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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 GRANT OF THE ENTRUSTED LOAN TO AVIC AVIONICS

On 21 December 2016, the Company, AVIC Avionics and the Bank entered into the Entrusted Loan Agreement, pursuant to which the Company agreed to entrust the Bank to grant the Entrusted Loan of RMB300 million to AVIC Avionics for a term of one year.

As at the date of this announcement, AVIC is the controlling shareholder of the Company and therefore a connected person of the Company. As AVIC holds more than 10% indirect interest in AVIC Avionics and AVIC Avionics is a subsidiary of the Company as at the date of this announcement, AVIC Avionics is a connected subsidiary of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the grant of the Entrusted Loan to AVIC Avionics by the Company constitutes a connected transaction of the Company. As the highest of the applicable size test percentage ratios in relation to the grant of the Entrusted Loan is higher than 0.1% but less than 5%, the connected transaction contemplated under the Entrusted Loan Agreement is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

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A. THE ENTRUSTED LOAN AGREEMENT

A summary of the principal terms of the Entrusted Loan Agreement is set out as follows:

1. Date

21 December 2016

2. Parties

- (i) the Company, as the entrusting party;
- (ii) the Bank, as the lending/ entrusted party; and
- (iii) AVIC Avionics, as the borrower.

3. Loan Amount

RMB300 million

4. Term

One year

5. Interest Rate

The interest rate per annum is 3.7375%, which is determined with reference to the benchmark interest rate promulgated by the People's Bank of China for one-year term loans granted by financial institutions. The accrued interest shall be settled by AVIC Avionics quarterly during the term of the Entrusted Loan.

6. Handling Charges

0.04% per annum, which will be paid by the Company to the Bank.

7. Repayment of the Entrusted Loan

One-off repayment of the principal amount to the Company by AVIC Avionics upon maturity of the Entrusted Loan.

B. REASONS FOR AND BENEFITS OF GRANTING THE ENTRUSTED LOAN

To reduce the financial expenses and support the development of AVIC Avionics, the Company has agreed to grant the Entrusted Loan to AVIC Avionics.

The terms of the Entrusted Loan Agreement are agreed by the parties after arm's length negotiations and made upon normal commercial terms. Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Entrusted Loan Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

C. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC Avionics is the controlling shareholder of the Company and therefore a connected person of the Company. As AVIC holds more than 10% indirect interest in AVIC Avionics and AVIC Avionics is a subsidiary of the Company as at the date of this announcement, AVIC Avionics is a connected subsidiary of the Company under Chapter 14A of the Hong Kong Listing Rules. Accordingly, the grant of the Entrusted Loan to AVIC Avionics by the Company constitutes a connected transaction of the Company. As the highest of the applicable size test percentage ratios in relation to the grant of the Entrusted Loan is higher than 0.1% but less than 5%, the connected transaction contemplated under the Entrusted Loan Agreement is subject to the reporting and

announcement requirements but is exempt from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

Mr. Lin Zuoming, Mr. Tan Ruisong, Mr. Gu Huizhong and Mr. Gao Jianshe, the Directors, who are chairman, general manager, vice general manager and vice general manager of AVIC, respectively, abstained from voting on the relevant board resolution approving the Entrusted Loan 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.

D. 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. The Company is mainly engaged in the research and development, manufacture and sales of 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 43.22% by the Company. AVIC Avionics is mainly engaged in the manufacture of avionics products and related accessories.

Information on the Bank

The Bank is a licensed commercial bank established in the PRC and is principally engaged in, among other things, the provision of banking, financial and other financial related services.

DEFINITIONS

“AVIC”	China Aviation Industry Corporation* (中國航空工業集團公司), a controlling shareholder of the Company holding 58.57% equity interest in the Company 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 whose shares are listed on the Shanghai Stock Exchange, a non-wholly-owned subsidiary of the Company with 43.22% of its equity interest held by the Company as at the date of this announcement
“Bank”	the Beijing Dongdan branch of the Bank of Communications Company Limited
“Board”	the board of directors of the Company
“Company”	AviChina Industry & Technology Company Limited
“connected person”	has the same meaning as defined in the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company

“Entrusted Loan”	an entrusted loan of RMB300 million granted to AVIC Avionics by the Company pursuant to the Entrusted Loan Agreement
“Entrusted Loan Agreement”	the entrusted loan agreement dated 21 December 2016 entered into by the Company as the lender, the Bank as the lending agent and AVIC Avionics as the borrower, pursuant to which, the Company has agreed to grant an entrusted loan of RMB300 million to AVIC Avionics for a term of one year
“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)
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the shares of the Company

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

Beijing, 21 December 2016

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 Jason Chi Wai.

**For identification purposes only.*