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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 FUND MANAGEMENT COMPANY

On 26 February 2018, the Company, as the principal initiator, entered into the Joint Venture Agreement with AVIC and AVIC Capital in relation to the formation of Fund Management Company, pursuant to which, the Company agreed to make a capital contribution of RMB70 million in cash, representing 50% of the total capital contribution of Fund Management Company. Upon establishment, Fund Management Company will become a subsidiary of the Company and its financial results will be consolidated into those of the Company. Upon establishment, Fund Management Company will propose to establish and manage an AVIC military-civilian integration fund as a general partner, which shall be dedicated in investment in military-civilian integration development projects of aviation industry.

As at the date of this announcement, AVIC is the controlling shareholder of the Company and AVIC Capital is a subsidiary of AVIC. Therefore, both AVIC and AVIC Capital are connected persons of the Company. The entering into of the Joint Venture Agreement 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 transaction under 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 26 February 2018, the Company, as the principal initiator, entered into the Joint Venture Agreement with AVIC and AVIC Capital in relation to the formation of Fund Management

Company, pursuant to which, the Company agreed to make a capital contribution of RMB70 million in cash, representing 50% of the total capital contribution of Fund Management Company. Upon establishment, Fund Management Company will become a subsidiary of the Company and its financial results will be consolidated into those of the Company. Upon establishment, Fund Management Company will propose to establish and manage an AVIC military-civilian integration fund as a general partner, which shall be dedicated in investment in military-civilian integration development projects of aviation industry.

B. THE JOINT VENTURE AGREEMENT

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

1. Date

26 February 2018

2. Parties

- (i) the Company;
- (ii) AVIC; and
- (iii) AVIC Capital

3. Capital contribution

The registered capital of Fund Management Company is proposed to be RMB140 million, of which, the Company shall contribute RMB70 million in cash, representing 50% of the registered capital; AVIC shall contribute RMB20 million in cash, representing 14.29% of the registered capital; and AVIC Capital shall contribute RMB50 million in cash, representing 35.71% of the registered capital.

The capital contribution to Fund Management Company shall be paid by all parties in a lump within 7 business days upon the completion of the industrial and commercial registration for Fund Management Company.

4. Board composition

The board of directors of Fund Management Company will consist of three directors, of which two directors will be shareholder representative directors and one director will be employee representative director. The shareholder representative directors shall be elected by the shareholders' general meeting, and the employee representative director shall be democratically elected by the staffs of Fund Management Company through staff representative meeting, staff general meeting or other means.

5. Business scope

The business scope of Fund Management Company includes investment management and investment consulting (subject to the approval by the industrial and commercial administrative organs).

6. Introduction of new shareholders

As founding shareholders, the Company, AVIC and AVIC Capital agree that, Fund Management Company will propose to introduce not more than two strategic cooperative shareholders before conducting fund management businesses. In principle, the capital increase price for the shareholders to be newly introduced shall be the same as the founding shareholders, e.g. RMB1 of the capital contribution equals to RMB1 of the registered capital, while the final capital increase price shall be determined by relevant procedures.

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

Upon establishment, Fund Management Company will be owned as to 50%, 14.29% and 35.71% by the Company, AVIC and AVIC Capital, respectively. Upon establishment, Fund Management Company will become a subsidiary of the Company and its financial results will be consolidated into those of the Company. Upon establishment, Fund Management Company will propose to establish and manage an AVIC military-civilian integration fund as a general partner, which shall be dedicated in investment in military-civilian integration development projects of aviation industry.

The Company proposed to establish Fund Management Company by entering into the Joint Venture Agreement, which proposes to establish and manage the AVIC military-civilian integration fund as a general partner, so as to build up a professional platform for managing the AVIC military-civilian integration fund, which is in line with the national strategy of military-civilian integration and the development strategy of aviation industry, and is also beneficial to achieve synergy effect for the Group and bring long-term investment returns to the Company and its shareholders as a whole.

The transaction under the Joint Venture Agreement has been entered into by the parties on normal commercial terms 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, and in the interests of the Company and its shareholders as a whole.

As at the date of this announcement, no formal agreement in relation to the introduction of new shareholders of Fund Management Company and the establishment of the AVIC military-civilian integration fund has been entered into by the parties. The Company will comply with the relevant requirements of the Hong Kong Listing Rules when and where appropriate.

D. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC is the controlling shareholder of the Company and AVIC Capital is a subsidiary of AVIC. Therefore, both AVIC and AVIC Capital are connected persons of the Company. The entering into of the Joint Venture Agreement 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 transaction under 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. Wu Xiandong and Mr. Li Yao, Directors, who are chairman, general manager, vice general manager and chief accountant of AVIC, respectively, had abstained from voting on the relevant Board resolution approving the Joint Venture Agreement and the transactions contemplated thereunder in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save for disclosed above, none of the other Directors has or is deemed to have a material interest in the connected transaction under the Joint Venture Agreement.

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, and relevant engineering services.

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, holding 58.57% equity interest in the Company directly and indirectly as at the date of this announcement.

Information on AVIC Capital

AVIC Capital is a subsidiary of AVIC, which is mainly engaged in financial leasing business, trust business, securities business, financial companies business, future business, industrial investment business and international business.

F. DEFINITIONS

“AVIC”	Aviation Industry Corporation of China, Ltd. * (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 Capital”	AVIC Capital Co., Ltd.* (中航資本控股股份有限公司), a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange (stock code: 600705)
“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

“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Fund Management Company”	Beijing Rongfu AVIC Fund Management Company* (北京融富航空工業基金管理有限公司), the company proposed to be established under the Joint Venture Agreement
“Group”	the Company and its subsidiaries
“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)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Joint Venture Agreement”	the joint venture agreement entered into by the Company with AVIC and AVIC Capital on 26 February 2018 in relation to the establishment of Fund Management Company
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC

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

Beijing, 26 February 2018

As at the date of this announcement, the Board comprises executive Director Mr. Lin Zuoming, non-executive Directors Mr. Tan Ruisong, Mr. Wu Xiandong, Mr. Li Yao, Mr. He Zhiping and Mr. Patrick de Castelbajac as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai.

**For identification purposes only*