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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)

DISCLOSEABLE AND CONNECTED TRANSACTIONS:

**ACQUISITION OF THE ENTIRE EQUITY INTEREST IN TIANJIN AVIATION INVOLVING
ISSUE OF DOMESTIC SHARES**

THE ACQUISITION

On 25 January 2011, the Company entered into the Acquisition Agreement with AMES pursuant to which, AMES has agreed to sell and the Company has agreed to purchase, subject to conditions, the entire equity interest in Tianjin Aviation for a consideration of RMB768,278,300, among which (i) as to 25% of the consideration, being RMB192,069,575 will be satisfied by the Company by way of cash; and (ii) as to 75% of the consideration, being approximately RMB576,208,725 will be satisfied by the Company by way of issuing to AMES 182,344,533 Consideration Shares at the Issue Price of HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share upon Completion. The number of Consideration Shares to be issued will be rounded down to the nearest whole number and any entitlement to a fractional share will be settled by the Company by way of cash. The Consideration Shares, being all new Domestic Shares, represent approximately 6.21% and 3.68% of the existing total Domestic Shares and existing total issued share capital of the Company, respectively, and approximately 3.55% of the existing total issued share capital of the Company as enlarged by the issue of the Consideration Shares upon Completion. The Consideration Shares will be issued under the General Mandate and will rank equally with the existing Domestic Shares upon Completion.

The consideration for the Acquisition was determined based on arms' length negotiations and with reference to, among various other factors, the valuation of Tianjin Aviation prepared by an independent firm of qualified PRC valuers. The consideration will be subject to adjustment, if any, upon assessment of the valuation of Tianjin Aviation by the state-owned assets supervision and administration authorities or its authorized representatives.

AMES is a wholly-owned subsidiary of AVIC. As AVIC is a controlling shareholder of the Company holding 56.70% equity interest in the Company, it is a connected person of the Company and AMES is an associate of AVIC pursuant to Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratio in relation to the Acquisition is over 5 % but

less than 25 % and as the Acquisition involves the issue of Domestic Shares as part of the consideration, the Acquisition and the issue of the Consideration Shares constitute discloseable and connected transactions of the Company under the Hong Kong Listing Rules and are subject to the requirements of reporting, announcement and approval of the Independent Shareholders at the EGM.

An Independent Board Committee comprising all of the independent non-executive Directors will be established to advise the Independent Shareholders on the connected transactions contemplated under the Acquisition Agreement. None of the members of the Independent Board Committee has any material interest in the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement.

An independent financial adviser will also be appointed to advise the Independent Board Committee and the Independent Shareholders on the connected transactions mentioned above.

EGM

The EGM will be convened by the Company at which resolutions will be proposed to consider and, if thought fit, approve the Acquisition (including the allotment and issue of the Consideration Shares), the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement. The notice convening the EGM will be despatched to the Shareholders as soon as possible.

A circular containing, among other things, (1) further details of the Acquisition and the issue of the Consideration Shares; (2) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement; and (3) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its opinion in respect of the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement will be despatched to the Shareholders on or before 25 February 2011 due to the intervening Chinese New Year holidays in the PRC.

A. INTRODUCTION

On 25 January 2011, the Company entered into the Acquisition Agreement with AMES pursuant to which, AMES has agreed to sell and the Company has agreed to purchase, subject to conditions, the entire equity interest of Tianjin Aviation for a consideration of RMB768,278,300, among which (i) as to 25% of the consideration, being approximately RMB192,069,575 will be satisfied by the Company by way of cash; and (ii) as to 75% of the consideration, being RMB576,208,725, will be satisfied by the Company by way of issuing to AMES 182,344,533 Consideration Shares at the Issue Price of HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share upon Completion. The number of Consideration Shares to be issued will be rounded down to the nearest whole number and any entitlement to a fractional share will be settled by the Company by way of cash. The Consideration Shares, being all new Domestic Shares, will be issued under the General Mandate and will rank equally with the existing Domestic Shares upon Completion.

B. THE ACQUISITION AGREEMENT

Date

25 January 2011

Parties

Vendor: AMES

Purchaser: the Company

Target

100% equity interest in Tianjin Aviation directly held by AMES.

Consideration and Payment Terms

The consideration for the Acquisition of RMB768,278,300 has been agreed between the Company and AMES based on arm's length negotiations after taking into account a number of factors including, but not limited to, the net asset value of Tianjin Aviation based on its latest financial statements, the importance and the synergies of the integration of Tianjin Aviation with the Group and the valuation prepared by an independent firm of qualified PRC valuers using the cost replacement method. As at the Valuation Date, the net asset value of Tianjin Aviation amounted to RMB653,241,133. Of the consideration of RMB768,278,300, (i) as to 25% of the consideration, being RMB192,069,575, will be satisfied by the Company by way of cash and (ii) as to 75% of the consideration, being RMB576,208,725, will be satisfied by the Company by way of issuing and allotting to AMES 182,344,533 Consideration Shares at the Issue Price of HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share. The number of Consideration Shares to be issued will be rounded down to the nearest whole number and any entitlement to a fractional share will be settled by the Company by way of cash. The consideration will be settled by the Company on Completion.

The final consideration for the Acquisition will be subject to adjustment, if any, upon assessment of the valuation of Tianjin Aviation by the state-owned assets supervision and administration authorities or its authorized representatives. The Company will publish a further announcement if there is any change in the final consideration.

Consideration Shares

A total of 182,344,533 Consideration Shares, being all new Domestic Shares, will be issued by the Company to AMES upon Completion pursuant to the Acquisition Agreement. Assuming there is no change in the issued share capital of the Company from the date of this announcement and up to the date of the allotment of the Consideration Shares, the number of Consideration Shares represents:

- (a) approximately 6.21% and 3.68% of the existing total issued Domestic Shares and the existing total issued share capital of the Company, respectively, as at the date of this announcement; and
- (b) approximately 3.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares after Completion.

The Consideration Shares, when allotted and issued, will rank equally in all respects among themselves, and with the Domestic Shares then in issue on the day of the issuance of the Consideration Shares, and be entitled to all dividends and other rights attached to the Domestic Shares from the date of allotment. The Consideration Shares will be issued under the General Mandate.

Issue Price

The Issue Price of the Consideration Shares at HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share was determined based on arm's length negotiations between the Company and AMES with reference to the average closing price of approximately HK\$3.734 per H Share as quoted on the Hong Kong Stock Exchange for the 20 consecutive trading days up to the Last Trading Day, and represents:

- (a) a premium of approximately 2% to the closing price of HK\$3.66 per H Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day; and
- (b) a premium of approximately 0.7% over the average closing price of approximately HK\$3.708 per H Share as quoted on the Hong Kong Stock Exchange for the 5 consecutive trading days up to and including the Last Trading Day.

The Directors are of the view that the consideration for the Acquisition including the Issue Price for the Consideration Shares is fair and reasonable and in the interest of the Company as a whole and the Independent Shareholders are concerned.

Conditions Precedent

Pursuant to the Acquisition Agreement, the Acquisition will become effective upon fulfillment of, among other things, the following conditions:

- (1) the Acquisition Agreement having been executed by the legal representatives or authorized person(s) of the parties;
- (2) the Acquisition including the issue of the Consideration Shares and the transactions contemplated thereunder having been approved by the Board and the Independent Shareholders ;
- (3) AMES having completed and satisfied all necessary corporate approval procedures in accordance with the requirements of its articles of association;
- (4) the Acquisition having been approved by the State Administration for Science, Technology and Industry for National Defense (if applicable); and
- (5) the Acquisition and the transactions contemplated under the Acquisition Agreement being approved by state-owned assets supervision and administration authorities or its authorized representatives and the valuation report in relation to the Acquisition being filed with the state-owned assets supervision and administration authorities or its authorized representatives.

Completion

Completion of the Acquisition Agreement will take place on the date on which (i) the conditions set out above have been satisfied; (ii) the title to the equity interest of Tianjin Aviation has been registered in the name of the Company; and (iii) the Consideration Shares have been issued to and registered in the name of AMES.

C. INFORMATION RELATING TO TIANJIN AVIATION

Tianjin Aviation was reorganized as a limited company in 1995. As at the date of this announcement, AMES holds 100% equity interest in Tianjin Aviation. The registered capital of Tianjin Aviation is RMB43,160,000. Tianjin Aviation is mainly engaged in the research and development, manufacture and sale of aviation secondary power distribution system and fireproofing system. The major assets of Tianjin Aviation include plant, equipment, and

machineries engaging in the business of the research and development, manufacture and sale of aviation secondary power distribution system and fireproofing system.

Based on the unaudited financial statements of Tianjin Aviation as at 31 December 2010, the total assets and net assets of Tianjin Aviation amounted to RMB1,101,817,420 and RMB621,828,660 , respectively. For the financial year ended on 31 December 2010, the revenue, net profit before tax and net profit after tax of Tianjin Aviation amounted to RMB413,011,803, RMB109,531,411 and RMB106,303,149 , respectively.

Based on the unaudited financial statements of Tianjin Aviation as at 31 December 2009, the total assets and net assets of Tianjin Aviation amounted to RMB1,043,757,844 and RMB518,003,532, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of Tianjin Aviation amounted to RMB282,815,728, RMB81,808,095 and RMB79,752,702, respectively.

D. EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the date of this announcement other than the issue of the Consideration Shares pursuant to the Acquisition Agreement, the shareholding structure of the Company (a) as at the date of this announcement; and (b) immediately after Completion and including issue of the Consideration Shares will be as follows:

Name of the Shareholder	Number of Shares held as at the date of this announcement			Immediately after Completion (including issue of the Consideration Shares)		
	Number of Shares	Approximate % to the relevant class of issued share capital of the Company	Approximate % to the total issued share capital of the Company	Number of Shares	Approximate % to the relevant class of issued share capital of the Company	Approximate % to the total issued share capital of the Company
Domestic Shares						
AVIC	2,806,088,233	95.62%	56.70%	2,806,088,233	90.03%	54.69%
AMES	-	-	-	182,344,533	5.85%	3.55%
Other Domestic Shareholders	128,502,365	4.38%	2.60%	128,502,365	4.12%	2.50%
Sub-total	2,934,590,598	100%	59.30%	3,116,935,131	100%	60.74%
H Shares						
Public Shareholders	2,014,433,902	100%	40.7%	2,014,433,902	100%	39.26%
Total	4,949,024,500	-	100%	5,131,369,033	-	100%

E. REASONS FOR AND BENEFITS OF THE ACQUISITION

Following the development strategy of creating the Company as a flagship manufacturer in China aviation industry for civil aviation products with a complete value chain, the Company continues to extend new aviation manufacturing business. The Acquisition will enrich the Company with aviation mechanical and electrical business of the Company, and enhance its manufacturing capabilities in aviation products and assemblies to integrate the aviation business system of the Company. Furthermore, the Directors consider that the transactions contemplated under the Acquisition Agreement will help the Group to consolidate its market position in the PRC aviation industry and further improve its investment value. The Directors (excluding the independent non-executive Directors) are of the opinion that the terms of the Acquisition Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

F. HONG KONG LISTING RULES IMPLICATIONS

AMES is a wholly-owned subsidiary of AVIC. As AVIC is a controlling shareholder of the Company holding 56.7% equity interest in the Company, it is a connected person of the Company and AMES is an associate of AVIC pursuant to Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratio in relation to the Acquisition is over 5% but less than 25% and as the Acquisition involves the issue of Domestic Shares as part of the consideration, the Acquisition and the issue of the Consideration Shares constitute discloseable and connected transactions of the Company under the Hong Kong Listing Rules and are subject to the requirements of reporting, announcement and approval of the Independent Shareholders at the EGM.

An Independent Board Committee comprising all of the independent non-executive Directors will be established to advise the Independent Shareholders on the connected transactions contemplated under the Acquisition Agreement including the issue of the Consideration Shares. None of the members of the Independent Board Committee has any material interest in the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement.

An independent financial adviser will also be appointed to advise the Independent Board Committee and the Independent Shareholders on the connected transactions mentioned above.

The EGM will be convened by the Company at which resolutions will be proposed to consider and, if thought fit, approve the Acquisition including the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement. The notice convening the EGM will be despatched to the Shareholders as soon as possible.

A circular containing, among other things, (1) further details of the Acquisition and the issue of the Consideration Shares; (2) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement; and (3) a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders containing its opinion in respect of the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement will be despatched to the Shareholders on or before 25 February 2011 due to the intervening Chinese New Year holidays in the PRC.

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

G. 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. As at the date of this announcement, the Company is held as to 56.7% by AVIC, being the controlling shareholder of the Company. The Company is mainly engaged in the research and development, manufacture and sales of 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.

Information on AMES

AMES was established in the PRC in 2010 and is a wholly-owned subsidiary of AVIC. AMES is mainly engaged in research, manufacture and sale of airborne avionics and equipment of aircraft and engine.

DEFINITIONS

“Acquisition”	the acquisition of the entire interest in Tianjin Aviation by the Company from AMES pursuant to the Acquisition Agreement, the consideration for which is to be paid as to 25% by cash and as to 75% by the issue of the Consideration Shares to AMES
“Acquisition Agreement”	an acquisition agreement entered into between the Company and AMES dated 25 January 2011 in relation to the Acquisition
“AMES”	AVIC Mechanical & Electrical Systems Co., Ltd.* (中航機電系統有限公司), a wholly-owned subsidiary of AVIC
“AVIC”	China Aviation Industry Corporation (中國航空工業集團公司), a controlling shareholder of the Company holding 56.7% equity interest in the Company
“Board”	the board of directors 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 Hong Kong Stock Exchange
“Completion”	completion of the Acquisition and the transactions contemplated under the Acquisition Agreement
“Consideration Share(s)”	182,344,533 new Domestic Shares to be issued by the Company to AMES at the Issue Price upon Completion to satisfy part of the consideration for the Acquisition
“Directors”	the director(s) of the Company
“Domestic Share(s)”	domestic share(s) of nominal value of RMB1.00 each in the ordinary share capital of the Company which are subscribed for in

	RMB
“Domestic Shareholders”	holder(s) of Domestic Share(s)
“EGM”	an extraordinary general meeting of the Company to be convened and held for the purposes of considering and, if thought fit, approving, among other things, the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement
“General Mandate”	the unconditional general mandate granted to the Board for the issue of new securities by the Company pursuant to the relevant resolution of the Shareholders passed at the annual general meeting of the Company held on 19 May 2010
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign invested share(s) of nominal value of RMB1.00 each in the ordinary share capital of the Company, which are listed on the Hong Kong Stock Exchange and subscribed for and traded in Hong Kong dollar
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 in respect of the Acquisition, the issue of the Consideration Shares and the transactions contemplated under the Acquisition Agreement
“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 connected transactions to be constituted by the Acquisition Agreement
“Issue Price”	HK\$3.734 (equivalent to approximately RMB3.16) per Domestic Share
“Last Trading Day”	24 January 2011, being the last trading day of the H Shares on the Hong Kong Stock Exchange immediately prior to the date of the Acquisition Agreement
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council

“Shares”	Domestic Shares and H Shares of the Company
“Shareholder(s)”	holder(s) of the Shares
“Tianjin Aviation”	Tianjin Aviation Mechanical and Electrical Co., Ltd. (天津航空机电有限公司), a wholly-owned subsidiary of AMES
“Valuation Date”	30 September 2010

Note: In this announcement, certain amounts denominated in RMB have been converted into HK\$ using an exchange rate of RMB1.00:HK \$ 0.84566, for the purpose of illustration only.

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

Hong Kong, 25 January 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 purposes only.*