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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**

On 1 April 2010, the Company and AVIC Finance entered into the 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 subject to the terms and conditions provided therein.

Exempt and Non-exempt Continuing Connected Transactions

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

Since (i) the Loan Services and the Guarantee Services are on normal commercial terms and no security over the assets of the Group will be granted in respect of the financial assistance; (ii) the Settlement Services will fall within the *de minimis* threshold as stipulated under the Listing Rules; and (iii) the Other Financial Services have not been fixed by the parties, the Loan Services, the Guarantee Services, the Settlement Services and the Other Financial Services are not subject to any reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules.

Since each of the applicable percentage ratios for the Deposit Services and the Proposed Cap is more than 2.5%, the Deposit Services are subject to the reporting, announcement and the Independent Shareholders' approval requirements.

A general meeting will be convened to obtain the Independent Shareholders' approval regarding the approval of the Deposit Services and the Proposed Cap. A circular containing, among others, (i) details of the Deposit Services and the Proposed Cap; (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 dispatched to the shareholders of the Company as soon as practicable pursuant to the Listing Rules.

Discloseable Transactions

Since each of the applicable percentage ratios for the Deposit Services is more than 5% but less 25%, the Deposit Services also constitute discloseable transactions and are therefore subject to the notification and announcement requirements under Rule 14.34 of the Listing Rules.

I. THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

Introduction

On 1 April 2010, the Company and AVIC Finance entered into the Financial Services Framework Agreement, pursuant to which AVIC Finance has agreed, subject to the terms and conditions therein, to provide certain financial services to the Group on a non-exclusive basis.

AVIC Finance was established pursuant to the relevant PRC laws and regulations relating to the establishment of “group finance company” to enhance the centralized management of funds among, and to improve the fund utilization of the individual member companies of, AVIC, including the Group. AVIC Finance is a non-banking financial institution approved and regulated by PBC and 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.

Key terms

1. Date

1 April 2010

2. Effective Date and Term

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

3. Parties

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

4. Major Terms

- (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 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 RMB2 billion; and
 - (iii) If AVIC Finance is unable to repay the Group’s deposits, the Company has the right to terminate the 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 Financial Services Framework Agreement.
- (b) Loan Services

Interest rates charged by AVIC Finance for the provision of Loan Services to the Group shall not be higher than (a) the interest rates promulgated by PBC for the same type of loan services; (b) the interest rates for the same type of loan offered by any third party to the Group; and (c) the interest

rates for the same type of loans provided by the AVIC Finance to any third party with the same credit rating.

(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 the fees then charged by any other third party for the same type of services.

(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.

(e) Other Financial Services:

(i) AVIC Finance will, in accordance with the Company's instructions and requests, provide to the Group Other Financial Services. Before AVIC Finance providing to the Group 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 Other Financial Services shall not be higher than (a) the maximum fee promulgated by PBC for the same type of financial services (if applicable); (b) the fees charged by other financial institutions in the PRC for the same services; and (c) the fees charged for the same type of financial service offered by the AVIC Finance to any third party with the same credit rating.

(f) The Group may obtain financial services from other financial institutions in addition to those provided by AVIC Finance pursuant to the Financial Services Framework Agreement.

Proposed Cap and rationale

Deposit Services

Prior to the entering of the Financial Services Framework Agreement, the Company has not placed any money with AVIC Finance as deposits. The Board has considered and proposed the following cap in respect of the maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with AVIC Finance during the term of the Financial Services Framework Agreement:

| Transactions | Proposed Cap | Basis of determination of the Proposed Cap |
|---------------------|---------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Deposit Services | RMB2,000,000,000 | The Proposed Cap has been determined with reference to the control of financial risks in selecting providers of financial services, taking into account business development plans and financial needs of the Group during the term of the Financial Services Framework Agreement. |

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

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

(a) The interest rates on Deposit Services and Loan 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 PBC and 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) The Group is expected to benefit from AVIC Finance's understanding of the Group's operations which should render more expedient and efficient service provision than the commercial banks in the PRC.
- (d) The Group can enjoy low-interested entrusted loans from AVIC through AVIC Finance.
- (e) Pursuant to the relevant regulations of PBC and CBRC, the customers of AVIC Finance are limited to the group members of AVIC. Restricting the customers of AVIC Finance to the group members of AVIC will reduce the risks that AVIC Finance may otherwise be exposed to if its customers include other entities unrelated to AVIC.

The Directors (including the independent non-executive Directors) believe that the terms of the Financial Services Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Listing Rules Implication

Exempt and Non-exempt Continuing Connected Transactions

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

Since (i) the Loan Services and the Guarantee Services are on normal commercial terms and no security over the assets of the Group will be granted in respect of the financial assistance; (ii) the Settlement Services will fall within the *de minimis* threshold as stipulated under the Listing Rules; and (iii) the Other Financial Services have not been fixed by the parties, the Loan Services, the Guarantee Services, the Settlement Services and the Other Financial Services are not subject to any reporting, announcement and the Independent Shareholders' approval requirements under the Listing Rules. The Company will comply with the reporting, announcement and/or Independent Shareholders' approval requirements should the Settlement Services and the Other Financial Services become non-exempt continuing connected transactions under the Listing Rules.

Since each of the applicable percentage ratios for the Deposit Services and the Proposed Cap is more than 2.5%, the Deposit Services are subject to the reporting, announcement requirements and the Independent Shareholders' approval requirements.

A general meeting will be convened to obtain the Independent Shareholders' approval regarding the approval of the Deposit Services and the Proposed Cap. A circular containing, among others, (i) details of the Deposit Services and the Proposed Cap; (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 dispatched to the shareholders of the Company as soon as practicable pursuant to the Listing Rules.

Discloseable Transactions

Since each of the applicable percentage ratios for the Deposit Services is more than 5% but less than 25%, the Deposit Services also constitute discloseable transactions and are therefore subject to the notification and announcement requirements under Rule 14.34 of the Listing Rules.

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 CBRC.

As of 31 December 2009, the registered capital of AVIC Finance was RMB1,000,000,000 . AVIC Finance also had a total asset value of approximately RMB46,833,000,000 which included liquid assets (such as bank deposits, central bank reserves, short-term loans, central bank notes and treasury bonds) of approximately RMB45,684,000,000. It has secured lines of credit of an amount up to RMB10,300,000,000 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 RMB103,385,600, RMB155,210,700 and RMB178,794,300 for the years ended 31 December 2007, 2008 and 2009 respectively, and its after-tax profits were approximately RMB53,739,300, RMB117,518,100 and RMB178,794,200 respectively, representing an annual return on equity of about 5.37% and 11.75% 17.88% for the same periods. As of 31 December 2007, 2008 and 2009, the current ratios of AVIC Finance were approximately 133.5%, 56.68% and 67.53% respectively and its capital adequacy ratios were approximately 42.84%, 15.23% and 13.40% respectively, which are all in compliance with the requirement of 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 PBC and CBRC. 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, 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 net 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 company, and (iv) the ratio of self-owned fixed assets to total equity shall not exceed 20%; and
- (c) are required to deposit a mandatory proportion of the deposits they have received with PBC.

As far as the Directors are aware, AVIC Finance has established stringent internal control measures to ensure effective risk management and compliance with laws and regulations, including:

- (a) it has established corporate governance structure to ensure the effectiveness of its internal controls including the establishment of three committees namely, the Strategy and Development Committee, the Risk and Audit Committee, and the Remuneration Committee;
- (b) it has in place effective internal rules and policies specifically for management and control of operational risk and credit risks. It has its own credit policies and credit approval procedures for loan approvals which are designed in accordance with the relevant PBC and CBRC regulations. It has also implemented various risk management tools to manage and monitor credit risks. The internal audit department assumes an internal independent supervisory role and is responsible for examining and auditing the business operation of other departments; and
- (c) it has in place intra-group check-and-balance mechanisms (such as division of duties, regular and random internal examination, re-assessment and upper level supervision) to identify operational bottlenecks and irregularities and to deal with problems (if any) in a timely and effective manner.

In assessing the financial risks involved in placing deposits with AVIC Finance, the Directors have taken into

account the following factors:

- (a) the operations of AVIC Finance are subject to the supervision of PBC and CBRC and are regulated by the relevant PRC financial services rules and regulations; and
- (b) AVIC Finance has established internal control and risk management systems in accordance with the relevant PRC financial services rules and regulations.

Information on the Company

The Company is principally engaged in the research, development, manufacture and sales of aviation products.

II. DEFINITIONS

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

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|------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AVIC | Aviation Industry Corporation of China (中國航空工業集團公司), a controlling shareholder of the Company holding 56.70% equity interests in the Company |
| AVIC Finance | Aviation Industry Corporation Finance Company Limited (中航工業集團財務有限公司), a limited liability company established in the PRC |
| “Board” | the board of Directors of the Company |
| “CBRC” | 中國銀行業監督管理委員會 China Banking Regulatory Commission |
| “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 Financial Services Framework Agreement |
| “Directors” | the directors of the Company |
| “general meeting” | the general meeting of the Company to be held to consider and approve, among other things, the matters relating to the Deposit Services and the Proposed Cap |
| “Financial Services Framework Agreement” | the Financial Services Framework Agreement entered into between the Company and AVIC Finance on 1 April 2010 |
| “Group” | the Company and its subsidiaries |
| “Guarantee Services” | the Guarantee Services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| “The Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Independent Board | the independent committee of the Board comprising Mr. Guo Chongqing, Mr. |

| | |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Committee” | Li Xianzong and Mr. Lau Chung Man, Louis, being independent non-executive Directors, established for the purpose of advising the Independent Shareholders of the terms of the Financial Services Framework Agreement relating to the provision of Deposit Services by AVIC Finance and the Proposed Cap |
| “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 Financial Services Framework Agreement |
| “Other Financial Services” | apart from deposit, settlement, loan and guarantee services, other financial services AVIC Finance agreed to provide to the Group under the Financial Services Framework Agreement (subject to the terms and conditions provided therein) |
| “PBC” | 中國人民銀行 People’s Bank of China |
| “PRC” | the People’s Republic of China |
| “Proposed Cap” | the proposed maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with AVIC Finance during the term of the Financial Services Framework Agreement |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Settlement Services” | the settlement services to be provided by AVIC Finance to the Group under the 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

Hong Kong, 1 April 2010

As at the date of this announcement, the Board comprises executive directors Mr. Lin Zuoming, Mr. Tan Ruisong and Mr. Wu Xiandong and non-executive directors Mr. Gu Huizhong, Mr. Xu Zhanbin, Mr. Geng Ruguang, Mr. Zhang Xinguo, Mr. Gao Jianshe, Mr. Li Fangyong, Mr. Chen Yuanxian, Mr. Wang Yong, 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.*