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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**

### **ESTABLISHMENT OF A JOINT VENTURE COMPANY**

The Board announces that on 30 July 2010, (i) Hongdu Aviation, a non wholly-owned subsidiary of the Company, (ii) Jiangxi Investment, (iii) Xi'an Aircraft, (iv) AVIC Aircraft, (v) Jiangxi Copper, (vi) Jiangxi International Trust, (vii) Jiangxi Tungsten Group and (viii) Jiangxi Tungsten Company entered into the Promoters' Agreement for the establishment of the Joint Venture Company. Upon completion of the transactions contemplated under the Promoters' Agreement, the Joint Venture Company will be owned as to 25.5%, 25%, 17.17%, 8.33%, 8.33%, 7.33%, 4.17% and 4.17% by Hongdu Aviation, Jiangxi Investment, Xi'an Aircraft, AVIC Aircraft, Jiangxi Copper, Jiangxi International Trust, Jiangxi Tungsten Group and Jiangxi Tungsten Company, respectively.

As of the date of this announcement, AVIC, the Controlling Shareholder of the Company, holds 100% equity interests in AVIC Aircraft and 85.91% equity interests in Xi'an Aircraft indirectly through AVIC Aircraft. Pursuant to Chapter 14A of the Listing Rules, Xi'an Aircraft and AVIC Aircraft are connected persons of the Company. Accordingly, the entering into of the Promoters' Agreement by Hongdu Aviation with, among other parties, Xi'an Aircraft and AVIC Aircraft will constitute a connected transaction for the Company.

As the applicable size test percentage ratios in relation to the capital contribution by Hongdu Aviation to the Joint Venture Company is over 1% but less than 5%, the entering into of the Promoters' Agreement by Hongdu Aviation with, among other parties, Xi'an Aircraft and AVIC Aircraft is subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **THE PROMOTERS' AGREEMENT**

**Date:** 30 July 2010

**Parties:** (1) Hongdu Aviation, a 45.62% owned subsidiary of the Company;

(2) Jiangxi Investment;

(3) Xi'an Aircraft, a subsidiary of AVIC with 85.91% equity interests held indirectly through AVIC Aircraft;

(4) AVIC Aircraft, a wholly-owned subsidiary of AVIC;

(5) Jiangxi Copper;

(6) Jiangxi International Trust;

(7) Jiangxi Tungsten Group; and

(8) Jiangxi Tungsten Company.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, so far as the Directors are aware, each of Jiangxi Investment, Jiangxi Copper, Jiangxi International Trust, Jiangxi Tungsten Group and Jiangxi Tungsten Company are third parties independent of the Company and its connected persons.

### **Capital Commitments**

According to the Promoters' Agreement, the registered capital of the Joint Venture Company is RMB1,200,000,000 divided into 1,200,000,000 shares of RMB1 each. The Parties have agreed to make capital contributions to the Joint Venture Company in proportion to their respective equity interests in the Joint Venture Company in two phases.

Phase 1 capital contribution amounting to RMB782,200,000 will be made by the Parties within 20 days upon execution of the Promoters' Agreement. Phase 2 capital contribution amounting to RMB417,800,000 will be made by the Parties within 2 years upon the establishment of the Joint Venture Company. A specific timetable in relation to the Phase 2 capital contribution will be determined by the board of directors of the Joint Venture Company. The Parties will pay up their respective capital contributions to the registered capital of the Joint Venture Company as follows:

Party	Form of capital contribution	capital contribution (RMB)		Total capital contribution (RMB) (percentage equity interest)
		Phase 1	Phase 2	
Hongdu Aviation	Cash	300,000,000	6,000,000	306,000,000 (25.5%)
Jiangxi Investment	Cash	195,000,000	105,000,000	300,000,000 (25%)
Xi'an Aircraft	Cash	42,000,000	164,000,000	206,000,000 (17.17%)
AVIC Aircraft	Cash	58,000,000	42,000,000	100,000,000 (8.33%)
Jiangxi Copper	Cash	65,000,000	35,000,000	100,000,000 (8.33%)
Jiangxi International Trust	Cash	57,200,000	30,800,000	88,000,000 (7.33%)
Jiangxi Tungsten Group	Cash	32,500,000	17,500,000	50,000,000 (4.17%)
Jiangxi Tungsten Company	Cash	32,500,000	17,500,000	50,000,000 (4.17%)
<b>Total:</b>				<b>1,200,000,000 (100%)</b>

The Parties are not under any contractual obligations and have no commitment to contribute further funding to the Joint Venture Company other than their respective contributions to the registered capital of the Joint Venture Company. Whether or not further capital contributions to the Joint Venture is needed will be decided by the shareholders of the Joint Venture Company taking into account the development of the Joint Venture Company.

### **Business scope of the Joint Venture Company**

The Joint Venture Company will be principally engaged in the design, research and development, production, sales and maintenance of large parts and components of domestic and international commercial aircraft; development, introduction and transfer of aviation science technology and provision of related consultancy services as well as the development, production and sales of aviation related products, and the import and export of related raw materials.

### **Profit distribution**

Profit of the Joint Venture Company will be distributed to the Parties according to their respective contributions to the registered capital of the Joint Venture Company.

### **Constitution of the board of directors of the Joint Venture Company**

The board of directors of the Joint Venture Company will comprise 13 directors, of which 4 directors will be nominated by Hongdu Aviation, 1 director will be nominated by AVIC Aircraft, 2 directors will be nominated by Xi'an Aircraft, 2 directors will be nominated by Jiangxi Investment, 1 director will be nominated by Jiangxi Copper, 1 director will be nominated by Jiangxi International Trust, 1 director will be nominated by Jiangxi Tungsten Group and 1 director will be nominated by Jiangxi Tungsten Company.

The board of directors of the Joint Venture Company will have 1 chairman and 1 deputy chairman. The chairman will be nominated by Hongdu Aviation and the deputy chairman will be nominated by Jiangxi Investment. The chairman and the deputy chairman will be elected by a simple majority of the votes of all members of the board of directors of the Joint Venture Company.

### **Alteration of registered capital of the Joint Venture Company**

Any alteration of the registered capital of the Joint Venture Company will be subject to the unanimous approval by the shareholders of the Joint Venture Company at general meeting and the approval(s) by the relevant PRC government authorities.

### **Obligations of the Parties**

According to the terms of the Promoters' Agreement, Hongdu Aviation shall be responsible for, among other things, providing all necessary information in connection with the establishment, registration and business operations of the Joint Venture Company; handling all matters in connection with the establishment and registration of the Joint Venture Company as well as providing aviation technology know-how and management personnel. The remaining Parties shall be responsible for, among other things, providing all necessary information in connection with the establishment and business operations of the Joint Venture Company as well as extending adequate support to the Joint Venture Company.

### **Term of the Joint Venture Company**

The Joint Venture Company shall commence operation after the date of issuance of the business licence to the Joint Venture Company. There is no fixed term of operation for the Joint Venture Company under the Promoters' Agreement.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE PROMOTERS' AGREEMENT**

The promotion and establishment of the Joint Venture Company will enable the Company to, with the support of the local government and industrial policies, actively participate in large scale passenger-aircraft projects of the state; subcontract and accomplish the research and development as well as the manufacture of large parts and components of large scale passenger-aircraft; vigorously promote the development of its business in international and domestic subcontract manufacturing of aviation parts and components; expedite its integration in the global aviation industry chain as well as the local economies. Such developments will enhance the overall strength and corporate image of the Company and is conducive to strengthen the sustainable development capabilities of the Company and market competitiveness, which in turn will bring long term and stable investment returns to the Company. At the same time, such developments will also facilitate the overall planning and construction of Nanchang Aviation Industrial City which features Hongdu Aviation as a principal part, and foster the development of the aviation industry and high technology industry in Jiangxi Province.

The Directors, including the independent non-executive Directors, consider that the terms of the Promoters' Agreement are in the ordinary and usual course of business of the Company, and are on normal commercial terms, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **GENERAL**

### **Information on the Company**

The Company is a joint stock limited liability company established in the PRC, whose H shares are listed on the Stock Exchange. As at the date of this announcement, the Company is held as to 56.70% by AVIC, being the Controlling Shareholder of the Company. 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 such as automobile engines and parts and components.

### **Information on Hongdu Aviation**

Hongdu Aviation, a joint stock limited company whose A shares are listed on the Shanghai Stock Exchange, is owned as to 45.62% by the Company and 4.38% by Hongdu Group, a wholly-owned subsidiary of AVIC as at the date of this announcement. Hongdu Aviation is mainly engaged in research, development, manufacture, sale and maintenance of basic training aircraft, general civilian aircraft as well as aviation spare parts. It is also engaged in subcontract manufacturing of aviation products.

### **Information on Jiangxi Investment**

Jiangxi Investment is a state-owned enterprise controlled by the provincial government of Jiangxi Province. It is principally engaged in the investment and development of infrastructure projects and high technology industries in Jiangxi Province.

### **Information on Xi'an Aircraft**

Xi'an Aircraft is a limited liability company established in the PRC, with 85.91% equity interest held indirectly by AVIC through AVIC Aircraft, a wholly-owned subsidiary of AVIC. It is principally engaged in the design, testing and manufacture of aircraft and aviation parts and components; the export of the products and relevant technology, as well as the import of the material, equipment and technology.

### **Information on AVIC Aircraft**

AVIC Aircraft is a limited liability company established in the PRC and is wholly-owned by AVIC. It is principally engaged in the investment and management of large and medium scale aircraft, sale of transport aircraft, passenger aircraft and special aircraft.

### **Information on Jiangxi Copper**

Jiangxi Copper is a wholly state-owned enterprise established in the PRC. It is principally engaged in surveying, exploiting, smelting and processing of copper, gold, silver, lead-zinc, molybdenum, etc., producing and distributing related non-ferrous metal products, as well as manufacturing and installing of mining and refining equipment, developing technology.

### **Information on Jiangxi International Trust**

Jiangxi International Trust is a non-bank financial institution held and controlled by the provincial government of Jiangxi Province. The principal business of Jiangxi International Trust includes provision of trust services for assets custody, fund management, money-lending, and advice on corporate finance activities.

### **Information on Jiangxi Tungsten Group**

Jiangxi Tungsten Group is a state-owned enterprise principally engaged in the manufacture and sale of non-ferrous metals products, investment and operation management of state-owned assets, as well as investment in industries.

### **Information on Jiangxi Tungsten Company**

Jiangxi Tungsten Company is a joint venture owned as to 51% by China Minmetals Non-Ferrous Metals Co. Ltd. (五礦有色金屬股份有限公司) and as to 49% by Jiangxi Tungsten Group. Jiangxi Tungsten Company is principally engaged in mining, refining, processing, research and development as well as import and export of tungsten, tantalum-niobium, rare earth and non-ferrous metals.

## **LISTING RULES IMPLICATIONS**

As of the date of this announcement, AVIC, the Controlling Shareholder of the Company, holds 100% equity interests in AVIC Aircraft and 85.91% equity interests in Xi'an Aircraft indirectly through AVIC Aircraft. Pursuant to Chapter 14A of the Listing Rules, Xi'an Aircraft and AVIC Aircraft are connected persons of the Company. Accordingly, the entering into of the Promoters' Agreement by Hongdu Aviation with, among other parties, Xi'an Aircraft and AVIC Aircraft will constitute a connected transaction for the Company.

As the applicable size test percentage ratios in relation to the capital contribution by Hongdu Aviation to the Joint Venture Company is over 1% but less than 5%, the entering into of the Promoters' Agreement by Hongdu Aviation with, among other parties, Xi'an Aircraft and AVIC Aircraft is subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors has material interest in the transactions contemplated under the Promoters' Agreement and hence no Directors has abstained from voting on the board resolution approving the Promoters' Agreement and the connected transaction contemplated thereunder.

## **DEFINITIONS**

<b>“AVIC”</b>	China Aviation Industry Corporation (中國航空工業集團有限公司), a Controlling Shareholder of the Company holding 56.70% equity interest in the Company
<b>“AVIC Aircraft”</b>	AVIC Aircraft Corporation Ltd. (中航飛機有限責任公司), a wholly-owned subsidiary of AVIC
<b>“Board”</b>	the board of directors of the Company
<b>“Company”</b>	AviChina Industry & Technology Company Limited
<b>“connected person(s)”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Controlling Shareholder”</b>	has the meaning ascribed to it under the Listing Rules
<b>“Directors”</b>	the directors of the Company

<b>“Hongdu Aviation”</b>	Jiangxi Hongdu Aviation Industry Co., Ltd. (江西洪都航空工業股份有限公司), a joint stock limited company whose A shares are listed on the Shanghai Stock Exchange, is owned as to 45.62% by the Company and as to 4.38% by Hongdu Group, a wholly-owned subsidiary of AVIC
<b>“Hong Kong”</b>	The Hong Kong Special Administrative Region of the PRC
<b>“Hongdu Group”</b>	Jiangxi Hongdu Aviation Industry Group Corporation (江西洪都航空工業集團有限責任公司), a wholly-owned subsidiary of AVIC
<b>“Jiangxi Copper”</b>	Jiangxi Copper Corporation (江西銅業集團公司)
<b>“Jiangxi International Trust”</b>	Jiangxi International Trust Co., Ltd. (江西國際信託股份有限公司)
<b>“Jiangxi Investment”</b>	Jiangxi Provincial Investment Group Corp.(江西省投資集團公司)
<b>“Jiangxi Tungsten Group”</b>	Jiangxi Rare Earth and Rare Metals Tungsten Group Corporation (江西稀有金屬鎢業控股集團有限公司)
<b>“Jiangxi Tungsten Company”</b>	Jiangxi Tungsten Industry Group Co., Ltd. (江西鎢業集團有限公司)
<b>“Joint Venture Company”</b>	Jiangxi Hongdu Commercial Aircraft Corporation Limited (江西洪都商用飛機股份有限公司), a joint stock limited liability company to be established by the Parties in the PRC pursuant to the Promoters’ Agreement
<b>“Listing Rules”</b>	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
<b>“Parties”</b>	parties to the Promoters’ Agreement or any of them
<b>“Promoters’ Agreement”</b>	the agreement dated 30 July 2010 entered into between (i) Hongdu Aviation, (ii) Jiangxi Investment, (iii) Xi'an Aircraft, (iv) AVIC Aircraft, (v) Jiangxi Copper, (vi) Jiangxi International Trust, (vii) Jiangxi Tungsten Group and (viii) Jiangxi Tungsten Company for the establishment of the Joint Venture Company
<b>“PRC”</b>	The People’s Republic of China



<b>“RMB”</b>	Renminbi, the lawful currency of the PRC
<b>“Shareholders”</b>	the shareholders of the Company
<b>“Stock Exchange”</b>	The Stock Exchange of Hong Kong Limited
<b>“Xi’an Aircraft”</b>	Xi'an Aircraft Industry (Group) Company Limited 西安飛機工業(集團)有限責任公司, with 85.91% equity interest held indirectly by AVIC through AVIC Aircraft, a wholly-owned subsidiary of AVIC

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

Hong Kong, 1 August 2010

*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 purpose only.*