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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

**PROPOSED SUBSCRIPTION BY AVIC KAITIAN
OF THE A SHARES ISSUED BY AVIC CAPITAL
BY WAY OF TRANSFER OF ITS EQUITY INTEREST IN AVIC LEASING**

On 19 December 2014, AVIC Kaitian, an indirect subsidiary of the Company, and other subscribers entered into the Share Subscription Agreement with AVIC Capital, pursuant to which, AVIC Kaitian has conditionally agreed to subscribe for approximately 8,882,864 A shares issued by AVIC Capital, for a consideration to be satisfied by transferring its 2.16% equity interest in AVIC Leasing to AVIC Capital. Upon the completion of the Share Subscription of AVIC Kaitian, AVIC Kaitian will hold 0.5% equity interest in AVIC Capital. The final number of shares to be subscribed for and the consideration to be paid by AVIC Kaitian respectively shall be subject to the shareholders' approval of AVIC Capital at its general meeting after the same have been approved by the competent governmental authorities.

As at the date of this announcement, AVIC Kaitian is an indirect subsidiary of the Company, and AVIC holds 51.26% equity interest in the Company, being the controlling shareholder of the Company. AVIC Capital is a subsidiary of AVIC and is a connected person of the Company pursuant to the Hong Kong Listing Rules. Accordingly, the entering into of the Share Subscription Agreement constitutes a connected transaction of the Company under the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the Share Subscription of AVIC Kaitian and the transfer of its 2.16% equity interest in AVIC Leasing under the Share Subscription Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Share Subscription Agreement are subject to reporting and announcement requirements, but are exempt from the independent shareholders' approval requirement.

A. INTRODUCTION

On 19 December 2014, AVIC Kaitian, an indirect subsidiary of the Company, and other subscribers entered into the Share Subscription Agreement with AVIC Capital, pursuant to which, AVIC Kaitian has conditionally agreed to subscribe for approximately 8,882,864 A shares issued by AVIC Capital, for a consideration to be satisfied by transferring its 2.16% equity interest in AVIC Leasing to AVIC Capital. Upon the completion of the Share Subscription of AVIC Kaitian, AVIC Kaitian will hold 0.5% equity interest in AVIC Capital. The final number of shares to be subscribed for and the consideration to be paid by AVIC Kaitian respectively shall be subject to the shareholders' approval of AVIC Capital at its general meeting after the same have been approved by the competent governmental authorities.

B. THE SHARE SUBSCRIPTION AGREEMENT

A summary of the principal terms of the Share Subscription Agreement is set out as follows:

1. Date

19 December 2014

2. Parties

- (i) AVIC Capital as the issuer; and
- (ii) AVIC Kaitian, AVIC International Holding Corporation, AVIC Shaanxi Aero Electric Co., Ltd., AVIC Xi'an Flight Automatic Control Research Institute, Jincheng Group Co., Ltd., AVIC Luoyang Institute of Electro-Optical Devices, Shenyang Liming Aero-Engine Group Corporation Ltd., China Aeronautical Radio Electronics Research Institute, Shenyang SAC Enterprise Management Co., Ltd., AVIC Xi'an Aero-Engine (Group) Ltd., China Airborne Missile Academy, AVIC Xi'an Aeronautics Computing Technique Research Institute as the subscribers respectively.

3. Consideration

Pursuant to the Share Subscription Agreement, AVIC Kaitian has conditionally agreed to subscribe for approximately 8,882,864 A shares issued by AVIC Capital at a price of RMB 15.78 per share, and the consideration will be paid by transferring the 2.16% equity interest in AVIC Leasing held by AVIC Kaitian to AVIC Capital. As at 31 August 2014, the estimated net assets value of AVIC Leasing is RMB 6,475,409,700. Accordingly, the transaction price of the equity interest held by AVIC Kaitian in AVIC Leasing is approximately RMB140,171,600. The final transaction price of the transfer of equity interest in AVIC Leasing shall be determined according to the valuation

confirmed by and filed with the state-owned assets supervision and administration authority.

4. Price

Pursuant to the Share Subscription Agreement, the subscription price of the A shares under AVIC Capital Placing is RMB15.78 per share, being 90% of the average trading price of A shares of AVIC Capital quoted on the Shanghai Stock Exchange for the 20 trading days immediately preceding the Price Determination Date. If any ex-dividend or ex-entitlement event occurs during the period between the Price Determination Date and the issuance date of A shares, the issuance price and the number of A shares under AVIC Capital Placing shall be adjusted accordingly. The issuance price under AVIC Capital Placing and the number of shares to be subscribed by AVIC Kaitian shall be subject to the shareholders' approval of AVIC Capital at its general meeting after the same have been approved by the competent governmental authorities.

5. Lock-up period

Pursuant to the Share Subscription Agreement, the A shares to be subscribed for by AVIC Kaitian and other subscribers shall be subject to a lock-up period of 36 months commencing from the date upon which completion of AVIC Capital Placing takes place.

6. Conditions precedent to the Share Subscription Agreement becoming effective

The Share Subscription Agreement shall become effective upon the fulfillment of, among other things, the following conditions:

- (i) the Share Subscription Agreement having been duly executed by the authorised representatives or legal representatives of the parties;
- (ii) AVIC Capital Placing having been approved by the board meeting and the general meeting of AVIC Capital;
- (iii) AVIC Kaitian having performed all necessary internal approval procedures pursuant to its article of association, including but not limited to, the approval of the independent shareholders on the Share Subscription Agreement and the connected transactions contemplated under the Share Subscription Agreement;
- (iv) State-owned assets supervision and administration authorities having reviewed and filed the asset evaluation report involved in AVIC Capital Placing;
- (v) the transactions contemplated under AVIC Capital Placing having been approved by SASAC;

- (vi) the transactions contemplated under AVIC Capital Placing having been approved by the CSRC; and
- (vii) other necessary approvals relating to AVIC Capital Placing

C. REASONS FOR AND BENEFITS OF THE SHARE SUBSCRIPTION OF AVIC KAITIAN

Upon completion of the Share Subscription of AVIC Kaitian, the Group will fully enjoy the fruits of development of AVIC capital in the future and can also benefit from investment proceeds due to the stock price increase of AVIC Capital in the secondary market.

The transactions under the Share Subscription Agreement are determined on normal commercial terms. Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Share Subscription Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Each of Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, Directors of the Company, who are general manager, vice general manager and vice general manager of AVIC, respectively, is deemed to have a material interest in the connected transactions contemplated under the Share Subscription Agreement and thus had abstained from voting on the relevant board resolution approving the Share Subscription Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules.

D. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC Kaitian is an indirect subsidiary of the Company, and AVIC holds 51.26% equity interest in the Company, being the controlling shareholder of the Company. AVIC Capital is a subsidiary of AVIC and is a connected person of the Company pursuant to the Hong Kong Listing Rules. Accordingly, the entering into of the Share Subscription Agreement constitutes a connected transaction of the Company under the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the Share subscription of AVIC Kaitian and the transfer of its 2.16% equity interest in AVIC Leasing under the Share Subscription Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Share Subscription Agreement are subject to reporting and announcement requirements, but are exempt from the independent shareholders' approval requirement.

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.

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. As at the date of this announcement, AVIC holds 51.26% equity interest in the Company and is the controlling shareholder of the Company.

Information on AVIC Capital

AVIC Capital is a joint stock limited company listed on the Shanghai Stock Exchange with a registered capital of RMB1,866,349,221. It is principally engaged in industrial investment, equity investment and investment consulting services. AVIC Capital is held as to 51.09% by AVIC as at the date of this announcement.

Based on the audited financial statements of AVIC Capital prepared in accordance with the PRC accounting standards, as at 31 December 2013, the total assets and the net assets value of AVIC Capital amounted to RMB85,009,604,808.55 and RMB10,633,117,585.94, respectively. For the year ended 31 December 2013, the net profits (before and after tax and extraordinary items) of AVIC Capital amounted to RMB2,476,466,787.82 and RMB1,874,715,530.87 respectively. For the year ended 31 December 2012, the net profits (before and after tax and extraordinary items) of AVIC Capital amounted to RMB2,130,222,519.84 and RMB1,622,090,020.03 respectively.

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 43.22% equity interest by the Company. AVIC Avionics is mainly engaged in the manufacture of avionics products and related accessories.

Information on AVIC Kaitian

AVIC Kaitian is a non wholly-owned subsidiary indirectly held by the Company through AVIC Avionics. As at the date of this announcement, AVIC Avionics holds 86.74% equity interest in AVIC Kaitian. AVIC Kaitian is mainly engaged in the research, manufacture and sales of air data system and various types of aviation instrument.

Information on AVIC Leasing

AVIC Leasing is a limited liability company incorporated in the PRC with a registered capital of RMB3,790,000,000. AVIC Leasing is mainly engaged in the finance lease and operating lease business of aircraft, ships and large equipment and other assets.

Based on the audited financial statements of AVIC Leasing prepared in accordance with the PRC accounting standards, as at 31 December 2013, the total assets and the net assets value of AVIC Leasing amounted to RMB26,891,754,389.41 and RMB3,124,992,164.24, respectively. For the year ended 31 December 2013, the net profits (before and after tax and extraordinary items) of AVIC Leasing amounted to RMB564,774,765.36 and RMB427,412,346.58 respectively. For the year ended 31 December 2012, the net profits (before and after tax and extraordinary items) of AVIC Leasing amounted to RMB418,880,918.38 and RMB313,229,686.35 respectively.

DEFINITIONS:

- “**AVIC**” Aviation Industry Corporation of China* (中國航空工業集團公司), the controlling shareholder of the Company holding 51.26% equity interest in the Company as at the date of this announcement
- “**AVIC Avionics**” China AVIC Electronics Co., Ltd. (中航機載電子股份有限公司), a non wholly-owned subsidiary of the Company with 43.22% equity interest held by the Company as at the date of this announcement
- “**AVIC Capital**” AVIC Capital Co., Ltd., whose A shares are listed on the Shanghai Stock Exchange, is a subsidiary of AVIC with its 51.09% equity interest being held by AVIC as at the date of this announcement

“AVIC Capital Placing”	the proposed placing of approximately 127,003,450 new A shares by AVIC Capital for subscription by AVIC Kaitian, AVIC International Holding Corporation, AVIC Shaanxi Aero Electric Co., Ltd., AVIC Xi’an Flight Automatic Control Research Institute, Jincheng Group Co., Ltd., AVIC Luoyang Institute of Electro-Optical Devices, Shenyang Liming Aero-Engine Group Corporation Ltd., China Aeronautical Radio Electronics Research Institute, Shenyang SAC Enterprise Management Co., Ltd., AVIC Xi’an Aero-Engine(Group) Ltd., China Airborne Missile Academy, AVIC Xi’an Aeronautics Computing Technique Research Institute for a consideration to be satisfied by the transfer of their equity interest in AVIC Leasing totalling 30.95% to AVIC Capital. With the A shares issuance and transfer of the equity interest in AVIC Leasing aforesaid as a condition precedent, AVIC Capital additionally proposes a non-public placing of A shares to not more than 10 specific subscribers to raise funds which will have no impact on the aforementioned A shares issuance and transfer of the equity interest in AVIC Leasing. Details can be referred to in the announcement of AVIC Capital on the Shanghai Stock Exchange on 19 December 2014
“AVIC Kaitian”	Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), a subsidiary of, and is held as to 86.74% by AVIC Avionics, and as to 1.56% by the Company as at the date of this announcement
“AVIC Leasing”	AVIC Leasing Co., Ltd., is a limited liability company incorporated in the PRC. AVIC Leasing is mainly engaged in the finance lease and operating lease business of aircraft, ships and large equipment and other assets
“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)

“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Directors”	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
“Price Determination Date”	12 August 2014
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“Share Subscription Agreement”	a share subscription agreement conditionally entered into among AVIC Kaitian, AVIC Capital and other subscribers on 19 December 2014, pursuant to which, AVIC Kaitian has conditionally agreed to subscribe for approximately 8,882,864 A shares of AVIC Capital for a consideration to be satisfied by the transfer of 2.16% equity interest in AVIC Leasing to AVIC Capital
“Share Subscription of AVIC Kaitian”	pursuant to the Share Subscription Agreement, AVIC Kaitian has conditionally agreed to subscribe for approximately 8,882,864 A shares of AVIC Capital for a consideration to be satisfied by the transfer of 2.16% equity interest in AVIC Leasing to AVIC Capital

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

Beijing, 19 December 2014

As at the date of this announcement, the Board comprises executive Directors Mr. Lin Zuoming and Mr. Tan Ruisong and non-executive Directors Mr. Gu Huizhong, Mr. Gao Jianshe, Mr. Sheng Mingchuan and Mr. Maurice Savart as well as independent non-executive Directors Mr. Guo Chongqing, Mr. Lau Chung Man, Louis and Mr. Liu Renhuai.

** For identification purposes only.*