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中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2357)

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS

FINANCIAL SERVICES FRAMEWORK AGREEMENT WITH AVIC FINANCE

Renewal of the term of the Existing Financial Services Framework Agreement

The term of the Existing Financial Services Framework Agreement is due to expire on 18 May 2013. Accordingly, on 25 March 2013, the Company and AVIC Finance conditionally entered into the Proposed Financial Services Framework Agreement, pursuant to which AVIC Finance has agreed to provide the Group with Deposit Services, Loan Services, Settlement Services, Guarantee Services and Other Financial Services on a non-exclusive basis for another term of three years, subject to and on the terms and conditions provided therein.

Exempt and Non-exempt Continuing Connected Transactions

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 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 stipulated under the Hong Kong Listing Rules, the Loan Services, the Guarantee Services and the Settlement Services are exempted from reporting, announcement and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

Since the highest of the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of each of (i) the proposed cap of the maximum daily outstanding balance of deposits (including accrued interest) for the Deposit Services; and (ii) the proposed annual caps for the Other Financial Services is more than 5%, the Deposit Services and the Other Financial Services are subject to the reporting, announcement and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

Discloseable Transactions

Since the highest of the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the proposed cap of the maximum daily outstanding balance of deposits (including accrued interest) for the Deposit Services and the proposed annual caps for the Other Financial Services is more than 5% but less than 25%, the Deposit Services and the Other Financial Services also constitute discloseable transactions for the Company under Chapter 14 of the Hong Kong Listing Rules and are therefore subject to the notification and announcement requirements under Rule 14.06 of the Hong Kong Listing Rules.

The Company will convene an annual general meeting for the purposes of, among other things, obtaining the Independent Shareholders' approval for the Deposit Services, the Other Financial Services and the proposed caps thereof. A circular containing, among others, (i) details of the Deposit Services, the Other Financial Services and the proposed caps thereof; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; and (iii) a letter of advice by an independent financial adviser to the Independent Board Committee and the Independent Shareholders will be despatched to the shareholders of the Company on or before 26 April 2013, as additional time is required by the Company to finalize certain information to be included in the circular.

THE PROPOSED FINANCIAL SERVICES FRAMEWORK AGREEMENT

A. Background

The term of the Existing Financial Services Framework Agreement is due to expire on 18 May 2013. Accordingly, on 25 March 2013, the Company and AVIC Finance conditionally entered into the Proposed Financial Services Framework Agreement, pursuant to which AVIC Finance has agreed to provide the Group with Deposit Services, Loan Services, Settlement Services, Guarantee Services and Other Financial Services on a non-exclusive basis for another term of three years, subject to and on the terms and conditions provided therein.

AVIC Finance was established pursuant to the relevant PRC laws and regulations relating to the establishment of "group finance company" to provide financial service and explore financial channels for the member companies of AVIC. AVIC Finance is a non-banking financial institution approved and regulated by the PBC and the CBRC. AVIC Finance only provides financial services to AVIC and its member companies in the PRC.

The Company utilises the services of AVIC Finance on a voluntary, non-exclusive basis and is not obliged to engage AVIC Finance for any particular services, or at all. AVIC Finance is merely one of a number of financial institutions which provides financial services to the Group.

B. Principal terms

A summary of the principal terms of the Proposed Financial Services Framework Agreement is set out as follows:

1. Date

25 March 2013

2. Effective Date and Term

The Proposed Financial Services Framework Agreement shall become effective for a term of three years upon, the approval by the Independent Shareholders at the general meeting.

3. Parties

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

4. Major Terms

Pursuant to the Proposed Financial Services Framework Agreement, AVIC Finance has agreed to provide to the Group with Deposit Services, Loan Services, Settlement Services, Guarantee Services and Other Financial Services based on the terms summarized as follows:

(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 PBC for the same type of deposit services; (b) the interest rates for the same type of deposits offered by any third party to the Group; and (c) the interest rates for the same type of deposits offered by the AVIC Finance to any third party;
- (ii) The maximum daily 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 Loan Services to the Group shall not be higher than (a) the maximum loan interest rates promulgated by the PBC for the same type of loan services; (b) the interest rates for the same type of loans provided by AVIC Finance to any third party with the same credit rating; and (c) the interest rates offered by the main commercial banks in the PRC for the same type of loan services.

(c) Settlement Services

- (i) The Settlement Services means 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 Company's behalf and to the order of the Company; and

- (ii) The fees for Settlement Services shall not be higher than (a) the fees then charged by any other third party for the same type of services provided to the Group; and (b) the fees then charged by AIVC Finance for the same type of services provided to any other third party.
- (d) **Guarantee Services**
- The Guarantee Services means the services provided by AVIC Finance to the Group in relation to the financing, finance lease, tender, contract performance of the Group and no reverse guarantee is required. In the event that a reverse 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 Other Financial Services including but not limited to Bill Acceptance (票據承兌), Discount Services (貼現服務) and Factoring Services of Accounts Receivable (應收帳款保理服務). 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 the PBC for the same type of financial services (if applicable); (b) the fees charged by the other financial institutions in the PRC for the same services; and (c) the fees charged for the same type of financial service offered by AVIC Finance to any third party 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.

C. Proposed Caps and rationale

Deposit Services

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

- (1) the control of financial risks in selecting providers of financial services;
- (2) the future business development plans and financial 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 during the course of the previous few years;
- (3) the historical maximum daily outstanding balances of deposits (including interests accrued thereon) of the Group; and that the maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance for the financial years ended 31 December 2010, 2011 and 2012 respectively and for the period ended 28 February 2013 are within the existing cap of RMB2 billion for the maximum daily balance of deposits and are set out as follows:

	Year ended 31 December 2010 (RMB million)	Year ended 31 December 2011 (RMB million)	Year ended 31 December 2012 (RMB million)	Period ended 28 February 2013 (RMB million)
Maximum daily outstanding balances of deposits (including interests accrued thereon) placed by the Group with AVIC Finance	476.01	1,134.09	1,095.11	774.02

- (4) the benefits to be derived through the provision of the Deposit Services by AVIC Finance to the Group such as, the ability to obtain the prime rate(s) offered by AVIC Finance so as to reduce the Group's overall interest expenditure, to receive the Other Financial Services from AVIC Finance on 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 caps in respect of provision of the Other Financial Services by AVIC Finance to the Group during the term of the Proposed Financial Services Framework Agreement are RMB1 billion. The proposed annual caps were determined with reference to, among other things, the following factors:

- (1) the capital management strategy of the Group;
- (2) the future business development and financial 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 during the course of the previous few years;
- (3) the Other Financial Services mainly comprise Bill Acceptance services, Discount Services and Factoring Services of Accounts Receivable services, which help to promote the recovery of capital of the subsidiaries of the Group and improve 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.

D. 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 Deposit Services, Loan Services and the Other Financial Services offered by AVIC Finance to the Group will be equal to or more favourable, depending on the case, than those offered to the Group by any third party.
- (b) AVIC Finance is regulated by the PBC 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 render more expedient and efficient service provision than the commercial banks in the PRC.
- (d) Pursuant to the relevant regulations of the PBC and the CBRC, the customers of AVIC Finance are limited to the group members of AVIC, 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 and in the interests of the Company and the Shareholders as a whole, and the proposed cap and annual caps in respect of provision of Deposit Services and Other Financial Services are fair and reasonable.

E. Hong Kong Listing Rules Implications

Exempt and Non-exempt Continuing Connected Transactions

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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 stipulated under the Hong Kong Listing Rules, the Loan Services, the Guarantee Services and the Settlement Services are exempted from reporting, announcement and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules.

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The Company will convene an annual general meeting for the purposes of, among other things, obtaining the Independent Shareholders' approval for the Deposit Services, the Other Financial Services and the proposed caps thereof. A circular containing, among others, (i) details of the

Deposit Services, the Other Financial Services and the proposed caps thereof; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and (iii) a letter of advice by an independent financial adviser to the Independent Board Committee and the Independent Shareholders will be despatched to the shareholders of the Company on or before 26 April 2013, as additional time is required by the Company to finalize certain information to be included in the circular.

F. General Information

Information on AVIC Finance

AVIC Finance was established on 8 April, 2007 as a limited liability company in Beijing, the PRC. It is licensed by 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, entrusted loans and entrusted investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory, credit certification and other advisory agency service and security to member companies, and other financial services as may be approved by the CBRC.

As of 31 December 2012, the registered capital of AVIC Finance was RMB2 billion. AVIC Finance also had a total asset value of approximately RMB37,199 million which included liquid assets (such as bank deposits, central bank reserves, short-term loans, central bank notes and treasury bonds) of approximately RMB37,196 million. It has secured lines of credit of an amount up to RMB10,900 million from several major commercial banks in the PRC.

Based on the audited accounts of the AVIC Finance prepared in accordance with PRC accounting principles, AVIC Finance's before-tax profits were approximately RMB384,843,100, RMB694,033,400 and RMB837,602,700 for the years ended 31 December 2010, 2011 and 2012 respectively, and its after-tax profits were approximately RMB295,956,100, RMB532,016,400 and RMB646,265,100 respectively, representing an annual return on equity of about 19.73%, 26.6% and 41.9% for the same periods. As of 31 December 2010, 2011 and 2012, the current ratios of AVIC Finance were approximately 62.98%, 52.67% and 58.11% respectively and its capital adequacy ratios were approximately 12.27%, 15.52% and 15.45% 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.

AVIC Finance is subject to stringent regulations and is regulated by the PBC and the CBRC. The CBRC's supervision includes regular examination of the audited financial statements and other relevant materials required to be filed by group finance companies as well as on-site inspections and interviews with the senior management of group finance companies. To ensure compliance with the applicable laws and regulations, the CBRC has powers to issue corrective and/or disciplinary orders and to impose penalties and/or fines on a group finance company. In accordance with the relevant requirements under the Measures for Administration of Finance Companies of Enterprise Groups promulgated by CBRC on 27 July 2004, group finance companies, including AVIC Finance:

- (a) are not allowed to engage in non-financial service business, including property investment or trading;
- (b) must comply with the following ratio requirements: (i) the capital adequacy ratio shall not be lower than 10%, (ii) the inter-bank borrowing balance shall not exceed the total registered capital of the relevant finance company, (iii) the total amount of outstanding guarantees shall not be more than the total registered capital of the relevant finance

“Bill Acceptance”	the services where AVIC Finance accepts and guarantees to unconditionally draw an amount equivalent to the face value of a commercial bill issued by the Group to the payee or bearer on the maturity date
“Board”	the board of Directors of the Company
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), whose H shares are listed on the Hong Kong Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“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
“Discount Services”	the services where the Group transfers to AVIC Finance the rights attached to a commercial bill it held to acquire cash before its maturity date and AVIC Finance pays to the bearer the balance equivalent to the amount of the face value less discount interests
“Existing Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and AVIC Finance on 1 April 2010, the term of which is due to expire on 18 May 2013
“Factoring Services of Accounts Receivable”	the services where the Group assigns to AVIC Finance its accounts receivable derived from the sales of commodities, provision of services to domestic purchasers (as debtor) or otherwise and AVIC Finance provides financing services to the Group on and subject to the agreed terms and conditions
“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
“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”	the independent committee of the Board comprising Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, being independent non-executive Directors, established for the purpose of advising the Independent Shareholders on the terms of the Proposed Financial Services Framework Agreement relating to the provision of

	Deposit Services and Other Financial Services by AVIC Finance and the proposed caps thereof
“Independent Shareholders”	Shareholders of the Company other than AVIC and its associates
“Loan Services”	the Loan Services to be provided by AVIC Finance to the Group under the Proposed Financial Services Framework Agreement
“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)
“PBC”	People’s Bank of China (中國人民銀行)
“PRC”	the People’s Republic of China
“Proposed Financial Services Framework Agreement”	the conditional Financial Services Framework Agreement entered into between the Company and AVIC Finance on 25 March 2013
“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”	registered holder(s) of the shares of the Company

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

Beijing, 25 March 2013

As at the date of this announcement, the Board comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and non-executive directors Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Sheng Mingchuan, Mr. Maurice Savart as well as independent non-executive directors Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis.

** For identification purposes only.*