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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)

- (1) PROPOSED PLACING OF NEW AVIC AVIONICS SHARES BY AVIC AVIONICS;**
- (2) DISCLOSEABLE AND CONNECTED TRANSACTION: PROPOSED SUBSCRIPTION OF NEW AVIC AVIONICS SHARES BY THE COMPANY WITH EQUITY INTERESTS IN AVIC KAITIAN AND AVIC LANFEI;**
- (3) DISCLOSEABLE AND CONNECTED TRANSACTIONS: PROPOSED SUBSCRIPTION OF NEW AVIC AVIONICS SHARES BY THREE CONNECTED PERSONS WITH AVIC EQUITY INTEREST; AVIC AVIONICS SYSTEMS EQUITY INTERESTS; AND HANZHONG AVIATION EQUITY INTERESTS; AND**
- (4) DEEMED DISPOSAL OF INTEREST IN AVIC AVIONICS BY THE COMPANY**

Proposed placing of new AVIC Avionics Shares by AVIC Avionics to the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation

Reference is made to the announcement of the Company dated on 19 May 2010 in relation to the proposed reorganization of the assets of AVIC Avionics, a non wholly-owned subsidiary of the Company and whose A shares are listed on the Shanghai Stock Exchange.

In order to expand the operation scale of the aviation electronics products business of the Company, enhance the market competitiveness and sustainable development of the Company, the Board resolved to subscribe new AVIC Avionics Shares.

On 1 June 2010, the board of AVIC Avionics resolved to issue approximately 353 million new AVIC Avionics Shares for subscription by the Company, AVIC and two subsidiaries of AVIC, namely, AVIC Avionics Systems and Hanzhong Aviation, the consideration for which will be respectively satisfied by the transfer of the (i) Equity Interests in AVIC Kaitian and AVIC Lanfei for approximately 128,550,712 new AVIC Avionics Shares; (ii) AVIC Equity Interest for approximately 1,414,201 new AVIC Avionics Shares; (iii) AVIC

Avionics Systems Equity Interests for approximately 164,717,455 new AVIC Avionics Shares; and (iv) Hanzhong Aviation Equity Interests for approximately 58,114,587 new AVIC Avionics Shares. The final number of new AVIC Avionics Shares to be issued will be dependent on the final valuation of the equity interests to be transferred to AVIC Avionics and the Subscription Price as finally determined. The estimated appraised value of the equity interests to be transferred to AVIC Avionics is: (i) approximately RMB974 million in respect of the Equity Interests in AVIC Kaitian and AVIC Lanfei; (ii) approximately RMB11 million in respect of the AVIC Equity Interest; (iii) approximately RMB1249 million in respect of the AVIC Avionics Systems Equity Interests; and (iv) approximately RMB440 million in respect of the Hanzhong Aviation Equity Interests. The final valuation results will be subject to adjustments based on the figures finally confirmed by SASAC or its authorized representatives.

On 1 June 2010, AVIC Avionics entered into the Subscription Agreement with the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation for subscription, subject to conditions and adjustment, by them of the new AVIC Avionics Shares at the Subscription Price. The Subscription Price will not be less than RMB7.58 per new AVIC Avionics Share, being the average trading price of AVIC Avionics Shares on the Shanghai Stock Exchange in the 20 trading days preceding the Initial Price Determination Date. The Subscription Price will be finally determined at a separate board meeting of AVIC Avionics and subject to the approval of its shareholders at the general meeting. Upon issuance, such new AVIC Avionics Shares will be listed on the Shanghai Stock Exchange. The Proposed Placing is subject to approval by the relevant PRC government authorities such as SASAC and CSRC. Upon Completion, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation will be interested in approximately 44.25%, 9.08%, 19.67% and 6.94%, respectively, of the issued share capital of AVIC Avionics, as enlarged by the issue of new AVIC Avionics Shares.

Discloseable and Connected Transaction: Proposed subscription of new AVIC Avionics Shares by the Company with Equity Interests in AVIC Kaitian and AVIC Lanfei

As of the date of this announcement, AVIC holds 15.4% equity interest in AVIC Avionics. Pursuant to Chapter 14A of the Listing Rules, AVIC Avionics is a connected person of the Company. The Company Subscription with the Equity Interests in AVIC Kaitian and AVIC Lanfei will constitute a connected transaction of the Company, which will be subject to, among other things, approval by the Independent Shareholders. As the highest applicable size test percentage ratio in relation to the proposed subscription by the Company is over 5% but less than 25%, the Company Subscription will constitute a discloseable transaction of the Company. The transfer of Equity Interests in AVIC Kaitian and AVIC Lanfei by the Company to AVIC Avionics as consideration for the Company Subscription will also constitute a discloseable transaction of the Company.

Discloseable and Connected Transactions: Proposed subscription of new AVIC Avionics Shares by (i) AVIC with AVIC Equity Interest, (ii) AVIC Avionics Systems with AVIC Avionics Systems Equity Interests and (iii) Hanzhong Aviation with Hanzhong Aviation Equity Interests

AVIC Avionics Systems is a wholly-owned subsidiary of AVIC and Hanzhong Aviation is an indirect non wholly-owned subsidiary of AVIC. As AVIC is a controlling shareholder holding 56.7% equity interest in the Company, it is a connected person of the Company

and AVIC Avionics Systems and Hanzhong Aviation are associates of AVIC. Therefore, the AVIC Subscription, AVIC Avionics Systems Subscription and Hanzhong Aviation Subscription will constitute connected transactions of the Company, which will be subject to, among other things, approval by the Independent Shareholders. As the highest of the aggregated applicable size test percentage ratio in relation to the proposed subscriptions by AVIC, AVIC Avionics Systems and Hanzhong Aviation in aggregate is over 5 % but less than 25 %, the AVIC Subscription, AVIC Avionics Systems Subscription and Hanzhong Aviation Subscription will in aggregate also constitute a discloseable transaction of the Company.

Deemed disposal of approximately 5.68% equity interest in AVIC Avionics by the Company

Upon Completion, the equity interest held by the Company in AVIC Avionics will be diluted by approximately 5.68% from 49.93% to approximately 44.25%. Such dilution will constitute a deemed disposal by the Company of its approximately 5.68% equity interest in AVIC Avionics. As the highest applicable size test percentage ratio in relation to the deemed disposal is less than 5%, the proposed deemed disposal will constitute a *de minimis* transaction of the Company under the Listing Rules. To ensure that AVIC Avionics will continue to remain as a subsidiary of the Company, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation entered into an agreement on 1 June 2010 whereby subsequent to Completion, AVIC, AVIC Avionics Systems and Hanzhong Aviation collectively undertake to exercise their respective voting rights in AVIC Avionics in accordance with the instructions of the Company. Accordingly, the Directors confirm, after consulting with the auditors of the Company, that the accounts of AVIC Avionics will continue to be consolidated in the group accounts of the Company following Completion.

An independent board committee of the Company comprising all of the independent non-executive Directors will be formed to advise the Independent Shareholders on the connected transactions contemplated under the Subscription Agreement and the proposed transfer of the relevant equity interests as consideration for the Subscription. 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 mentioned above.

A circular containing, among other things, (1) further details of the proposed issue of new AVIC Avionics Shares by AVIC Avionics including the connected transactions mentioned above and the final valuation results in respect of the Equity Interests in AVIC Kaitian and AVIC Lanfei, AVIC Equity Interest, AVIC Avionics Systems Equity Interests and Hanzhong Aviation Equity Interests; and (2) the letter from the independent board committee of the Company and the recommendation from the independent financial adviser on the connected transactions mentioned above will be despatched to the Shareholders as soon as practicable.

A. INTRODUCTION

Reference is made to the announcement of the Company dated on 19 May 2010 in relation to the proposed reorganization of the assets of AVIC Avionics, a non wholly-owned subsidiary of the Company and whose A shares are listed on the Shanghai Stock Exchange.

On 1 June 2010, the board of AVIC Avionics resolved to issue approximately 353 million new AVIC Avionics Shares for subscription by the Company, AVIC and two subsidiaries of AVIC, namely, AVIC Avionics Systems and Hanzhong Aviation. Upon issuance, such new AVIC Avionics Shares will be listed on the Shanghai Stock Exchange. On 1 June 2010, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation entered into the Subscription Agreement with AVIC Avionics to subscribe for new AVIC Avionics Shares, subject to conditions and Completion.

B. PROPOSED PLACING PLAN OF AVIC AVIONICS

Details of the Proposed Placing plan of AVIC Avionics are as follows:

1. Nominal value of the new AVIC Avionics Shares:

RMB1 per new AVIC Avionics Share.

2. Placing Methods:

Private placing of new AVIC Avionics Shares at an appropriate time within six months from the date of approval by CSRC.

3. Total number of AVIC Avionics Shares to be issued:

Approximately 353 million new AVIC Avionics Shares. The final number of new AVIC Avionics Shares to be issued will be dependent on the final valuation of the equity interests to be transferred to AVIC Avionics and the Subscription Price as finally determined.

4. Placing Targets:

The Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation.

5. Subscription Price:

Not less than RMB7.58 per new AVIC Avionics Share, being the average trading price of AVIC Avionics Shares on the Shanghai Stock Exchange in the 20 trading days preceding the Initial Price Determination Date. The Subscription Price will be finally determined at a separate board meeting of AVIC Avionics and subject to the approval of its shareholders at the general meeting.

The Subscription Price and total number of AVIC Avionics Shares to be issued will be adjusted correspondingly in case of ex-dividend or ex-entitlement during the period between the Initial Price Determination Date and the issue date of the new AVIC Avionics Shares.

6. Lock-up period:

The new AVIC Avionics Shares proposed to be subscribed by the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation pursuant to the Subscription Agreement will be subject to a lock-up period of 36 months commencing from the date

upon which completion of the allotment of the relevant AVIC Avionics Shares takes place.

C. THE SUBSCRIPTION AGREEMENT

1. Date

1 June 2010

2. Parties

(1) AVIC Avionics as the issuer;

(2) The Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation, each as a subscriber.

3. Principal Terms

(a) Subscription of new AVIC Avionics Shares by the Company

Pursuant to the Subscription Agreement, AVIC Avionics agrees to issue and the Company agrees to subscribe, subject to conditions and adjustment, for approximately 128,550,712 new AVIC Avionics Shares at the Subscription Price, subject to adjustment. The total consideration for the Company Subscription is estimated to be approximately RMB974 million, which will be satisfied by the Company transferring the Equity interests in AVIC Kaitian and AVIC Lanfei to AVIC Avionics. The total consideration is determined after the arm's length negotiation by the parties with reference to the preliminary valuation results of the Equity Interests in AVIC Kaitian and AVIC Lanfei as at the Valuation Date.

The consideration will be finalized based on the final valuation results of the Equity Interests in AVIC Kaitian and AVIC Lanfei, which will be subject to adjustments based on the figures finally confirmed by SASAC or its authorized representatives.

Upon Completion, the number of AVIC Avionics Shares held by the Company will increase from 241,987,957 shares to approximately 370,538,669 shares. However, the aggregate shareholding held by the Company in AVIC Avionics will be diluted from 49.93% to approximately 44.25% based on the issued share capital of AVIC Avionics as enlarged by the Proposed Placing. To ensure that AVIC Avionics will continue to remain as a subsidiary of the Company, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation entered into an agreement on 1 June 2010 whereby subsequent to Completion, AVIC, AVIC Avionics Systems and Hanzhong Aviation collectively undertake to exercise their respective voting rights in AVIC Avionics in accordance with the instructions of the Company. Accordingly, the Directors confirm, after consulting with the auditors of the Company, that the accounts of AVIC Avionics will continue to be consolidated in the group accounts of the Company following Completion.

(b) Subscription of new AVIC Avionics Shares by AVIC

Pursuant to the Subscription Agreement, AVIC Avionics agrees to issue and AVIC agrees to subscribe, subject to conditions and adjustment, for approximately 1,414,201 new AVIC Avionics Shares at the Subscription Price, subject to adjustment. The total consideration for the AVIC Subscription is estimated to be approximately RMB11 million, which will be satisfied by AVIC transferring the AVIC Equity Interest. The total consideration is determined after the arm's length negotiation by the parties with reference to the preliminary valuation results of the AVIC Equity Interest as at the Valuation Date.

The consideration will be finalized based on the final valuation results of the AVIC Equity Interest, which will be subject to adjustment based on the figure finally confirmed by SASAC or its authorized representatives.

(c) Subscription of new AVIC Avionics Shares by AVIC Avionics Systems

Pursuant to the Subscription Agreement, AVIC Avionics agrees to issue and AVIC Avionics Systems agrees to subscribe, subject to conditions and adjustment, for approximately 164,717,455 new AVIC Avionics Shares at the Subscription Price, subject to adjustment. The total consideration for the AVIC Avionics Systems Subscription is estimated to be approximately RMB1249 million, which will be satisfied by AVIC Avionics Systems transferring the AVIC Avionics Systems Equity Interests to AVIC Avionics. The total consideration is determined after the arm's length negotiation by the parties with reference to the preliminary valuation results of the AVIC Avionics Systems Equity Interests as at the Valuation Date.

The consideration will be finalized based on the final valuation results of the AVIC Avionics Systems Equity Interests, which will be subject to adjustments based on the figures finally confirmed by SASAC or its authorized representatives.

(d) Subscription of new AVIC Avionics Shares by Hanzhong Aviation

Pursuant to the Subscription Agreement, AVIC Avionics agrees to issue and Hanzhong Aviation agrees to subscribe, subject to conditions and adjustment, for approximately 58,114,587 new AVIC Avionics Shares at the Subscription Price, subject to adjustment. The total consideration for the Hanzhong Aviation Subscription is estimated to be approximately RMB440 million, which will be satisfied by Hanzhong Aviation transferring the Hanzhong Aviation Equity Interests to AVIC Avionics. The total consideration is determined after the arm's length negotiation by the parties with reference to the preliminary valuation results of the Hanzhong Aviation Equity Interests as at the Valuation Date.

The consideration will be finalized based on the final valuation results of the Hanzhong Aviation Equity Interests, which will be subject to adjustments based on the figures finally confirmed by SASAC or its authorized representatives.

The valuation results in respect of the Equity Interests in AVIC Kaitian and AVIC Lanfei, the AVIC Equity Interest, the AVIC Avionics Systems Equity Interests and the Hanzhong Aviation Equity Interests will be finalized before the circular is despatched by the Company. The Company will publish an announcement according to the Listing Rules once the final valuation results are made available to the Company.

4. Subscription Price

The Subscription Price will not be less than RMB7.58 per new AVIC Avionics Share, being the average trading price of AVIC Avionics Shares on the Shanghai Stock Exchange in the 20 trading days preceding the Initial Price Determination Date. The Subscription Price will be finally determined at the board meeting of AVIC Avionics and subject to the approval of its shareholders at the general meeting. If the final Subscription Price is higher than RMB7.58, the number of new AVIC Avionics Shares to be subscribed by each of the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation will be adjusted accordingly.

5. Conditions on which the Subscription Agreement will become effective

The Subscription Agreement is subject to, among other things, the following conditions:

- (1) the Subscription Agreement having been executed by the legal representatives or authorized person(s) of the parties;
- (2) AVIC Avionics having convened the board meeting and general meeting to approve the transactions contemplated under the Subscription Agreement and the non-connected shareholders of AVIC Avionics having agreed to waive the Company, AVIC Avionics Systems, Hanzhong Aviation and/or AVIC from the obligations to make a general offer for AVIC Avionics Shares;
- (3) each of the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation having completed and satisfied all the necessary corporate procedures in accordance with the relevant requirements of their respective articles of association and the Listing Rules (in the case of the Company), including but not limited to, the approval by the Independent Shareholders of the Subscription Agreement and the transactions contemplated under the Subscription Agreement;
- (4) approval by SASAC of the transactions contemplated under the Subscription Agreement and filing of the valuation results of the equity interests to be transferred to AVIC Avionics as consideration for the Subscription including, (i) Equity Interests in AVIC Kaitian and AVIC Lanfei; (ii) AVIC Equity Interest; (iii) AVIC Avionics Systems Equity Interests; and (iv) the Hanzhong Aviation Equity Interests;
- (5) approval by CSRC of the transactions contemplated under the Subscription Agreement; and
- (6) a waiver granted by CSRC to the Company, AVIC Avionics Systems and Hanzhong Aviation and/or AVIC, the controlling shareholder of each of the Company, AVIC Avionics Systems and Hanzhong Aviation, waiving their obligations from making a general offer for AVIC Avionics Shares.

6. Completion

Completion of the Subscription Agreement will take place on the date on which (i) the conditions set out above have been satisfied; (ii) the new AVIC Avionics Shares to be subscribed by the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation have been issued to and registered in the names of the respective parties; and (iii) the title to the equity interests of AVIC Kaitian, AVIC Lanfei, Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics under transfer have been registered in the names of AVIC Avionics.

D. INFORMATION RELATING TO AVIC KAITIAN AND AVIC LANFEI

Information relating to AVIC Kaitian

AVIC Kaitian is a joint stock limited company which was reformed and established in the PRC with the approval from SASAC in 2008. As at the date of this announcement, AVIC Kaitian is owned directly as to 86.74% by the Company. The registered capital of AVIC Kaitian is RMB321.68 million. AVIC Kaitian is mainly engaged in the research, manufacture and sales of air data system and various types of aviation instrument.

The major assets of AVIC Kaitian include plants, equipment, and machineries engaging in the business of air data system, all types of aviation instrument.

Based on the unaudited financial statements of AVIC Kaitian as at 30 April 2010, the total assets and net assets of AVIC Kaitian amounted to RMB1,147.56 million and RMB522.27 million, respectively. As at 30 April 2010, the revenue, net profit before tax and net profit after tax of AVIC Kaitian amounted to RMB134.84 million, RMB16.20 million and RMB15.32 million, respectively.

Based on the unaudited financial statements of AVIC Kaitian as at 31 December 2009, the total assets and net assets of AVIC Kaitian amounted to RMB 1,109.53 million and RMB 501.20 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of AVIC Kaitian amounted to RMB386.48 million, RMB61.16 million and RMB 50.15 million, respectively.

Based on the unaudited financial statements of AVIC Kaitian as at 31 December 2008, the total assets and net assets of AVIC Kaitian amounted to RMB 961.71 million and RMB 460 million, respectively. For the financial year ended on 31 December 2008, the revenue, net profit before tax and net profit after tax of AVIC Kaitian amounted to RMB512.25 million, RMB95.17 million and RMB 81.37 million, respectively.

Information relating to AVIC Lanfei

AVIC Lanfei was reorganized to be a limited company in 2003. As at the date of this announcement, the Company holds 100% equity interest in AVIC Lanfei. The registered capital of AVIA Lanfei is RMB146.77 million. AVIC Lanfei is mainly engaged in the research, manufacture and sales of aviation auto control equipment and instrument.

The major assets of AVIC Lanfei include plant, equipment, and machineries engaging in the business of aviation auto control equipment and instrument.

Based on the unaudited financial statements of AVIC Lanfei as at 30 April 2010, the total assets and net assets of AVIC Lanfei amounted to RMB638.31 million and RMB267.73 million, respectively. As at 30 April 2010, the revenue, net loss before tax and net loss after tax of AVIC Lanfei amounted to RMB54.85 million, RMB9.88 million and RMB10.06 million, respectively.

Based on the unaudited financial statements of AVIC Lanfei as at 31 December 2009, the total assets and net assets of AVIC Lanfei amounted to RMB633.62 million and RMB272.29 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of AVIC Lanfei amounted to RMB267.28 million, RMB26.27 million and RMB 24.56 million, respectively.

Based on the unaudited financial statements of AVIC Lanfei as at 31 December 2008, the total assets and net assets of AVIC Lanfei amounted to RMB 566.23 million and RMB256.09 million, respectively. For the financial year ended on 31 December 2008, the revenue, net profit before tax and net profit after tax of AVIC Lanfei amounted to RMB250.87 million, RMB28.18 million and RMB 26.46 million, respectively.

E. INFORMATION RELATING TO SHAANXI BAOCHENG, TAIYUAN INSTRUMENT, SHAANXI HUAYAN AND QIANSHAN AVIONICS

Information relating to Shaanxi Baocheng

Shaanxi Baocheng was reorganized to be a wholly stated-owned limited company in 2002. As at the date of this announcement, AVIC Avionics Systems, a wholly-owned subsidiary of AVIC, holds 100% equity interest in Shaanxi Baocheng. The registered capital of Shaanxi Baocheng is RMB200 million. Shaanxi Baocheng is mainly engaged in the research, manufacture and sales of navigation system, flight environment supervision system, micromachined rotational gyroscopes and inertia acelerometer.

The major assets of Shaanxi Baocheng include plant, equipment, and machineries engaging in the business of navigation system, flight environment supervision system, Micromachined Rotational Gyroscopes and Inertia Accelerometer.

Based on the unaudited financial statements of Shaanxi Baocheng as at 30 April 2010, the total assets and net assets of Shaanxi Baocheng amounted to RMB1,299.02 million and RMB409.96 million, respectively. As at 30 April 2010, the revenue, net profit before tax and net profit after tax of Shaanxi Baocheng amounted to RMB189.62 million, RMB5.23 million and RMB4.46 million, respectively.

Based on the unaudited financial statements of Shaanxi Baocheng as at 31 December 2009, the total assets and net assets of Shaanxi Baocheng amounted to RMB 1,264.41 million and RMB402.42 million, respectively. For the financial year ended on 31 December 2009, the

revenue, net profit before tax and net profit after tax of Shaanxi Baocheng amounted to RMB662.05 million, RMB90.85 million and RMB 82.14 million, respectively.

Based on the unaudited financial statements of Shaanxi Baocheng as at 31 December 2008, the total assets and net assets of Shaanxi Baocheng amounted to RMB 901.01 million and RMB278.73 million, respectively. For the financial year ended on 31 December 2008, the revenue, net profit before tax and net profit after tax of Shaanxi Baocheng amounted to RMB535.85 million, RMB71.10 million and RMB 66.66 million, respectively.

Information relating to Taiyuan Instrument

Taiyuan Instrument was reorganized to be a wholly stated-owned limited company in 1999. As at the date of this announcement, AVIC Avionics Systems holds 100% equity interest in Taiyuan Instrument. The registered capital of Taiyuan Instrument is RMB41.86 million. Taiyuan Instrument is mainly engaged in the research, manufacture and sales of aviation airborne equipment.

The major assets of Taiyuan Instrument include plant, equipment and machineries engaging in the business of aviation airborne equipment.

Based on the unaudited financial statements of Taiyuan Instrument as at 30 April 2010, the total assets and net assets of Taiyuan Instrument amounted to RMB821.64 million and RMB356.68 million, respectively. As at 30 April 2010, the revenue, net profit before tax and net profit after tax of Taiyuan Instrument amounted to RMB91.19 million, RMB19.04 million and RMB17.38 million, respectively.

Based on the unaudited financial statements of Taiyuan Instrument as at 31 December 2009, the total assets and net assets of Taiyuan Instrument amounted to RMB 825.87 million and RMB320.41 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of Taiyuan Instrument amounted to RMB339.64 million, RMB47.17 million and RMB 42.41 million, respectively.

Based on the unaudited financial statements of Taiyuan Instrument as at 31 December 2008, the total assets and net assets of Taiyuan Instrument amounted to RMB 758.35 million and RMB278.41 million, respectively. For the financial year ended on 31 December 2008, the revenue, net profit before tax and net profit after tax of Taiyuan Instrument amounted to RMB276.16 million, RMB77.94 million and RMB 61.34 million, respectively.

Information relating to Shaanxi Huayan

Shaanxi Huayan was reorganized to be a wholly stated-owned limited company in 2008. As at the date of this announcement, Hanzhong Aviation and AVIC Avionics Systems holds 67.1% and 12.9% equity interest in Shaanxi Huayan, respectively. The registered capital of Shaanxi Huayan is RMB160 million. Shaanxi Huayan is mainly engaged in the research, manufacture and sales of inertial navigation system, Attitude Heading Reference System, gyroscopes, accelerometer and components, electromagnetic devices and optics device.

The major assets of Shaanxi Huayan include plant, equipment, and machineries engaging in the business of inertial navigation system, Attitude Heading Reference System, gyroscopes, accelerometer and components, electromagnetic devices and optics device.

Based on the unaudited financial statements of Shaanxi Huayan as at 30 April 2010, the total assets and net assets of Shaanxi Huayan amounted to RMB403.60 million and RMB177.42 million, respectively. As at 30 April 2010, the revenue, net profit before tax and net profit after tax of Shaanxi Huayan amounted to RMB82.90 million, RMB13.53 million and RMB13.03 million, respectively.

Based on the unaudited financial statements of Shaanxi Huayan as at 31 December 2009, the total assets and net assets of Shaanxi Huayan amounted to RMB 379.77 million and RMB164.44 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of Shaanxi Huayan amounted to RMB233.37 million, RMB28.26 million and RMB 28.14 million, respectively.

Based on the unaudited financial statements of Shaanxi Huayan as at 31 December 2008, the total assets and net assets of Shaanxi Huayan amounted to RMB 356.89 million and RMB158.98 million, respectively. For the financial year ended on 31 December 2008, the revenue, net profit before tax and net profit after tax of Shaanxi Huayan amounted to RMB203.35 million, RMB27.86 million and RMB 29.26 million, respectively.

Information relating to Qianshan Avionics

Qianshan Avionics was reorganized to be a wholly stated-owned limited company in 2008. As at the date of this announcement, Qianshan Avionics is held as to 96.44% by Hanzhong Aviation and 3.56% by AVIC. The registered capital of Qianshan Avionics is RMB245.34 million. Qianshan Avionics is mainly engaged in the research, manufacture and sales of Flying Parameter Collection-recorder.

The major assets of Qianshan Avionics include plant, equipment, and machineries engaging in the business of Flying Parameter Collection-recorder.

Based on the unaudited financial statements of Qianshan Avionics as at 30 April 2010, the total assets and net assets of Qianshan Avionics amounted to RMB608.96 million and RMB254.91 million, respectively. As at 30 April 2010, the revenue, net profit before tax and net profit after tax of Qianshan Avionics amounted to RMB60.41 million, RMB4.58 million and RMB3.78 million, respectively.

Based on the unaudited financial statements of Qianshan Avionics as at 31 December 2009, the total assets and net assets of Qianshan Avionics amounted to RMB600.78 million and RMB237.89 million, respectively. For the financial year ended on 31 December 2009, the revenue, net profit before tax and net profit after tax of Qianshan Avionics amounted to RMB229.38 million, RMB40.41 million and RMB 36.79 million, respectively.

Based on unaudited as at 31 December 2008, the total assets and net assets of Qianshan Avionics amounted to RMB 550.68 million and RMB219.44 million, respectively. For the financial year ended on 31 December 2008, the revenue, net loss before tax and net loss after tax of Qianshan Avionics amounted to RMB234.43 million, RMB25.64 million and RMB 22.49 million, respectively.

F. DEEMED DISPOSAL OF AVIC AVONICS, EFFECTS OF THE SUBSCRIPTION AND FINANCIAL IMPLICATIONS

The table below sets out the shareholding structure of AVIC Avionics before and upon Completion (on the assumption that the Subscription Price per new AVIC Avionics Share is RMB7.58):

Name of Shareholder of AVIC Avionics	Number of AVIC Avionics Shares held before Completion	Approximate % of the issued share capital held before Completion	Approximate Number of AVIC Avionics Shares held upon Completion	Approximate % of the issued share capital held upon Completion
The Company	241,987,957	49.93	370,538,669	44.25
AVIC	74,625,174	15.40	76,039,375	9.08
AVIC Avionics Systems	0	0	164,717,455	19.67
Hanzhong Aviation	0	0	58,114,587	6.94
China Aviation Industry Supply and Marketing Corporation	571,204	0.12%	571,204	0.07
China Civil Aircraft Development Corporation	185,629	0.04%	185,629	0.02
Sub-total:	317,369,964	65.49	670,166,919	80.03
Public shareholders	167,255,210	34.51	167,255,210	19.97
Total	484,625,174	100	837,422,129	100

Note:

The gain/loss () on the deemed disposal is calculated by the change in the attributable net asset values ("NAV") of AVIC Avionics, AVIC Kaitian and AVIC Lanfei held by the Company before and after the Proposed Placing based on the difference between:*

- the NAV of AVIC Avionics, AVIC Kaitian and AVIC Lanfei attributable to the Company before the Proposed Placing (which is 49.93% x NAV of AVIC Avionics + 86.74% x NAV of AVIC Kaitian + 100% of AVIC Lanfei); and

- the NAV of AVIC Avionics attributable to the Company after the Proposed Placing (which is

44.25% x {net asset value of AVIC Avionics after its acquisition of AVIC Kaitian, AVIC Lanfei, Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshen Avionics}).

Pursuant to the NAV of AVIC Avionics of RMB 695 million as at 31 December 2009, the disposal gain is expected to be approximately RMB 50 million. The actual gain or loss cannot be ascertained at this stage because its NAV can only be determined upon completion of the Proposed Placing.

() The gain/loss will be reflected as a credit/debit movement to reserves and will not be included in the consolidated income statement of the Group.*

G. REASONS FOR THE PROPOSED PLACING AND SUBSCRIPTION OF NEW AVIC AVIONICS SHARES

Upon Completion, the equity interests in Shaanxi Baocheng, Taiyuan Instrument, Shaanxi Huayan and Qianshan Avionics together with their relevant assets will be injected into AVIC Avionics, which will further enhance the Company's aviation electronics products business and enlarge the operation scale of AVIC Avionics. In order to centralize the Company's aviation electronics products business, the Directors consider that it is in the interest of the Company to transfer the Equity Interests in AVIC Kaitian and AVIC Lanfei, which are also engaged in aviation electronics products business, to AVIC Avionics through the proposed subscription of new AVIC Avionics Shares, so as to achieve effective management and cost control. In addition, as a result of centralizing its aviation electronics products business, the Directors believe that the Company's research and development capability in aviation electronics products and other ancillary aviation products will be strengthened and therefore, the overall profitability, market competitiveness and sustainable development of the Company will be significantly improved. As a controlling shareholder of AVIC Avionics, the Company will continue to benefit from the future development of AVIC Avionics. Furthermore, the Directors consider that the transactions contemplated under the Subscription Agreement will help the Group to consolidate its market position in the PRC aviation industry and further improve its investment value. The Directors (excluding the independent non-executive Directors) are of the opinion that the terms of the Subscription Agreement are fair and reasonable and in the interest of the Company and its shareholders as a whole.

H. HONG KONG LISTING RULES IMPLICATIONS

Discloseable and Connected Transaction: Proposed subscription of New AVIC Avionics Shares by the Company with Equity Interests in AVIC Kaitian and AVIC Lanfei

As of the date of this announcement, AVIC holds 15.4% equity interest in AVIC Avionics. Pursuant to Chapter 14A of the Listing Rules, AVIC Avionics is a connected person of the Company. The Company Subscription with the Equity Interests in AVIC Kaitian and AVIC Lanfei will constitute a connected transaction of the Company, which will be subject to, among other things, approval by the Independent Shareholders. As the highest applicable size test percentage ratio in relation to the proposed subscription by the Company is over 5% but less than 25%, the Company Subscription will constitute a discloseable transaction of the Company. The transfer of Equity Interests in AVIC Kaitian and AVIC Lanfei by the

Company to AVIC Avionics as consideration for the Company Subscription will also constitute a discloseable transaction of the Company.

Discloseable and Connected Transactions: Proposed subscription of New AVIC Avionics Shares by (i) AVIC with AVIC Equity Interest, (ii) AVIC Avionics Systems with AVIC Avionics Systems Equity Interests and (iii) Hanzhong Aviation with Hanzhong Aviation Equity Interests

AVIC Avionics Systems is a wholly-owned subsidiary of AVIC and Hanzhong Aviation is an indirect non wholly-owned subsidiary of AVIC. As AVIC is a controlling shareholder holding 56.7% equity interest in the Company, it is a connected person of the Company and AVIC Avionics Systems and Hanzhong Aviation are associates of AVIC. Therefore, the AVIC Subscription, AVIC Avionics Systems Subscription and Hanzhong Aviation Subscription will constitute connected transactions of the Company, which will be subject to, among other things, approval by the Independent Shareholders. As the highest of the aggregated applicable size test percentage ratio in relation to the proposed subscriptions by AVIC, AVIC Avionics Systems and Hanzhong Aviation is over 5% but less than 25%, the AVIC Subscription, AVIC Avionics Systems Subscription and the Hanzhong Aviation Subscription will in aggregate also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Deemed disposal of approximately 5.68% equity interest in AVIC Avionics by the Company

Upon Completion, the equity interest held by the Company in AVIC Avionics will be diluted by approximately 5.68% from 49.93% to approximately 44.25%. Such dilution will constitute a deemed disposal by the Company of its approximately 5.68% equity interest in AVIC Avionics. As the highest applicable size test percentage ratio in relation to the deemed disposal is less than 5%, the proposed deemed disposal constitutes a *de minimis* transaction under the Listing Rules. To ensure that AVIC Avionics will continue to remain as a subsidiary of the Company, the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation entered into an agreement on 1 June 2010 whereby subsequent to Completion, AVIC, AVIC Avionics Systems and Hanzhong Aviation collectively undertake to exercise their respective voting rights in AVIC Avionics in accordance with the instructions of the Company. Accordingly, the Directors confirm, after consulting with the auditors of the Company, that the accounts of AVIC Avionics will continue to be consolidated in the group accounts of the Company following Completion.

An independent board committee of the Company comprising all of the independent non-executive Directors will be formed to advise the Independent Shareholders on the connected transactions contemplated under the Subscription Agreement and the proposed transfer of the relevant equity interests as consideration for the Subscription. 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 mentioned above.

A circular containing, among other things, (1) further details of the proposed issue of new AVIC Avionics Shares by AVIC Avionics including the connected transactions mentioned above and the final valuation results in respect of the Equity Interests in AVIC Kaitian and AVIC Lanfei, AVIC Equity Interest, AVIC Avionics Systems Equity Interests and Hanzhong Aviation Equity Interests; and (2) the letter from the independent board committee of the Company and the recommendation from the independent financial adviser on the connected

transactions mentioned above will be despatched to the Shareholders as soon as practicable.

I. GENERAL

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 49.93% by the Company and 15.4% by AVIC. AVIC Avionics is mainly engaged in the manufacturing of aviation electronics engineering products and accessories.

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. As at the date of this announcement, the Company is held as to 56.7% by AVIC, being the controlling shareholder of the Company. The Company is mainly engaged in the research and development, manufacture and sales of vehicles and civilian aircraft.

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 engine and parts and components.

Information on AVIC Avionics Systems

AVIC Avionics Systems was established in the PRC and is the wholly-owned subsidiary of AVIC. AVIC Avionics Systems is mainly engaged in the research and development, manufacturing and sales of aviation electrical products.

Information on Hanzhong Aviation

Hanzhong Aviation was established in the PRC and is owned as to 70% by AVIC through a non wholly-owned subsidiary. Hanzhong Aviation is mainly engaged in the research and development, manufacturing and sales of aviation products.

DEFINITIONS

“AVIC”	China Aviation Industry Corporation (中國航空工業集團公司), a controlling shareholder of the Company holding 56.7% equity interest in the Company
“AVIC Avionics”	China AVIC Avionics Equipment Co., Ltd. (中航航空電子設備股份有限公司), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange which is held as to 49.93% by the Company, 15.4% by AVIC and as to 34.51 % by the public. The accounts of AVIC

	Avionics are consolidated in the audited accounts of the Company as a subsidiary
“AVIC Avionics Shares”	the A shares of AVIC Avionics which are listed on the Shanghai Stock Exchange
“AVIC Avionics Systems”	AVIC Avionics Systems Co., Ltd. (中航系統科技有限責任公司), a wholly-owned subsidiary of AVIC
“AVIC Avionics Systems Equity Interests”	100% equity interests in each of Shaanxi Baocheng and Taiyuan Instrument and 12.9% equity interest in Shaanxi Huayan to be transferred by AVIC Avionics Systems to AVIC Avionics as consideration for the AVIC Avionics Systems Subscription
“AVIC Avionics Systems Subscription”	the proposed subscription of 164,717,455 new AVIC Avionics Shares, subject to adjustment, by AVIC Avionics Systems at the Subscription Price pursuant to the Subscription Agreement
“AVIC Equity Interest”	3.56% equity interest in Qianshan Avionics to be transferred by AVIC to AVIC Avionics as consideration for the AVIC Subscription
“AVIC Kaitian”	Chengdu CAIC Electronics Co., Ltd. (成都凱天電子股份有限公司), which is owned as to 86.74% by the Company, 11.7% by AVIC through its subsidiaries and the remaining 1.56% by an independent third party
“AVIC Lanfei”	Lanzhou Flight Control Co., Ltd., (蘭州飛行控制有限責任公司), which is wholly-owned by the Company
“AVIC Subscription”	the proposed subscription of 1,414,201 new AVIC Avionics Shares, subject to adjustment, by AVIC at the Subscription Price pursuant to the Subscription Agreement
“Board”	the board of directors of the Company
“Company”	AviChina Industry & Technology Company Limited
“Company Subscription”	the proposed subscription of 128,550,712 new AVIC Avionics Shares, subject to adjustment, by the Company at the Subscription Price pursuant to the Subscription Agreement
“Completion”	completion of the transactions contemplated under the Subscription Agreement

“CSRC”	China Securities Regulatory Commission
“Directors”	the director(s) of the Company
“Equity Interests in AVIC Kaitian and AVIC Lanfei”	86.74% equity interest in AVIC Kaitian and 100% equity interest in AVIC Lanfei to be transferred by the Company to AVIC Avionics as consideration for the Company Subscription
“Group”	the Company and its subsidiaries
“Hanzhong Aviation”	Hanzhong Aviation Industry (Group) Co., Ltd. (漢中航空工業(集團)有限公司), which is owned as to 70% by AVIC through a non wholly-owned subsidiary of AVIC
“Hanzhong Aviation Equity Interests”	67.1% equity interest in Shaanxi Huayan and 96.44% equity interest in Qianshan Avionics to be transferred by Hanzhong Aviation to AVIC Avionics as consideration for the Hanzhong Aviation Subscription
“Hanzhong Aviation Subscription”	the proposed subscription of 58,114,587 new AVIC Avionics Shares, subject to adjustment, by Hanzhong Aviation at the Subscription Price pursuant to the Subscription Agreement
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Shareholders”	Shareholders (other than AVIC and its associates) who are not required to abstain from voting on the resolutions to be proposed at the general meeting of the Company to approve the connected transactions to be constituted by the Subscription Agreement
“Initial Price Determination Date”	the date on which the initial issue price of not less than RMB7.58 per new AVIC Avionics Shares was determined (i.e., 2 June 2010, being the date when AVIC Avionics announced its first board meeting results concerning the Proposed Placing)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange (as amended from time to time)
“Proposed Placing”	the proposed placing of approximately 353 million new AVIC Avionics Shares, subject to adjustment, to the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation at the Subscription Price pursuant to the Subscription Agreement

“PRC”	the People’s Republic of China
“Qianshan Avionics”	AVIC Shaanxi Qianshan Avionics Co., Ltd., which is held as to 96.44% and 3.56% by Hanzhong Aviation and AVIC, respectively
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	Stated-owned Assets Supervision and Administration Commission of the State Council
“Shaanxi Baocheng”	Shaanxi Baocheng Aviation Instrument Co., Ltd., a wholly-owned subsidiary of AVIC Avionics Systems
“Shaanxi Huayan”	AVIC Shaanxi Huayan Aero-Instrument Co., Ltd., which is held as to 67.1%, 12.9% and 20% by Hanzhong Aviation, AVIC Avionics Systems and a non wholly-owned subsidiary of AVIC, respectively
“Subscription”	refers to Company Subscription, AVIC Subscription, AVIC Avionics Systems Subscription and Hanzhong Aviation Subscription
“Subscription Agreement”	the subscription agreement entered into between AVIC Avionics, AVIC, the Company, AVIC Avionics Systems and Hanzhong Aviation on 1 June 2010, pursuant to which AVIC Avionics agrees to issue and each of the Company, AVIC, AVIC Avionics Systems and Hanzhong Aviation agrees to subscribe for a total of approximately 353 million new AVIC Avionics Shares, subject to adjustment
“Subscription Price”	not less than RMB7.58 per new AVIC Avionics Share, being the average trading price of AVIC Avionics Shares on the Shanghai Stock Exchange in the 20 trading days preceding the Initial Price Determination Date. The Subscription Price will be finally determined at a separate board meeting of AVIC Avionics and subject to the approval of its shareholders at the general meeting.
“Taiyuan Instrument”	AVIC Taiyuan Aviation Instrument Co., Ltd., a wholly-owned subsidiary of AVIC Avionics Systems
“Valuation Date”	30 April 2010

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

Hong Kong, 2 June 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 purposes only.*