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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)

INSIDE INFORMATION ANNOUNCEMENT
PROPOSED ISSUANCE OF CONVERTIBLE CORPORATE BONDS
OF AVIC AVIONICS

This announcement is made under the Inside Information Provisions of Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as defined in the Hong Kong Listing Rules) and rule 13.09 of the Hong Kong Listing Rules.

On 31 July 2017, AVIC Avionics convened board meetings, to consider and approve the Proposed Issuance of Convertible Corporate Bonds, with a total amount of proceeds not exceeding RMB2.4 billion (including RMB2.4 billion). The actual amount of issuance is subject to the final determination of the board of AVIC Avionics as authorized by its shareholders' general meeting.

As at the date of this announcement, the Company holds approximately 43.22% of the equity interest in AVIC Avionics. The Company proposes to exercise the Pre-emptive Right based on its current shareholding percentage in AVIC Avionics. If the current shareholders of AVIC Avionics are entitled to subscribe for 100% of the Convertible Corporate Bonds on a pro rata basis, the Company may subscribe for the Convertible Corporate Bonds with a value of approximately RMB1,037 million. After the final determination of the actual pre-emptive percentage for subscription by AVIC Avionics, the Company will disclose the exact amount of the Proposed Subscription in due course.

As at the date of this announcement, AVIC and AVIC Avionics Systems hold approximately 7.85% and 17.99% of the equity interest in AVIC Avionics, respectively. Therefore, AVIC Avionics is a connected subsidiary of the Company and the Proposed Subscription constitutes a connected transaction of the Company accordingly. As the Proposed Subscription is conducted on a pro rata basis and the relevant terms are made on normal commercial terms, the Proposed Subscription is exempt from all the reporting and announcement requirements and the independent Shareholders' approval requirement under rule 14A.89 of the Hong Kong Listing Rules. If AVIC and AVIC Avionics Systems exercise their Pre-emptive Rights, these

subscriptions constitute connected transactions of the Company. As the abovementioned subscriptions are conducted on a pro rata basis and on normal commercial terms, and are not required to be secured by any asset of the Group for AVIC and AVIC Avionics Systems, the abovementioned subscriptions are exempt from all the reporting and announcement requirements and the independent Shareholders' approval requirement under rule 14A.90 of the Hong Kong Listing Rules. In addition, when the Convertible Corporate Bonds are converted into AVIC Avionics A Share, the shareholding percentage of the Company in AVIC Avionics may increase or decrease (depending on the total amount of Convertible Corporate Bonds to be subscribed and the actual exercise of the conversion right), which constitutes an acquisition or a deemed disposal under Chapter 14 of the Hong Kong Listing Rules. The Company will comply with the compliance requirements pursuant to the relevant provisions of the Hong Kong Listing Rules in due course.

The Proposed Issuance of Convertible Corporate Bonds is conditional upon (among others) the approvals from CSRC, SASAC and the shareholders of AVIC Avionics. Therefore, the Proposed Issuance of Convertible Corporate Bonds and the Proposed Subscription may or may not proceed. Shareholders of the Company and potential investors are advised to exercise caution when dealing with the securities of the Company.

I. INTRODUCTION

References are made to the announcements of the Company dated 11 and 18 May 2017 in relation to the Proposed Issuance of Convertible Corporate Bonds by AVIC Avionics. As disclosed in the abovementioned announcements, AVIC Avionics proposed to launch a public issuance of the Convertible Corporate Bonds with a total expected amount of proceeds not exceeding RMB2.4 billion (including RMB2.4 billion).

On 31 July 2017, AVIC Avionics convened board meetings to consider and approve the Proposed Issuance of Convertible Corporate Bonds. The Proposed Issuance of Convertible Corporate Bonds is conditional upon the approvals from CSRC, SASAC and the shareholders of AVIC Avionics.

II. PRINCIPAL TERMS OF THE PROPOSED ISSUANCE OF CONVERTIBLE CORPORATE BONDS

The principal preliminary terms of the Proposed Issuance of Convertible Corporate Bonds are summarized as below:

1. Type of Securities to be Issued

The Convertible Corporate Bonds are convertible into AVIC Avionics A Share

The Convertible Corporate Bonds and the AVIC Avionics A Share to be converted into will be listed on the Shanghai Stock Exchange

2. Issue Size

Not exceeding RMB2.4 billion (including RMB2.4 billion). The actual issue size is subject to the final determination of the board of AVIC Avionics as authorized by its shareholders'

general meeting within the above scale.

3. Nominal Value and Issue Price

Issued at par with a nominal value of RMB100 each

4. Term of the Bonds

Six years from the date of issue

5. Interest Rate of the Bonds

The coupon rate of the Convertible Corporate Bonds will be determined by the board of AVIC Avionics as authorized by its shareholders' general meeting with reference to the PRC government policies, market conditions and the actual conditions of AVIC Avionics and in consultation with the sponsor (lead underwriter).

6. Term and Method of Interest Payment

Interest will be paid once a year and the principal amount and the interest for last year will be repaid at maturity

7. Share Conversion Period

From the trading day immediately following the expiry of six months after the date of issue of the Convertible Corporate Bonds until the maturity date of the Convertible Corporate Bonds

8. Determination and Adjustment of Share Conversion Price

The initial share conversion price of the Convertible Corporate Bonds shall not be lower than the average trading price of shares within 20 trading days preceding the date of publication of the offering document of the Convertible Corporate Bonds (the “**Offering Document**”) (subject to certain adjustments if the share price was adjusted resulted from ex-dividend within the above 20 trading days) and the average trading price of shares on the day immediately before the said date of publication of the Offering Document. The actual initial share conversion price will be determined by the board of AVIC Avionics as authorized by its shareholders' general meeting prior to the issue with reference to the market conditions and in consultation with the sponsor (lead underwriter). Meanwhile, the initial share conversion price shall not be lower than the net asset value per share of AVIC Avionics based on the latest audited financial statements and the nominal value per share.

After the issuance of the Convertible Corporate Bonds, upon occurrence of events such as despatching bonus shares, transferring share capital, issuing additional new shares (excluding the increase in share capital due to the conversion of the Convertible Corporate Bonds), allotment, despatching cash dividends, share repurchase, merger, separation or any other circumstances that taken by AVIC Avionics and may change the class of shares, the quantity of shares and/or the shareholders' interests of AVIC Avionics, and therefore may affect the bonds interest or the conversion derivative interest held by the Bondholders in this issuance, AVIC Avionics will make adjustment to the conversion price and the Offering Document according to relevant laws and regulations.

9. Terms of Redemption

1) Terms of redemption at maturity

Within five trading days after the maturity of the Convertible Corporate Bonds, AVIC Avionics will redeem all the unconverted Convertible Corporate Bonds. The actual redemption price will be determined by the board of AVIC Avionics as authorized by its shareholders' general meetings with reference to the market conditions at the time of issuance and in consultation with the sponsor (lead underwriter).

2) Terms of conditional redemption

During the term of the Convertible Corporate Bonds, AVIC Avionics has the right to redeem all or part of unconverted Convertible Corporate Bonds based on the nominal value plus the accrued interest upon the occurrence of any of the two following situations.

- (a) if the closing price of the shares of AVIC Avionics is equal to or not lower than 130% of the share conversion price in at least 15 trading days out of any 30 consecutive trading days during the term of the Convertible Corporate Bonds; or
- (b) if the outstanding balance of the unconverted Convertible Corporate Bonds is below RMB30 million.

10. Terms of Sale Back

1) Terms of conditional sale back

During the last two interest accrual years of the Convertible Corporate Bonds, if the closing price of AVIC Avionics A Share is lower than 70% of the prevailing conversion price in any 30 consecutive trading days, the Bondholders have the right to sell back all or part of the Convertible Corporate Bonds held by them to AVIC Avionics at the nominal value plus the current accrued interest.

2) Additional terms of sale back

During the term of the Convertible Corporate Bonds, if the actual implementation of the investment projects using the proceeds from the issuance of the Convertible Corporate Bonds significantly differs from the undertakings set out in the Offering Document, the Bondholders will have a one-off right to sell all or part of the Convertible Corporate Bonds held by them back to AVIC Avionics at the nominal value plus the current accrued interest.

11. Status of Shares Converted by the Convertible Corporate Bonds

The additional AVIC Avionics A Share to be issued as a result of the conversion of the Convertible Corporate Bonds shall rank *pari passu* with all the existing shares, and are entitled to dividend of that period for all ordinary shareholders (including shareholders derived from the conversion of the Convertible Corporate Bonds) registered after closing in the afternoon on the date of share registration for dividend distribution in *pari passu*.

12. Method of Issuance and Target Investors

The actual method of the issuance of the Convertible Corporate Bonds will be determined by the board of AVIC Avionics as authorized by its shareholders' general meetings in consultation with the sponsor (lead underwriter).

The target investors of the Convertible Corporate Bonds are natural persons, legal persons, securities investment funds and other investors that meet the conditions prescribed by the laws who have maintained securities accounts with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited (except those prohibited by the PRC laws and regulations).

13. Placing Arrangement for the Existing Shareholders

The Convertible Corporate Bonds are subject to pre-emptive placement to the existing shareholders of AVIC Avionics (the “**Pre-emptive Right**”). The existing shareholders of AVIC Avionics are entitled to waive the Pre-emptive Rights. The actual pre-emptive percentage for subscription will be determined by the board of AVIC Avionics and the sponsor (lead underwriter) as authorized by its shareholders' general meetings with reference to the actual situation upon issuance.

14. Use of Proceeds

The total proceeds from the issuance of the Convertible Corporate Bonds will not exceed RMB2.4 billion (including RMB2.4 billion), all of which, after deducting the issue cost, are expected to be used in [the industrialization projects relevant to the business of AVIC Avionics] and the supplementation of its working capital.

15. Guarantee

AVIC will provide full irrevocable joint liability guarantee for the redemption at maturity of the Proposed Issuance of Convertible Corporate Bonds.

III. PROPOSED SUBSCRIPTION OF THE CONVERTIBLE CORPORATE BONDS BY THE COMPANY

As at the date of this announcement, the Company holds approximately 43.22% of the equity interest in AVIC Avionics. The Company proposes to exercise the Pre-emptive Right based on its current shareholding percentage in AVIC Avionics. If the current shareholders of AVIC Avionics are entitled to subscribe for 100% of the Convertible Corporate Bonds on a pro rata basis, the Company may subscribe for the Convertible Corporate Bonds with a value of approximately RMB1,037 million. After the final determination of the actual pre-emptive percentage for subscription by AVIC Avionics, the Company will disclose the exact amount of the Proposed Subscription in due course.

IV. REASONS FOR AND BENEFITS OF CONDUCTING THE PROPOSED ISSUANCE OF CONVERTIBLE CORPORATE BONDS AND THE PROPOSED SUBSCRIPTION

The Proposed Issuance of Convertible Corporate Bonds and the Proposed Subscription is beneficial to raise the funds for investment projects and the working capital of AVIC Avionics, and promoting the constant development of the avionics business of the Group

Directors (including independent non-executive Directors) are of the opinion that, the Proposed Issuance of Convertible Corporate Bonds and the Proposed Subscription is on normal commercial terms, and the terms of the Proposed Issuance of Convertible Corporate Bonds and the Proposed Subscription and the transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

V. 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 Group is mainly engaged in the research and development, manufacture and sales of civil 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 approximately 43.22% by the Company. AVIC Avionics and its subsidiaries are mainly engaged in the manufacture of avionics products and related accessories.

VI. IMPLICATIONS UNDER THE HONG KONG LISTING RULES

As at the date of this announcement, AVIC and AVIC Avionics Systems hold approximately 7.85% and 17.99% of the equity interest in AVIC Avionics, respectively. Therefore, AVIC Avionics is a connected subsidiary of the Company and the Proposed Subscription constitutes a connected transaction of the Company accordingly. As the Proposed Subscription is conducted on a pro rata basis and the relevant terms are made on normal commercial terms, the Proposed Subscription is exempt from all the reporting and announcement requirements and the independent Shareholders' approval requirement under rule 14A.89 of the Hong Kong Listing Rules.

If AVIC and AVIC Avionics Systems exercise their Pre-emptive Rights, these subscriptions constitute connected transactions of the Company. As the abovementioned subscriptions are conducted on a pro rata basis and on normal commercial terms, and are not required to be secured by any asset of the Group for AVIC and AVIC Avionics Systems, the abovementioned subscriptions are exempt from all the reporting and announcement requirements and the independent Shareholders' approval requirement under rule 14A.90 of the Hong Kong Listing Rules.

In addition, when the Convertible Corporate Bonds are converted into AVIC Avionics A Share, the shareholding percentage of the Company in AVIC Avionics may increase or decrease (depending on the total amount of Convertible Corporate Bonds to be subscribed and the actual exercise of the conversion right), which constitutes an acquisition or a deemed disposal under Chapter 14 of the Hong Kong Listing Rules. The Company will comply with the compliance requirements pursuant to the relevant provisions of the Hong Kong Listing Rules in due course.

Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Wu Xiandong and Mr. Li Yao, the Directors, who are chairman, general manager, vice general manager and chief accountant of AVIC, respectively, have been abstained from voting on the relevant Board resolutions approving the Proposed Subscription and the possible subscription by AVIC and AVIC Avionics System in accordance

with the Company Law of the PRC and the Hong Kong Listing Rules. Save for Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Wu Xiandong and Mr. Li Yao, none of the other Directors has or is deemed to have a material interest in the abovementioned connected transactions.

The Proposed Issuance of Convertible Corporate Bonds is conditional upon (among others) the approvals from CSRC, SASAC and the shareholders of AVIC Avionics. Therefore, the Proposed Issuance of Convertible Corporate Bonds and the Proposed Subscription may or may not proceed. Shareholders of the Company and potential investors are advised to exercise caution when dealing with the securities of the Company.

VII. DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“AVIC”	China Aviation Industry Corporation* (中國航空工業集團公司), a controlling shareholder of the Company holding approximately 58.57% of the equity interest in the Company directly and indirectly 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 incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange, a non-wholly-owned subsidiary of the Company with approximately 43.22% of its equity interest held by the Company as at the date of this announcement
“AVIC Avionics A Share”	the shares of AVIC Avionics listed on the Shanghai Stock Exchange
“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
“Board”	the board of directors of the Company
“Bondholder(s)”	holder(s) of the Convertible Corporate Bonds
“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”	has the same meaning as defined in the Hong Kong Listing Rules
“Convertible Corporate Bonds”	the convertible corporate bonds proposed to be issued by AVIC Avionics with a total expected amount of proceeds not exceeding RMB2.4 billion (including RMB2.4 billion) which are convertible into AVIC Avionics A Share
“CSRC”	China Securities Regulatory Commission

“Director(s)”	the director(s) of the Company
“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
“PRC”	the People’s Republic of China
“Proposed Issuance of Convertible Corporate Bonds”	the proposed issuance of the Convertible Corporate Bonds of AVIC Avionics, with a total expected amount of proceeds not exceeding RMB2.4 billion (including RMB2.4 billion)
“Proposed Subscription”	the proposed exercise of Pre-emptive Right by the Company to subscribe for the Convertible Corporate Bonds
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council
“Shareholder(s)”	holder(s) of the shares of the Company
“%”	per cent

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

Beijing, 1 August 2017

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 Caste lbajac as well as independent non-executive Directors Mr. Lau Chung Man, Louis, Mr. Liu Renhuai and Mr. Yeung Chi Wai.

** For identification purposes only*