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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 TRANSACTIONS

ACQUISITION OF 21.66% OF THE EQUITY INTEREST OF AVIC JINCHENG UNMANNED BY THE COMPANY AND TIANJIN AVIATION

On 18 February 2020, AviChina Intelligent entered into the Equity Transfer Agreements to dispose of its existing equity interest in AVIC Jincheng Unmanned, namely, (1) the Equity Transfer Agreement I with the Company in relation to the transfer of 19.19% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB43,763,072; (2) the Equity Transfer Agreement II with Tianjin Aviation (a wholly-owned subsidiary of the Company) in relation to the transfer of 2.47% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB5,626,681; (3) the Equity Transfer Agreement III with Shanghai Aviation Electronics in relation to the transfer of 5.48% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB12,503,735; and (4) the Equity Transfer Agreement IV with Jincheng Nanjing in relation to the transfer of 2.06% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB4,688,901.

Upon completion of the aforesaid equity transfers, AVIC Jincheng Unmanned will be owned as to 19.19% by the Company, 2.47% by Tianjin Aviation, 5.48% by Shanghai Aviation Electronics, 46% by Jincheng Group Limited* (金城集團有限公司), 2.06% by Jincheng Nanjing, 14.80% by AviChina Intelligent and 10% by Nanjing Tianyue Investment Partnership (Limited Partnership)*(南京天躍投資合夥企業(有限合夥)).

As at the date of this announcement, AVIC is the controlling Shareholder of the Company. AviChina Intelligent is a subsidiary of the Company with over 10% equity interest indirectly held by the AVIC, thus is a connected subsidiary of the Company. Each of Shanghai Aviation Electronics and Jincheng Nanjing is a subsidiary of AVIC and is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules.

The acquisition of 21.66% equity interest in AVIC Jincheng Unmanned by the Company and Tianjin Aviation from AviChina Intelligent contemplated under the

Equity Transfer Agreement I and the Equity Transfer Agreement II constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules as AviChina Intelligent is a connected subsidiary of the Company. As the highest of the applicable size test percentage ratios in respect of the Acquisition contemplated under the Equity Transfer Agreement I and Equity Transfer Agreement II on an aggregate basis exceeds 0.1% but is less than 5%, the entering into of each of the Equity Transfer Agreement I and Equity Transfer Agreement II is subject to the reporting and announcement requirement but is exempt from the independent Shareholders' approval requirement.

The disposal of 7.54% equity interest in AVIC Jincheng Unmanned by AviChina Intelligent to Shanghai Aviation Electronics and Jincheng Nanjing contemplated under the Equity Transfer Agreement III and the Equity Transfer Agreement IV also constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules as Shanghai Aviation Electronics and Jincheng Nanjing are connected persons of the Company. As the highest of the applicable size test percentage ratios in respect of the transaction contemplated under the Equity Transfer Agreement III and Equity Transfer Agreement IV on an aggregate basis is less than 0.1%, the entering into of each of the Equity Transfer Agreement III and Equity Transfer Agreement IV is exempt from the reporting, announcement and independent Shareholders' approval requirements.

A. INTRODUCTION

On 18 February 2020, AviChina Intelligent entered into the Equity Transfer Agreements to dispose of its existing equity interest in AVIC Jincheng Unmanned, namely, (1) the Equity Transfer Agreement I with the Company in relation to the transfer of 19.19% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB43,763,072; (2) the Equity Transfer Agreement II with Tianjin Aviation (a wholly-owned subsidiary of the Company) in relation to the transfer of 2.47% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB5,626,681; (3) the Equity Transfer Agreement III with Shanghai Aviation Electronics in relation to the transfer of 5.48% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB12,503,735; and (4) the Equity Transfer Agreement IV with Jincheng Nanjing in relation to the transfer of 2.06% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB4,688,901.

Upon completion of the aforesaid equity transfers, AVIC Jincheng Unmanned will be owned as to 19.19% by the Company, 2.47% by Tianjin Aviation, 5.48% by Shanghai Aviation Electronics, 46% by Jincheng Group Limited* (金城集團有限公司), 2.06% by Jincheng Nanjing, 14.80% by AviChina Intelligent and 10% by Nanjing Tianyue Investment Partnership (Limited Partnership)*(南京天躍投資合夥企業(有限合夥)).

B. THE EQUITY TRANSFER AGREEMENTS

The principal terms of the Equity Transfer Agreements are substantially the same, which are summarized as follows:

1. Date

18 February 2020

2. Parties

(1) Vendor: AviChina Intelligent; and

(2) Purchaser:

the Company (as to the Equity Transfer Agreement I);

Tianjin Aviation (as to the Equity Transfer Agreement II);

Shanghai Aviation Electronics (as to the Equity Transfer Agreement III); and

Jincheng Nanjing (as to the Equity Transfer Agreement IV)

3. Target Equity and Consideration

Equity Transfer Agreement	Target Equity	Consideration
Equity Transfer Agreement I	19.19% of the equity interest in AVIC Jincheng Unmanned (representing a capital contribution of RMB43,761,451 which has been fully paid up as of the Valuation Benchmark Date)	RMB43,763,072
Equity Transfer Agreement II	2.47% of the equity interest in AVIC Jincheng Unmanned (representing a capital contribution of RMB5,626,472 which has been fully paid up as of the Valuation Benchmark Date)	RMB5,626,681
Equity Transfer Agreement III	5.48% of the equity interest in AVIC Jincheng Unmanned (representing a capital contribution of RMB12,503,272 which has been fully paid up as of the Valuation Benchmark Date)	RMB12,503,735
Equity Transfer Agreement IV	2.06% of the equity interest in AVIC Jincheng Unmanned (representing a capital contribution of RMB4,688,727 which has been fully paid up as of the Valuation Benchmark Date)	RMB4,688,901

The considerations under the Equity Transfer Agreements have been determined after arm's length negotiations between the parties with reference to the following factors:

- (i) the appraised value of AVIC Jincheng Unmanned as of the Valuation Benchmark Date, being approximately RMB205,207,600, as set out in the valuation report which was prepared by a professional independent PRC valuer based on asset-based approach; and

- (ii) the percentage of paid-up capital contribution made by AviChina Intelligent in AVIC Jincheng Unmanned as of the Valuation Benchmark Date.

The registered capital of AVIC Jincheng Unmanned is RMB228 million, among which RMB205.2 million was fully paid up as of the Valuation Benchmark Date, and AviChina Intelligent has paid up all its capital contribution in AVIC Jincheng Unmanned. Therefore, as to AviChina Intelligent, the percentage of its paid-up capital contribution in AVIC Jincheng Unmanned is higher than its equity interest held by AviChina Intelligent, representing a premium of approximately 11%. In view of the above, the percentage of paid-up capital contribution made by AviChina Intelligent in AVIC Jincheng Unmanned as of the Valuation Benchmark Date has been used when calculating the considerations under the Equity Transfer Agreements.

4. Terms of Payment

The parties agreed that the considerations in respect of the transactions contemplated under the Equity Transfer Agreements shall be paid in a lump sum after completion of change in the industrial and commercial registration formalities in respect of the target equity in the manner as agreed by the parties.

5. Conditions Precedent

Each of the Equity Transfer Agreements will become effective upon fulfillment of, among other things, the following conditions:

- (1) The parties have duly signed the agreement;
- (2) The shareholders' general meeting of AVIC Jincheng Unmanned have considered and approved the transaction;
- (3) Other shareholders of AVIC Jincheng Unmanned have waived their rights of first refusal;
- (4) AviChina Intelligent has completed its internal procedures to consider and approve the agreement and the transaction thereunder;
- (5) the purchaser has completed its internal procedures to consider and approve the agreement and the transaction thereunder;
- (6) AVIC has approved the transaction thereunder;
- (7) The parties have satisfied all the requirements under Hong Kong Listing Rules that must be complied with in entering into the agreement and fulfilling the obligations thereunder (if required); and
- (8) The asset evaluation regarding the equity transfer under the agreement has been completed, and a valuation report has been issued and filed in accordance with the State-owned assets supervision and management procedures.

C. REASONS FOR AND BENEFITS OF THE TRANSACTIONS UNDER THE EQUITY TRANSFER AGREEMENTS

The investment in AVIC Jincheng Unmanned will help the Group to continuously expand its industrial investment in aviation high-tech industries such as unmanned aerial vehicles as well as obtain benefits from investment, which is in line with the business strategies of the Group, i.e. continually improving the related industry chains. Since AviChina Intelligent's operation performance is not satisfactory at present, the Group would like to adjust the business and equity investment of AviChina Intelligent and hold the equity interest in AVIC Jincheng Unmanned directly to facilitate the management and operation of AVIC Jincheng Unmanned.

The Equity Transfer Agreements are entered into by the parties on normal commercial terms after arm's length negotiation. The Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Transfer Agreements 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 is the controlling Shareholder of the Company. AviChina Intelligent is a subsidiary of the Company with over 10% equity interest indirectly held by the AVIC, thus is a connected subsidiary of the Company. Each of Shanghai Aviation Electronics and Jincheng Nanjing is a subsidiary of AVIC and is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules.

The acquisition of 21.66% equity interest in AVIC Jincheng Unmanned by the Company and Tianjin Aviation from AviChina Intelligent contemplated under the Equity Transfer Agreement I and the Equity Transfer Agreement II constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules as AviChina Intelligent is a connected subsidiary of the Company. As the highest of the applicable size test percentage ratios in respect of the Acquisition contemplated under the Equity Transfer Agreement I and Equity Transfer Agreement II on an aggregate basis exceeds 0.1% but is less than 5%, the entering into of each of the Equity Transfer Agreement I and Equity Transfer Agreement II is subject to the reporting and announcement requirement but is exempt from the independent Shareholders' approval requirement.

The disposal of 7.54% equity interest in AVIC Jincheng Unmanned by AviChina Intelligent to Shanghai Aviation Electronics and Jincheng Nanjing contemplated under the Equity Transfer Agreement III and the Equity Transfer Agreement IV also constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules as Shanghai Aviation Electronics and Jincheng Nanjing are connected persons of the Company. As the highest of the applicable size test percentage ratios in respect of the transaction contemplated under the Equity Transfer Agreement III and Equity Transfer Agreement IV on an aggregate basis is less than 0.1%, the entering into of each of the Equity Transfer Agreement III and Equity Transfer Agreement IV is exempt from the reporting, announcement and independent Shareholders' approval requirements.

Each of Mr. Chen Yuanxian and Mr. Yan Lingxi, the Directors, who are the vice general manager and a department chief of AVIC, respectively, had abstained from voting on the relevant Board resolution approving the Equity Transfer Agreements 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 transactions contemplated under the Equity Transfer Agreements.

E. GENERAL INFORMATION

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 56.04% equity interest in the Company directly and indirectly as at the date of this announcement.

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, development, manufacture and sales of aviation products, and relevant engineering services.

Information on AviChina Intelligent

AviChina Intelligent is a limited liability company incorporated in the PRC. As at the date of this announcement, AviChina Intelligent is a subsidiary of the Company and is indirectly held as to over 10% equity interest by AVIC. AviChina Intelligent is mainly engaged in the technology development, technology transfer, technology consultancy, technology services in the aviation technology industry, data processing, and the research, development and sales of information products and aircraft products.

Information on Tianjin Aviation

Tianjin Aviation is a limited liability company incorporated in the PRC. As at the date of this announcement, Tianjin Aviation is a wholly-owned subsidiary of the Company. It is mainly engaged in the research and development, manufacture and sale of aviation secondary power distribution system and fireproofing system.

Information on Shanghai Aviation Electronics

Shanghai Aviation Electronics is a limited liability company incorporated in the PRC, and is a subsidiary of AVIC as at the date of the announcement. It is mainly engaged in the manufacturing of aviation and civil electronics and devices, and the importation and exportation of goods and technologies.

Information on Jincheng Nanjing

Jincheng Nanjing is a limited liability company incorporated in the PRC, and is a subsidiary of AVIC as at the date of the announcement. It is mainly engaged in the research on mechanical and electrical systems engineering.

Information on AVIC Jincheng Unmanned

AVIC Jincheng Unmanned is a limited liability company incorporated in the PRC on 10 June 2019. As at the date of this announcement, AVIC Jincheng Unmanned is a subsidiary of AVIC and is held as to 44% by AviChina Intelligent. It is mainly engaged in independent research and development, advanced manufacture, operation and provision of systematic resolutions of unmanned aerial vehicle platform.

According to the China Accounting Standards for Business Enterprises, the net profits before and after taxation of AVIC Jincheng Unmanned from the date of its establishment to 31 December 2019 are RMB86,591.93 and RMB466,536.25, respectively.

The book value of the net assets of AVIC Jincheng Unmanned as at 31 December 2019 prepared in accordance with Chinese Accounting Standards for Business Enterprises was approximately RMB210,666,536.25. As set out in the valuation report prepared by a professional independent PRC valuer based on asset-based approach, the appraised value of AVIC Jincheng Unmanned as of the Valuation Benchmark Date was approximately RMB205,207,600.

The original costs for the equity interest in AVIC Jincheng Unmanned under the Equity Transfer Agreements represent the capital contribution paid up by AviChina Intelligent, details of which are set out in the paragraph headed "Target Equity and Consideration".

F. DEFINITIONS

“Acquisition”	the acquisition of 21.66% of the equity interest in AVIC Jincheng Unmanned by the Company and Tianjin Aviation from AviChina Intelligent
“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 56.04% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC Jincheng Unmanned	AVIC Jincheng Unmanned System Co., Ltd.*(中航金城無人系統有限公司), a limited liability company incorporated in the PRC, a subsidiary of AVIC with 44% of its equity interest held by AviChina Intelligent as at the date of this announcement
“AviChina Intelligent”	AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd.* (中航科工智繪航空科技有限公司), a subsidiary of the Company with over 10% equity interest indirectly held by AVIC 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
“Equity Transfer Agreement I”	the equity transfer agreement entered into between the Company and AviChina Intelligent on 18 February 2020, pursuant to which, AviChina Intelligent agreed to sell, and the Company agreed to acquire, 19.19% of the equity interest in AVIC Jincheng Unmanned
“Equity Transfer Agreement II”	the equity transfer agreement entered into between Tianjin Aviation and AviChina Intelligent on 18 February 2020, pursuant to which, AviChina Intelligent agreed to sell, and Tianjin Aviation agreed to acquire, 2.47% of the equity interest in AVIC Jincheng Unmanned
“Equity Transfer Agreement III”	the equity transfer agreement entered into between Shanghai Aviation Electronics and AviChina Intelligent on 18 February 2020, pursuant to which, AviChina Intelligent agreed to sell, and Shanghai Aviation Electronics agreed to acquire, 5.48% of the equity interest in AVIC Jincheng Unmanned
“Equity Transfer Agreement IV”	the equity transfer agreement entered into between Jincheng Nanjing and AviChina Intelligent on 18 February 2020, pursuant to which, AviChina Intelligent agreed to sell, and Jincheng Nanjing agreed to acquire, 2.06% of the equity interest in AVIC Jincheng Unmanned
“Equity Transfer Agreements”	collectively, the Equity Transfer Agreement I, the Equity Transfer Agreement II, the Equity Transfer Agreement III and the Equity Transfer Agreement IV
“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
“Jincheng Nanjing”	AVIC Jincheng Nanjing Mechanics-electronics-hydraulics Research Center* (中國航空工業集團公司金城南京機電液壓工程研究中心), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of the announcement
“PRC”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Aviation Electronics”	Shanghai Aviation Electronics Co. Ltd.* (上海航空電子有限責任公司), a limited liability company incorporated in the PRC and a

	subsidiary of AVIC as at the date of the announcement
“Shareholders”	the shareholders of the Company
“subsidiary(ies)”	has the same meaning as defined in the Hong Kong Listing Rules
“Tianjin Aviation”	Tianjin Aviation Mechanical and Electrical Co., Ltd.* (天津航空機電有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company as at the date of the announcement
“Valuation Benchmark Date”	31 August 2019

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

Beijing, 18 February 2020

As at the date of this announcement, the Board comprises executive Directors Mr. ChenYuanxian and Mr. Wang Xuejun, non-executive Directors Mr. Yan Lingxi, Mr. Lian Dawei, and Mr. Xu Gang as well as independent non-executive Directors Mr. Liu Renhuai, Mr. LiuWeiwu and Mr. Wang Jianxin.

** For identification purpose only*