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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

PARTICIPATION IN THE CAPITAL INCREASE OF AVIC GYRO

On 10 April 2017, the Company entered into the Investor Agreement with AVIC Automatic Control Institute, BUAA Holdings and Zhang Chunxi. Pursuant to the Investor Agreement, the Company agreed to contribute RMB60 million for participation in the capital increase of AVIC Gyro. Upon completion of the capital increase, the Company, AVIC Automatic Control Institute, BUAA Holdings and Zhang Chunxi will hold 23.45%, 53.59%, 11.48% and 11.48% of the equity interest of AVIC Gyro, respectively.

As at the date of this announcement, AVIC Automatic Control Institute is managed by AVIC, the controlling shareholder of the Company, as a trustee. Therefore, AVIC Automatic Control Institute is a connected person of the Company and the entering into of the Investor Agreement of the Company with the above connected person 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 Investor Agreement exceeds 0.1% but is less than 5%, the entering into of the Investor Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

A. INTRODUCTION

On 10 April 2017, the Company entered into the Investor Agreement with AVIC Automatic Control Institute, BUAA Holdings and Zhang Chunxi. Pursuant to the Investor Agreement, the Company agreed to contribute RMB60 million for participation in the capital increase of AVIC Gyro.

B. THE INVESTOR AGREEMENT

The principal terms of the Investor Agreement are summarized as follows:

1. Date

10 April 2017

2. Parties

- (i) the Company;
- (ii) AVIC Automatic Control Institute;
- (iii) BUAA Holdings; and
- (iv) Zhang Chunxi.

3. Capital contribution

The original registered capital of AVIC Gyro is RMB20 million, contributed by AVIC Automatic Control Institute, BUAA Holdings and Zhang Chunxi in proportion of 7:1.5:1.5 in cash. Among which, AVIC Automatic Control Institute contributed RMB14 million, representing 70% of the registered capital; BUAA Holdings contributed RMB3 million, representing 15% of the registered capital; and Zhang Chunxi contributed RMB3 million, representing 15% of the registered capital.

Upon arm's length negotiation among the parties and after taking into account of various factors (including but not limited to the business development, historical financial figures and valuation of AVIC Gyro), the Company contributed RMB60 million in cash and subscribed for the registered capital of RMB6,124,702. Upon completion of the capital increase, the registered capital of AVIC Gyro will be RMB80 million and the Company, AVIC Automatic Control Institute, BUAA Holdings and Zhang Chunxi will hold 23.45%, 53.59%, 11.48% and 11.48% of the equity interest of AVIC Gyro, respectively.

4. Board composition

The board of directors of AVIC Gyro consists of nine directors nominated by shareholders, of which five directors are nominated by AVIC Automatic Control Institute, two directors are nominated by the Company, one director is nominated by BUAA Holdings and one director is commissioned by Zhang Chunxi. The board of directors of AVIC Gyro has one chairman nominated by AVIC Automatic Control Institute and elected by the board of directors; one vice-chairman nominated by BUAA Holdings and elected by the board of directors. The chairman of the board of directors of AVIC Gyro is the legal representative of AVIC Gyro.

5. Business scope

The business scope of AVIC Gyro includes the research and the design for production process of fiber optic gyroscope, fiber optic gyro inertial measurement combination, fiber optic sensors and other products, as well as relevant production, sales and services.

6. Term of effectiveness

The Investor Agreement will become effective after the parties obtain the relevant approvals/authorizations and sign on the agreement.

C. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE INVESTOR AGREEMENT

The entering into of the Investor Agreement is in line with the development strategies of the Company for the layout of high-tech industries, and is helpful to improve the profitability of the Company.

The Investor Agreement is 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 Investor Agreement are fair and reasonable, 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, AVIC Automatic Control Institute is managed by AVIC, the controlling shareholder of the Company, as a trustee. Therefore, AVIC Automatic Control Institute is a connected person of the Company and the entering into of the Investor Agreement of the Company with the above connected person 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 Investor Agreement exceeds 0.1% but is less than 5%, the entering into of the Investor 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, vice general manager and vice general manager of AVIC, respectively, had abstained from voting on the relevant Board resolution approving the Investor 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, development, manufacture and sales of 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 Automatic Control Institute

AVIC Automatic Control Institute is managed by AVIC as a trustee, and is mainly engaged in the research and manufacture of systems and hardware in relation to the aviation industry and the provision of related services.

Information on BUAA Holdings

BUAA Holdings is a limited liability company established in the PRC, and is mainly engaged in the commission management of state-owned assets subject to the relevant restrictions and requirements.

Information on AVIC Gyro

AVIC Gyro is a limited liability company duly incorporated and validly existing pursuant to the PRC laws. The business scope of AVIC Gyro includes the research and the design for production process of fiber optic gyroscopes, fiber optic gyro inertial measurement combinations, fiber optic sensors and other products, as well as relevant production, sales and services.

Pursuant to the audited financial report of AVIC Gyro prepared according to the PRC Accounting Standards, as at 31 December 2016, the total assets and net assets of AVIC Gyro were RMB112.70 million and RMB82.71 million, respectively. For the year ended 31 December 2015, the net profits of AVIC Gyro (before and after taxation and extraordinary items) were RMB17.02 million and RMB16.50 million, respectively. For the year ended 31 December 2016, the net profits of AVIC Gyro (before and after taxation and extraordinary items) were RMB18.02 million and RMB15.36 million, respectively.

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 Automatic Control Institute”	AVIC Xi'an Flight Automatic Control Research Institute* (中國航空工業集團公司西安飛行自動控制研究所), managed by AVIC as a trustee
“AVIC Gyro”	Aviation Gyro (Beijing) Photoelectricity Technology Co., Ltd.* (中航捷銳(北京)光電技術有限公司), a limited liability

	company established in the PRC
“BUAA Holdings”	BUAA Holdings Co., Ltd.* (北京北航資產經營有限公司), a limited liability company established in the PRC
“Zhang Chunxi”	the representative of BUAA electrooptical technology team
“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)
“Investor Agreement”	the agreement entered into by the Company with AVIC Automatic Control Institute, BUAA Holdings and Zhang Chunxi in relation to the capital increase of AVIC Gyro on 10 April 2017
“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, 10 April 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.*