- Date : 26 August 2014
- Mutual provision of services : AVIC Group to provide certain services relating to the production and business operations of the Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour 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 Group to provide certain services relating to the production and business operations of AVIC Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing; (v) construction and transportation; (vi) design, consultancy and network related services; (vii) enterprise management trust services; and (viii) other relevant services.
- The mutual provision of services by the parties shall be made on terms not less favorable than those offered to/by Independent Third Parties under comparable conditions.
- Term : Three years, commencing from 1 January 2015 to 31 December 2017
- Pricing : The services will be provided: (i) to one party according to the Government-prescribed Price or the Government-guidance Price, if the supply of power such as electricity, water and steam was originally obtained by the other party at the Government-prescribed Price or the Government-guidance Price; (ii) for services such as construction, transportation ,network design and other services where the Market Price is available, according to the Market Price by tender procedures or other means (as the case may be); and (iii) if there is no Market Price, then according to the Contractual Price.
- Note: please refer to detailed definitions of “Government-prescribed Price”, “Government-guidance Price”, “Market Price” and “Contractual Price” as set out in “Definitions” section of this announcement.
- Payment : Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into specific services agreement in each service provision transaction.

2.3 Trademarks and Technology Cooperation Framework Agreement

As the existing trademarks and technology cooperation framework agreement is due to expire on 31 December 2014, the Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the existing trademarks and technology cooperation framework agreement. As such, the Board proposes to renew the trademarks and technology cooperation framework agreement.

Principal terms of the proposed Trademarks and Technology Cooperation Framework Agreement are summarized as follows:

Parties : AVIC

The Company

Date : 26 August 2014

Scope : *Joint development of technologies*

(1) The parties will jointly develop new technologies for use in the business operations and production of the Group, and any resulting technologies will in principle be jointly owned by the parties unless otherwise agreed in the specific joint development agreement.

Licence of technologies and trademarks

(2) AVIC Group will grant to the Group free of charge exclusive licence of its technologies which have not been used by the Group and which are related to the principal businesses of the Group.

(3) For technologies owned by AVIC Group that have been used by the Group in its production and business operations, AVIC Group can, subject to the Group's prior consent, continue to use such technologies free of charge on the condition that such technologies will not be used by AVIC Group in competition with the business of the Group or in a way detrimental to the interest of the Group. The Group has the right at its sole discretion to transfer or grant a licence of such technologies to a third party in accordance with the laws and any benefits derived therefrom shall belong to the Group.

(4) The parties will grant a licence of or transfer their respective technologies and trademarks to the other party at a price to be determined according to the pricing principles stated below.

Entrusted development of technologies

(5) AVIC Group will engage the Group to develop new technologies in connection with its production and business operations. The development costs will be paid by AVIC Group and the resulting technologies will be owned by AVIC Group. AVIC Group will grant

to the Group (i) a licence to use such resulting technologies free of charge unless otherwise provided by specific agreements; and (ii) a pre-emption right to purchase such resulting technologies.

(6) AVIC Group may, either by itself or by entrusting a third party, develop technologies as required for its production and business operations, the application of which shall not result in intra-industry competition with the principal businesses of the Group. AVIC Group will grant to the Group (i) a licence to use such resulting technologies free of charge; and (ii) a pre-emption right to purchase such resulting technologies.

(7) The Group will engage AVIC Group to develop new technologies in connection with its production and business operations. The development costs will be paid by the Group and the resulting technologies rights will be owned by the Group. The Group may grant a non-exclusive licence to use such resulting technologies to AVIC Group free of charge on the condition that the use of such technologies by AVIC Group will not result in intra-industry competition with the principal businesses of the Group.

Term : Three years, commencing from 1 January 2015 to 31 December 2017

Pricing : Except for those licences which will be expressly granted free of charge under the Trademarks and Technology Cooperation Framework Agreement, the grant of licence or transfer of the relevant technologies and trademarks will be made at a price to be determined as follows: if there is Market Price, according to the Market Price determined by tender procedures or other means (as the case may be); if it is in relation to development or technological services for specific aviation products for which no Market Price is available, then according to Contractual Price, except for those which will be free of charge as agreed in the Trademarks and Technology Cooperation Framework Agreement.

Note: please refer to detailed definitions of “Market Price” and “Contractual Price” as set out in “Definitions” section of this announcement.

Payment : The parties will enter into separate contracts to set out the specific terms and conditions (including the payment terms) for the grant, transfer or cooperation in the development of technologies or trademarks according to the principles and scope provided for under the Trademarks and Technology Cooperation Framework Agreement.

2.4 Land Use Rights and Properties Leasing Agreement

The term of the existing Land Use Rights and Properties Leasing Agreement is 20 years, commencing from 1 January 2012. The Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the existing Land Use Rights and Properties Leasing Agreement. As the assets reorganizations carried out by the Group in the preceding three years have led to changes in the scope of the existing land use rights and properties leased, the scope of continuing connected transactions and rental contemplated under the existing Land Use Rights and Properties Leasing Agreement will be revised accordingly by way of a supplemental agreement entered into between the Company and AVIC on 26 August 2014.

Principal terms of the supplemental agreement to the Land Use Rights and Properties Leasing Agreement proposed to be entered into are summarized as follows:

Parties : AVIC
the Company

Date : 26 August 2014

Scope : *Land Use Rights*

AVIC Group to lease 17 pieces of land with an aggregate area of approximately 1.185 million square meters to the Group at an annual rental of approximately RMB26.01 million (Note: according to the original agreement, AVIC Group to lease 21 pieces of land with an aggregate area of approximately 1.63 million square meters to the Group at an annual rental of approximately RMB35.9 million).

The Group to lease a piece of land with an aggregate area of approximately 16,000 square meters to AVIC Group at an annual rental of approximately RMB442,000 (Note: according to the original agreement, the Group to lease a piece of land with an aggregate area of approximately 16,000 square meters to AVIC Group at an annual rental of approximately RMB429,000).

Properties Leasing

AVIC Group to lease certain properties with an aggregate gross floor area of approximately 66,000 square meters to the Group at an annual rental of approximately RMB35.144 million (Note: according to the original agreement, AVIC Group to lease certain properties with an aggregate gross floor area of approximately 0.19 million square meters to the Group at an annual rental of approximately RMB 4.44 million).

The Group to lease certain properties with an aggregate gross floor area of approximately 23,000 square meters to AVIC Group at an annual rental of approximately RMB6.685 million (Note: according to the original agreement, the Group to lease certain properties with an

aggregate gross floor area of approximately 52,000 square meters to AVIC Group at an annual rental of approximately RMB 4.92 million).

- Term : Unchanged, twenty (20) years commencing from 1 January 2012
- Pricing : The annual rental is to be reviewed and adjusted (where necessary) once every three years which shall not be higher than the prevailing market annual rental as determined by an independent valuer engaged by the Company with reference to the market rent of land use rights or properties (as the case may be) with similar conditions and locations, provided that the rental of land use rights and properties leased by the Group to AVIC Group shall not be lower than the Market Price.
- Payment : Payment of rentals is to be made annually. Payment is to be made by the relevant parties by cheques within 30 working days after the first quarter of each financial year.

2.5 Products and Services Mutual Supply and Guarantee Agreement

The existing products and services mutual supply and guarantee agreements entered into by the Company and AVIC Avionics and Hafei Aviation respectively are due to expire on 31 December 2014. The Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the two products and services mutual supply and guarantee agreements with AVIC Avionics Group and Hafei Aviation Group, respectively. Given that the continuing connected transactions between the Group and Hafei Aviation Group, and those between the Group and AVIC Avionics Group are similar, and there are a large amount of ancillary transactions between AVIC Avionics Group and Hafei Aviation Group, for the convenience of management, the Company proposes to sign one combined agreement for the mutual supply of products and services and provision of guarantee i.e. the Products and Services Mutual Supply and Guarantee Agreement together with AVIC Avionics and Hafei Aviation, in order to better monitor all the continuing connected transactions after completion of the reorganization, and apply for an overall cap.

Principal terms of the Products and Services Mutual Supply and Guarantee Agreement proposed to be entered into together are summarized as follows:

- Parties : The Company
AVIC Avionics
Hafei Aviation
- Date : 26 August 2014
- Scope : (1) The Group (including Hafei Aviation Group) to provide aviation parts and components, raw materials, and related manufacturing, labour and guarantee services to AVIC Avionics Group. Meanwhile, AVIC Avionics Group to provide aviation products,

aviation parts and components and related manufacturing and labour services to the Group (including Hafei Aviation Group).

- (2) The Group (including AVIC Avionics Group) to provide aviation parts and components, raw materials and related manufacturing, labour and guarantee services to Hafei Aviation Group. Meanwhile, Hafei Aviation Group to provide aviation products, aviation parts and components and related manufacturing and labour services to the Group (including AVIC Avionics Group).

- Term : Three years, commencing from 1 January 2015 to 31 December 2017
- Pricing : The price of products and/or services will be determined as follows: (i) as most products under the Products and Services Mutual Supply and Guarantee Agreement are aviation products peculiar to the industry, the Government-prescribed Price will apply; (ii) if the price is not within the Government-prescribed Price, according to the Market Price determined by tender procedures or other means (as the case maybe); (iii) if there is no Market Price, apply the Contractual Price.

Note: please refer to detailed definitions of “Government-prescribed Price”, “Market Price” and “Contractual Price” as set out in “Definitions” section of this announcement.

- Payment : The parties will enter into separate contracts to set out the specific terms and conditions (including the payment terms) for the provision of products/services according to the principles and scope provided for under the Products and Services Mutual Supply and Guarantee Agreement.

3. Historical Annual Amounts of the Above Continuing Connected Transactions for the Preceding Periods ended 30 June 2014

Set out below are the historical annual amounts of the above existing continuing connected transactions for the preceding periods ended 30 June 2014:

Agreement	Annual amount for the year ended 31 December 2012 (RMB million)	Annual amount for the year ended 31 December 2013 (RMB million)	Actual amount for the 6 months ended 30 June 2014 (RMB million)	Annual caps for the year 2014 (RMB million)
Expenditure of the Group				
Existing mutual supply of products agreement with AVIC	8,188	9,370	5,076	15,489

Existing mutual provision of services agreement with AVIC	65	535	197	2,434
Existing trademarks and technology cooperation framework agreement with AVIC	1	2	12	86
Land Use Right and Properties Leasing Agreement with AVIC	42	44	49	50
AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement	491	556	349	1,039
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	-	2 (from 13 November to 31 December)	4	65
Revenue of the Group				
Existing mutual supply of products agreement with AVIC	12,476	12,978	7,121	30,339
Existing mutual provision of services agreement with AVIC	92	10	32	746
Existing trademarks and technology cooperation framework agreement with AVIC	10	0	0	30
AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement	74	72	20	135
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	-	157 (from 13 November to 31 December)	447	830
Guarantees provided by the Group				
Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	-	0	0	100

Note: during the periods, no guarantees have been provided to Hafei Aviation by the Group

4. Proposed Annual Caps for the Above Continuing Connected Transactions

4.1 Proposed annual caps for the above continuing connected transactions for the three financial years ending 31 December 2017

Based on the factors set out in paragraph 4.2 under Section I of this announcement, the Directors have estimated the annual caps for each of the continuing connected transactions for each of the three financial years ending 31 December 2015, 2016 and 2017. By applying the applicable size tests of the Hong Kong Listing Rules, the Directors have categorized the continuing connected transactions, as set out below, based on the following principles:

(1) Continuing connected transactions exempt from Independent Shareholders' approval if none of the results of the size tests exceeds 5%; and

(2) Non-exempt Continuing Connected Transactions which require Independent Shareholders' approval if any of the results of the size tests exceeds 5%.

Continuing Connected Transactions	Proposed annual caps for the year ending 31 December (RMB Millions)			Cross-reference to this announcement
	2015	2016	2017	
Non-exempt Continuing Connected Transactions Reporting, Announcement and Independent Shareholders' Approval Required (Size Tests \geq5%)				
Expenditure of the Group				
Mutual Supply of Products Agreement	16,882	18,310	21,023	Paragraph 2.1 under Section I
Products and Services Mutual Supply and Guarantee Agreement	1,100	1,400	1,700	Paragraph 2.5 under Section I
Revenue of the Group				
Mutual Supply of Products Agreement	28,996	33,345	38,347	Paragraph 2.1 under Section I
Products and Services Mutual Supply and Guarantee Agreement	1,500	1,800	2,200	Paragraph 2.5 under Section I

**Continuing connected transactions exempt from Independent Shareholders' approval
Reporting and Announcement Required
(0.1%≤Size Tests≤5%)**

Expenditure of the Group

Mutual Provision of Services Agreement	605	411	378	Paragraph 2.2 under Section I
Trademarks and Technology Cooperation Framework Agreement	98	118	141	Paragraph 2.3 under Section I
Land Use Rights and Properties Leasing Agreement	75	75	75	Paragraph 2.4 under Section I

Revenue of the Group

Mutual Provision of Services Agreement	238	281	318	Paragraph 2.2 under Section I
Trademarks and Technology Cooperation Framework Agreement	349	402	462	Paragraph 2.3 under Section I

4.2 Basis of determination of the proposed annual caps

a. *Mutual Supply of Products Agreement*

The proposed annual caps for the expenditure transactions under the Mutual Supply of Products Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of provision of products by AVIC Group to the Group; (ii) considering the existing macro-economic situation and the industry forecast and with the expected increase in the sales orders for aviation products to be received by the Group in the future, the Group will demand more ancillary aviation parts and components from AVIC Group, and (iii) to enhance the Group's competitiveness in both the domestic and international markets, the Group will continuously develop new models with high value, resulting in the acquisition of aviation parts of high technology content and high value from AVIC Group.

The proposed annual caps for the revenue transactions under the Mutual Supply of Products Agreement are determined with reference to, among other things, the

following factors: (i) the historical transactions and transaction amounts in respect of the provision of products by the Group to AVIC Group; (ii) with the corresponding increase in the sales of the Group to AVIC Group resulting from the expected rapid growth of China aviation industry in the forthcoming three years due to the development of China's national economy and the aviation industry; (iii) current sales order status of the Group, especially the development and production of new models, leading to an increase in the product types and volumes of the Group and a corresponding increase in transaction volumes between the Group and AVIC Group; and (iv) the increase in the number of enterprises injected to the Group following the completion of the assets reorganizations of AVIC Avionics and Hafei Aviation, leading to an increase in the sales of the Group's products to AVIC Group.

b. *Mutual Provision of Services Agreement*

The proposed annual caps for the expenditure and revenue transactions under the Mutual Provision of Services Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the mutual provision of services between the parties; (ii) the increase in the number of enterprises injected to the Group following the completion of the assets reorganizations of AVIC Avionics and Hafei Aviation, leading to an expansion in the scope of services provision between the Group and AVIC Group; and (iii) the forecast in the progress of construction service projects provided by AVIC Group to the Group.

c. *Trademarks and Technology Cooperation Framework Agreement*

The proposed annual caps for the expenditure transactions under the Trademarks and Technology Cooperation Framework Agreement are determined with reference to, among other things, the estimated costs to be involved in the projects to be undertaken by the Group and AVIC Group such as the on-going joint development of new model helicopters, modification of current helicopters, advanced jet trainers and other new models of aviation products.

The proposed annual caps for the revenue transactions under the Trademarks and Technology Cooperation Framework Agreement are determined with reference to, among other things, the following factors: (i) due to the enhancement of the Group's overall research capability following the assets reorganization, it is expected that there will be an increase in the types of technology that the Group will be engaged by AVIC Group to develop pursuant to the framework agreement and accordingly, the revenue to be generated to the Group from such entrusted technologies development arrangement will increase; and (ii) entrusted production agreements in respect of scientific and research project with high value to be entered into between the Group and AVIC Group.

d. *Land Use Rights and Properties Leasing Agreement*

The proposed annual caps for the expenditure transactions under the Land Use Rights and Properties Leasing Agreement are determined with reference to, among other things, the following factors: (i) the land use rights and properties (as appraised by Vigers Appraisal And Consulting Limited, an independent valuer

engaged by the Company) leased by AVIC Group to the Group under the framework agreement; (ii) the increase in the number of enterprises injected to the Group due to the assets reorganizations, and the potential expansion of the business of the Group and the consequential increase in demand for additional land use rights and properties, which may be rented from AVIC Group; and (iii) the expected continuous rise of prices of the land use rights and properties in the PRC.

e. *Products and Services Mutual Supply and Guarantee Agreement*

The proposed annual caps for the expenditure transactions under the Products and Services Mutual Supply and Guarantee Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products and services by AVIC Avionics Group and Hafei Aviation Group to the Group; (ii) the increase in the parts and components of aviation products and the ancillary services provided to the Group due to the increase in the numbers of the subsidiaries injected into AVIC Avionics and Hafei Aviation following the completion of their assets reorganizations; and (iii) the estimated growth of the aviation products business of the Group and hence the increase in the demand for parts and components of aviation products and ancillary services.

The proposed annual caps for the revenue transactions under the Products and Services Mutual Supply and Guarantee Agreement are determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts in respect of the provision of products and services by the Group to AVIC Avionics Group and Hafei Aviation Group; (ii) the expected increase in the demand for parts and components of aviation products and the ancillary services of AVIC Avionics Group and Hafei Aviation Group from the Group in light of the potential growth in the business of AVIC Avionics and Hafei Aviation; and (iii) the increase in the parts and components of aviation products and the ancillary services supplied by the Group due to the increase in the numbers of the subsidiaries injected into AVIC Avionics and Hafei Aviation following the completion of their assets reorganizations.

5. Reasons for and Benefits of Continuing the Existing Continuing Connected Transactions

The above continuing connected transactions are and will be conducted in the ordinary and usual course of business of the Group. Such transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company. Due to the historical connection and long-term cooperation relationship between the Group and AVIC Group, and our connected subsidiaries AVIC Avionics Group and Hafei Aviation Group, the Directors (including the independent non-executive Directors) consider that it is beneficial to continue the relevant continuing connected transactions by way of renewal of the framework agreements or entering into new ones and supplemental agreement as set out in Section I above, as these transactions have facilitated and will continue to facilitate the overall operations and growth of the Group's business. In addition, AVIC, AVIC Avionics, Hafei Aviation and their respective associates generally have better understanding of the Group's business and can better ensure the standards of technology, quality, delivery and technical support of the products to meet the Group's requirements.

Further, the transactions contemplated under the new framework agreements and supplemental agreement will be conducted on normal commercial terms (or better to the Group) or on terms not less favourable than those offered to or obtained from Independent Third Parties under comparable market conditions, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the proposed annual caps are also fair and reasonable.

The Independent Board Committee comprising independent non-executive Directors will give their view on the Non-exempt Continuing Connected Transactions and the proposed caps in respect thereof after considering the advice from the independent financial adviser, and their view will be set out in a circular to be despatched to the Shareholders.

II. REVISION OF THE ANNUAL CAPS FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS FOR 2014

1. The Annual Cap for 2014 of the Land Use Rights and Properties Leasing Agreement

References are made to the announcement of the Company dated 30 August 2011 and the circular dated 23 September 2011 in relation to, among other things, the entry into of the Land Use Rights and Properties Leasing Agreement between the Company and AVIC, and the annual caps for the expenditure transactions thereunder for the three financial years ending 31 December 2014. References are also made to the announcement of the Company dated 26 June 2013 and the circular dated 12 July 2013 in relation to the assets reorganization of AVIC Avionics through its acquisition of the 100% equity interests in Beijing Keeven Aviation Instrument Co., Ltd. and Suzhou Changfeng Avionics Co., Ltd. from AVIC Avionics Systems Co., Ltd. (a wholly-owned subsidiary of AVIC) in cash.

Due to the increased number of subsidiaries of AVIC Avionics following the completion of the aforementioned assets reorganization, the scope of the land use rights and properties rented by the Group from AVIC Group under the Land Use Rights and Properties Leasing Agreement has expanded accordingly, which will result in the increase of the rental payable to AVIC Group by the Group in 2014. The Board estimates that the actual expenditure from the connected transactions under the Land Use Rights and Properties Leasing Agreement might exceed the annual cap originally set for 2014. Hence, the Board proposes to revise the annual cap for the relevant expenditure transactions for 2014.

2. The Annual Cap for 2014 of Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement

Reference is made to the announcement of the Company dated 18 December 2013 in relation to the continuing connected transactions between the Group and Hafei Aviation Group contemplated under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement, including the annual caps for the period from 13 November 2013 (the completion date of the assets reorganization of Hafei Aviation) to 31 December 2013 and the year ending 31 December 2014. Reference is also made to the announcement of the Company dated 6 November 2013 in relation to the completion of the assets reorganization of Hafei Aviation.

The rapid growth of the business of Hafei Aviation following its assets reorganization has

led to increased ancillary transactions between Hafei Aviation Group and the avionics subsidiaries of the Group and a corresponding increase in the amount of the transactions under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement. The Board estimates that the actual revenue from the connected transactions of the Group under the Hafei Aviation Products and Services Mutual Supply and Guarantee agreement might exceed the annual cap originally set for 2014. Hence, the Board proposes to revise the annual cap for the relevant revenue transactions for 2014.

Details of the above revisions are as follows:

Transactions	Actual amount for the 6 months Ended 30 June 2014 (RMB million)	Original annual caps for the year 2014 (RMB million)	Revised annual caps for the year 2014 (RMB million)
Expenditure of the Group under the Land Use Rights and Properties Leasing Agreement	49	50	72
Revenue of the Group under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement	447	830	1000

3. Reasons for the Revisions

The revised annual cap for the expenditure of the Group under the Land Use Rights and Properties Leasing Agreement for 2014 is determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts of the parties; (ii) the expansion of the scope of the land use rights and properties rented after the asset reorganization; and (iii) the expected rise in the rental.

The revised annual cap for the revenue of the Group under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement for 2014 is determined with reference to, among other things, the following factors: (i) the historical transactions and transaction amounts of the parties; (ii) the estimated increase in the demand of parts and components of aviation products and the ancillary services in light of the growth of the entire aircraft business of the Group; and (iii) the expected transaction volume in respect of each type of the transactions under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement.

The Directors (including the independent non-executive Directors) consider that the proposed revisions of the respective 2014 annual caps for the expenditure transactions under the Land Use Rights and Properties Leasing Agreement and for the revenue transactions under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement are fair and reasonable and in the interests of the Company and the

Shareholders as a whole.

III. DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS: REVISION OF THE TERM OF THE EXISTING FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. Background

References are made to the announcement of the Company dated 25 March 2013 and the circular dated 13 May 2013 in relation to, among other things, the continuing connected transactions of the Company contemplated under the Existing Financial Services Framework Agreement.

The terms of the Existing Financial Services Framework Agreement are effective from 14 June 2013 for a term of three years, which is different from the term of most of the existing framework agreements for continuing connected transactions of the Company. For the purpose of facilitating the unified management of the continuing connected transactions, the Company proposes that the Existing Financial Services Framework Agreement to be terminated on 31 December 2014, and replaced by the Proposed Financial Services Framework Agreement with a term of three years commencing from 1 January 2015 and ending 31 December 2017. Except for the revised three-year term commencing from 1 January 2015 to 31 December 2017, the terms and conditions of the Proposed Financial Services Framework Agreement are the same as the Existing Financial Services Framework Agreement.

2. The Proposed Financial Services Framework Agreement

2.1 Date

26 August 2014

2.2 Effective Date and Term

Three years, commencing from 1 January 2015 to 31 December 2017

2.3 Parties

- (a) the Company; and
- (b) AVIC Finance

2.4 Major Terms

Pursuant to the Proposed Financial Services Framework Agreement, AVIC Finance has agreed to provide the Group with the Deposit Services, the Loan Services, the Settlement Services, the Guarantee Services and the Other Financial Services.

- (a) Deposit Services

- (i) Interest rates for the Group's deposits with AVIC Finance shall not be lower than (a) the minimum interest rate promulgated by the PBOC for the same type of deposit services; (b) the interest rates for the same type of deposits offered by major commercial banks of the PRC to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other group member of AVIC Group.
 - (ii) The maximum outstanding daily balance of deposit amount (including accrued interests) placed by the Group with AVIC Finance shall not be more than RMB3 billion; and
 - (iii) If AVIC Finance is unable to repay the Group's deposits, the Company has the right to terminate the Proposed Financial Services Framework Agreement and to set off the deposit due to the Group from AVIC Finance against the outstanding loan due to AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall compensate the Group for the full amount of the loss suffered by the Group and the Group is entitled to terminate the Proposed Financial Services Framework Agreement.
- (b) Loan Services
- (i) Loan services are provided by AVIC Finance to the Group on normal commercial terms. For Loan Services application which fulfills the credit conditions imposed by AVIC Finance, no security over the assets of the Group or pledge of rights or other guarantee will be required by AVIC Finance. For Loan Services applications which do not fulfill the credit conditions imposed by AVIC Finance, the parties shall enter into separate agreements regarding the provision of the aforesaid Loan Services, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the stock exchanges on which they are listed; and
 - (ii) Interest rates charged by AVIC Finance for the provision of the Loan Services to the Group shall not be higher than (a) the maximum loan interest rates promulgated by the PBOC for the same type of loan services; (b) the interest rates for the same type of loans provided by AVIC Finance to any other group member of AVIC Group with the same credit rating; and (c) the interest rates offered by major commercial banks in the PRC for the same type of loan services.
- (c) Settlement Services
- (i) Settlement Services mean the services provided by AVIC Finance to the Group in relation to effecting any payment out of any fund held by AVIC Finance or accepting payment of fund to the Group, in both cases on the Group's behalf and to the order of the Group; and
 - (ii) The fees for the Settlement Services shall not be higher than (a) the fees then charged by major commercial banks in the PRC for the same type

of services provided to the Group; and (b) the fees then charged by AVIC Finance for the same type of services provided to any other group member of AVIC Group.

(d) **Guarantee Services**

Guarantee Services mean the services provided by AVIC Finance to the Group in relation to the financing, finance lease, tender, contract performance of the Group and no counter-guarantee is required. In the event that a counter-guarantee is required from the Group, the parties shall enter into separate agreements, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the stock exchanges on which they are listed.

(e) **Other Financial Services**

- (i) AVIC Finance will, in accordance with the Company's instructions and requests, provide to the Group the Other Financial Services including but not limited to bill acceptance, discount services and factoring services of accounts receivable. Before AVIC Finance providing to the Group the Other Financial Services, AVIC Finance and the relevant member of the Group are required to negotiate and enter into separate agreement(s); and
 - (ii) The fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than (a) the maximum fee promulgated by PBOC for the same type of financial services (if applicable); (b) the fees charged by major commercial banks in the PRC for the same type of services; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other group member of AVIC Group with the same credit rating.
- (f) The Group may obtain financial services from the other financial institutions in addition to those provided by AVIC Finance pursuant to the Proposed Financial Services Framework Agreement.

3. Proposed Caps and Rationale

Deposit Services

The Directors estimate that the proposed cap in respect of the maximum daily outstanding balance of deposits (including the accrued interest) with AVIC Finance during the term of the Proposed Financial Services Framework Agreement (i.e. from 1 January 2015 to 31 December 2017) is RMB3 billion. The proposed cap is determined with reference to, among other things, the following factors:

- (1) the control of financial risks when selecting providers of financial services;
- (2) the increased future business development plans and financial services needs of the Group during the term of the Proposed Financial Services Framework Agreement, following the completion of various reorganization exercises and acquisitions

undertaken by the Group recently;

- (3) the historical maximum outstanding daily balances of deposits (including interests accrued thereon) of the Group; and the maximum outstanding daily balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance for the financial years ended 31 December 2012 and 2013 respectively and for the six months ended 30 June 2014 are set out as follows:

	Year ended 31 December 2012 (RMB million)	Year ended 31 December 2013 (RMB million)	Six months ended 30 June 2014 (RMB million)
Maximum outstanding daily balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance	1,095	1,563	847

- (4) The benefits to be derived from the provision of the Deposit Services by AVIC Finance to the Group including, the ability to obtain preferential rate(s) offered by AVIC Finance so as to reduce the Group's overall interest expenditure, the ability to obtain other financial services by AVIC Finance in a more favorable terms and to supplement the funds needs of the subsidiaries of the Company and therefore improve the funds use efficiency of the Group.

Other Financial Services

The Directors estimate that the proposed annual cap in respect of provision of the Other Financial Services by AVIC Finance to the Group for each year during the term of the Proposed Financial Services Framework Agreement (i.e. from 1 January 2015 to 31 December 2017) is RMB1 billion. The proposed cap is determined with reference to, among other things, the following factors:

- (1) the overall capital management strategy of the Group;
- (2) the increased future business development and financial services needs of the Group during the term of the Proposed Financial Services Framework Agreement, following the completion of various reorganization exercises and acquisitions undertaken by the Group recently;
- (3) The business of the Other Financial Services mainly relates to bill acceptance, discount services and factoring services of accounts receivable, etc., which promotes the recovery of capital of the subsidiaries of the Group and improves the funds use efficiency; and
- (4) The Other Financial Services to be provided by AVIC Finance to the Group are on more favorable terms as compared to the terms offered by the other financial

institutions under the same conditions, and therefore reduce the overall financial expenses of the Group.

The historical amounts of the Other Financial Services provided by AVIC Finance to the Group for the two financial years ended 31 December 2013 and the six months ended 30 June 2014 are as follows:

	Year ended 31 December 2012 (RMB million)	Year ended 31 December 2013 (RMB million)	Six months ended 30 June 2014 (RMB million)
The provision of the Other Financial Services by AVIC Finance to the Group	-	455	78

4. Reasons for and benefits expected to acquire from the Proposed Financial Services Framework Agreement

The reasons for the Group to enter into the Proposed Financial Services Framework Agreement with AVIC Finance are as follows:

- (a) The interest rates on the Deposit Services, the Loan Services and the Other Financial Services offered by AVIC Finance to the Group will be equal to or more favorable, depending on the case, than those offered to the Group by major commercial banks in the PRC.
- (b) AVIC Finance is regulated by the PBOC and the CBRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, capital risks are reduced through the introduction of risk control measures.
- (c) AVIC Finance's understanding of the Group's operations will enable it to provide more expedient and efficient services than major commercial banks in the PRC.
- (d) Pursuant to the relevant regulations of the PBOC and the CBRC, the customers of AVIC Finance are limited to the group members of AVIC Group, which will ensure more control by AVIC Finance of the risks that it may be exposed to as compared with other financial entities.

The Directors (including the independent non-executive Directors) believe that the terms of the Proposed Financial Services Framework Agreement are fair and reasonable, the proposed transactions contemplated thereunder are entered into in the ordinary and usual course of business of the Group and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole, and the proposed caps in respect of provision of the Deposit Services are fair and reasonable.

IV. GENERAL INFORMATION

1. Information relating to 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 is a controlling shareholder of the Company holding 51.26% equity interest in the Company. The Company is mainly engaged in the research and development, manufacture and sales of civil aviation products.

2. Information of 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 (including but are not limited to mechanical equipment).

3. Information of AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. AVIC Avionics is a 43.22% owned subsidiary of the Company, which is mainly engaged in the manufacture of avionics products and related accessories.

4. Information of 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 35.10% owned subsidiary of the Company, which is mainly engaged in the development, research and manufacture of helicopter products.

5. Information of AVIC Finance

AVIC Finance was established on 8 April 2007 as a limited liability company in Beijing, the PRC. It is licensed by the CBRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrustment loans and entrustment investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory services, credit certification and other advisory agency services and security to member companies, and other financial services as may be approved by the CBRC.

As at 30 June 2014, the registered capital of AVIC Finance was RMB2.5 billion. AVIC Finance also had a total asset value of approximately RMB30,924 million which included liquid assets (such as bank deposits, central bank reserves, short-term loans, central bank notes and treasury bonds) of approximately RMB27,260 million. It has secured lines of credit of an amount up to RMB13,750 million from several major commercial banks in the PRC.

Based on the audited accounts of AVIC Finance prepared in accordance with PRC accounting principles, AVIC Finance's before-tax profits were approximately RMB694.0334 million, RMB837.6027 million, RMB919.6698 million and RMB547.4974 million for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, respectively, and its after-tax profits were approximately RMB532.0164

million, RMB646.2651 million, RMB695.4421 million and RMB417.3190 million, respectively, representing an annual return on equity of about 26.6%, 32.31%, 27.82% and 33.38% for the same periods. As at 31 December 2011, 2012 and 2013 and 30 June 2014, the current ratios of AVIC Finance were approximately 52.67 %, 58.11 %, 59.20% and 27.07%, respectively, and its capital adequacy ratios were approximately 15.52%, 15.45%, 16.58% and 16.61%, respectively, which are all in compliance with the requirement of the CBRC with regards to the capital adequacy ratio applicable to the finance companies of enterprise groups.

V. HONG KONG LISTING RULES IMPLICATIONS

(i) Renewal of the framework agreements and annual caps thereof for certain existing continuing connected transactions

AVIC is a controlling shareholder of the Company holding 51.26% equity interest in the Company. AVIC Avionics and Hafei Aviation are directly and indirectly owned as to 34.16% and 26.93% by AVIC (excluding the interest held by AVIC through the Company). Both AVIC Avionics and Hafei Aviation are subsidiaries of the Company, and as AVIC holds more than 10% equity interests in each of them, they are connected subsidiaries of the Company under the Hong Kong Listing Rules. Accordingly, each of AVIC and AVIC Avionics and Hafei Aviation is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

As the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) for the continuing connected transactions contemplated under each of the new framework agreements, namely, (i) the Mutual Provision of Services Agreement; (ii) the Trademarks and Technology Cooperation Framework Agreement; and (iii) the expenditure transactions under the Land Use Rights and Properties Leasing Agreement are more than 0.1% but less than 5%, such continuing connected transactions are subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) for the continuing connected transactions contemplated under each of the new framework agreements, namely, (i) the Mutual Supply of Products Agreement with AVIC, (ii) the Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics and Hafei Aviation are more than 5%, such Non-exempt Continuing Connected Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest of the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) for the revenue transactions under the Land Use Rights and Properties Leasing Agreement is less than 0.1%, such transaction constitutes *de minimis* transaction of the Company and is exempt from reporting, announcement and Independent Shareholders' approval requirements 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 the general manager, vice general manager and vice general manager of AVIC, respectively, is deemed to have a material interest in the transactions abovementioned and

accordingly, they had abstained from voting on the Board resolutions approving the transactions abovementioned in accordance with the Company Law of the PRC and the Hong Kong Listing Rules.

(ii) Revision of the annual caps of certain existing continuing connected transactions for 2014

With respect to the proposed revision of the 2014 annual cap of each of the expenditure under the Land Use Rights and Properties Leasing Agreement and the revenue under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement, as the highest of the applicable size test percentage ratios for the revised 2014 annual cap for the expenditure transactions under the Land Use Rights and Properties Leasing Agreement and the revenue transactions under the Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement is more than 0.1% but less than 5%, such 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. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, who is the general manager, vice general manager and vice general manager of AVIC, respectively, is deemed to have a material interest in the transactions abovementioned and accordingly, they had abstained from voting on the Board resolution approving the transactions abovementioned in accordance with the Company Law of the PRC and the Hong Kong Listing Rules.

(iii) Discloseable and continuing connected transactions: Revision of the term of the Existing Financial Services Framework Agreement

As AVIC is a controlling shareholder of the Company and AVIC Finance is a subsidiary of AVIC, AVIC Finance is a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the Proposed Financial Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions for the Company under the Hong Kong Listing Rules.

As (i) the Loan Services and the Guarantee Services are provided on normal commercial terms and no security over the assets of the Group will be granted in respect of the provision of financial assistance; and (ii) the Settlement Services will fall within the *de minimis* threshold as stipulated under the Hong Kong Listing Rules, the Loan Services, the Guarantee Services and the Settlement Services are exempt from reporting, announcement and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

As the highest of the applicable test percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the proposed annual caps for the Other Financial Services is more than 0.1% but less than 5%, the proposed annual caps for Other Financial Services are subject to the reporting and announcement requirements, but approval by Independent Shareholders is not required.

Since the highest of the applicable size test percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the proposed cap for the maximum outstanding daily balance

of deposits (including accrued interest) for the Deposit Services is more than 5% but less than 25%, the Deposit Services are subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules. Meanwhile, the Deposit Services also constitute discloseable transactions of the Company under Chapter 14 of the Hong Kong Listing Rules and are therefore also subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

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

VI. EGM

An EGM will be convened to obtain the approval of Independent Shareholders regarding, among other things, (i) the terms of the Non-Exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017 and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement.

For the purpose of convening the EGM, the Board will appoint:

(1) an Independent Board Committee to consider and advise the Independent Shareholders on (i) the proposed terms of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the entry into of the Proposed Financial Services Framework Agreement to revise the term of the Existing Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement; and

(2) an independent financial adviser to advise the Independent Board Committee on (i) the proposed terms of the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the entry into of the Proposed Financial Services Framework Agreement to revise the term of the Existing Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement.

AVIC and its associate(s), if any, will abstain from voting on these ordinary resolutions to be proposed at the EGM.

For the purpose of the EGM, a circular containing, among other things:

(1) (i) details relating to the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) details relating to the revision of the term of the Existing Financial Services

Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement;

(2) a letter of recommendation on (i) the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement from the Independent Board Committee to the Independent Shareholders; and

(3) a letter of advice on (i) the Non-exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017 and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement from an independent financial adviser to the Independent Shareholders and the Independent Board Committee will be prepared and dispatched to the Shareholders. As it takes time for the Company to confirm the relevant information to be contained in the circular, the circular will be despatched to the Shareholders on or before 26 September 2014.

DEFINITIONS

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

“associates”	has the same meaning ascribed thereto under the Hong Kong Listing Rules
“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
“AVIC Avionics”	China AVIC Electronics Co., Ltd., (中航機載電子設備股份有限公司), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange, which is owned as to 43.22% by the Company and as to 34.16% (directly and indirectly) by AVIC
“AVIC Avionics Group”	AVIC Avionics and its subsidiaries
“AVIC Avionics Products and Services Mutual Supply and Guarantee Agreement”	the products and services mutual supply and guarantee agreement entered into between AVIC Avionics and the Company on 30 August 2011, details of which are set out in the announcement of the Company dated 30 August 2011 and the circular dated 23 September 2011

“AVIC Finance”	Aviation Industry Corporation Finance Company Limited (中航工業集團財務有限責任公司), a limited liability company established in the PRC and a subsidiary of AVIC
“AVIC Group”	AVIC and its subsidiaries
“Board”	the board of directors of the Company
“CBRC”	China Banking Regulatory Commission
“Company”	AviChina Industry & Technology Company Limited, a joint stock limited company established in the PRC, whose H shares are listed on the Hong Kong Stock Exchange
“Contractual Price”	the price to be agreed between the relevant parties for the provision of the subject products or services (as the case may be), which shall be the Reasonable Costs incurred in providing the same plus not more than 8.0% of such costs
“Deposit Services”	the deposit services to be provided by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the purposes of considering and, if thought fit, approving, among other things, (i) the proposed terms of the Non-Exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement
“Existing Financial Service Framework Agreement”	the financial services framework agreement entered into between the Company and AVIC Finance on 25 March 2013, for a term of three years commencing from the effective date of 14 June 2013
“Existing Mutual Supply of Products Agreement”	the mutual supply of products agreement entered into between the Company and AVIC on 30 August 2011, for a term of three years commencing from the effective date of 1 January 2011
“Existing Mutual Supply of Services Agreement”	the mutual supply of services agreement entered into between the Company and AVIC on 30 August 2011, for a term of three years commencing from the effective date of 1 January 2011
“Existing Trademarks and	the trademarks and technology cooperation framework agreement entered into between the Company and AVIC on 30 August 2011,

Technology Cooperation Framework Agreement	for a term of three years commencing from the effective date of 1 January 2011
“Government-prescribed Price”	the price for a particular type of products as determined by the laws, regulations, decisions or orders promulgated by the central government, provincial government or other regulatory authorities in the PRC
“Government-guidance Price”	the price for a particular type of products which may be determined by the parties to a transaction within the price range as provided under the laws, regulations, decisions or orders promulgated by the central government, provincial government or other regulatory authorities in the PRC
“Group”	the Company and its subsidiaries
“Guarantee Services”	the guarantee services to be provided by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement
“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 35.10% directly and indirectly owned subsidiary of the Company as at the date of this announcement
“Hafei Aviation Group”	Hafei Aviation and its subsidiaries
“Hafei Aviation Products and Services Mutual Supply and Guarantee Agreement”	the products and services mutual supply and guarantee agreement entered into between Hafei Avionics and the Company on 18 December 2013, details of which are set out in the announcement of the Company dated 18 December 2013
“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
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Guo Chongqing, Mr. Lau Chung Man and Mr. Liu Ren Huai, to advise the Independent Shareholders on (i) the proposed terms of the Non-Exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial

years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into of the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement

“Independent Third Parties”

independent third parties (to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry), including the ultimate beneficial owners of such party, not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates (within the meaning of the Hong Kong Listing Rules)

“Independent Shareholders”

Shareholders (other than AVIC and its associates) who are not required to abstain from voting on the resolutions to be proposed at the EGM to approve (i) the proposed terms of the Non-Exempt Continuing Connected Transactions, and the proposed annual caps in respect thereof for the three financial years ending 31 December 2017; and (ii) the revision of the term of the Existing Financial Services Framework Agreement by entering into of the Proposed Financial Services Framework Agreement as well as the proposed cap for the Deposit Services under the Proposed Financial Services Framework Agreement

“Land Use Rights and Properties Leasing Agreement”

the Land Use Rights and Properties Leasing Agreement, entered into between AVIC and the Company for a term of 20 years commencing from 1 January 2012, and where appropriate, includes the supplemental agreement entered into between AVIC and the Company on 26 August 2014 to revise the Land Use Rights and Properties Leasing Agreement, details of which are set out in paragraph 2.4 under Section I of this announcement

“Loan Services”

the loan services to be provided by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement

“Market Price”

(i) where there are comparable market prices or standard charging rates entered into by independent third parties under normal commercial terms, the transaction price shall be fixed at such price or standard; or (ii) if the transactions have no comparable market prices entered into between independent third parties, the transaction price shall be fixed by the price of non-connected transactions between the connected person and independent third parties.

“Mutual Provision of Services Agreement”

the mutual provision of services agreement entered into between AVIC and the Company on 26 August 2014, details of which are set out in paragraph 2.2 under Section I of this announcement

“Mutual Supply of Products Agreement”	the mutual supply of products agreement entered into between AVIC and the Company on 26 August 2014, details of which are set out in paragraph 2.1 under Section I of this announcement
“Non-exempt Continuing Connected Transactions”	the continuing connected transactions contemplated under (i) the Mutual Supply of Products Agreement with AVIC, and (ii) the Products and Services Mutual Supply and Guarantee Agreement with AVIC Avionics and Hafei Aviation, which are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules
“Other Financial Services”	apart from deposit, loan, settlement and guarantee services, other financial services AVIC Finance has agreed to provide to the Group under the Proposed Financial Services Framework Agreement (subject to the terms and conditions provided therein)
“PBOC”	the People’s Bank of China
“PRC”	the People’s Republic of China
“Products and Services Mutual Supply and Guarantee Agreement”	the products and services mutual supply and guarantee agreement entered into among AVIC Avionics, Hafei Aviation and the Company on the 26 August 2014, details of which are set out in paragraph 2.5 under Section I of this announcement
“Proposed Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and AVIC Finance on 26 August 2014, for a term of three years commencing from 1 January 2015 to 31 December 2017 to replace the Existing Financial Services Framework Agreement and except for the revised three-year term commencing from 1 January 2015 to 31 December 2017, the terms and conditions of the Proposed Financial Services Framework Agreement are the same as the Existing Financial Services Framework Agreement
“Reasonable Costs”	the costs confirmed by the parties to the agreement after arm’s length negotiation and as permitted by the relevant accounting system/principles of the PRC (inclusive of sales tax and surcharges)
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement Services”	the settlement services to be provided by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement
“Shareholders”	the holders of shares of RMB1.00 each in the capital of the Company

**“Trademarks and
Technology
Cooperation
Framework
Agreement”**

the trademarks and technology cooperation framework agreement entered into between AVIC and the Company on 26 August 2014, details of which are set out in paragraph 2.3 under Section I of this announcement

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

Beijing, 26 August 2014

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. Maurice Savart, Mr. Sheng Mingchuan, as well as independent non-executive directors Mr. Guo Chongqing, Mr. Lau Chung Man, Louis and Mr. Liu Renhuai.

**For identification purpose only.*