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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

LAND USE RIGHT MORTGAGE AGREEMENT BETWEEN AVIC HUIYANG AND AVIC HELICOPTER

On 7 December 2018, AVIC Huiyang entered into the Land Use Right Mortgage Agreement with AVIC Helicopter, pursuant to which, AVIC Huiyang agreed to set the Mortgage for the benefit of AVIC Helicopter over the Mortgaged Properties to create security for the joint liability guarantee provided by AVIC Helicopter in favour of AVIC Huiyang for the Loan.

As at the date of this announcement, AVIC Huiyang is a non-wholly-owned subsidiary of the Company. AVIC Helicopter is a subsidiary of AVIC, which is the controlling shareholder of the Company. Therefore, AVIC Helicopter is a connected person of the Company. The entering into of the Land Use Right Mortgage Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable percentage ratios of the transaction is more than 0.1% but less than 5%, the connected transaction contemplated under the Land Use Right Mortgage Agreement is subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

A. INTRODUCTION

On 7 December 2018, AVIC Huiyang entered into the Land Use Right Mortgage Agreement with AVIC Helicopter, pursuant to which, AVIC Huiyang agreed to set the Mortgage for the benefit of AVIC Helicopter over the Mortgaged Properties to

create security for the joint liability guarantee provided by AVIC Helicopter in favour of AVIC Huiyang for the Loan.

B. THE LAND USE RIGHT MORTGAGE AGREEMENT

The principal terms of the Land Use Right Mortgage Agreement are summarized as follows:

1. Date

7 December 2018

2. Parties

(1) Mortgagor: AVIC Huiyang; and

(2) Mortgagee: AVIC Helicopter

3. Provision of the Mortgage

AVIC Helicopter has provided joint liability guarantee in favour of AVIC Huiyang for the Loan. In return, AVIC Huiyang has agreed to set the Mortgage for the benefit of AVIC Helicopter over the Mortgaged Properties to create security for the above-said guarantee provided by AVIC Helicopter.

4. Mortgaged Properties

The Mortgaged Properties are the land use rights for the land with a gross area of 246,078.00 square metres and buildings and other attachments constructed thereon, located to the south of North Second Ring, to the west of Fengneng Road and to the north of flood protection embankment of Baoding city.

The amount of the Mortgage is limited to RMB190,000,000, representing approximately 52% of the carrying amount of the Mortgaged Properties.

5. Scope of the Mortgage

the principal amount of the Loan, interests thereof, handling fees incurred in disposing the Mortgaged Properties, default payment and tax payable by AVIC Huiyang and AVIC Helicopter.

6. Term of the Mortgage

the three years commencing from the registration date of the Mortgage.

C. REASONS FOR AND BENEFITS OF THE TRANSACTION

The Mortgage provided by AVIC Huiyang to AVIC Helicopter under the Land Use Right Mortgage Agreement is to create security for the joint liability guarantee provided by AVIC Helicopter in favour of AVIC Huiyang for the Loan.

The Land Use Right Mortgage Agreement is entered into by the parties on normal commercial terms after arm's length negotiations. The Directors (including the independent non-executive Directors) are of the view that the terms of the Land Use Right Mortgage Agreement are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

D. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC Huiyang is a non-wholly-owned subsidiary of the Company. AVIC Helicopter is a subsidiary of AVIC, which is the controlling shareholder of the Company. Therefore, AVIC Helicopter is a connected person of the Company. The entering into of the Land Use Right Mortgage Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable percentage ratios of the transaction is more than 0.1% but less than 5%, the connected transaction contemplated under the Land Use Right Mortgage Agreement is subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

Each of Mr. Tan Ruisong, Mr. Chen Yuanxian, Mr. Li Yao and Mr. Wang Xuejun, the Directors, who are chairman, vice general manager, chief accountant and a department director of AVIC, respectively, had abstained from voting on the relevant Board resolution approving the Land Use Right Mortgage Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save for disclosed above, none of the other Directors has or is deemed to have a material interest in the transaction under the Land Use Right Mortgage Agreement.

E. GENERAL INFORMATION

Information on the Company

The Company is a joint stock limited liability company incorporated in the PRC, whose shares are listed on the Hong Kong Stock Exchange. The Company is mainly engaged in the research, development, manufacture and sales of aviation products, and relevant engineering services.

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. AVIC is the controlling shareholder of the Company, holding 58.66% equity interest in the Company directly and indirectly as at the date of this announcement.

Information on AVIC Huiyang

AVIC Huiyang is a limited liability company incorporated in the PRC and is a subsidiary of the Company as at the date of this announcement. It is mainly engaged in the research, development and manufacture of several models of high-quality air propellers for aviation products, ships and warships, represented by aviation propellers, speed governors, feathering pumps, rotor hubs and tail rotors for helicopters.

Information on AVIC Helicopter

AVIC Helicopter is a limited liability company incorporated in the PRC and is a subsidiary of AVIC as at the date of this announcement. It is mainly engaged in research and development, production, sales and maintenance of helicopters, other aircrafts and aviation components.

F. DEFINITIONS

“AVIC”	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), the controlling shareholder of the Company, holding 58.66% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC Finance”	AVIC Finance Co., Ltd.* (中航工業集團財務有限責任公司), a limited liability incorporated in the PRC and is a subsidiary of AVIC as at the date of this announcement
“AVIC Helicopter”	AVIC Helicopter Co., Ltd.* (中航直升機有限責任公司), a limited liability company incorporated in the PRC and is a subsidiary of AVIC as at the date of this announcement
“AVIC Huiyang”	AVIC Huiyang Aviation Propeller Company Limited* (惠陽航空螺旋槳有限責任公司), a limited liability company incorporated in the PRC and is a subsidiary of the Company as at the date of this announcement
“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), a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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
“Land Use Right Mortgage Agreement”	the land use right mortgage agreement entered into by AVIC Huiyang with AVIC Helicopter on 7 December 2018, pursuant to which, AVIC Huiyang agreed to set the Mortgage for the benefit of AVIC Helicopter over the Mortgaged Properties to create security for the joint liability guarantee provided by AVIC Helicopter in favour of

AVIC Huiyang for the Loan

“Loan”	the loan granted by AVIC Finance to AVIC Huiyang in an amount of RMB190,000,000
“Mortgage”	the mortgage of the Mortgaged Property under the Land Use Right Mortgage Agreement
“Mortgaged Properties”	the land use rights for the land with a gross area of 246,078.00 square metres and buildings and other attachments constructed thereon, located to the south of North Second Ring, to the west of Fengneng Road and to the north of flood protection embankment of Baoding city
“PRC”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“subsidiary(ies)”	has the same meaning as defined in the Hong Kong Listing Rules
“%”	per cent

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

Beijing, 7 December 2018

As at the date of this announcement, the Board comprises executive Directors Mr. Tan Ruisong and Mr. Chen Yuanxian, non-executive Directors Mr. Li Yao, Mr. Wang Xuejun, Mr. He Zhiping and Mr. Patrick de Castelbajac as well as independent non-executive Directors Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin.

** For identification purposes only*