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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)

I. RENEWAL OF THE ANNUAL CAPS FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS;

II. REVISION OF THE 2011 ANNUAL CAPS FOR AVIC AVIONICS CCT; AND

III. APPLICATION OF EXEMPTION UNDER RULES 14A.31(9) AND 14A.33(4) OF THE LISTING RULES IN RESPECT OF CHANGHE AGUSTA CCT

(i) Renewal of the annual caps for certain existing continuing connected transactions

Reference is made to the announcement of the Company dated 29 September 2008 and the circular dated 10 November 2008 in relation to, among other things, the continuing connected transactions of the Company contemplated under (1) the mutual supply agreement, (2) the comprehensive services agreement, (3) the technology cooperation agreement, (4) the land use rights leasing agreement and (5) the properties leasing agreement entered into between the Company and AVIC. At the extraordinary general meeting of the Company held on 15 December 2008, the Independent Shareholders approved, among other things, the above mentioned continuing connected transactions contemplated under the mutual supply agreement, the comprehensive services agreement and the technology cooperation agreement, and their respective annual caps for the three financial years ending 31 December 2011.

Reference is also made to the announcement of the Company dated 20 December 2009 in relation to the AVIC Avionics CCT contemplated under the products and services mutual supply and guarantee provision agreement entered into between the Company and AVIC Avionics.

As the term of each of the abovementioned framework agreements governing the relevant existing continuing connected transactions and their respective annual caps will expire on 31 December 2011, and that the Group has undergone reorganization of its assets during

the course of the preceding three years leading to certain changes to the scope of the original framework agreements, the Company proposes to (1) enter into new framework agreements to govern the terms of such existing continuing connected transactions; and (2) set their respective annual caps for the three financial years ending 31 December 2014.

AVIC is a controlling shareholder of the Company holding 56.70% equity interest in the Company. AVIC Avionics is directly and indirectly owned as to 35.16% by AVIC (excluding the interest held by AVIC through the Company). Accordingly, each of AVIC and AVIC Avionics is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

As some of the applicable size test percentage ratios (as defined in the Listing Rules) for the continuing connected transactions contemplated under the new framework agreements, namely, the (i) expenditure transaction under the Land Use Rights and Properties Leasing Agreement, (ii) the Trademarks and Technology Cooperation Framework Agreement and (iii) the revenue transaction under the AVIC Avionics CCT 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 Listing Rules.

As some of the applicable size test percentage ratios (as defined in the Listing Rules) for the continuing connected transactions contemplated under the new framework agreements, namely, the (i) Mutual Supply of Products Agreement, (ii) Mutual Provision of Services Agreement and (iii) the expenditure transaction under the AVIC Avionics CCT Agreement 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 Listing Rules.

As the highest of the applicable size test percentage ratios (as defined in the Listing Rules) for the revenue transaction 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 Listing Rules.

(ii) Revision of the 2011 annual caps for AVIC Avionics CCT

Following the completion of the assets reorganization by AVIC Avionics in June 2011, whereby AVIC Avionics acquired certain aviation assets including six avionics companies by way of the issue of consideration shares to the Company and AVIC and its associates, the continuing connected transactions between the Company and AVIC Avionics contemplated under the existing products and services mutual supply and guarantee provision agreement have substantially increased. Based on the unaudited management accounts of the Company, the Board estimates that the actual transaction amounts under such framework agreement may exceed the original 2011 annual caps. The Board therefore proposes to revise the relevant 2011 annual caps. As the highest of

the applicable size test percentage ratios in respect of the revised 2011 annual cap for the revenue transaction under the AVIC Avionics CCT is more than 0.1% but less than 5%, such revision is only subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under the Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratios in respect of the revised 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT is more than 5%, such proposed revision is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

For the purpose of the EGM, the Board will appoint (1) an Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT; and (2) an independent financial adviser to advise the Independent Board Committee on the terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT and to opine on, among other things, the term of the Land Use Rights and Properties Leasing Agreement, which is to be entered into by the parties for a period exceeding three years as well as to confirm that it is normal business practice for agreements of this type to be of such duration pursuant to Rule 14A.35(1) of the Listing Rules. AVIC and its associate(s), if any, will abstain from voting on the ordinary resolutions to be proposed at the EGM.

A circular containing, among other things, (1) details relating to the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT; (2) a letter of recommendation on the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT from the Independent Board Committee to the Independent Shareholders; and (3) a letter of advice on the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT from an independent financial adviser to the Independent Shareholders and the Independent Board Committee will be despatched to the Shareholders on or before 20 September 2011.

(iii) Application of exemption under Rules 14A.31(9) and 14A.33(4) of the Listing Rules in respect of Changhe Agusta CCT

As disclosed in the announcement of the Company dated 29 September 2008 and the circular of the Company dated 10 November 2008, the transactions contemplated under the Agusta Agreement constitute continuing connected transactions of the Company

under Chapter 14A of the Listing Rules. As the value of the total assets, profits and revenue of Changhe Agusta as at 31 December 2010 satisfies the requirements under Rule 14A.31(9)(b)(ii) of the Listing Rules, Changhe Agusta is considered as an insignificant subsidiary of the Company pursuant to Rule 14A.31(9)(b) of the Listing Rules. Accordingly, the Company will apply the exemption under Rules 14A.31(9) and 14A.33(4) to the Changhe Agusta CCT.

I. RENEWAL OF THE ANNUAL CAPS FOR CERTAIN EXISTING CONTINUING CONNECTED TRANSACTIONS

1. Background

Reference is made to the announcement of the Company dated 29 September 2008 and the circular dated 10 November 2008 in relation to, among other things, the continuing connected transactions of the Company contemplated under (1) the mutual supply agreement, (2) the comprehensive services agreement, (3) the technology cooperation agreement entered into between the Company and AVIC, (4) the land use rights leasing agreement and (5) the properties leasing agreement entered into between the Company and AVIC. At the extraordinary general meeting of the Company held on 15 December 2008, the Independent Shareholders approved, among other things, the above mentioned continuing connected transactions contemplated under the mutual supply agreement, the comprehensive services agreement and the technology cooperation agreement, and their respective annual caps for the three financial years ending 31 December 2011.

Reference is also made to the announcement of the Company dated 20 December 2009 in relation to the AVIC Avionics CCT contemplated under the products and services mutual supply and guarantee provision agreement entered into between the Company and AVIC Avionics.

As the term of each of the abovementioned framework agreements governing the relevant existing continuing connected transactions and their respective annual caps will expire on 31 December 2011, and that the Group has undergone reorganization of its assets during the course of the preceding three years leading to certain changes to the scope of the original framework agreements, the Company proposes to (1) enter into new framework agreements to govern the terms of such existing continuing connected transactions; and (2) set their respective annual caps for the three financial years ending 31 December 2014.

2. The Framework Agreements

2.1 Mutual Supply of Products Agreement

The Board considers that it is in the interest of the Company to continue certain continuing connected transactions contemplated under the existing mutual supply agreement by entering into a new framework agreement, namely, the Mutual Supply of

Products Agreement, with AVIC. With the Group's streamlining of its business to focus on the aviation business following its assets reorganization, the scope of products and the ancillary services subject to the Mutual Supply of Products Agreement will be amended to cover aviation related materials, components and products and their related sale and ancillary services.

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

Parties : AVIC

the Company

Date : 30 August 2011

Mutual provision of products : AVIC Group and the Group to mutually provide raw materials, parts and components, finished products and semi-finished products (including but not limited to helicopters, aircraft and aviation parts and components) required by the other party in its production and business operations as well as the specialized facilities and ancillary services related thereto.

The mutual provision of products by the parties shall be made on terms not less favourable than those offered to/by Independent Third Parties under comparable conditions.

Term : Commencing from 1 January 2012 to 31 December 2014

Pricing : The products and ancillary services will be provided: (i) according to the State-prescribed price; (ii) if there is no State-prescribed price, then according to the State-guidance price; (iii) if there is no State-guidance price, then according to the Market Price; and (iv) if none of the above is applicable, then according to the Contractual Price.

Payment : Specific payment terms are to be agreed between the parties in each transaction.

2.2 Mutual Provision of Services Agreement

The Board considers that it is in the interest of the Company to continue certain continuing connected transactions contemplated under the existing comprehensive services agreement by entering into the new framework agreement, namely, the Mutual Provision of Services Agreement, with AVIC. The scope of services to be mutually provided by the parties subject to the Mutual Provision of Services Agreement will be amended to cover services relating to the production and business operations of each party.

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

- Parties : AVIC
the Company
- Date : 30 August 2011
- Mutual provision of services : AVIC Group to provide certain services relating to the production and business operations of the Group including, without limitation, (i) electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing; (v) construction and transportation; (vi) network design, consultancy and related services; (vii) cultural, hygienic, social security and logistic services; (viii) import and export services; and (ix) test flight and related information and quality monitoring services.
- The Group to provide certain services relating to the production and business operation of AVIC Group including, without limitation, (i) electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing; (v) construction and transportation; (vi) network design, consultancy and related services; and (vii) enterprise management trust services.
- The mutual provision of services by the parties shall be made on terms not less favourable than those offered to/by Independent Third Parties under comparable conditions.
- Term : Commencing from 1 January 2012 to 31 December 2014
- Pricing : The services will be provided: (i) according to the State-prescribed price; (ii) if there is no State-prescribed price, then according to the State-guidance price; (iii) if there is no State-guidance price, then according to the Market Price; and (iv) if none of the above is applicable, then according to the Contractual Price.
- Payment : Specific payment terms are to be agreed between the parties in each service provision transaction.

2.3 Trademarks and Technology Cooperation Framework Agreement

The Board considers that it is in the interest of the Company to continue certain continuing connected transactions contemplated under the existing technology cooperation agreement by entering into the new framework agreement, namely, the

Trademarks and Technology Cooperation Framework Agreement, with AVIC. The scope of cooperation has been extended to cover the licence of trademarks.

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

Parties : AVIC

the Company

Date : 30 August 2011

Scope : *Joint development of technologies*

- (1) The parties will jointly develop new technologies for use in the business operations of the Group, and any resulting technologies will principally be jointly owned by the parties. The proportion of ownership will be determined by the parties in a separate agreement.

Licence of technologies and trademarks

- (2) AVIC Group will grant to the Group exclusive licence of its technologies in connection with the production and business operations of the Group free of charge.
- (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, use such technologies on the condition that such technologies will not be used by AVIC Group in competition of the business of 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; and (ii) a pre-emption right to purchase such resulting technologies rights.

- (6) 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 will grant a non-exclusive licence to AVIC Group free of charge on the condition that such technologies will not be used by AVIC Group in competition of the business of the Group.

- Term : Commencing from 1 January 2012 to 31 December 2014
- Pricing : Except for those licences which will be expressly granted free of charge under the framework agreement, the grant of licence or transfer of the relevant technologies and trademarks will be made at a price to be determined: (i) according to the State-prescribed price; (ii) if there is no State-prescribed price, then according to the State-guidance price; (iii) if there is no State-guidance price, then according to the Market Price; and (iv) if none of the above is applicable, then according to the Contractual Price.
- 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 framework agreement.

2.4 Land Use Rights and Properties Leasing Agreement

The Board considers that it is in the interest of the Company to continue certain continuing connected transactions contemplated under the existing land use rights leasing agreement and the properties leasing agreement. However, in order to better manage the transactions contemplated under the abovementioned framework agreements, the Board proposes to combine the two framework agreements by entering into a new framework agreement, namely, the Land Use Rights and Properties Leasing Agreement, the terms of which are substantially the same as that of the existing framework agreements. Upon the Land Use Rights and Properties Leasing Agreement becoming effective, it will supersede the existing land use rights leasing agreement and the properties leasing agreement.

Principal terms of the Land Use Rights and Properties Leasing Agreement are summarized as follows:

- Parties : AVIC
the Company

Date : 30 August 2011

Scope : *Land Use Rights*

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 RMB429,000.

Properties Leasing

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 52,000 square meters to AVIC Group at an annual rental of approximately RMB 4.92 million.

Term : Twenty (20) years commencing from 1 January 2012

Pricing : The annual rental is reviewed and adjusted (where necessary) every three years and shall not be higher than the prevailing market annual rental as determined by an independent valuer with reference to the market rent of land or properties (as the case may be) with similar conditions and locations.

Payment : Payments of rentals are to be made annually. Payments are to be made by the relevant parties by cheques within 30 working days after the first quarter of each financial year.

2.5 AVIC Avionics CCT Agreement

The Board considers that it is in the interest of the Company to continue the continuing connected transactions contemplated under the existing products and services mutual supply and guarantee provision agreement by entering into the AVIC Avionics CCT Agreement, the terms of which are substantially the same as that of the existing framework agreement.

Principal terms of the AVIC Avionics CCT Agreement are summarized as follows:

- Parties : the Company
AVIC Avionics
- Date : 30 August 2011
- Scope : (1) The Group agrees to provide aviation parts and components, raw materials, production and labour services to AVIC Avionics Group, as well as ongoing guarantee(s) to AVIC Avionics Group in relation to the bank loan(s) obtained by them during their ordinary course of business; and (2) AVIC Avionics Group agrees to provide aviation parts and components and related ancillary services to the Group.
- Term : Commencing from 1 January 2012 to 31 December 2014
- Pricing : The products and/or services will be provided: (i) according to the State-prescribed price; (ii) if there is no State-prescribed price, then according to the State-guidance price; (iii) if there is no State-guidance price, then according to the Market Price (including bidding price); and (iv) if none of the above is applicable, then according to the Contractual Price.
- 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 this agreement.

3. Historical annual amounts of the above continuing connected transactions for the preceding two financial years ended 31 December 2010 and the six months ended 30 June 2011

Set out below are the historical annual amounts of the above existing continuing connected transactions for the preceding two financial years ended 31 December 2010 and the six months ended 30 June 2011:

Agreements	Annual amount for the year ended 31 December 2009 (RMB million)	Annual amount for the year ended 31 December 2010 (RMB million)	Actual amount for the 6 months ended 30 June 2011 (RMB million)	Annual caps for the year 2011 (RMB million)
Expenditure of the Group				
Existing mutual supply agreement with AVIC	2,010	2,787	1,696	6,545
Existing comprehensive	85	39	9.85	170

services agreement with AVIC				
Existing technology cooperation agreement with AVIC	32	16	2	98
Existing land use rights leasing agreement	13	17	17	30
Existing properties leasing agreement	18	8	1.6	19
Existing products and services mutual supply and guarantee provision agreement with AVIC Avionics	17 (from 7 July to 31 December 2009)	69	48	86 ^(Note 1)
Revenue of the Group				
Existing product and ancillary services mutual supply agreement with AVIC	3,998	6,916	4,130	10,534
Existing technology cooperation agreement with AVIC	-	1	1	63
Existing properties leasing agreement	0.33	1.7	0.79	2
Existing products and services mutual supply and guarantee provision agreement with AVIC Avionics	- (from 7 July to 31 December 2009)	1	3.8	4 ^(Note 2)
Guarantees provided by the Group				
Existing products and services mutual supply and guarantee provision agreement with AVIC Avionics	- (from 9 July to 31 December 2009)	-	-	100

Notes:

1: To be revised to RMB508 million. Please refer to Section II below for details.

2: To be revised to RMB46 million . Please refer to Section II below for details.

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 2014

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 2012, 2013 and 2014. By applying the size tests of the Listing Rules, the Directors have categorized the continuing connected transactions, as set out below, based on the following principles:

- (1) continuing connected transactions which do not require 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%.

Non-Exempt Continuing Connected Transactions	Proposed annual caps for the year ending 31 December (amount in RMB millions)			Cross-reference to this announcement
	2012	2013	2014	
Reporting, Announcement and Independent Shareholders' Approval required (Size Tests \geq 5%)				
Expenditure of the Group				
Mutual Supply of Products Agreement	8,749	11,615	15,489	Paragraph 2.1 under Section I
Mutual Provision of Services Agreement	1,965	2,224	2,434	Paragraph 2.2 under Section I
AVIC Avionics CCT Agreement	645	818	1039	Paragraph 2.5 under Section I
Revenue of the Group				
Mutual Supply of	15,631	21,772	30,339	Paragraph 2.1 under

Products Agreement				Section I
Mutual Provision of Services Agreement	416	581	746	Paragraph 2.2 under Section I
Reporting and Announcement required (0.1% ≤ Size Tests ≤ 5%)				
Expenditure of the Group				
Trademarks and Technology Cooperation Framework Agreement	61	74	86	Paragraph 2.3 under Section I
Land Use Rights and Properties Leasing Agreement	50	50	50	Paragraph 2.4 under Section I
Revenue of the Group				
Trademarks and Technology Cooperation Framework Agreement	20	25	30	Paragraph 2.3 under Section I
AVIC Avionics CCT Agreement	80	104	135	Paragraph 2.5 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 transaction 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) with the expected increase in the sales orders for aviation products to be received by the Group in the future considering the implementation of China's Economic and Social Development in the 12th Five-year Plan"(the "**Twelfth Five-year Plan**") by the PRC government, pursuant to which the aviation industry will be explicitly included as one of the national strategic emerging industries, the Group will demand more aviation parts and components from AVIC Group for production of its current and new products and (iii) continuous development on new models with higher value to enhance the Group's competitiveness in both the domestic and international markets and thus the Group will purchase aviation parts of higher technology content and higher value from AVIC Group.

The proposed annual caps for the revenue transaction 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 implementation of the Twelfth Five-year Plan by the PRC government, pursuant to which the aviation industry will be explicitly included as one of the national strategic emerging industries; (iii) current sales order status of the Group, especially the development and production of new models which result in an increase in the types and volumes of products of the Group and transaction volumes between the Group and AVIC Group; and (iv) the increase in the number of avionics enterprises injected to the Company following the completion of the assets reorganization of China Aviation Optical-Electrical Technology Co., Ltd and AVIC Avionics, which leads to an increase in the sales of the Group's avionic 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 expansion of the Group's and AVIC Group's business which leads to an increase in the number of enterprises injected to the Company and the widening of the scope of services covered under the Mutual Provision of Services Agreement to include more ancillary services to be provided in relation to the production and business operations of the Group and AVIC Group, such as technological transformation, construction services, etc; and (iii) the expected continuous increase in the inflation rate in the PRC which leads to a significant increase in the costs of provision of such services.

c. *Trademarks and Technology Cooperation Framework Agreement*

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

The proposed annual caps for the revenue transaction under the Trademarks and Technology Cooperation Framework Agreement are determined with reference to, among other things, the following factor: 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.

d. *Land Use Rights and Properties Leasing Agreement*

The proposed annual caps for the expenditure transaction 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 leased by AVIC Group to the Group under the framework agreement as appraised by Vigers Appraisal & Consulting Limited, an independent valuer of the Company; (ii) 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 leased from AVIC Group and (iii) the expected continuous rise in the PRC land use rights and property prices.

e. *AVIC Avionics CCT Agreement*

The proposed annual caps for the expenditure transaction under the AVIC Avionics CCT 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 to the Group (excluding AVIC Avionics Group); (ii) the increase in the parts and components of avionics products and the ancillary services provided to the Group (excluding AVIC Avionics Group) due to the increase in the numbers of the subsidiaries injected to AVIC Avionics Group following the completion of its assets reorganization in June 2011; and (iii) the estimated growth of the entire aircraft business of the Group and hence the increase in the demand for avionic products.

The proposed annual caps for the revenue transaction under the AVIC Avionics CCT 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 (excluding AVIC Avionics Group) to AVIC Avionics Group; (ii) the expected increase in the demand for parts and components of aviation products and the ancillary services by AVIC Avionics Group from the Group (excluding AVIC Avionics Group) in light of the potential growth in the business of AVIC Avionics and (iii) following the completion of the assets reorganization of JONHON Optronics, JONHON Optronics and its subsidiaries will provide more optronic products and ancillary services to AVIC Avionics Group, which leads to an increase in the revenue transaction between AVIC Avionics Group and the Group (excluding AVIC Avionics Group) transaction under the AVIC Avionics CCT Agreement.

5. Reasons for and benefits of continuation of 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 AVIC Avionics Group, the Directors (including the independent non-executive Directors) considers that it is beneficial to continue the continuing connected transactions by way of entering into the new framework agreements 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 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 will be conducted on normal commercial terms (or better to the Group) or on terms not less favorable 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 fair and reasonable.

The independent non-executive Directors constituting the Independent Board Committee will give their view on the Non-Exempt Continuing Connected Transactions and the proposed caps in respect of the Non-Exempt Continuing Connected Transactions after considering the advice from the independent financial adviser, and their view will be given in the circular to be despatched to the Shareholders.

II. REVISION OF 2011 ANNUAL CAPS FOR AVIC AVIONICS CCT

Reference is made to the announcements of the Company dated 2 June 2010 and 23 June 2011 and the circular despatched to the Shareholders on 12 July 2010, in relation to the assets reorganization of AVIC Avionics through the acquisition of certain aviation assets including six avionics companies by way of the issue of consideration shares by AVIC Avionics to the Company and AVIC and its associates. Following the completion of the abovementioned assets reorganization in June 2011, the continuing connected transactions between the Company and AVIC Avionics contemplated under the existing products and services mutual supply and guarantee provision agreement have substantially increased. Based on the unaudited management accounts of the Company, the Board estimates that the actual transaction amounts in respect of the Group's expenditure and the Group's revenue under the framework agreement will exceed the original 2011 annual caps. The Board therefore proposes to revise the relevant 2011 annual caps as follows:

Transaction	Actual transaction amount for the 6 months ended 30 June 2011 (RMB million)	Original 2011 annual cap (RMB million)	Revised 2011 annual cap (RMB million)
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The Group's expenditure for purchase of products and services from AVIC Avionics Group under the AVIC Avionics CCT	48	86	508
The Group's revenue for provision of products and services to AVIC Avionics Group under the AVIC Avionics CCT	3.8	4	46

The revised annual caps are determined with reference to, among other things, (i) the historical transactions and transaction amounts between the parties; (ii) the increasing need for avionics products and ancillary services by the Group considering the development of its entire aircraft business and (iii) the anticipated transaction volume between the Group and AVIC Avionics in respect of each category of transactions under the existing products and services mutual supply and guarantee provision agreement . Save for the revision to the annual caps for the year ending 31 December 2011, all the other terms and conditions under the existing products and services mutual supply and guarantee provision agreement remain unchanged.

The Directors (including the independent non-executive Directors) consider that the proposed revision to the 2011 annual caps for the revenue and expenditure transactions under AVIC Avionics CCT is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

III. APPLICATION OF EXEMPTION UNDER RULES 14A.31(9) AND 14A.33(4) OF THE LISTING RULES IN RESPECT OF CHANGHE AGUSTA CCT

As disclosed in the announcement of the Company dated 29 September 2008 and the circular of the Company dated 10 November 2008, certain transactions under the Agusta Agreement between Changhe Agusta and Agusta S.p.A., constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Changhe Agusta CCT:

- (1) were, prior to the amendments to the Listing Rules relating to connected transactions which took effect on 3 June 2010, subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules and the Company has complied with such requirements;
- (2) were entered into on normal commercial terms and in the ordinary and usual course of business of the Group;
- (3) are connected transactions only because it involves a person, i.e. Agusta S.p.A.,

which is a connected person of the Company by virtue of its relationship with the Company's subsidiary, i.e., Changhe Agusta, and which has no other connected relationship with the Company; and

- (4) have not exceeded the pre-set annual cap for the year 2011.

As the value of each of the total assets, profits and revenue of Changhe Agusta as at 31 December 2010 satisfies the requirements under Rule 14A.31(9)(b)(ii) of the Listing Rules, Changhe Agusta shall be considered as an insignificant subsidiary of the Company pursuant to Rule 14A.31(9)(b) of the Listing Rules.

Accordingly, the Company will apply with immediate effect the exemption under Rules 14A.31(9) and Rule 14A.33(4) of the Listing Rules to the Changhe Agusta CCT. In this circumstance, the Changhe Agusta CCT will be exempted from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules so long as such transactions satisfy the applicable requirements under Rule 14A.31(9) of the Listing Rules.

IV. INFORMATION OF THE PARTIES

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 Stock Exchange. As at the date of this announcement, the Company is held as to 56.70% by AVIC, being the controlling shareholder of the Company. The Company is mainly engaged in the research and development, manufacture and sale of aviation products.

2. Information relating to 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, which include but are not limited to mechanical equipment.

3. Information relating to AVIC Avionics

AVIC Avionics is a 44.49% owned subsidiary of the Company and is accounted for and consolidated in the audited accounts of the Company. It is mainly engaged in the manufacture of avionics products and related accessories.

V. LISTING RULES IMPLICATIONS

AVIC is a controlling shareholder of the Company holding 56.70% equity interest in the Company. AVIC Avionics is directly and indirectly owned as to 35.16% by AVIC (excluding the interest held by AVIC through the Company). Accordingly, each of AVIC

and AVIC Avionics is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

As some of the applicable size test percentage ratios (as defined in the Listing Rules) for the continuing connected transactions contemplated under the new framework agreements, namely, the (i) expenditure transaction under the Land Use Rights and Properties Leasing Agreement, (ii) the Trademarks and Technology Cooperation Framework Agreement and (iii) the revenue transaction under the AVIC Avionics CCT 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 Listing Rules. The Directors (including independent non-executive Directors) are of the view that such continuing connected transactions are entered into in the ordinary and usual course of business of the Group, and are on normal commercial terms and their respective annual caps are fair and reasonable, and are in the interest of the Company and its Shareholders as a whole.

As some of the applicable size test percentage ratios (as defined in the Listing Rules) for the continuing connected transactions contemplated under the new framework agreements, namely, the (i) Mutual Supply of Products Agreement, (ii) Mutual Provision of Services Agreement and (iii) the expenditure transaction under the AVIC Avionics CCT Agreement 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 Listing Rules. The Directors (excluding the independent non-executive Directors) are of the view that these Non-Exempt Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group, and are on normal commercial terms and the proposed annual caps are fair and reasonable, and are in the interest of the Company and its Shareholders as a whole.

As the highest of the applicable size test percentage ratios (as defined in the Listing Rules) for the revenue transaction 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 Listing Rules.

In relation to the proposed revision of the 2011 annual caps for AVIC Avionics CCT, as the highest of the applicable size test percentage ratios in respect of the revised 2011 annual cap for the revenue transaction under the AVIC Avionics CCT is more than 0.1% but less than 5%, such revision is only subject to the reporting and announcement requirements but exempt from the Independent Shareholders' approval requirement under the Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratios in respect of the revised 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT is more than 5%, such proposed revision is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the abovementioned continuing connected transactions and hence no Director is required to abstain from voting on such board resolutions in accordance with the Listing Rules.

VI. THE EGM

An EGM will be convened to obtain the approval of Independent Shareholders regarding, among other things, the proposed terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT .

For the purpose of the EGM, the Board will appoint (1) an Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT; and (2) an independent financial adviser to advise the Independent Board Committee on the terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014, the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT and to opine on, among other things, the term of the Land Use Rights and Properties Leasing Agreement, which is to be entered into by the parties for a period exceeding three years as well as to confirm that it is normal business practice for agreements of this type to be of such duration pursuant to Rule 14A.35(1) of the Listing Rules. AVIC and its associate(s), if any, will abstain from voting on the ordinary resolutions to be proposed at the EGM.

A circular containing, among other things, (1) details relating to the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT; (2) a letter of recommendation on the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT from the Independent Board Committee to the Independent Shareholders; and (3) a letter of advice on the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT from an independent financial adviser to the Independent Shareholders and the Independent Board Committee will be despatched to the shareholders of the Company on or before 20 September 2011.

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 Listing Rules
“Agusta Agreement”	the agreement dated 2 June 2005 entered into between Changhe Aviation and Agusta S.p.A., details of which were disclosed in the announcement of the Company dated 29 September 2008
“Agusta S.p.A.”	a substantial shareholder of Changhe Agusta, an indirect subsidiary of the Company. Agusta S.p.A. is a reputable international helicopter manufacturer and is mainly engaged in the manufacture and sales of helicopters for military use, police use and civil use
“AVIC”	China Aviation Industry Corporation (中國航空工業集團公司) (formerly known as AVIC Organizing Unit), which was established upon completion of the merger and reorganization of China Aviation Industry Corporation I and China Aviation Industry Corporation II, and is a controlling shareholder of the Company holding 56.70% equity interest in the Company
“AVIC Avionics”	China AVIC Avionics Equipment Co., Ltd., (中航航空電子設備股份有限公司) (formerly known as “Jiangxi Changhe Automobile Co., Ltd.”), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange, is owned as to 44.49% by the Company and as to 35.16% (directly and indirectly) by AVIC
“AVIC Avionics CCT”	the continuing connected transactions between the Group and AVIC Avionics Group contemplated under the existing products and services mutual supply and guarantee provision agreement, details of which were disclosed in the announcement of the Company dated 20 December 2009
“AVIC Avionics CCT Agreement”	the products and services mutual supply and guarantee provision agreement entered into between AVIC Avionics and the Company on 30 August 2011, details of which are set out in paragraph 2.5 under Section I of this announcement
“AVIC Avionics Group”	AVIC Avionics and its subsidiaries
“AVIC Group”	AVIC and its subsidiaries
“Board”	the board of directors of the Company

“Changhe Agusta”	江西昌河阿古斯特直升機有限責任公司 (Jiangxi Changhe-Agusta Helicopter Co., Ltd.), a sino-foreign joint venture held as to 60% by Changhe Aviation and 40% by Agusta S.p.A. and an indirect subsidiary of the Company
“Changhe Agusta CCT”	the existing continuing connected transactions contemplated under the Agusta Agreement
“Changhe Aviation”	江西昌河航空工業有限公司 (Jiangxi Changhe Aviation Industry Company Limited), a wholly-owned subsidiary of the Company
“Company”	AviChina Industry & Technology Company Limited*, a joint stock limited company established in the PRC, whose H shares are listed on the 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
“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, the proposed terms of the Non-Exempt Continuing Connected Transactions, the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT
“Group”	the Company and its subsidiaries
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Guo Chongqing, Mr. Li Xianzong and Mr. Lau Chung Man, Louis, to advise the Independent Shareholders on the proposed terms of the Non-Exempt Continuing Connected Transactions; the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT
“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 the proposed terms of the

Non-Exempt Continuing Connected Transactions; the proposed annual caps in respect thereof for the three financial years ending 31 December 2014 and the revision of the 2011 annual cap for the expenditure transaction under the AVIC Avionics CCT

“Independent Third Party”

an independent third party (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 Listing Rules)

“JONHON Optronic”

中航光電科技股份有限公司 (China Aviation Optical-Electrical Technology Co., Ltd.), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, is owned as to 43.34% by the Company

“Land Use Rights and Properties Leasing Agreement”

the land use rights and properties leasing agreement entered into between AVIC and the Company on 30 August 2011, details of which are set out in paragraph 2.4 under Section I of this announcement

“Listing Rules”

the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)

“Market Price”

(i) the price at which the same type of products or services (as the case may be) is provided by independent third parties under normal commercial terms in the ordinary course of their businesses in the same area, in the vicinity in the PRC, or if there is no such price; then (ii) the price at which the same type of products or services (as the case may be) is provided by independent third parties under normal commercial terms in the ordinary course of their businesses in the PRC

“Mutual Provision of Services Agreement”

the mutual provision of services agreement entered into between AVIC and the Company on 30 August 2011, 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 30 August 2011, 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 the (i) Mutual Supply of Products Agreement, (ii) Mutual Provision of Services Agreement, and (iii) the expenditure transaction under the AVIC Avionics CCT Agreement, which are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules
“PRC”	the People’s Republic of China
“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
“Shareholders”	the holders of shares of RMB1.00 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trademarks and Technology Cooperation Framework Agreement”	the trademarks and technology cooperation framework agreement entered into between AVIC and the Company on 30 August 2011, 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

Hong Kong, 30 August 2011

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 purpose only.*