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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)

MAJOR AND CONNECTED TRANSACTIONS:

DISPOSAL OF EQUITY INTEREST IN DONGAN MOTOR AND ACQUISITION OF EQUITY INTEREST IN JONHON OPTRONIC

The Disposal and Acquisition

Reference is made to the announcement of the Company dated 27 October 2009.

The Board hereby announces that the Company and AVIC entered into the Equity Swap Agreement on 4 November 2009, pursuant to which the Company conditionally agreed to sell and AVIC conditionally agreed to purchase from the Company 54.51% equity interest in Dongan Motor for an aggregate consideration of RMB 2,367,794,200; and AVIC in return conditionally agreed to sell and the Company conditionally agreed to purchase from AVIC 43.34% equity interest in JONHON Optronics for an aggregate consideration of RMB 1,774,179,339. The difference between the consideration for the Disposal and the consideration for the Acquisition, which amounts to RMB593,614,861, will be settled by AVIC in cash, which will be applied as general working capital of the Company after Completion. The Disposal and the Acquisition are inter-conditional.

Upon Completion, Dongan Motor will no longer be a subsidiary of the Company and the Company will no longer have any equity interest in Dongan Motor. Further, Dongan Mitsubishi, an indirect subsidiary of the Company which is owned as to 36% by Dongan Motor, will also cease to be a subsidiary of the Company upon completion of the Disposal. As AVIC directly holds 43.34% equity interest in JONHON Optronics and indirectly holds 5.45% equity interest in JONHON Optronics through the Concert Parties, to ensure that JONHON Optronics will become a subsidiary of the Company, the Company and the Concert Parties entered into an agreement on 4 November 2009 whereby subsequent to Completion, the Concert Parties undertake to exercise their rights to propose resolutions at the general meeting of JONHON Optronics and their voting rights in accordance with the instructions of the Company. Accordingly, the Directors confirmed that upon Completion, JONHON Optronics's accounts will be consolidated in the group accounts of the Company and become a subsidiary of the Company. However, as at the date of this announcement, such accounting treatment has not been confirmed with the auditors of the Company. The Directors expect that the accounting treatment of JONHON Optronics will be confirmed in the circular to be despatched to the shareholders of the Company.

Major and Connected Transactions

As the highest of the applicable ratios for the Disposal, when aggregated with the Previous Disposals, is over 25% but is less than 75%, the Disposal constitutes a major transaction of the Company pursuant to Chapter 14 of the Listing Rules. As the highest of the applicable ratios for the Acquisition, when aggregated with the Previous Acquisitions pursuant to Rule 14A.25 of the Listing Rules, is over 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company. Pursuant to Rule 14.24, in the case of a transaction involving both an acquisition and a disposal, the Stock Exchange will apply the percentage ratios to both the acquisition and the disposal and the transaction will be classified by reference to the larger of the acquisition or disposal. Accordingly, the Acquisition will also constitute a major transaction of the Company. In addition, as AVIC is the controlling shareholder of the Company holding 61.06% equity interest in the Company, AVIC is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the Disposal and the Acquisition constitute connected transactions of the Company, which will be subject to approval by the Independent Shareholders. As AVIC has material interest in the Disposal and Acquisition, AVIC and its associates will abstain from voting at the extraordinary general meeting of the Company.

An independent board committee of the Company comprising all the independent non-executive Directors will be formed to advise the Independent Shareholders on the connected transactions constituted by the Disposal and Acquisition contemplated under the Equity Swap Agreement. An independent financial adviser will also be appointed to advise the independent board committee of the Company and the Independent Shareholders on the connected transactions.

A circular containing, among other things, (1) further details of the transactions contemplated under the Equity Swap Agreement; and (2) the letter from the independent board committee of the Company and the recommendation from the independent financial adviser on the connected transactions contemplated under the Equity Swap Agreement will be despatched to the shareholders of the Company as soon as possible.

A. INTRODUCTION

Reference is made to the announcement of the Company dated 27 October 2009.

The Board hereby announces that the Company and AVIC entered into the Equity Swap Agreement on 4 November 2009, pursuant to which the Company conditionally agreed to sell and AVIC conditionally agreed to purchase from the Company 54.51% equity interest in Dongan Motor; and AVIC in return conditionally agreed to sell and the Company conditionally agreed to purchase from AVIC 43.34% equity interest in JONHON Optronic. The Disposal and the Acquisition are inter-conditional.

B. EQUITY SWAP AGREEMENT

1. Date:

4 November 2009

2. Parties:

The Company; and
AVIC

3. 54.51% equity interest in Dongan Motor to be disposed of by the Company to AVIC:

As at the date of this announcement, the Company holds 54.51% equity interest in Dongan Motor. The total number of issued shares of Dongan Motor is 462,080,000 shares, of which the Company holds 251,893,000 shares and the remaining issued shares are held by the public shareholders. The aggregate net assets value of Dongan Motor was RMB 1,909,818,816 as at 31 December 2008. The net assets value attributable to 54.51% equity interest in Dongan Motor as at 31 December 2008 was RMB1,041,042,237.

4. 43.34% equity interest in JONHON Optronic to be acquired by the Company from AVIC:

As at the date of this announcement, AVIC holds 43.34% equity interest in JONHON Optronic. The total number of issued shares of JONHON Optronic is 267,750,000 shares, of which AVIC directly holds 116,035,274 shares and indirectly holds 14,589,645 shares through the Concert Parties. The remaining issued shares are held by the public shareholders. The aggregate net assets value of JONHON Optronic was RMB 953,738,202 as at 31 December 2008. The net assets value attributable to 43.34% equity interest in JONHON Optronic as at 31 December 2008 was RMB 413,350,137.

Upon Completion, the Company will succeed to the lock-up undertaking given by AVIC in respect of the lock-up of its equity interest in JONHON Optronic for a period of 36 months commencing from the listing date of JONHON Optronic and expiring on 31 October 2011.

5. Consideration:

The consideration for the Disposal shall be RMB 2,367,794,200, which shall be satisfied by AVIC by transferring its 43.34% equity interest in JONHON Optronic, the consideration of which shall be RMB 1,774,179,339. The difference between the consideration for the Disposal and the consideration for the Acquisition, which amounts to RMB 593,614,861 will be settled by AVIC in cash within 20 days upon the Equity Swap Agreement becomes effective.

The consideration for the transactions contemplated under the Equity Swap Agreement is determined pursuant to Article 24 of “The Interim Measures for the Administration of State-owned Shareholders’ Transfer of Their Shares of Listed Companies” 《國有股東轉讓所持上市公司股份管理暫行辦法》 issued by SASAC and CSRC. In particular, the consideration for the Disposal is determined with reference to the 90% of the average of the daily volume-weighted average trading price of Dongan Motor for the last 30 trading days on the Shanghai Stock Exchange immediately preceding 28 October 2009. The consideration for the Acquisition is determined with reference to the 90% of the average of the daily volume-weighted average trading price of JONHON Optronic for the last 30 trading days on the Shenzhen Stock Exchange immediately preceding 28 October 2009.

6. Conditions Precedent:

Completion of the Equity Swap Agreement is conditional upon, among other things, fulfillment of the following conditions:

- (1) the Equity Swap Agreement having been duly executed by the legal representatives or authorized person(s) of the parties;
- (2) AVIC having completed and satisfied all the necessary corporate procedures in accordance with the requirements of its articles of association;

- (3) the Company having completed and satisfied all the necessary corporate procedures and complied with the relevant requirements under the Listing Rules and the articles of association of the Company, including but not limited to the transactions contemplated under the Equity Swap Agreement having been approved by the Independent Shareholders;
- (4) the transfers of the equity interests in Dongan Motor and JONHON Optronics contemplated under the Equity Swap Agreement having been approved by SASAC;
- (5) the changes in relation to the state-owned shares and the state-owned share management plan in Dongan Motor and JONHON Optronics having been approved by SASAC;
- (6) waiver from CSRC in relation to AVIC's general offer obligation in respect of acquisition of the shares in Dongan Motor having been obtained; and
- (7) waiver from CSRC in relation to the Company's general offer obligation in respect of acquisition of the shares in JONHON Optronics having been obtained.

7. Completion:

Completion shall take place upon the above conditions having been fulfilled or waived and the transfers of the equity interests in Dongan Motor and JONHON Optronics having been duly registered Equity Swap Agreement with China Securities Depository and Clearing Corporation Limited and that the equity interests in Dongan Motor and JONHON Optronics have been transferred to and registered under the name of AVIC and the Company, respectively.

C. INFORMATION RELATING TO THE DISPOSAL AND THE ACQUISITION

The aggregate consideration for the Disposal and the Acquisition shall be RMB2,367,794,200 and RMB1,774,179,339, respectively. The difference between the consideration for the Disposal and the consideration for the Acquisition, which amounts to RMB 593,614,861, will be settled by AVIC in cash, which will be applied as general working capital of the Company after Completion.

Information on Dongan Motor

Dongan Motor was a joint stock limited company incorporated in the PRC in 1998 whose shares are listed on the Shanghai Stock Exchange. As at the date of this announcement, Dongan Motor is owned as to 54.51% by the Company, and is principally engaged in the research and development, manufacture and sales of vehicle engines, gear boxes, parts and components and other relevant automobile products.

The major assets of Dongan Motor include plant, equipment and machineries, etc. engaging in the business of automobile engines.

According to the audited financial statements of Dongan Motor prepared by Zhongrui Yuehua China Certified Public Accountants, a qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, as at 31 December 2008, the total assets and net assets of Dongan Motor amounted to RMB 3,384,214,532 and RMB 1,909,818,816, respectively. For the financial year ended 31 December 2008, the revenue and the net profit (before and after tax) of Dongan Motor amounted to RMB1,754,328,579, RMB 160,196,807 and RMB 160,196,807, respectively.

According to the audited financial statements of Dongan Motor prepared by Zhongrui Yuehua China Certified Public Accountants, a qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, as at 31 December 2007, the total assets and net assets of Dongan Motor amounted to RMB 3,296,813,777 and RMB1,769,138,060, respectively. For the financial year ended 31 December 2007, the revenue and the net profit before tax and the net profit after tax of Dongan Motor amounted to RMB1,852,536,168, RMB150,701,420 and RMB150,701,420, respectively. .

Information on JONHON Optronics

JONHON Optronics was incorporated in the PRC in 2002 whose shares are listed on the Shenzhen Stock Exchange. As at the date of this announcement, JONHON Optronics is directly owned as to 43.34% by AVIC and indirectly owned as to 5.45% by AVIC through the Concert Parties. JONHON Optronics is principally engaged in the research and development, manufacture and sales of electrical connectors, optical components and cable assemblies.

The major assets of JONHON Optronics include plants, equipment and machineries, etc. engaging in the business of electrical connectors and optical components.

According to the audited financial statements of JONHON Optronics prepared by Zhongrui Yuehua China Certified Public Accountants, a qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, as at 31 December 2008, the total assets and net assets of JONHON Optronics amounted to RMB 1,821,282,436 and RMB953,738,202, respectively. For the financial year ended 31 December 2008, the revenue and the net profit before tax and the net profit after tax of JONHON Optronics amounted to RMB1,076,654,028, RMB 145,147,906 and RMB 111,915,779, respectively.

According to the audited financial statements of JONHON Optronics prepared by Zhongrui Yuehua China Certified Public Accountants, a qualified PRC auditor, based on the Generally Accepted Accounting Principles in the PRC, as at 31 December 2007, the total assets and net assets of JONHON Optronics amounted to RMB 1,577,176,498 and RMB907,462,824, respectively. For the financial year ended 31 December 2007, the revenue, the net profit before tax and the net profit after tax of JONHON Optronics amounted to RMB831,508,041, RMB121,318,385 and RMB99,237,910, respectively.

D. EFFECTS AND FINANCIAL IMPLICATIONS OF THE DISPOSAL

Upon Completion, Dongan Motor will no longer be a subsidiary of the Company and the Company will no longer have any equity interest in Dongan Motor. Accordingly, the financial results of Dongan Motor will not be consolidated in the accounts of the Group.

Further, Dongan Mitsubishi, an indirect subsidiary of the Company which is owned as to 36% by Dongan Motor will cease to be a subsidiary of the Company upon completion of the Disposal. The assets, liabilities and financial results of Dongan Mitsubishi will also cease to be consolidated to the accounts of the Company.

As AVIC directly holds 43.34% equity interest in JONHON Optronics and indirectly holds 5.45% equity interest in JONHON Optronics through the Concert Parties, to ensure that JONHON Optronics will become a subsidiary of the Company, the Company and the Concert Parties entered into an agreement on 4 November 2009 whereby subsequent to Completion, the Concert Parties undertake to exercise their rights to propose resolutions at the general meeting of JONHON Optronics and voting rights in accordance with the instructions of the Company. Accordingly, the Directors confirmed that upon Completion, JONHON Optronics's accounts will be consolidated in the group accounts of the Company and become a subsidiary

of the Company. However, as at the date of this announcement, such accounting treatment has not been confirmed with the auditors of the Company. The Directors expect that the accounting treatment of JONHON Optronic will be confirmed in the circular to be despatched to the shareholders of the Company.

It is expected that there will be a gain derived from the Disposal, which represents the difference between the market value of 43.34% equity interest in JONHON Optronic plus the difference between the consideration for the Disposal and the Acquisition to be settled in cash minus the net book carrying value of 54.51% equity interest in Dongan Motor.

The Disposal gain will be recorded in equity of the group accounts of the Company as the transaction is conducted with the holding company, namely, AVIC, instead of with third party. This is consistent with previous treatments on similar transactions carried out by the Group.

For illustrative purpose, based on the average share price in October 2009 of 43.34% equity interest in JONHON Optronic plus the difference between the consideration for the Disposal and the Acquisition to be settled in cash minus the net book carrying value of 54.51% equity interest in Dongan Motor as at 30 September 2009, the estimated net Disposal gain is RMB600 million, which is determined without taking into account the financial impact of the Acquisition on the accounts of the Company. The actual amount of the Disposal gain can only be ascertained upon Completion. On completion of the entire proposed transactions, which involve the Disposal and the Acquisition, it is expected that there will be a net reduction in the Group's net assets. However, in view of the business strategy of the Company to dispose of automobile business and Dongan Motor, and the better business prospect and profitability of JONHON Optronic, the Company decided to enter into the transactions with AVIC.

E. USE OF PROCEEDS

The sale proceeds derived from the Disposal and the Acquisition contemplated under the Equity Swap Agreement of approximately RMB 593,614,861, which represents the difference between the consideration for the Disposal and the consideration for the Acquisition, will be applied as general working capital of the Company after Completion.

F. REASONS FOR AND BENEFITS OF THE DISPOSAL

The Company has commenced the disposal of its automobile business which has been suffering a continuous loss since June 2008. The disposal of the automobile assets of Jiangxi Changhe Automobile Co., Ltd. and the equity interest in Harbin Hafei Automobile Industry Group Co., Ltd. have been completed. Dongan Motor is mainly engaged in the manufacture of automobile engines and the provision of parts and components for the abovementioned automobile businesses. Upon Completion, the Company will focus on its aviation business. Through the acquisition of JONHON Optronic, the Company will enhance its research and development on aviation electrical products and improve its manufacture capabilities of aviation products and assemblies thereby the aviation business system of the Company will be more complete. Accordingly, the Directors also consider that the transactions contemplated under the Equity Swap Agreement will improve the operations of the Company, enhance the profitabilities and sustainable development of the Company and increase the investment value of the Company. The Directors are of the view that the disposal of the equity interest in Dongan Motor and the acquisition of the equity interest in JONHON Optronic will enable the Group to focus on its aviation business and further strengthened its market position in the PRC aviation industry. The Directors (excluding the independent non-executive Directors) are of the opinion that the terms of the Equity Swap Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

G. LISTING RULES IMPLICATIONS

As the highest of the applicable ratios for the Disposal, when aggregated with the Previous Disposals, is over 25% but is less than 75%, the Disposal constitutes a major transaction of the Company pursuant to Chapter 14 of the Listing Rules. As the highest of the applicable ratios for the Acquisition, when aggregated with the Previous Acquisitions pursuant to Rule 14A.25 of the Listing Rules, is over 5% but is less than 25%, the Acquisition constitutes a discloseable transaction of the Company. Pursuant to Rule 14.24, in the case of a transaction involving both an acquisition and a disposal, the Stock Exchange will apply the percentage ratios to both the acquisition and the disposal and the transaction will be classified by reference to the larger of the acquisition or disposal. Accordingly, the Acquisition will also constitute a major transaction of the Company. In addition, as AVIC is the controlling shareholder of the Company holding 61.06% equity interest in the Company, AVIC is a connected person of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the Disposal and the Acquisition constitute connected transactions of the Company, which will be subject to approval by Independent Shareholders. As AVIC has material interest in the Disposal and Acquisition, AVIC and its associates will abstain from voting at the extraordinary general meeting of the Company.

An independent board committee of the Company comprising all the independent non-executive Directors will be formed to advise the Independent Shareholders on the connected transactions contemplated under the Equity Swap Agreement. An independent financial adviser will also be appointed to advise the independent board committee of the Company and the Independent Shareholders in this regard.

A circular containing, among other things, (1) further details of the transactions contemplated under the Equity Swap Agreement; and (2) the letter from the independent board committee and the recommendation from the independent financial adviser on the connected transactions contemplated under the Equity Swap Agreement will be despatched to the shareholders of the Company as soon as possible.

H. GENERAL

Information on Parties

Information on the Company

As at the date of this announcement, the Company is held as to 61.06% by AVIC, being the controlling shareholder of the Company. The Company is mainly engaged in the research, development, manufacture and sales of vehicles and aviation products.

Information on AVIC

As at the date of this announcement, AVIC is held and controlled by the State Council of the PRC. AVIC is the controlling shareholder of the Company holding 61.06% equity interest in the Company. AVIC is mainly engaged in the development and manufacture of aviation products and non-aviation products such as the automobile engine and parts and components.

Information on Dongan Motor

As at the date of this announcement, the Company is the controlling shareholder of Dongan Motor holding 54.51% equity interest in Dongan Motor. Dongan Motor is principally engaged in the research and development, manufacture and sales of vehicle engines, gear box, parts and components and other relevant automobile products.

Information on JONHON Optronics

As at the date of this announcement, AVIC is the controlling shareholders of JONHON Optronics and directly holds 43.34% equity interest in JONHON Optronics and indirectly holds 5.45% equity interest in JONHON Optronics. JONHON Optronics is a subsidiary of AVIC. JONHON Optronics is principally engaged in the research and development, manufacture and sales of electrical connectors, optical components and cable assemblies.

DEFINITIONS:

“Acquisition”	the acquisition of 43.34% equity interest in JONHON Optronics by the Company from AVIC for a consideration of RMB1,774,179,339 pursuant to the Equity Swap Agreement
“AVIC”	Aviation Industry Corporation of China (中國航空工業集團公司), a controlling shareholder of the Company holding 61.06% equity interest in 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)
“Completion”	completion of the transactions contemplated under the Equity Swap Agreement
“Concert Parties”	Institution of China KongKong Missile, Sino Avionics Technology Co., Ltd. and AVIC Information Technology Corporation Ltd., being the subsidiaries of AVIC which hold 6,939,645 shares, 3,825,000 shares and 3,825,000 shares in JONHON Optronics, respectively and collectively hold an aggregate of 14,589,645 shares representing 5.45% of the total issued share capital of JONHON Optronics
“CSRC”	China Securities Regulatory Commission
“Directors”	the director(s) of the Company
“Disposal”	the disposal of 54.51% equity interest in Dongan Motor by the Company to AVIC for a consideration of RMB2,367,794,200 pursuant to the Equity Swap Agreement
“Dongan Mitsubishi”	Harbin Dongan Automotive Engine Manufacturing Co., Ltd.(哈爾濱東安汽車發動機製造有限公司), a sino-foreign joint venture and is owned as to 36% by Dongan Motor and 15% by Harbin Aviation Industry (Group) Co., Ltd (哈爾濱航空工業(集團)有限公司),a wholly-owned subsidiary of the Company
“Dongan Motor”	Harbin Dongan Auto Engine Co., Ltd. (哈爾濱東安汽車動力股份有限公司), a joint stock limited company whose shares are listed on the Shanghai Stock Exchange with 54.51% of its interest being held by the Company

“Group”	the Company and its subsidiaries
“Independent Shareholders”	shareholders (other than AVIC and its associates) of the Company who are not required to abstain from voting on the resolutions(s) to be proposed at the extraordinary general meeting of the Company to approve the Equity Swap Agreement under the Listing Rules
“JONHON Optronic”	China Aviation Optical-Electrical Technology Co., Ltd., (中航光電科技股份有限公司) a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange with 43.34% of its equity interest being directly held by AVIC and 5.45% of its equity interest being indirectly held by AVIC through the Concert Parties
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)
“PRC”	the People’s Republic of China
“Previous Acquisitions”	refer to the Acquisition Agreement entered into between Jiangxi Changhe Automobile Co., Ltd. and AVIC (formerly known as the “organizing unit of Aviation Industry Corporation of China”) dated 9 October 2008 in relation to, among other things, the acquisition of 100% equity interest in Shanghai Aviation Electric Co., Ltd. and 100% equity interest in Lanzhou Wanli Aviation Electrical Co., Ltd.. Details of the transactions can be referred to in the announcement and circular of the Company dated 13 October 2008 and 3 November 2008, respectively
“Previous Disposals”	refer to (i) the Acquisition Agreement entered into between Jiangxi Changhe Automobile Co., Ltd. and AVIC (formerly known as the “organizing unit of Aviation Industry Corporation of China”) dated 9 October 2008 in relation to, among other things, the disposal the automobile assets of Jiangxi Changhe Automobile Co., Ltd.; (ii) the Share Transfer Agreement I entered into between the Company and AVIC Automobile Industry Co., Ltd. dated 16 April 2009 in relation to, among other things, the disposal of 100% equity interest in Harbin Hafei Automobile Industry Group Co.,; and (iii) the Share Transfer Agreement II entered into between the Company and AVIC Automobile Industry Co., Ltd. dated 16 April 2009 in relation to, among other things, the disposal of 10% equity interest in Jiangxi Changhe Suzuki Automobile Co., Ltd.
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中國國務院國有資產監督管理委員會)
“Equity Swap Agreement”	the equity swap agreement entered into between the Company and AVIC on 4 November 2009, pursuant to which the

Company conditionally agreed to sell and AVIC conditionally agreed to purchase from the Company 54.51% equity interest in Dongan Motor; and AVIC in return conditionally agreed to sell and the Company conditionally agreed to purchase from AVIC 43.34% equity interest in JONHON Optronics

“**Stock Exchange**”

The Stock Exchange of Hong Kong Limited

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

Hong Kong, 4 November 2009

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.*