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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

FORMATION OF A JOINT VENTURE COMPANY

On 15 March 2017, AviChina Industrial Investment, a wholly-owned subsidiary of the Company entered into the Joint Venture Agreement with Shanghai Aviation Electric, a subsidiary of the Company, AVIC Avionics Systems, a subsidiary of AVIC, and Shanghai Jiliang in relation to the proposed establishment of AVIC Laser. Pursuant to the Joint Venture Agreement, the Company agreed to make indirect capital contributions of approximately RMB76.674 million in aggregate, including a contribution of approximately RMB55.324 million and RMB21.35 million through Shanghai Aviation Electric and AviChina Industrial Investment, respectively. Upon establishment of AVIC Laser, AVIC Laser will become a subsidiary of the Company, which will be owned as to 47.77% and 18.44% by Shanghai Aviation Electric and AviChina Industrial Investment, respectively.

As at the date of this announcement, Shanghai Aviation Electric is a non-wholly-owned subsidiary of China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司), a connected subsidiary of the Company. AVIC Avionics Systems is a subsidiary of AVIC, which is the controlling shareholder of the Company. Therefore, both Shanghai Aviation Electric and AVIC Avionics Systems are connected persons of the Company and the entering into of the Joint Venture Agreement of a wholly-owned subsidiary of the Company, AviChina Industrial Investment with the above connected persons constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the Joint Venture Agreement is more than 0.1% but less than 5%, the entering into of the Joint Venture Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

A. INTRODUCTION

On 15 March 2017, AviChina Industrial Investment, a wholly-owned subsidiary of the Company, entered into the Joint Venture Agreement with Shanghai Aviation Electric, a subsidiary of the Company, AVIC Avionics Systems, a subsidiary of AVIC, and Shanghai Jiliang in relation to the proposed establishment of AVIC Laser.

B. THE JOINT VENTURE AGREEMENT

The principal terms of the Joint Venture Agreement is summarized as follows:

1. Date

15 March 2017

2. Parties

- (i) Shanghai Aviation Electric;
- (ii) AviChina Industrial Investment;
- (iii) AVIC Avionics Systems; and
- (iv) Shanghai Jiliang

3. Capital contribution

The registered capital of AVIC Laser shall be RMB115.8 million, among which Shanghai Aviation Electric shall contribute RMB25 million in cash and approximately RMB30.324 million in intellectual properties (subject to valuation), representing 47.77% of the registered capital; AviChina Industrial Investment shall contribute RMB21.35 million in cash, representing 18.44% of the registered capital; AVIC Avionics Systems shall contribute RMB21.35 million in cash, representing 18.44% of the registered capital; and Shanghai Jiliang shall contribute RMB2.5 million in cash and approximately RMB15.276 million in intellectual properties (subject to valuation), representing 15.35% of the registered capital.

4. Board composition

The board of directors of AVIC Laser will consist of five members, of which two directors will be nominated by Shanghai Aviation Electric, one director will be nominated by AviChina Industrial Investment, one director will be nominated by AVIC Avionics Systems and one will be an employee representative director.

5. Business scope

The business scope of AVIC Laser is expected to include laser display, the technology development, technology transfer, technical advice, technical services of multimedia technology and computer system integration. Sales of electronic products, household appliances, mechanical and electrical equipment and accessories.

6. Share transfer

The parties are not allowed to transfer their shares in AVIC Laser within three years after the establishment of AVIC Laser. Upon expiry of the aforementioned period, they must obtain prior consent from other shareholders holding more than two thirds of equity interests in AVIC Laser before any share transfer.

7. Accounting system

The parties agreed that Shanghai Aviation Electric will consolidate the financial statements of AVIC Laser as its subsidiary. All other shareholders will provide assistance according to the respective laws and financial accounting standards in this regard.

C. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE JOINT VENTURE AGREEMENT

Upon establishment of AVIC Laser, AVIC Laser will become a subsidiary of the Company, which will be owned as to 47.77% and 18.44% by Shanghai Aviation Electric and AviChina Industrial Investment, respectively.

The establishment of AVIC Laser will help the Group to integrate, coordinate and enhance the development of its general laser display business, which is in line with the business strategies of the Group, i.e. continually improving the related industry chains.

The transaction under the Joint Venture Agreement has been entered into by the parties after arm's length negotiation. The Directors (including the independent non-executive Directors) are of the view that the terms of the Joint Venture Agreement are fair and reasonable, on normal commercial terms, and in the interests of the Company and its shareholders as a whole.

D. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, Shanghai Aviation Electric is a non-wholly-owned subsidiary of China Avionics Systems Co., Ltd. (中航航空電子系統股份有限公司), a connected subsidiary of the Company. AVIC Avionics Systems is a subsidiary of AVIC, which is the controlling shareholder of the Company. Therefore, both Shanghai Aviation Electric and AVIC Avionics Systems are connected persons of the Company, and the entering into of the Joint Venture Agreement of a wholly-owned subsidiary of the Company, AviChina Industrial Investment with the above connected persons constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the Joint Venture Agreement is more than 0.1% but less than 5%, the entering into of the Joint Venture Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

Each of Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, Directors of the Company, who are chairman, general manager and vice general managers of AVIC, respectively, had abstained from voting on the relevant board resolution approving the Joint Venture 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 transaction.

E. GENERAL INFORMATION

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 civil aviation products.

Information on 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. AVIC is the controlling shareholder of the Company who holds 58.57% equity interest in the Company directly and indirectly as at the date of this announcement

Information on Shanghai Aviation Electric

Shanghai Aviation Electric is a limited liability company incorporated in the PRC and is a subsidiary of the Company. It is mainly engaged in the design and development, production, sales and service of aviation, ship, special vehicle, aerospace and other areas of the lighting system, centralized alarm system and near-ground alarm system.

Information on AviChina Industrial Investment

AviChina Industrial Investment is a limited liability company incorporated in the PRC and is a wholly-owned subsidiary of the Company. It is mainly engaged in the investment in aviation industry project.

Information on AVIC Avionics Systems

AVIC Avionics Systems is a limited liability company incorporated in the PRC and is a subsidiary of AVIC. It is mainly engaged in the development, production, sales and service of airborne avionics systems and equipment for all types of aircraft and engines.

Information on Shanghai Jiliang

Shanghai Jiliang is a limited liability company incorporated in the PRC. It is mainly engaged in technology sales, technical consulting, technical services of electronic technology, LED display technology, digital technology, multimedia technology. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Shanghai Jiliang and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company.

F. DEFINITIONS

“AVIC”		China Aviation Industry Corporation* (中國航空工業集團公司), the controlling shareholder of the Company holding 58.57% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC Avionics Systems”		AVIC Avionics Systems Co., Ltd.* (中航航空電子系統有限責任公司), a wholly-owned subsidiary of AVIC
“AVIC Laser”		AVIC Guohua (Shanghai) Laser Display Technology Co., Ltd.* (中航國畫(上海)激光顯示科技有限公司), a limited liability company proposed to be established in the PRC, the name of which is subject to the approval by the industrial and commercial administrative organs
“AviChina Investment”	Industrial	AviChina Industrial Investment Co., Ltd., (中航科工產業投資有限責任公司), a wholly-owned subsidiary of the Company
“Board”		the board of directors of the Company
“Company”		AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange
“Director(s)”		the director(s) of the Company
“Group”		the Company and its subsidiaries
“Hong Kong Stock Exchange”		The Stock Exchange of Hong Kong Limited
“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)
“Joint Venture Agreement”		the joint venture agreement entered into by AviChina Industrial Investment, Shanghai Aviation Electric, AVIC Avionics Systems and Shanghai Jiliang on 15 March 2017 in relation to the establishment of AVIC Laser

“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Aviation Electric”	Shanghai Aviation Electric Co., Ltd.* (上海航空電器有限公司), a subsidiary of the Company
“Shanghai Jiliang”	Shanghai Jiliang Photoelectric Technology Co. , Ltd.*(上海激亮光電科技有限公司), a limited liability company established in Shanghai

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

Beijing, 15 March 2017

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 Chi Wai.

**For identification purposes only.*