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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 GRANT OF THE ENTRUSTED LOAN TO AVIC KAITIAN

On 19 September 2016, the Company and the Bank entered into the Entrusted Loan Agreement with AVIC Kaitian, pursuant to which the Company entrusted the Bank to grant the Entrusted Loan to AVIC Kaitian, with a term of three years to support the operation and development of AVIC Kaitian.

As at the date of this announcement, AVIC is the controlling shareholder of the Company and therefore a connected person of the Company. As AVIC holds more than 10% indirect interest in AVIC Kaitian as at the date of this announcement, AVIC Kaitian is a connected subsidiary of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the grant of the Entrusted Loan to AVIC Kaitian by the Company constitutes a connected transaction of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in relation to the grant of the Entrusted Loan is higher than 0.1% but less than 5%, the connected transaction contemplated under the Entrusted Loan Agreement is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

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A. THE ENTRUSTED LOAN AGREEMENT

A summary of the principal terms of the Entrusted Loan Agreement is set out as follows:

1. Date

19 September 2016

2. Parties

- (i) the Company, as the lender;
- (ii) the Bank, as the lending agent; and
- (iii) AVIC Kaitian, as the borrower.

3. Loan Amount

RMB100 million

4. Term

Three years

5. Interest Rate

4.0375% per annum, which is determined with reference to the benchmark interest rate promulgated by the People's Bank of China for three-year term loans granted by financial institutions. The accrued interest shall be settled by AVIC Kaitian quarterly during the term of the Entrusted Loan.

6. Handling Charges

0.07% per annum

7. Repayment of the Entrusted Loan

One-off repayment of the principal amount to the Company by AVIC Kaitian upon maturity of the Entrusted Loan.

B. REASONS FOR AND BENEFITS OF GRANTING THE ENTRUSTED LOAN

To support the operation and development of AVIC Kaitian, the Company has agreed to grant the Entrusted Loan to AVIC Kaitian.

The terms of the Entrusted Loan Agreement are agreed by the parties after arm's length negotiations and made upon normal commercial terms. Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Entrusted Loan Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

C. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC is the controlling shareholder of the Company and therefore a connected person of the Company. As AVIC holds more than 10% indirect interest in AVIC Kaitian as at the date of this announcement, AVIC Kaitian is a connected subsidiary of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the grant of the Entrusted Loan to AVIC Kaitian by the Company constitutes a connected transaction of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in relation to the grant of the Entrusted Loan is higher than 0.1% but less than 5%, the connected transaction contemplated under the Entrusted Loan Agreement is subject to the reporting and announcement

requirements but is exempt from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. GuHuizhong and Mr. Gao Jianshe, Directors of the Company, who are chairman, general manager, vice general manager and vice general manager of AVIC, respectively, abstained from voting on the relevant board resolution approving the Entrusted Loan Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save for Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, none of the other Directors has or is deemed to have a material interest in the abovementioned connected transactions.

D. GENERAL

Information on the Company

The Company is a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange. The Company is mainly engaged in the research and development, manufacture and sales of aviation products.

Information on AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. As at the date of this announcement, AVIC Avionics is held as to 43.22% by the Company. AVIC Avionics is mainly engaged in the manufacture of avionics products and related accessories.

Information on AVIC Kaitian

AVIC Kaitian is an indirect non wholly-owned subsidiary of the Company through AVIC Avionics. It is mainly engaged in the research, manufacture and sales of air data system and various types of aviation instrument.

Information on the Bank

The Bank is a licensed commercial bank established in the PRC and is principally engaged in, among other things, the provision of banking, financial and other financial related services.

DEFINITIONS

“AVIC”	China Aviation Industry Corporation (中國航空工業集團公司), a controlling shareholder of the Company holding 58.57% equity interest in the Company as at the date of this announcement
“AVIC Avionics”	China Avionics Systems Co., Ltd., (中航航空電子系統股份有限公司) a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange, a non wholly-owned subsidiary of the Company with 43.22% of its equity interest held by the Company as at the date of this announcement
“AVIC Kaitian”	Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), an indirect non-wholly-owned subsidiary of the Company through AVIC Avionics, a non-wholly-owned subsidiary of the Company

“Bank”	the Beijing Dongdan branch of the Bank of Communications Limited
“Board”	the board of directors of the Company
“Company”	AviChina Industry & Technology Company Limited
“Connected Person”	has the same meaning as defined in the Hong Kong Listing Rules
“Directors”	the director(s) of the Company
“Entrusted Loan”	an entrusted loan of RMB100 million granted to AVIC Kaitian by the Company pursuant to the Entrusted Loan Agreement
“Entrusted Loan Agreement”	the entrusted loan agreement dated 19 September 2016 entered into by the Company as the lender, the Bank as the lending agent and AVIC Kaitian as the borrower, pursuant to which, the Company has granted an entrusted loan of RMB100 million to AVIC Kaitian, with a term of three years to support the operation and development of AVIC Kaitian
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the shares of the Company

By order of the Board
AviChina Industry & Technology Company Limited*
Xu Bin
Company Secretary

Beijing, 19 September 2016

As at the date of this announcement, the Board comprises executive Director Mr. Lin Zuoming, non-executive Directors Mr. Tan Ruisong, Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. He Zhiping and Mr. Kiran Rao as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Jason Chi Wai.

**For identification purposes only.*