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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)**

## **CONNECTED TRANSACTION**

### **PROPOSED CAPITAL INJECTION TO SHANGHAI AERO-SHARP BY A CONNECTED PERSON OF THE COMPANY**

Reference is made to the overseas regulatory announcements published by the Company on 1 March 2011 regarding the proposed Capital Injection. On 28 February 2011, the board of directors of AVIC Avionics, a non wholly-owned subsidiary of the Company whose A shares are listed on the Shanghai Stock Exchange, announced that each of Avionics System and Shanghai Zhuri has agreed to inject RMB7,350,000 to Shanghai Aero-Sharp, an indirect non wholly-owned subsidiary of the Company. As of the date of this announcement, Shanghai Aero-Sharp is owned as to 65% and 35% by Shanghai Aviation Electric, a subsidiary of the Company, and Mr. Jiang respectively. Following completion of the Capital Injection, Shanghai Aero-Sharp will be owned as to 57.02%, 30.70%, 6.14% and 6.14% by Shanghai Aviation Electric, Mr. Jiang, Avionics System and Shanghai Zhuri respectively. Signing of the relevant capital injection agreement will be subject to approval by the independent shareholders of AVIC Avionics.

As of the date of this announcement, Avionics System is a wholly-owned subsidiary of AVIC, the Controlling Shareholder of the Company. Therefore, Avionics System is an associate of AVIC and a connected person of the Company. As Shanghai Aero-Sharp is an indirect non wholly-owned subsidiary of the Company, the proposed Capital Injection by Avionics System to Shanghai Aero-Sharp constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of the applicable size test percentage ratios in relation to the proposed Capital Injection is 0.1% but less than 5%, the connected transaction is subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Upon completion of the proposed Capital Injection, the equity interest held by the Company in Shanghai Aero-Sharp through its subsidiaries will be diluted by 7.98% from 65% to 57.02%. Such dilution constitutes a deemed disposal by the Company of its 7.98% equity interest in Shanghai Aero-Sharp under the Listing Rules. As the highest of the applicable size test percentage ratios in relation to the deemed disposal is more than 0.1% but less than 5%, such deemed disposal is subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **I. THE PROPOSED CAPITAL INJECTION**

Reference is made to the overseas regulatory announcements published by the Company on 1 March 2011 regarding the proposed Capital Injection. On 28 February 2011, the board of directors of AVIC Avionics, a non wholly-owned subsidiary of the Company whose A shares are listed on the Shanghai Stock Exchange, announced that each of Avionics System and Shanghai Zhuri has agreed to inject RMB7,350,000 to Shanghai Aero-Sharp.

As of the date of this announcement, Shanghai Aero-Sharp is owned as to 65% and 35% by Shanghai Aviation Electric, a subsidiary of the Company, and Mr. Jiang respectively. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, so far as the Directors are aware, Shanghai Zhuri is an Independent Third Party.

Amongst the RMB7,350,000 to be injected by each of Avionics System and Shanghai Zhuri, RMB210,000 will be contributed to the registered capital of Shanghai Aero-Sharp and RMB7,140,000 will be contributed to the capital reserve of Shanghai Aero-Sharp.

Avionics System and Shanghai Zhuri will make their respective portions of capital contribution in cash within 15 working days upon the relevant capital injection agreement and the articles of association of Shanghai Aero-Sharp become effective.

The subscription price of RMB35 per RMB1 registered capital of Shanghai Aero-Sharp are determined with reference to, among other things, the net asset value of Shanghai Aero-Sharp as stated in the valuation report issued by a qualified independent valuer namely, Zhong Tung Hua Assets Appraisal Co., Ltd. (中同華資產評估有限公司). Such valuation report has been filed with the authorized representative of SASAC. According to the valuation report, the appraised net asset value of Shanghai Aero-Sharp as at 31 August 2010 was RMB100,090,000 in aggregate, amounting to a net asset value of RMB33.36 per RMB1 registered capital of Shanghai Aero-Sharp. Therefore, the subscription price of RMB35 per RMB1 registered capital of Shanghai Aero-Sharp represents a premium of approximately 4.92% to the appraised net asset value of Shanghai Aero-Sharp per RMB1 registered capital.

The shareholding structure of Shanghai Aero-Sharp before and after completion of the proposed Capital Injection is set out as follows:

	Before completion of Capital Injection		After completion of Capital Injection	
	Amount of the registered capital of Shanghai Aero-Sharp (RMB)	Percentage	Amount of the registered capital of Shanghai Aero-Sharp (RMB)	Percentage
Shanghai Aviation Electric	1,950,000	65%	1,950,000	57.02%
Mr. Jiang	1,050,000	35%	1,050,000	30.70%
Avionics System	-	-	210,000	6.14%
Shanghai Zhuri	-	-	210,000	6.14%
<b>Total:</b>	<b>3,000,000</b>	<b>100%</b>	<b>3,420,000</b>	<b>100%</b>

As of the date of this announcement, Avionics System and Shanghai Zhuri are not under any contractual obligation and have no commitment to further funding of Shanghai Aero-Sharp, other than their respective proposed capital contributions to Shanghai Aero-Sharp.

Completion of the proposed Capital Injection is subject to, among other things, approval by the independent shareholders of AVIC Avionics at the general meeting and necessary approval(s) by the relevant governmental authorities in the PRC.

Signing of the relevant capital injection agreement will be subject to approval by the independent shareholders of AVIC Avionics.

## II. REASON FOR AND BENEFIT OF ENTERING INTO THE PROPOSED CAPITAL INJECTION

Shanghai Aero-Sharp entered into a period of rapid development in year 2010. All of its products were widely distributed to the international markets. In view of the increasing market share of Shanghai Aero-Sharp and in order to accelerate its business development, the Company intends to strengthen the capital base of Shanghai Aero-Sharp by raising more funds through the proposed Capital Injection, so as to capture the remarkable development opportunities and gain a better investment return.

The terms of the proposed Capital Injection are agreed after arm's length negotiations amongst the parties. The Directors, including the independent non-executive Directors, consider that the terms of the proposed Capital Injection are determined on normal commercial terms and that such terms are fair and reasonable so far as the Company and its

shareholders as a whole are concerned, and that the capital contribution to be made by Avionics System to Shanghai Aero-Sharp is in the interests of the Company and its shareholders as a whole.

### **III. INFORMATION OF THE COMPANY AND THE PARTIES**

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

#### **Shanghai Aero-Sharp**

Shanghai Aero-Sharp is a limited liability company established in the PRC in August 2007. As at the date of this announcement, it is owned as to 35% by Mr. Jiang and 65% by Shanghai Aviation Electric, which in turn is wholly-owned by AVIC Avionics, a non wholly-owned subsidiary of the Company. Shanghai Aero-Sharp is mainly engaged in the design, production and sales of solar inverter products and provision of the relevant technical services. According to the audited financial statements of Shanghai Aero-Sharp prepared in accordance with the PRC Accounting Standards, the net profits of Shanghai Aero-Sharp for the year ended 31 December 2009 before and after taxation and extraordinary items were approximately RMB569,200 and RMB569,200. According to the unaudited financial statements of Shanghai Aero-Sharp prepared in accordance with the PRC Accounting Standards, the net profit of Shanghai Aero-Sharp for the year ended 30 December 2010 before and after taxation and extraordinary items were approximately RMB77,594,600 and RMB66,460,900.

#### **Shanghai Aviation Electric**

Shanghai Aviation Electric is a limited liability company established in the PRC. As at the date of this announcement, Shanghai Aviation Electric is a wholly-owned subsidiary of AVIC Avionics and mainly engaged in the manufacture of aviation electrical engineering products and accessories.

#### **AVIC**

AVIC is held and controlled by the State Council of the PRC and mainly engaged in the research and development and manufacture of aviation products and non-aviation products.

#### **Avionics System**

Avionics System is a limited liability company established in the PRC. As at the date of this announcement, Avionics System is a direct wholly-owned subsidiary of AVIC and mainly engaged in the research and development, manufacture and sales of different types of avionics system for use in aircraft and engines and the relevant equipment.

## Shanghai Zhuri

Shanghai Zhuri, an Independent Third Party, is a limited liability company established in the PRC and mainly engaged in investment management.

## IV. LISTING RULES IMPLICATIONS

As of the date of this announcement, Avionics System is a wholly-owned subsidiary of AVIC, the Controlling Shareholder of the Company. Therefore, Avionics System is an associate of AVIC and a connected person of the Company. As Shanghai Aero-Sharp is an indirect non wholly-owned subsidiary of the Company, the proposed Capital Injection by Avionics System to Shanghai Aero-Sharp constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of the applicable size test percentage ratios in relation to the Capital Injection is 0.1% but less than 5%, the connected transaction is subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Upon completion of the proposed Capital Injection, the equity interest held by the Company in Shanghai Aero-Sharp through its subsidiaries will be diluted by 7.98% from 65% to 57.02%. Such dilution constitutes a deemed disposal by the Company of its 7.98% equity interest in Shanghai Aero-Sharp under the Listing Rules. As the highest of the applicable size test percentage ratios in relation to the deemed disposal is more than 0.1% but less than 5%, such deemed disposal is subject to reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the transactions contemplated under the proposed Capital Injection and thus no Director is required to abstain from voting on the board resolutions approving the proposed Capital Injection in accordance with the Listing Rules.

## DEFINITIONS

“AVIC”	China Aviation Industry Corporation (中國航空工業集團公司), the 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), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange with 49.93% of its equity interest being held directly by the Company
“Avionics System”	AVIC Avionics System Co., Ltd. (中航航空電子系統有限公司), a limited liability company established in the PRC, which is a direct wholly-owned subsidiary of AVIC
“Board”	the board of directors of the Company

<b>“Capital Injection”</b>	an aggregate of RMB14,700,000 capital to be injected by Avionics System and Shanghai Zhuri to Shanghai Aero-Sharp
<b>“Company”</b>	AviChina Industry & Technology Company Limited*, a joint stock limited company established in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange
<b>“connected person(s)”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Controlling Shareholder”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Directors”</b>	the directors of the Company
<b>“Hong Kong”</b>	The Hong Kong Special Administrative Region of the PRC
<b>“Independent Third Party”</b>	a person who is independent of and not connected with the Company and its connected persons
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
<b>“Mr. Jiang”</b>	Mr. Jiang Haijiang, a shareholder of Shanghai Aero-Sharp who has 35% interest in Shanghai Aero-Sharp as at the date of this announcement
<b>“PRC”</b>	The People’s Republic of China
<b>“RMB”</b>	Renminbi, the lawful currency of the PRC
<b>“SASAC”</b>	State-owned Assets Supervision and Administration Commission of the State Council of the PRC
<b>“Shanghai Aero-Sharp”</b>	Shanghai Aero-Sharp Electric Technologies Co., Ltd. (上海航锐电源科技有限公司), a limited liability company established in the PRC, which is owned as to 35% by Mr. Jiang and 65% by Shanghai Aviation Electric, which in turn is wholly-owned by AVIC Avionics, a non wholly-owned subsidiary of the Company
<b>“Shanghai Aviation Electric”</b>	Shanghai Aviation Electric Co., Ltd. (上海航空电器有限公司), a limited liability company established in the PRC, which is a wholly-owned subsidiary of AVIC Avionics
<b>“Shanghai Zhuri”</b>	Shanghai Zhuri Investment Management Co., Ltd. (上海逐日投资管理有限公司), a limited liability company

established in the PRC, is an Independent Third Party

“**Stock Exchange**” The Stock Exchange of Hong Kong Limited

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

Hong Kong, 8 March 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.*