

---

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

---

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AviChina Industry & Technology Company Limited**, you should at once hand this circular and the enclosed proxy form and reply slip to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

**Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.**

---



**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)**

- I. NON-EXEMPT TRANSACTIONS AND MAJOR TRANSACTIONS:**
- (1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER THE EXISTING AGREEMENTS;**
- (2) PROPOSED REVISION OF THE ORIGINAL AVIC FINANCE FACTORING SERVICES CAP;**
- II. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;**
- III. PROPOSED AMENDMENTS TO THE RULES GOVERNING THE OPERATION OF SHAREHOLDERS' GENERAL MEETINGS; AND**
- IV. NOTICE OF EGM**
- NOTICE OF CLASS MEETING FOR HOLDERS OF H SHARES**
- NOTICE OF CLASS MEETING FOR HOLDERS OF DOMESTIC SHARES**

**Independent Financial Adviser to the Independent Board  
Committee and the Independent Shareholders**



---

A letter from the Board is set out on pages 11 to 66 of this circular. A letter from the Independent Board Committee is set out on page 67 of this circular. A letter from Maxa Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 68 to 110 of this circular.

The notices convening the EGM, the H Share Class Meeting and the Domestic Share Class Meeting of AviChina Industry & Technology Company Limited\* to be held at 9:00 a.m., 10:00 a.m. (or immediately upon conclusion of the EGM or any adjournment thereof) and 10:30 a.m. (or immediately upon conclusion of the H Share Class Meeting or any adjournment thereof), respectively, on Tuesday, 19 December 2023 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC are set out on pages 119 to 122, pages 123 to 124 and pages 125 to 126 of this circular, respectively.

Forms of proxy for use at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting are enclosed and are also published on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). Shareholders who intend to appoint a proxy to attend the EGM, the H Share Class Meeting and/or the Domestic Share Class Meeting shall complete and return the enclosed form(s) of proxy in accordance with the instructions printed on the form not less than 24 hours before the time fixed for the holding of such meeting(s) or any adjournment thereof (as the case may be). Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the EGM, the H Share Class Meeting and/or the Domestic Share Class Meeting or any adjournment thereof (as the case may be).

28 November 2023

\* For identification purpose only

---

## CONTENT

---

	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	11
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	67
<b>LETTER FROM MAXA CAPITAL</b> .....	68
<b>APPENDIX I – FINANCIAL INFORMATION OF THE GROUP</b> .....	111
<b>APPENDIX II – GENERAL INFORMATION</b> .....	113
<b>NOTICE OF EGM</b> .....	119
<b>NOTICE OF CLASS MEETING FOR HOLDERS OF H SHARES</b> .....	123
<b>NOTICE OF CLASS MEETING FOR HOLDERS OF DOMESTIC SHARES</b> .....	125

---

## DEFINITIONS

---

*The following terms have the following meanings in this circular, unless the context otherwise requires:*

“Articles of Association”	the articles of association of the Company (as amended from time to time)
“associates”	has the same meaning ascribed to it under the Hong Kong Listing Rules
“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 directly and indirectly 60.25% of all issued Shares as at the Latest Practicable Date
“AVICOPTER”	AVICOPTER PLC* (中航直升機股份有限公司), a joint stock limited company whose A shares are listed on the Shanghai Stock Exchange and a subsidiary of the Company as at the Latest Practicable Date
“AVIC Airborne”	AVIC Airborne Systems Co., Ltd.* (中航機載系統股份有限公司) (previously known as China Avionics Systems Co., Ltd.* (中航航空電子系統股份有限公司)), a joint stock limited company whose A shares are listed on the Shanghai Stock Exchange and a connected subsidiary of the Company as at the Latest Practicable Date
“AVIC Airborne Group”	AVIC Airborne and its subsidiaries
“AVIC Airborne Mutual Product and Service Supply Framework Agreement”	the mutual product and service supply framework agreement entered into between the Company and AVIC Airborne and dated 22 August 2023, details of which are set out in paragraph 2.3 under Section I of the letter from the Board of this circular
“AVIC CAPDI”	China Aviation Planning and Design Institute (Group) Co., Ltd.* (中國航空規劃設計研究總院有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“AVIC Electromechanical”	AVIC Electromechanical Systems Co., Ltd.* (中航工業機電系統股份有限公司)
“AVIC Electromechanical Group”	AVIC Electromechanical and its subsidiaries at the relevant time
“AVIC Finance”	AVIC Finance Co., Ltd.* (中航工業集團財務有限責任公司), a limited liability company established in the PRC and a subsidiary of AVIC as at the Latest Practicable Date

---

## DEFINITIONS

---

“AVIC Finance Factoring Services”	the receivable factoring services to be provided by AVIC Finance to the Group under the Existing Financial Services Framework Agreement or the Financial Services Framework Agreement
“AVIC Group”	AVIC and its subsidiaries (excluding the Group)
“AVIC Lease”	AVIC International Financial Lease Co., Ltd.* (中航國際融資租賃有限公司), a limited liability company established in the PRC and a subsidiary of AVIC as at the Latest Practicable Date
“AVIC Lease Factoring Services”	the factoring services to be provided by AVIC Lease Factoring Subsidiary to the Group under the Existing Finance Lease and Factoring Framework Agreement or the Finance Lease and Factoring Framework Agreement
“AVIC Lease Factoring Subsidiary”	any of AVIC Lease’s subsidiary(ies) legally established to carry out the factoring business
“Board”	the board of Directors
“CASBE”	China Accounting Standards for Business Enterprises
“CBIRC”	China Banking and Insurance Regulatory Commission
“Class Meetings”	H Share Class Meeting and/or Domestic Share Class Meeting
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange
“connected person”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“connected subsidiary(ies)”	has the meaning ascribed thereto under the Hong Kong Listing Rules

---

## DEFINITIONS

---

“Contractual Price”	the price to be agreed between the relevant parties for the supply of the aviation products, raw materials and related services (as the case may be), which shall be the reasonable costs incurred in supplying the same plus not more than 8% of such costs, which is determined after taking into account (i) the average profit margin of approximately 7% among industrial enterprises, (ii) the average profit margin in the aviation industry and (iii) the profits previously received by the Group or AVIC Group for similar products, raw materials or services. The 8% margin used to determine the Contractual Price is the maximum profit margin under the relevant continuing connected transactions agreements and specific prices will be determined under separate agreements in each transaction, and the profit margin is in line with industry practice. The above Contractual Price mechanism is applicable to not only the supply of products or services by the Group, but also vice versa by AVIC Group. Considering the above, the Directors are of the view that the Contractual Price mechanism is on normal commercial terms, fair and reasonable and in the interest of the Company and its shareholders
“Deposit Services”	the deposit services to be provided by AVIC Finance to the Group under the Existing Financial Services Framework Agreement or the Financial Services Framework Agreement
“Directors”	the directors of the Company
“Domestic Share Class Meeting”	the class meeting for holders of the Domestic Shares to be held at 10:30 a.m. (or immediately upon conclusion of the H Share Class Meeting or any adjournment thereof) on the same date and at the same place to consider and approve the proposed amendments to the Articles of Association
“Domestic Shareholders”	holder(s) of Domestic Share(s)
“Domestic Share(s)”	the issued ordinary share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as fully paid in RMB and originally issued by the Company to domestic investor(s) for subscription in RMB

---

## DEFINITIONS

---

“EGM”	the extraordinary general meeting of the Company to be held at 9:00 a.m. on Tuesday, 19 December 2023 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC for the purposes of considering and, if thought fit, approving, among other things, (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; (ii) the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023; (iii) the proposed amendments to the Articles of Association; and (iv) the proposed amendments to the Rules Governing the Operation of Shareholders’ General Meetings
“Existing Agreements”	the Existing Mutual Product Supply Agreement, the Existing Mutual Service Supply Agreement, the Existing Mutual Product and Service Supply and Guarantee Agreement, the Existing Financial Services Framework Agreement, and the Existing Finance Lease and Factoring Framework Agreement
“Existing Finance Lease and Factoring Framework Agreement”	the finance lease and factoring framework agreement entered into between AVIC Lease and the Company and dated 21 August 2020, for a term of three years commencing from 1 January 2021
“Existing Financial Services Framework Agreement”	the financial services framework agreement entered into between AVIC Finance and the Company and dated 21 August 2020, for a term of three years commencing from 1 January 2021 (as supplemented by an agreement entered into between AVIC Finance and the Company dated 28 October 2022)
“Existing Mutual Product Supply Agreement”	the mutual product supply agreement entered into between AVIC and the Company and dated 21 August 2020, for a term of three years commencing from 1 January 2021
“Existing Mutual Product and Service Supply and Guarantee Agreement”	the mutual product and service supply and guarantee agreement entered into between the Company and AVIC Airborne and dated 21 August 2020, for a term of three years commencing from 1 January 2021 (as supplemented by an agreement entered into between the Company and AVIC Airborne dated 28 October 2022)
“Existing Mutual Service Supply Agreement”	the mutual service supply agreement entered into between AVIC and the Company and dated 21 August 2020, for a term of three years commencing from 1 January 2021

---

## DEFINITIONS

---

“Finance Lease and Factoring Framework Agreement”	the finance lease and factoring framework agreement entered into between AVIC Lease and the Company and dated 22 August 2023, details of which are set out in paragraph 2.5 under Section I of the Letter from the Board in this circular
“Finance Lease Services”	the finance lease services to be provided by AVIC Lease to the Group under the Finance Lease and Factoring Framework Agreement
“Financial Services Framework Agreement”	the financial services framework agreement entered into between AVIC Finance and the Company and dated 22 August 2023, details of which are set out in paragraph 2.4 under Section I of the Letter from the Board in this circular
“Government-guidance Price”	the price determined by the parties within the range as provided under the laws, regulations, decisions or orders or in respect of particular types of services promulgated by the central government, provincial government or other regulatory authorities in the PRC
“Government-prescribed Price”	the price jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in the particular transactions, which mainly comprise the relevant costs plus profit margin. The relevant costs will be proposed by the relevant manufacturing enterprises, and confirmed by the relevant price control authorities and the industry regulators in the PRC. The profit margin shall be determined by the relevant authorities. As the Government-prescribed Price shall be determined by the relevant authorities according to their internal procedures, requirements and standards, and such Government-prescribed Price shall be applicable to the transactions for specific aviation products in the industry, therefore, the Directors are of the view that the Government-prescribed Price (and the relevant profit margin) is on normal commercial terms and fair and reasonable
“Group”	the Company and its subsidiaries from time to time (in particular, in respect of the AVIC Airborne Mutual Product and Service Supply Framework Agreement, the Company and its subsidiaries (other than the AVIC Airborne Group) from time to time)
“H Share Class Meeting”	the class meeting for holders of the H Shares to be held at 10:00 a.m. (or immediately upon conclusion of the EGM or any adjournment thereof) on the same date and at the same place to consider and approve the proposed amendments to the Articles of Association

---

## DEFINITIONS

---

“H Shareholders”	Holders of H Share(s)
“H Share(s)”	the overseas-listed foreign invested share(s) in the Company’s share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“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
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping, to advise the Independent Shareholders on (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the AVIC Finance Factoring Services transactions contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), to advise the Independent Board Committee and the Independent Shareholders on (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023
“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 EGM to approve (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023

---

## DEFINITIONS

---

“Independent Third Parties”	independent third parties (to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry), including the ultimate beneficial owners of such party, not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates (within the meaning of the Hong Kong Listing Rules)
“Latest Practicable Date”	22 November 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
“Loan Services”	the loan services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“Market Price”	the price as determined in the following sequence: (i) where there are comparable market prices or charging rates standards determined by independent third parties under normal commercial terms for the transaction, the transaction price shall be determined at such price or standard (the Company will obtain at least two to three such price or standard from Independent Third Parties); or (ii) if there are no such comparable market prices of independent third parties, the transaction price shall be fixed by the price of non-connected transactions between the Company and independent third parties: (a) where the Company is the buyer, through tender procedures in accordance with the relevant PRC laws and regulations relating to tender and bidding or by choosing the most favourable price among at least two to three selected suppliers after taking into account the suppliers’ manufacturing qualifications and delivery time, and business relationship between the Company and suppliers according to the Company’s internal procurement policy; or (b) where the Company is the supplier, agreeing with the clients within prescribed price range after taking into account the transaction volumes and business relationship between the Company and purchasers according to the Company’s internal sales policy with reference to: (i) the transaction volume and business relationship between the Company and the purchaser; and (ii) the prices of similar products and services purchased from the Company by not less than two Independent Third Parties. The Market Price will be determined or approved by the authorised departments/persons of the specific entities within the Group in particular transactions

---

## DEFINITIONS

---

“Mutual Product Supply Agreement”	the mutual product supply agreement entered into between AVIC and the Company and dated 22 August 2023, details of which are set out in paragraph 2.1 under Section I of the Letter from the Board in this circular
“Mutual Service Supply Agreement”	the mutual service supply agreement entered into between AVIC and the Company and dated 22 August 2023, details of which are set out in paragraph 2.2 under Section I of the Letter from the Board in this circular
“NAFR”	National Administration of Financial Regulation* (國家金融監督管理總局), the predecessor being CBIRC
“New Agreements”	the Renewal Agreements and the Supplemental Financial Services Framework Agreement
“Non-exempt Transactions”	(i) the transactions contemplated under the Mutual Product Supply Agreement; (ii) the transactions contemplated under the Mutual Service Supply Agreement; (iii) the expenditure transactions contemplated under the AVIC Airborne Mutual Product and Service Supply Framework Agreement; (iv) the Deposit Services contemplated under the Financial Services Framework Agreement; (v) the Other Financial Services contemplated under the Financial Services Framework Agreement; (vi) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement and the AVIC Finance Factoring Services under the Financial Services Framework Agreement on an aggregated basis; and (vii) the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement, which are subject to reporting, announcement, annual review, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules
“Non-financing Guarantee Letter Services”	the non-financing guarantee letter services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“Original AVIC Finance Factoring Services Cap”	the original cap for the year ending 31 December 2023 for the receivable factoring services under the Existing Financial Services Framework Agreement

---

## DEFINITIONS

---

“Other Financial Services”	<p>in respect of the Existing Financial Services Frame Agreement, such financial services (including but not limited to bill acceptance and discount services) as approved by the CBIRC (other than the Deposit Services, the Loan Services, the Settlement Services, the guarantee services and the AVIC Finance Factoring Services) provided/to be provided by AVIC Finance to the Group</p> <p>in respect of the Financial Services Framework Agreement, such financial services (including but not limited to bill acceptance and discount services) as approved by the NAFR (other than the Deposit Services, the Loan Services, the Settlement Services, the Non-financing Guarantee Letter Services and the AVIC Finance Factoring Services) to be provided by AVIC Finance to the Group</p>
“PBOC”	the People’s Bank of China
“percentage ratio(s)”	has the same meaning ascribed to it under the Hong Kong Listing Rules
“PRC”	the People’s Republic of China
“Proposed Revised Cap”	the proposed revised cap for the year ending 31 December 2023 for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement
“Renewal Agreements”	the Mutual Product Supply Agreement, the Mutual Service Supply Agreement, the AVIC Airborne Mutual Product and Service Supply Framework Agreement, the Financial Services Framework Agreement and the Finance Lease and Factoring Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Rules Governing the Operation of Shareholders’ General Meetings”	the rules governing the operation of shareholders’ general meetings of the Company
“Settlement Services”	the settlement services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“Shares”	shares of RMB1.00 each in the capital of the Company
“Shareholders”	the holders of Shares

---

## DEFINITIONS

---

“Share Swap and Absorption”	the swap of AVIC Airborne A Shares and AVIC Electromechanical A Shares and the absorption of AVIC Electromechanical by AVIC Airborne pursuant to the terms of the share swap and absorption agreement, for details please refer to the circular of the Company dated 29 September 2022 and the announcement of the Company dated 10 June 2022
“Supplemental Financial Services Framework Agreement”	the agreement entered into between the Company and AVIC Finance dated 22 August 2023, which is a supplemental agreement to the Existing Financial Services Framework Agreement

---

LETTER FROM THE BOARD

---



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)**

*Executive Directors:*

Mr. Yan Lingxi  
Mr. Sun Jizhong

*Non-executive Directors:*

Mr. Lian Dawei  
Mr. Liu Bingjun  
Mr. Xu Gang  
Mr. Wang Jun

*Independent non-executive Directors:*

Mr. Liu Weiwu  
Mr. Mao Fugen  
Mr. Lin Guiping

*Registered Office:*

2<sup>nd</sup> floor, Building 27  
No. 26 Xihuan South Street  
Economic Technological Development Area  
Beijing, the PRC

*Place of business in Hong Kong:*

Unit 2202A, 22<sup>nd</sup> Floor  
Fairmont House  
8 Cotton Tree Drive  
Central  
Hong Kong

28 November 2023

*To the Shareholders:*

Dear Sir or Madam,

---

## LETTER FROM THE BOARD

---

- I. NON-EXEMPT TRANSACTIONS AND MAJOR TRANSACTIONS:**  
**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER THE EXISTING AGREEMENTS;**  
**(2) PROPOSED REVISION OF THE ORIGINAL AVIC FINANCE FACTORING SERVICES CAP;**
- II. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;**  
**III. PROPOSED AMENDMENTS TO THE RULES GOVERNING THE OPERATION OF SHAREHOLDERS' GENERAL MEETINGS; AND**  
**IV. NOTICE OF EGM**
- NOTICE OF CLASS MEETING FOR HOLDERS OF H SHARES**  
**NOTICE OF CLASS MEETING FOR HOLDERS OF DOMESTIC SHARES**

### INTRODUCTION

Reference is made to the announcement of the Company dated 22 August 2023 in relation to, among other things, (1) the renewal of continuing connected transactions under the Existing Agreements; and (2) the proposed revision of the Original AVIC Finance Factoring Services Cap. Reference is also made to the announcement of the Company dated 22 August 2023 in relation to, among other things, (1) the proposed amendments to the Articles of Association; and (2) the proposed amendments to the Rules Governing the Operation of Shareholders' General Meetings.

The purpose of this circular is to provide you with, among other things, information relating to the resolutions to be considered and, if appropriate, approved at the EGM, the H Share Class Meeting and/or the Domestic Share Class Meeting:

- (1) details relating to (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; (ii) the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023; (iii) the proposed amendments to the Articles of Association; and (iv) the proposed amendments to the Rules Governing the Operation of Shareholders' General Meetings;
- (2) a letter of recommendation from the Independent Board Committee to the Independent Shareholders;
- (3) a letter of advice from Maxa Capital to the Independent Board Committee and the Independent Shareholders; and
- (4) the notices of the EGM and the Class Meetings.

---

## LETTER FROM THE BOARD

---

### I. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER THE EXISTING AGREEMENTS

#### 1. Background

References are made to the announcements of the Company dated 21 August 2020, 30 August 2022, 5 September 2022 and 28 October 2022 and the circulars of the Company dated 10 November 2020 and 16 January 2023 in relation to, among other things, the continuing connected transactions of the Group with AVIC Group contemplated under each of the Existing Agreements.

As the term of the Existing Agreements will expire on 31 December 2023 and the Group intends to continue to enter into the transactions of similar nature after that date, the Company entered into the Renewal Agreements for a term of three years commencing from 1 January 2024. Most of the terms of the Renewal Agreements are substantially the same as those of the Existing Agreements.

#### 2. The Renewal Agreements

##### 2.1 *Mutual Product Supply Agreement*

As the Existing Mutual Product Supply Agreement is due to expire on 31 December 2023 and the Group from time to time needs to procure from or supply to AVIC Group various products for its businesses, the Company entered into the Mutual Product Supply Agreement with AVIC.

Principal terms of the Mutual Product Supply Agreement are summarised as follows:

<b>Date</b>	:	22 August 2023
<b>Parties</b>	:	AVIC (for and on behalf of AVIC Group) The Company (for itself and on behalf of its subsidiaries)
<b>Term</b>	:	Three years from 1 January 2024 to 31 December 2026
<b>Mutual supply of products</b>	:	AVIC Group and the Group will supply the manufacturing raw materials, parts and components, finished and semi- finished aviation products involved in the production and operations of the respective aviation products of each other (including but not limited to aviation entire aircraft and aviation parts and components to the Group, and the helicopters, airplanes and aviation parts and components to AVIC Group) and the related sales and ancillary services.

---

## LETTER FROM THE BOARD

---

**Key transaction principles** : If any independent third party can supply the same type of products on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use products supplied by the Group or AVIC Group (as the case may be).

If any independent third party can supply the same type of products at a better price than AVIC Group or the Group (as the case may be) offers, the Group or AVIC Group (as the case may be) shall be entitled to procure products from that independent third party.

The quality standard of the products and the terms and conditions of supply given by AVIC Group to the Group shall not be less favourable than those offered by the independent third parties under comparable conditions.

**Pricing principles** : The price of the products and ancillary services will be determined as follows: (i) as most products under the Mutual Product Supply Agreement are designated aviation products, the Government-prescribed Price shall apply; (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means, such as price inquiry and price comparison by fee quotations if tender procedures are not adopted (as the case may be), shall apply; and (iii) if there is no Market Price, the Contractual Price shall apply.

*Note: please refer to "Government-prescribed Price", "Market Price" and "Contractual Price" as set out in the "Definitions" section of this circular for the detailed definitions of the terms.*

**Payment** : Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into the specific product supply agreement under each transaction.

### 2.2 *Mutual Service Supply Agreement*

As the Existing Mutual Service Supply Agreement is due to expire on 31 December 2023 and the Group from time to time needs to procure from or supply to AVIC Group various services for its businesses, the Company entered into the Mutual Service Supply Agreement with AVIC.

---

## LETTER FROM THE BOARD

---

Principal terms of the Mutual Service Supply Agreement are summarised as follows:

<b>Date</b>	:	22 August 2023
<b>Parties</b>	:	AVIC (for and on behalf of AVIC Group)  The Company (for itself and on behalf of its subsidiaries)
<b>Term</b>	:	Three years from 1 January 2024 to 31 December 2026
<b>Mutual supply of services</b>	:	AVIC Group will supply certain services relating to the production and business operations of the Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment purchase, maintenance, repair and leasing services; (v) construction and transportation; (vi) design, consultation and network related services; (vii) cultural, educational, hygienic, social security and logistic services; (viii) import and export agency services; (ix) test flight and technology and quality monitoring services; (x) engineering and equipment subcontracting services; and (xi) other related services.

The Group will supply certain services relating to the production and business operations of AVIC Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing services; (v) construction and transportation; (vi) design, consultation and network related services; (vii) enterprise entrustment services; (viii) engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting (including aviation engineering services) and equipment main contracting services; and (ix) other related services.

---

## LETTER FROM THE BOARD

---

Considering the large number of subsidiaries of the Group and AVIC Group and each of them having different businesses across different regions, despite the types of services supplied by AVIC Group to the Group and the services supplied by the Group to AVIC Group are similar, the services in fact are not the same as they are supplied to different entities in different regions. These services are related to the business operations of the Group, in particular, (i) labour services are mainly required for the manufacturing processes; (ii) supply of power such as electricity, water and steam, (iii) equipment maintenance, repair and leasing services, (iv) design, consultation and network related services, are mainly support services to support the Group's different business segments especially when the entity(ies) demanding and supplying such services are located within the same manufacturing zone; (v) property management and maintenance, and (vi) construction and transportation, are general support services to the Group.

As mentioned above, there is a large number of subsidiaries under the Group and AVIC group and they are spread across different regions. Within a production base (生產園區), certain subsidiaries of the Group and AVIC Group are located in it. Therefore, within such production base, depending on the specific needs and the capability of the subsidiaries of the Group, they would provide/obtain certain of the above services to/from AVIC Group, or vice versa. As these services are related to the business operations of the Group and are essential to facilitate the smooth running of the Group, therefore, the procurement of services by the Group under the Mutual Service Supply Agreement is in the interest of the Company and its shareholders.

**Key transaction principles** : If any independent third party can supply the same type of services on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use the services supplied by the Group or AVIC Group (as the case may be).

If any independent third party can supply the same type of services at a better price than AVIC Group or the Group (as the case may be) offers, the Group or AVIC Group (as the case may be) shall be entitled to opt for the services supplied by that independent third party.

---

## LETTER FROM THE BOARD

---

The quality standard of the services and the terms and conditions of supply given by AVIC Group to the Group shall not be less favourable than those offered by the independent third parties under comparable conditions.

**Pricing principles** : The price of the services under the agreement will be determined as follows:

- (i) for power supply services such as the provision of electricity, water, steam, etc., if such power was originally procured at the Government-prescribed Price or the Government-guidance Price, the Government-prescribed Price or the Government-guidance Price shall apply;
- (ii) for services such as construction, transportation, design, consultation and network design, equipment leasing and other services where the Market Price is available, the Market Price as determined by tender procedures or other means, such as price inquiry and price comparison by fee quotations if tender procedures are not adopted (as the case may be), shall apply;
- (iii) for the engineering technology services to be supplied by the Group to AVIC Group (including design, consultation and supervision services), and the engineering and equipment subcontracting services supplied by AVIC Group to the Group, the Market Price or (where applicable) Market Price as determined by tender procedures shall apply. Such tender procedures shall be in compliance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which require tender and bidding); and
- (iv) if there is no Market Price (for the provision of property management and maintenance services; equipment maintenance, repair and leasing services; cultural, educational, hygienic, social security and logistic services; import and export agency services; test flight and technology and quality monitoring services; and entrustment services), the Contractual Price shall apply.

---

## LETTER FROM THE BOARD

---

*Note: please refer to “Government-prescribed Price”, “Government-guidance Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular for the detailed definitions of the terms.*

**Payment** : Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into specific services agreement under each transaction.

### **2.3 AVIC Airborne Mutual Product and Service Supply Framework Agreement**

The Existing Mutual Product and Service Supply and Guarantee Agreement entered into by the Company and AVIC Airborne is due to expire on 31 December 2023. As the Group continues to have the need to procure from and supply to AVIC Airborne Group various products and services in its business (but expects that the Group will not supply guarantee services), the Company entered into the AVIC Airborne Mutual Product and Service Supply Framework Agreement with AVIC Airborne, with the transaction scope no longer including guarantee services. In the event that AVIC Airborne Group requires the Group to provide guarantee due to business needs, the parties shall enter into separate contracts upon negotiation and subject to satisfaction of the applicable disclosure and approval requirements in accordance with the rules of the relevant stock exchanges.

Principal terms of the AVIC Airborne Mutual Product and Service Supply Framework Agreement are summarised as follows:

**Date** : 22 August 2023

**Parties** : The Company (for itself and on behalf of its subsidiaries, excluding AVIC Airborne Group)

AVIC Airborne (for itself and on behalf of its subsidiaries)

**Term** : Three years from 1 January 2024 to 31 December 2026

**Mutual supply of products and services** : The Group will supply to AVIC Airborne Group aviation parts and components, raw materials, related manufacturing, labour services, and engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting and equipment main contracting services, etc.

---

## LETTER FROM THE BOARD

---

AVIC Airborne Group will supply to the Group aviation electronic products, mechanical electronics, parts and components, related manufacturing and labour services, and engineering and equipment subcontracting services.

**Pricing principles** : The price of products and/or services under the agreement will be determined as follows:

- (i) as most products under the AVIC Airborne Mutual Product and Service Supply Framework Agreement are designated aviation products, the Government-prescribed Price shall apply;
- (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means, such as price inquiry and price comparison by fee quotations if tender procedures are not adopted (as the case may be), shall apply;
- (iii) if there is no Market Price, the Contractual Price shall apply;
- (iv) for production and labour services where Market Price is available, the Market Price as determined through tender procedures or other means, such as price inquiry and price comparison by fee quotations if tender procedures are not adopted (as the case may be) shall apply; if there is no Market Price, the Contractual Price shall apply; and
- (v) for engineering technology services (including design, consultation and supervision services), project engineering main contracting and equipment main contracting services, and engineering and equipment subcontracting services, the Market Price or (if applicable) the Market Price as determined by tender procedures shall apply. The tender procedures mentioned above shall be in compliance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which require tender and bidding).

---

## LETTER FROM THE BOARD

---

*Note: please refer to detailed definitions of “Government-prescribed Price”, “Government-guidance Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular.*

**Payment** : The parties will make payment according to the AVIC Airborne Mutual Product and Service Supply Framework Agreement and the specific contracts entered into by the relevant member of the Group and AVIC Airborne Group for the provision of products or services.

**Other major terms** : If any independent third party can supply the same type of products or services at a better price than AVIC Airborne Group or the Group (as the case may be) offers, the Group or AVIC Airborne Group (as the case may be) shall be entitled to opt for the products or services supplied by that independent third party.

Subject to the terms of the AVIC Airborne Mutual Product and Service Supply Framework Agreement, if the product or service supplied by and the terms and conditions of supply given by AVIC Airborne Group or the Group (as the case may be) does not satisfy the needs of the Group or AVIC Airborne Group (as the case may be) in any aspect, the latter can procure identical or similar products or services from an independent third party.

---

## LETTER FROM THE BOARD

---

### 2.4 *Financial Services Framework Agreement*

As the Existing Financial Services Framework Agreement is due to expire on 31 December 2023, and the Group continues to have the need of the financial services from AVIC Finance from time to time, the Company entered into the Financial Services Framework Agreement with AVIC Finance.

Principal terms of the Financial Services Framework Agreement are summarised as follows:

<b>Date</b>	:	22 August 2023
<b>Parties</b>	:	The Company (for itself and on behalf of its subsidiaries) AVIC Finance
<b>Term</b>	:	Three years from 1 January 2024 to 31 December 2026
<b>Financial services</b>	:	Pursuant to the Financial Services Framework Agreement, AVIC Finance has agreed to provide the Group with the Deposit Services, the Loan Services, the Settlement Services, the Non-financing Guarantee Letter Services, the AVIC Finance Factoring Services and the Other Financial Services (i.e. such other financial services (including but not limited to bill acceptance and discount services) as approved by the NAFR).

The Group is entitled to elect the financial institutions providing the financial services, the amount of deposit and borrowings and the time of withdrawal of deposit based on its business needs.

<b>Pricing principles</b>	:	The pricing principles of the Deposit Services, the AVIC Finance Factoring Services and the Other Financial Services are as follows:
---------------------------	---	--

(1) Deposit Services

Interest rates for the Group's deposits with AVIC Finance shall not be lower than the benchmark interest rates during the same period as promulgated by the PBOC for the same type of deposit. The interest rates for the Group's RMB deposits with AVIC Finance shall not be lower

---

## LETTER FROM THE BOARD

---

than the listed average interest rates for the same type of deposits offered by major commercial banks of the PRC.

(2) AVIC Finance Factoring Services

The fees charged by AVIC Finance for the provision of the AVIC Finance Factoring Services shall not be higher than (a) the average fees charged by AVIC Finance to any third party with the same price determination factors as the Group during the same period (including credit rating, term, business category, enterprise category); and (b) the average fees charged by the major commercial banks in the PRC for the same type of services.

(3) Other Financial Services

The fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than (a) the maximum fees determined by the PBOC for the same type of financial services (if applicable); (b) the fees charged by major commercial banks in the PRC for the same type of services during the same period; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other member of AVIC Group with the same credit rating.

---

## LETTER FROM THE BOARD

---

The pricing principles of the Loan Services, the Non-financing Guarantee Letter Services and the Settlement Services are not disclosed in this circular as they are fully exempt transactions under the Hong Kong Listing Rules. As disclosed in the announcement of the Company dated 22 August 2023 in relation to, among others, the renewal of continuing connected transactions under the Existing Agreements, as long as (i) the Loan Services, and (ii) the Non-financing Guarantee Letter Services under the Financial Services Framework Agreement will be entered into by the parties on normal commercial terms and no security over the assets of the Group or guarantee or counter-guarantee will be given by the Group in respect of the provision of financial assistance; and as the Settlement Services will fall within the relevant de minimis threshold as stipulated under the Hong Kong Listing Rules, the Loan Services, the Non-financing Guarantee Letter Services and the Settlement Services are exempt from reporting, annual review, announcement, circular and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules. In the event that the Group is required to provide security over the assets of the Group or guarantee or counter-guarantee for the Loan Services and the Non-financing Guarantee Letter Services, the respective relevant member of Group and the AVIC Finance Group shall enter into separate agreements, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the relevant stock exchanges.

Please refer to paragraph 4 under Section I of this letter from the Board for the proposed caps for the Deposit Services, the AVIC Finance Factoring Services and the Other Financial Services.

---

## LETTER FROM THE BOARD

---

**Other major terms** : When AVIC Finance provides the Deposit Services and the Settlement Services to the Group, AVIC Finance is obliged to ensure the safety and normal use of the Group's deposits under the funds of the AVIC Finance. If AVIC Finance is unable to repay the Group's deposits due to various reasons, the Company is entitled to terminate the Financial Services Framework Agreement and to offset the same amount of the outstanding loan due to AVIC Finance against the deposit due to the Group from AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall indemnify the Group the full amount of the loss suffered by the Group and the Group shall be entitled to terminate the Financial Services Framework Agreement. If AVIC Finance is unable to indemnify the Group the full amount of the loss suffered by the Group, upon the Group's request, the shortfall shall be offset by the loans provided by AVIC Finance to the Group.

### **2.5 Finance Lease and Factoring Framework Agreement**

As the Existing Finance Lease and Factoring Framework Agreement is due to expire on 31 December 2023, and the Group continues to have the need of the Finance Lease Services from AVIC Lease and the AVIC Lease Factoring Services through the AVIC Lease Factoring Subsidiary from time to time, the Company entered into the Finance Lease and Factoring Framework Agreement with AVIC Lease.

Principal terms of the Finance Lease and Factoring Framework Agreement are summarised as follows:

**Date** : 22 August 2023

**Parties** : The Company (for itself and on behalf of its subsidiaries)  
AVIC Lease (for itself and on behalf of its subsidiaries)

**Term** : Three years from 1 January 2024 to 31 December 2026

---

## LETTER FROM THE BOARD

---

**Services** : Pursuant to the Finance Lease and Factoring Framework Agreement, AVIC Lease has agreed to provide the Group with the Finance Lease Services by itself and to provide the Group with the AVIC Lease Factoring Services through the AVIC Lease Factoring Subsidiary.

(1) Finance Lease Services

- (i) AVIC Lease will provide the Finance Lease Services to the Group by way of direct lease and sale and leaseback, etc. The leased assets include buildings, erections, mechanical equipment and other assets.
- (ii) Under the direct lease service, AVIC Lease (as lessor) will purchase from suppliers the leased assets based on the demands and choice of the Company (as lessee) at a price negotiated between the Group and the supplier, and AVIC Lease will then lease the leased assets to the Company for its use in return for periodic lease payments.
- (iii) Under the sale and leaseback service, the Company (as lessee) will sell the leased assets to AVIC Lease (as lessor) at a negotiated purchase price with reference to the book value and/or original acquisition costs and/or appraised value of the leased assets, and AVIC Lease will then lease the leased assets back to the Company for its use in return for periodic lease payments.
- (iv) During the lease period, the leased assets will be solely owned by AVIC Lease. Subject to the relevant requirements of the Hong Kong Listing Rules, the Company may purchase the leased assets after or (upon the consent of AVIC Lease) prior to the expiry of the lease.

---

## LETTER FROM THE BOARD

---

(2) AVIC Lease Factoring Services

Where the Group needs the AVIC Lease Factoring Services, the Group will transfer its outstanding principal amount of the accounts receivable which has not been due, the related interest and other rights as a creditor to the AVIC Lease Factoring Subsidiary, and receive the factoring proceeds.

**Pricing principles** : The lease payment relating to the Finance Lease Services and the fees relating to the AVIC Lease Factoring Services will be determined as follows:

(1) Finance Lease Services

The lease payments of a finance lease comprise the principal amount of the finance lease and the lease interest. The principal amount shall be the gross price of the leased assets for the purchase by AVIC Lease. The lease interest shall be determined with reference to (a) the financing costs for Finance Lease Services provided by AVIC Lease (inclusive of interest, consulting services fees and other fees and expenses), which is no higher than the financing costs incurred by domestic independent finance lease companies for providing services of same or similar nature (as determined based on comprehensive internal rate of return after taxation); and (b) the interest rates charged or quoted by other major financial institutions for providing services of same or similar nature.

(2) AVIC Lease Factoring Services

AVIC Lease Factoring Subsidiary shall pay the outstanding principal amount of accounts receivable which has not been due as the factoring amount. The factoring interest shall be determined by the parties with reference to factors including the average factoring interest rate charged by AVIC Lease to its customers and the funding costs. AVIC Lease Factoring Subsidiary will charge service fees with respect to AVIC Lease Factoring Services, which shall not be

---

## LETTER FROM THE BOARD

---

higher than the fees charged by similar financial factoring companies in the PRC for the same type of factoring services.

**Payment** : For the Finance Lease Services, the Company and AVIC Lease will agree on the manner of payment flexibly based on the actual cash flows, including not limited to the payment of principal by equal or unequal instalments on a quarterly basis, payment of principal and interest by equal instalments on a quarterly basis, payment of principal by equal instalments on a semi-annual basis or payment of principal and interest by equal instalments on an annual basis, etc.

For the AVIC Lease Factoring Services, the Company and AVIC Lease shall agree on the manner of payment flexibly based on the specific factoring project, including but not limited to payment by the Group or the debtor of the accounts receivable or both.

**Separate Contracts** : AVIC Lease and the Group shall enter into specific contracts to set out the specific terms and conditions (including the specific payment terms) for the provision of services according to the principles and scope provided for under the Finance Lease and Factoring Framework Agreement and the relevant legal requirements.

The contract period of the specific contracts with respect to Finance Lease Services may exceed three years, depending on the type of leased assets involved. Specific contracts with respect to Finance Lease Services and AVIC Lease Factoring Services duly executed shall remain to have full force and effect for their respective contract periods and shall be subject to the Finance Lease and Factoring Framework Agreement for the three years from 1 January 2024 to 31 December 2026.

---

## LETTER FROM THE BOARD

---

### 3. Historical Amounts of the Continuing Connected Transactions, Annual Caps and Utilisation Rates of the Continuing Connected Transactions under the Existing Agreements

Set out below are the historical amounts, annual caps and utilisation rates of the continuing connected transactions under the Existing Agreements for the two years ended 31 December 2022 and the six months ended 30 June 2023.

<i>(RMB' million)</i>	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2022</b>	<b>For the six months ended 30 June 2023</b>
-----------------------	--	--	--

#### **Expenditure transactions of the Group**

##### Existing Mutual Product Supply Agreement

Actual	10,567	11,471	7,149
Annual Cap	17,880	18,850	23,640
Utilisation rate	59.10%	60.85%	30.24%

##### Existing Mutual Service Supply Agreement

Actual	375	414	99
Annual Cap	770	840	930
Utilisation rate	48.70%	49.29%	10.65%

##### Existing Mutual Product and Service Supply and Guarantee Agreement

Actual	671	783	674
Annual Cap	1,230	1,490	3,830
Utilisation rate	54.55%	52.55%	17.60%

#### **Revenue transactions of the Group**

##### Existing Mutual Product Supply Agreement

Actual	15,674	18,152	13,741
Annual Cap	18,210	20,670	34,516
Utilisation rate	86.07%	87.82%	39.81%

##### Existing Mutual Service Supply Agreement

Actual	2,605	2,644	1,180
Annual Cap	4,920	5,640	6,780
Utilisation rate	52.95%	46.88%	17.40%

---

## LETTER FROM THE BOARD

---

<i>(RMB' million)</i>	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2022</b>	<b>For the six months ended 30 June 2023</b>
-----------------------	--	--	--

### **Transactions under the Existing Financial Services Framework Agreement**

Maximum daily outstanding balances of deposits (including accrued interests) for Deposit Services

Actual	19,100	24,432	16,220
Annual Cap	35,000	35,000	45,000
Utilisation rate	54.57%	69.81%	36.04%

Maximum daily outstanding factoring financing balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Finance Factoring Services

Actual	355	1,050	725
Annual Cap	1,200	1,200	1,200
Utilisation rate	29.58%	87.50%	60.42%

### **Other Financial Services**

Actual	37	47	72
Annual Cap	1,200	1,200	1,200
Utilisation rate	3.08%	3.92%	6%

### **Transactions under the Existing Finance Lease and Factoring Framework Agreement**

Maximum daily outstanding factoring balance (including factoring prepaying, factoring fee and factoring handling charges) of AVIC Lease Factoring Services

Actual	30	25	5
Annual Cap	1,500	1,500	1,500
Utilisation rate	2.00%	1.67%	0.33%

---

## LETTER FROM THE BOARD

---

### 4. Proposed Caps for the Continuing Connected Transactions under the Renewal Agreements

#### 4.1 Proposed caps for the Continuing Connected Transactions under the Renewal Agreements

Based on the factors set out in paragraph 4.2 under Section I of the letter from the Board of this circular, the Directors have estimated the caps for each of the continuing connected transactions under the Renewal Agreements for each of the three years ending 31 December 2026, which are set out below:

<i>(RMB' million)</i>	Year ending 31 December 2024	Year ending 31 December 2025	Year ending 31 December 2026	Cross- reference to the letter from the Board of this circular
<b>Expenditure transactions of the Group</b>				
Mutual Product Supply Agreement	20,980	24,320	26,000	Paragraph 2.1 under Section I
Mutual Service Supply Agreement	1,610	1,400	1,500	Paragraph 2.2 under Section I
AVIC Airborne Mutual Product and Service Supply Framework Agreement	2,800	3,000	3,100	Paragraph 2.3 under Section I
<b>Revenue transactions of the Group</b>				
Mutual Product Supply Agreement	43,350	45,220	51,760	Paragraph 2.1 under Section I
Mutual Service Supply Agreement	5,600	5,000	5,300	Paragraph 2.2 under Section I
<b>Transactions under Financial Services Framework Agreement</b>				
Maximum daily outstanding balance of deposits (including accrued interests) for Deposit Services	45,000	45,000	45,000	Paragraph 2.4 under Section I
Maximum daily outstanding factoring balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Finance Factoring Services	5,000	5,000	5,000	Paragraph 2.4 under Section I
Other Financial Services	3,000	3,000	3,000	Paragraph 2.4 under Section I

---

## LETTER FROM THE BOARD

---

<i>(RMB' million)</i>	Year ending 31 December 2024	Year ending 31 December 2025	Year ending 31 December 2026	Cross- reference to the letter from the Board of this circular
<b>Transactions under the Finance Lease and Factoring Framework Agreement</b>				
Maximum daily outstanding factoring balance (including factoring prepaying, factoring fee and factoring handling charges) of AVIC Lease Factoring Services*	1,000	1,000	1,000	Paragraph 2.5 under Section I

\* *AVIC Lease Factoring Services are Non-exempt Transactions after being aggregated with AVIC Finance Factoring Services.*

#### **4.2 Basis of determination of the proposed caps for Non-exempt Transactions**

##### **(1) Mutual Product Supply Agreement**

Under the Mutual Product Supply Agreement, the Group primarily provides the aviation entire aircraft and avionics products to AVIC Group, and AVIC Group primarily provides the relevant parts and components to the Group which are necessary for the manufacturing of the aforesaid aviation entire aircraft and avionics products.

The proposed caps for the revenue transactions for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

##### **(i) historical transaction amount and expected growth**

The proposed caps for the three years ending 31 December 2026 are determined after taking into account (i) the historical transaction amount of approximately RMB15,674 million and RMB18,152 million respectively for the year ended 31 December 2021 and 31 December 2022; (ii) the expected sales volume of products of the Group, in particular, the expected additional sales volume of electromechanical products as a result of the Share Swap and Absorption for the year ending 31 December 2023, and the Company has revised and increased the proposed annual cap for the revenue transactions under the Existing Mutual Product Supply Agreement for the year ending 31 December 2023 to RMB34,516 million (for details please refer to the Company's circular dated 16 January 2023); and (iii) the expected growth of relevant business in 2024 based on the current operation plan which is expected to lead to

---

## LETTER FROM THE BOARD

---

significant increase of sales volume of aviation products, and after taking into account the orders from AVIC Group and the commercial negotiations ongoing with AVIC Group in relation to potential orders.

- (ii) adequate buffer for potential demands of AVIC Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential product demands of AVIC Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, the research, development and manufacturing of the Group's possible new products, and the potential business development and expansion of AVIC Group in the future.

The proposed caps for the expenditure transactions for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

- (i) expected growth in demand of the Group

The Group will purchase relevant parts and components from AVIC Group for the manufacturing of the aviation entire aircraft and avionics products. The proposed caps for the three years ending 31 December 2026 are determined after taking into account (i) the historical transaction amount of approximately RMB10,567 million and RMB11,471 million respectively for the year ended 31 December 2021 and 31 December 2022; (ii) the expected increase in procurement of parts and components according to the production plan and the expected additional purchase costs for the production of electromechanical products as a result of the Share Swap and Absorption for the year ending 31 December 2023, and the Company has revised and increased the proposed annual cap for the expenditure transactions under the Existing Mutual Product Supply Agreement for the year ending 31 December 2023 to RMB23,640 million (for details please refer to the Company's circular dated 16 January 2023).

As the procurement of products has become more stable, the expenditure transactions for 2024 is expected to be lower than in the annual cap for the year 2023. The annual growth rate of the expenditure transactions for each of 2025 to 2026 is expected to be 16% and 7%, respectively.

- (ii) adequate buffer for potential demands of the Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential product demands of the Group. The 5% to 10% buffer is added based on the development in national economy and aviation

---

## LETTER FROM THE BOARD

---

industry, the research, development and manufacturing of the Group's possible new products, and the potential business development and expansion of the Group in the future.

Prior to completion of the Share Swap and Absorption, AVIC Electromechanical was listed on the Shenzhen Stock Exchange (stock code: 002013.SZ) and its market capitalization immediately prior to completion of the Share Swap and Absorption was approximately RMB41,632.36 million, and it had more than 20 subsidiaries. The consolidated total assets of the AVIC Electromechanical Group as at 31 December 2020 and 31 December 2021 amounted to approximately RMB30,247.22 million and RMB34,893.66 million respectively. The consolidated revenue of the AVIC Electromechanical Group for the year ended 31 December 2020 and 31 December 2021 was approximately RMB12,224.10 million and RMB14,992.20 million respectively. Prior to completion of the Share Swap and Absorption, there have been a large amount of intragroup transactions between AVIC Electromechanical Group and AVIC, as well as between AVIC Electromechanical Group and the subsidiaries of AVIC <sup>Note</sup>. Upon completion of the Share Swap and Absorption, AVIC Electromechanical Group has become part of the Group, hence those transactions between AVIC Electromechanical Group and AVIC Group (excluding the Group) have subsequently become connected transactions of the Company.

(2) *Mutual Service Supply Agreement*

The proposed caps for the revenue transactions for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

(i) provision of aviation engineering services to AVIC Group

Under the Mutual Service Supply Agreement, the Group mainly provides aviation engineering services to AVIC Group through AVIC CAPDI. The proposed caps for the three years ending 31 December 2026 are determined after taking into account the steady annual growth of the aviation engineering industry. It is expected that the revenue of aviation engineering services of the Group will grow at an annual rate of around 6% from 2024 to 2026 taking into account the compound annual growth rate of around 7% in the past three years.

*Note:* Please refer to the following hyperlinks for announcements published by AVIC Electromechanical prior to completion of the Share Swap and Absorption in relation to connected transactions between AVIC Electromechanical Group and the subsidiaries of AVIC:

<https://www.szse.cn/disclosure/listed/bulletinDetail/index.html?af6c0537-50dc-4f7e-a649-18151ba8d54a>

<https://www.szse.cn/disclosure/listed/bulletinDetail/index.html?d9da31af-3aec-4b50-9d9d-53f1a75319ef>

<https://www.szse.cn/disclosure/listed/bulletinDetail/index.html?c3f3e40b-d711-444e-af2b-1e0399f55438>

---

## LETTER FROM THE BOARD

---

- (ii) provision of labour services and other services to AVIC Group

The Group expects that the revenue from labour services due to the Share Swap and Absorption will increase by around RMB270 million for the year ending 31 December 2024. Besides, based on the signed contracts, orders and the Group's manufacturing plan and business development, the expected revenue from manufacturing-related labour services for aviation entire aircraft business is approximately RMB1,300 million for the year ending 31 December 2024.

As the Group expects a decrease in provision of labour services to AVIC Group in 2025 and 2026 under the signed contracts, orders and the Group's manufacturing plan, hence there is a slight decrease in the proposed annual caps for the year ending 31 December 2025 and 31 December 2026 as compared to the proposed annual cap for the year ending 31 December 2024.

The Group did not have a high utilisation rate for the annual caps for revenue transactions under the Existing Mutual Service Supply Agreement for the years ended 31 December 2021 and 31 December 2022 mainly due to the decrease in contracts and orders as affected by the market, and the revenue growth of the engineering services provided by the Group was lower than expected at the time when setting the original caps in the Existing Mutual Service Supply Agreement.

- (iii) adequate buffer for potential demands of AVIC Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential services demands of AVIC Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry (based on the expected growth of around 5% in the 2023 gross domestic product in the PRC and the growth rate in revenue of AVIC Group was around 7% in 2022), and the potential business development and expansion of AVIC Group in the future.

The proposed caps for the three years ending 31 December 2026 for the expenditure transactions are determined with reference to, among other things, the following factors:

- (i) provision of labour services by AVIC Group

AVIC Group mainly provides labour services such as corresponding outsourcing and comprehensive services to the Group. For the year ending 31 December 2024, the Group expects to incur additional labour expenditure of approximately RMB240 million due to the Share Swap and Absorption. Along with the business development and increase of the

---

## LETTER FROM THE BOARD

---

Group's sales volume, the labour expenditures (such as outsourcing labour services) are expected to increase substantially in 2024 as compared to 2023. However, as the Group expects a decrease in its demand for certain types of labour services from AVIC Group in 2025 and 2026 based on the signed contracts, orders and the Group's manufacturing plan, hence the Group expects a decrease in the proposed annual caps for the year ending 31 December 2025 and 31 December 2026 as compared to the proposed annual cap for the year ending 31 December 2024. When determining the proposed annual caps for 2024 to 2026, the Group also took into account the historical and expected growth rates in labour wages.

The Group did not have a high utilisation rate for the annual caps for expenditure transactions under the Existing Mutual Service Supply Agreement for the years ended 31 December 2021 and 31 December 2022 mainly because the sales of certain aircraft models did not experience growth as expected when determining the original annual caps in the Existing Mutual Service Supply Agreement, thereby resulting in a cut down of the corresponding labour expenditure.

- (ii) adequate buffer for potential demands of the Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential services demands of the Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry (based on the expected growth of around 5% in the 2023 gross domestic product in the PRC and the growth rate in revenue of AVIC Group was around 7% in 2022) and the potential business development and expansion of the Group in the future, as well as the historical growth rate in the Group's operating revenue of approximately 5.5% for the year ended 31 December 2022 as compared to that of the year ended 31 December 2021.

- (3) *AVIC Airborne Mutual Product and Service Supply Framework Agreement*

The proposed caps for the expenditure transactions for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

- (i) intragroup transactions of the Group

The transactions under the AVIC Airborne Mutual Product and Service Supply Framework Agreement are intragroup transactions of the Group, and are mostly product pairing transactions between AVIC Airborne Group (mainly avionics products and electromechanical products) and the Group's entire aircraft companies (mainly the helicopters and trainers). Avionics products and electromechanical products are necessary aviation

---

## LETTER FROM THE BOARD

---

parts and components for the manufacturing of the aviation entire aircraft. AVIC Airborne Group is the major supplier for the related avionics products and electromechanical products in the Group's helicopters and trainers.

Therefore, when determining the proposed caps for the transactions contemplated under the AVIC Airborne Mutual Product and Service Supply Framework Agreement, the Company has also taken into account the growth rates of the revenue transactions of AVIC Airborne Group under the Mutual Product Supply Agreement.

- (ii) historical transaction amount and annual growth trend

Under the Existing Mutual Product and Service Supply and Guarantee Agreement, the expenditure transactions amount for the year ended 31 December 2022 has increased by approximately 17% when compared to that of 31 December 2021. Along with the growth in production and sales of the Group's aviation entire aircraft products, the Group has a corresponding higher demand for purchase of avionics products, which is expected to have a substantial increase for the year ending 31 December 2024 when compared to that for the year ended 31 December 2022, and an expected growth rate of approximately 7% to 9% between 2025 and 2026. Further, upon completion of the Share Swap and Absorption, it is expected that the Group will incur additional purchase costs for electromechanical products as a result. The Company has revised and increased the proposed annual caps for the expenditure transactions under the Existing Mutual Product and Service Supply and Guarantee Agreement for the year ending 31 December 2023 (for details please refer to the Company's circular dated 16 January 2023). It is expected that the additional purchase costs for electromechanical products for 2024 to 2026 would be around RMB1,400 million in total.

- (iii) adequate buffer for potential demands of the Group

The Company also sets a 10% buffer for the proposed caps to cover the potential demands of the Group for the relevant products and services. The 10% buffer is added based on the development in national economy and aviation industry (based on the expected growth of around 5% in the 2023 gross domestic product in the PRC and the growth rate in revenue of AVIC Group was around 7% in 2022), the potential business development and expansion of the Group in the future, as well as the historical growth rate in the Group's operating revenue of approximately 5.5% for the year ended 31 December 2022 as compared to that of the year ended 31 December 2021.

---

## LETTER FROM THE BOARD

---

(4) *Financial Services Framework Agreement*

Deposit Services

The proposed cap for the Deposit Services under the Financial Services Framework Agreement is the same as the annual cap under the Existing Financial Services Framework Agreement, which is determined with reference to, among other things, the following factors: (i) the maximum daily outstanding balance of deposits (including accrued interests) of approximately RMB19,100 million, RMB24,432 million and RMB16,220 million placed by the Group in AVIC Finance in the year ended 31 December 2021 and 2022 and the six months ended 30 June 2023; (ii) the cash and bank balances of the Group of approximately RMB30,378 million as at 30 June 2023; (iii) the expected payments as may be made by major customers in the aviation entire aircraft business segment and the expected payment schedule for the products provided by the Group during the relevant period; (iv) the expected growth in the business of the Group, leading to an increasing demand for the Deposit Services with higher level of funds; and (v) the fund management strategy of the Group of allocating a certain percentage of funds to AVIC Finance for more efficient use of funds available.

Besides, the proposed cap for the Deposit Services under the Financial Services Framework Agreement has also taken into account the increase in the number of subsidiaries of the Company after completion of the Share Swap and Absorption. Prior to completion of the Share Swap and Absorption, AVIC Electromechanical was listed on the Shenzhen Stock Exchange (stock code: 002013.SZ) and its market capitalization immediately prior to completion of the Share Swap and Absorption was approximately RMB41,632.36 million, and it had more than 20 subsidiaries. The consolidated total assets of the AVIC Electromechanical Group as at 31 December 2020 and 31 December 2021 amounted to approximately RMB30,247.22 million and RMB34,893.66 million respectively. The consolidated revenue of the AVIC Electromechanical Group for the year ended 31 December 2020 and 31 December 2021 was approximately RMB12,224.10 million and RMB14,992.20 million respectively. After completion of the Share Swap and Absorption, the expected demand for the Deposit Services of the Group will increase considering the increase in the number of subsidiaries of the Company.

AVIC Finance Factoring Services

The proposed caps for the AVIC Finance Factoring Services are determined with reference to, among other things, the following factors: (i) the historical maximum daily outstanding factoring financing balance of the AVIC Finance Factoring Services for the year ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023 respectively; (ii) the increase in the number of subsidiaries of the Company after completion of the Share Swap and Absorption, the expected demand of the Group for accounts receivable financing

---

## LETTER FROM THE BOARD

---

services from AVIC Finance after taking into account the forecast in the Group's business for 2024 to 2026 which considers the expected growth in the Group's revenue and accounts receivables; (iii) the total accounts receivable of the Group in the latest financial statements; and (iv) the Group may increase its demand for AVIC Finance Factoring Services towards the end of the year for the investment needs for the next financial year and the need to maintain certain level of working capital.

### Other Financial Services

The proposed caps for the Other Financial Services under the Financial Services Framework Agreement are determined with reference to, among other things, the following factors: (i) the historical transaction amount of Other Financial Services received by the Group for the year ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023; (ii) the expected increase in demand for Other Financial Services due to an increase in subsidiaries of the Company after completion of the Share Swap and Absorption, and each subsidiary with its own business needs and financial demands; (iii) in accordance with the 14th Five-Year Plan, certain subsidiaries of the Company have been enhancing its research and development input for new airplane models, which may affect the short-term liquidity of the Group in 2024 to 2026, thereby increasing the Group's demand in using bill acceptance and discount services to raise funds and for greater efficiency and flexibility in utilising the financing methods for additional funds; (iv) towards the end of the year, the Group has the need to maintain certain level of working capital, therefore, the Group may use more bill acceptance and discount services for greater efficiency in the use of funds; and (v) as disclosed in the 2022 annual report of the Group, as at 31 December 2022, the Group's notes payable amounted to approximately RMB10,417.3 million (comprising banker's acceptance bill of approximately RMB5,381.7 million and commercial acceptance bill of RMB5,035.6 million), the Group expects to increase its use of bill acceptance and discount services provided by AVIC Finance instead of other commercial banks in 2024 to 2026 when settling payment taking into account the advantages of engaging services provided by AVIC Finance as compared to other commercial banks as set out in section 5.3(b) below. The Company considers that it will not over-rely on the bill acceptance and discount services provided by AVIC Finance because the Company has adopted certain internal control mechanism to ensure the implementation of pricing policies in the continuing connected transactions agreements of the Group (as set out in section IV of the letter from the Board below). (As set out in section 2.4 in the letter from the Board above, the fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than, among others, the fees determined by the PBOC and other major commercial banks in the PRC.)

---

## LETTER FROM THE BOARD

---

The Group did not have a high utilisation rate for the annual caps for Other Financial Services for the years ended 31 December 2021 and 31 December 2022 because the Group did not utilise bill acceptance and discount services or other financial services of AVIC Finance as originally planned after considering its cash flow status and financing needs during such period.

(5) *Finance Lease and Factoring Framework Agreement*

AVIC Lease Factoring Services under the Finance Lease and Factoring Framework Agreement:

The proposed caps for the AVIC Lease Factoring Services under the Finance Lease and Factoring Framework Agreement are determined with reference to, among other things, the following factors: (i) the expected demand of the Group for accounts receivable financing services from AVIC Lease after taking into account the forecast in the Group's business for 2024 to 2026 which considers (a) the expected growth in the Group's revenue and accounts receivables and (b) the long settlement cycle of aircraft manufacturing business which may create pressure on the Group's liquidity; (ii) the total accounts receivable of the Group in the latest financial statements and the historical trend of the level of accounts receivable in the Group's financial statements; and (iii) the Group may increase its demand for AVIC Lease Factoring Services towards the end of the year (a) due to the enhancement in research and development input for new airplane models of certain subsidiaries of the Company in line with the 14th Five-Year Plan which may affect the short term liquidity of the Group, (b) for the investment needs for the next financial year (which are estimated based on the potential orders, signed contracts, historical investment amount and quantity of fixed assets), and (c) for the need to maintain certain level of working capital.

The Group did not have a high utilisation rate for the annual caps for AVIC Lease Factoring Services for the years ended 31 December 2021 and 31 December 2022 because the Group did not utilise the AVIC Lease Factoring Services as originally planned after considering its cash flow status, its financing needs and the various financing channels during such period.

As the above proposed caps were determined based on the historical transaction amounts and the expected business needs of the Group (which has also taken into account the development in the macroeconomics environment and the aviation industry), the Directors are of the view that the above proposed caps are fair and reasonable.

---

## LETTER FROM THE BOARD

---

### 5. Reasons for and Benefits of Continuing the Existing Continuing Connected Transactions

#### 5.1 *Continuing connected transactions (other than the transactions under the Financial Services Framework Agreement and the Finance Lease and Factoring Framework Agreement)*

Aviation industry is complex and technology intensive. The manufacturing of an entire aircraft (including the Group's helicopters and trainers) requires different products, parts and components from different enterprises.

The Group is an aviation manufacturing enterprise mainly engaged in the research, development, manufacture and sales of aviation entire aircraft (mainly helicopters and trainer aircraft) and aviation parts and components (mainly avionics products and electromechanical products), and the provision of aviation engineering services.

AVIC Group is the sole relatively complete system aviation manufacturer established under the support of the PRC's national government. It has the research and development capacities to manufacture aviation products independently, and it is mainly engaged in the manufacturing of aircraft, airborne equipment systems and other related pairing products and systems (other than helicopters, trainer aircrafts and aviation parts products manufactured by the Group).

##### (1) *Mutual Product Supply Agreement*

The Group is the sole production platform of helicopters and main production platform of trainer aircrafts for AVIC Group and it primarily provides the aviation entire aircrafts (mainly trainers and general aircrafts) and aviation parts and components (mainly avionics products and electromechanical products) to AVIC Group under the Mutual Product Supply Agreement to meet the orders received by AVIC Group from independent third parties and the production demands of AVIC Group.

The Group mainly procures from AVIC Group the necessary parts and components for manufacturing helicopters and trainers by the Group, such as control and navigation systems researched and developed by AVIC Group.

Due to the high technology barriers in aviation industry and the high quality requirements of customers, it is also difficult for the Group and AVIC Group to source substitute aviation products or aviation parts and components of comparable quality, specifications and value in the PRC from other producers.

##### (2) *Mutual Service Supply Agreement*

The Group primarily provides the aviation engineering services to AVIC Group through AVIC CAPDI, and provide labour services to AVIC Group; while AVIC Group primarily provides labour services and other support or composite services

---

## LETTER FROM THE BOARD

---

to the Group such as import and export agency services, test flight services and logistic services; in relation to the supply of labour services, AVIC Group will supply to the Group, and vice versa, depending on the requirements of different projects and the needs for the manufacturing businesses. The services under the Mutual Service Supply Agreement are essential to facilitate the smooth running of the Group's business operations.

(3) *AVIC Airborne Mutual Product and Service Supply Framework Agreement*

The transactions contemplated under the AVIC Airborne Mutual Product and Service Supply Framework Agreement are intragroup transactions of the Group, and are mostly product pairing transactions between AVIC Airborne Group and the Group's entire aircraft business. Avionics products and electromechanical products are necessary aviation parts and components for the manufacturing of the aviation entire aircraft. AVIC Airborne Group is the major supplier for the related avionics products and electromechanical products in the Group's helicopters and trainers.

The Company considers that the products and services provided by the relevant party are different from those provided by the counterparty, and are necessary for the business operation of the counterparty. Based on the following grounds, the Directors consider that it is beneficial to continue the relevant continuing connected transactions by way of entering into new framework agreements as set out in Section I of this letter from the Board of this circular:

- (a) the historical connection and long-standing business cooperation relationship between the Group and AVIC Group and AVIC Airborne Group;
- (b) AVIC, AVIC Airborne and their respective associates generally have a better understanding of the Group's business and can better ensure the standards of technology, quality, delivery and technical support of the products to meet the Group's requirements;
- (c) the continuing connected transactions between AVIC, AVIC Airborne and their respective associates and the Group in relation to mutual supply of products and services have facilitated and will continue to facilitate the overall operations and growth of the Group's business; and
- (d) the Directors (including the independent non-executive Directors) consider that such continuing connected transactions are and will continue to be conducted on normal commercial terms or better to the Group and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole, and the terms and the proposed caps of such continuing connected transactions will continue to be fair and reasonable to the Company.

---

## LETTER FROM THE BOARD

---

Taking into account the transaction model between the Group and AVIC Group as described above, the Company considers that the Group can develop independently in a steady and healthy way, and there is no major reliance risk in this regard.

The Group sells a large amount of defense related products to AVIC Group and the Group is currently the only helicopter production platform and a main production platform of training aircraft and aviation airborne system products within AVIC Group after several restructuring activities. In respect of certain aviation entire aircraft, AVIC Group is a procurement agent representing the government to purchase entire aircraft from the Group; in respect of the aviation parts, AVIC Group needs to purchase aviation parts from the Group to satisfy its production demand of aircraft without better alternatives due to the high technical barriers of the aviation manufacturing industry and the leading position of the Group in the industry. Therefore, the revenue of the Group generated from the AVIC Group should not be regarded as the Group's reliance on the AVIC Group while the Group and the AVIC Group rely on each other for business development. Taking into account the transaction model between the Group and AVIC Group as described above, the Directors are of the view that the Group can develop independently in a steady and healthy way, and there is no major reliance risk in this regard. The relationship between the Group and the AVIC Group is unlikely to materially adversely change or be terminated.

### ***5.2 Continuing connected transactions under the Financial Services Framework Agreement***

The reasons for the Group to enter into the Financial Services Framework Agreement are as follows:

- (a) the terms (including the interest rates) on the Deposit Services, the Loan Services, the AVIC Finance Factoring Services and the Other Financial Services offered by AVIC Finance to the Group will be equal to or more favourable than those offered to the Group by major commercial banks in the PRC;
- (b) AVIC Finance is regulated by the PBOC and the NAFR and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, so far as the Group is aware, AVIC Finance has internal control measures in place, the details of which are disclosed in paragraph 4 under Section V of the letter from the Board of this circular, which ensure the safety of the Group's deposits with AVIC Finance;
- (c) AVIC Finance's understanding of the Group's operations will enable it to provide more expedient and efficient services than major commercial banks in the PRC;

---

## LETTER FROM THE BOARD

---

- (d) pursuant to the relevant regulations of the PBOC and the CBIRC, the customers of AVIC Finance are limited to the members of AVIC Group and the Group, which will ensure more control by AVIC Finance of the risks that it may be exposed to as compared with other financial entities; and
- (e) the Group could satisfy its demands for financial services in daily business operations from the Financial Services Framework Agreement.

### ***5.3 Continuing connected transactions under the Finance Lease and Factoring Framework Agreement***

The reasons for the Group to enter into the Finance Lease and Factoring Framework Agreement are as follows:

- (a) the Finance Lease and Factoring Framework Agreement and the transactions contemplated thereunder will help to reduce capital occupation by accounts receivable; satisfy the funding requirement for business development and optimise its financial management and improve its capital usage efficiency and reduce financing costs and risks and thus will facilitate and smooth the business development and operations of the Company; and
- (b) as compared to other financial institutions such as commercial banks, AVIC Lease is able to offer greater flexibility on the financing terms and provide financing services more efficiently with streamlined procedures.

These advantages make AVIC Lease Factoring Services a suitable financing channel complementary to other channels available to the Group.

## **II. PROPOSED REVISION OF ORIGINAL AVIC FINANCE FACTORING SERVICES CAP**

### **1. Background**

After the Share Swap and Absorption, the number of subsidiaries of the Company has increased, the Board expects that there will be an increase in the Group's demand for the AVIC Finance Factoring Services and the Original AVIC Finance Factoring Services Cap Services under the Existing Financial Services Framework Agreement will be insufficient to meet the Group's expected needs.

Therefore, the Board proposed to revise and increase the Original AVIC Finance Factoring Services Cap to the Proposed Revised Cap. Furthermore, on 22 August 2023, the Company and AVIC Finance entered into the Supplemental Financial Services Framework Agreement to increase the Original AVIC Finance Factoring Services Cap to the Proposed Revised Cap. Save as the Proposed Revised Cap for the AVIC Finance Factoring Services, all other terms and conditions under the Existing Financial Services Framework Agreement shall remain the same.

---

## LETTER FROM THE BOARD

---

### 2. Supplemental Financial Services Framework Agreement

Principal terms of the Supplemental Financial Services Framework Agreement are summarised as follows:

**Date** : 22 August 2023

**Parties** : The Company

AVIC Finance

**Subject Matter** : AVIC Finance has agreed to provide the Group with the AVIC Finance Factoring Services with a maximum daily outstanding factoring financing balance of AVIC Finance Factoring Services (including factoring prepayment, factoring fee and factoring handling charges) shall not exceed RMB2,500 million.

Save as the Proposed Revised Cap for the AVIC Finance Factoring Services, all other terms and conditions under the Existing Financial Services Framework Agreement shall remain the same.

**Major Terms** : The Supplemental Financial Services Framework Agreement shall become effective on the date of completion of internal approval procedures by both parties to the agreement in accordance with relevant laws (including the applicable listing rules) and the articles of association of both parties to the agreement and shall end on 31 December 2023.

---

## LETTER FROM THE BOARD

---

### 3. Proposed Revision of the Original AVIC Finance Factoring Services Cap

Details of the proposed revision to the cap are as follows:

<i>RMB' million</i>	<b>Actual transaction amount for the six months ended 30 June 2023</b>	<b>For the year ending 31 December 2023</b>	<b>Proposed</b>
		<b>Original Cap</b>	<b>Revised Cap</b>

#### **The Supplemental Financial Services Framework Agreement**

Maximum daily outstanding  
factoring financing balance  
(including factoring  
prepayment, factoring fee and  
factoring handling charges) of  
AVIC Finance Factoring  
Services

725	1,200	2,500
-----	-------	-------

By the Latest Practicable Date, the Original AVIC Finance Factoring Services Cap had not been exceeded.

### 4. Basis of Determination of the Proposed Revised Cap

The proposed annual cap for the AVIC Finance Factoring Services for the year ending 31 December 2023 is determined based on the historical maximum daily outstanding factoring balance for the year ended 31 December 2021 and 31 December 2022 and the expected increase in the demand for the AVIC Finance Factoring Services by AVIC Airborne Group after considering (i) the maximum daily outstanding factoring balance (including factoring prepayment, factoring fee and factoring handling charges) of the factoring services under the Existing Financial Services Framework Agreement for the year ended 31 December 2022 (i.e. RMB1,050 million) almost reached the original annual cap for the financial year ending 31 December 2023 (i.e. RMB1,200 million); and (ii) upon completion of the Share Swap and Absorption, the number of the Company's subsidiaries has increased, which would lead to an increase in demand for the AVIC Finance Factoring Services by AVIC Airborne Group in the second half of 2023 (being approximately RMB600 million), and it is expected that the original annual cap will be insufficient to satisfy the Group's demand for AVIC Finance Factoring Services for the year ending 31 December 2023. Further, due to the Group's business nature, the Group generates a higher level of revenue and accounts receivables in the second half of the year compared to the first half of the year; coupled with the investment needs for the next financial year and the needs of the Group to maintain certain level of working capital towards the end of the year, the Group would have a higher demand for AVIC Finance Factoring Services in late 2023.

---

## LETTER FROM THE BOARD

---

### 5. **Reasons and benefits for entering into the Supplemental Financial Services Framework Agreement and the Proposed Revised Cap**

Reference is made to the announcement of the Company dated 10 June 2022 and the circular of the Company dated 29 September 2022 in relation to the Share Swap and Absorption. Upon completion of the Share Swap and Absorption, there was an increase in the scope and the amount of services to be obtained by the Group under the Existing Financial Services Framework Agreement arising from an increase in subsidiaries of the Company. Furthermore, it is expected that there will be an increase in transaction amounts under the Existing Financial Services Framework Agreement for the year ending 31 December 2023 as a result of the continued growth and increase in scale of operation of the Group. Therefore, the entering into of the Supplemental Financial Services Framework Agreement and the Proposed Revised Cap are beneficial to and necessary for the business operation of the Group.

### III. **HONG KONG LISTING RULES IMPLICATIONS**

#### **Continuing connected transactions implications**

As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company holding directly and indirectly 60.25% of all issued Shares. Each of AVIC Finance and AVIC Lease is a subsidiary of AVIC. AVIC Airborne is a connected subsidiary of the Company by virtue of being directly and indirectly owned as to over 10% by AVIC. Accordingly, each of AVIC, AVIC Finance, AVIC Lease and AVIC Airborne is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. The transactions contemplated under the New Agreements and the Proposed Revised Cap therefore constitute continuing connected transactions.

#### ***Non-exempt Transactions***

As the highest applicable percentage ratios in respect of the proposed annual caps for the three years ending 31 December 2026 of (i) the transactions contemplated under the Mutual Product Supply Agreement; (ii) the transactions contemplated under the Mutual Service Supply Agreement; (iii) the expenditure transactions contemplated under the AVIC Airborne Mutual Product and Service Supply Framework Agreement; (iv) the Deposit Services contemplated under the Financial Services Framework Agreement; (v) the Other Financial Services contemplated under the Financial Services Framework Agreement; and (vi) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement and the AVIC Finance Factoring Services contemplated under the Financial Services Framework Agreement on an aggregated basis exceed 5%, such continuing connected transactions are subject to reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the Proposed Revised Cap for the year ending 31 December 2023 of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement exceeds 5%, such continuing connected transactions are subject to reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

---

## LETTER FROM THE BOARD

---

### *Maxa Capital's opinion*

As the term of the underlying specific contracts in relation to the Finance Lease Services to be entered into pursuant to the Finance Lease and Factoring Framework Agreement may exceed three years, the Company has appointed Maxa Capital as the Independent Financial Adviser to explain why the said specific contracts in relation to Finance Lease Services require a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration pursuant to Rule 14A.52 of the Hong Kong Listing Rules.

### **Notifiable transactions implications**

#### *Discloseable transactions*

As the highest applicable percentage ratios in respect of (i) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement and the AVIC Finance Factoring Services contemplated under the Financial Services Framework Agreement on an aggregated basis; and (ii) the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement exceed 5% but are less than 25%, the continuing connected transactions contemplated thereunder also constitute discloseable transactions under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

#### *Major transactions*

As the highest applicable percentage ratios in respect of the Deposit Services under the Financial Services Framework Agreement exceed 25%, the Deposit Services also constitute major transactions under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

### **General**

Mr. Liu Bingjun, a non-executive Director, who is also a vice director of the Capital Operation Department of AVIC, had abstained from voting on the relevant Board resolution(s) approving (i) the transactions contemplated under the New Agreements and the proposed caps for such transactions; and (ii) the Proposed Revised Cap in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save as disclosed above, none of the other Directors has or is deemed to have a material interest in the above-mentioned continuing connected transactions and the proposed revision.

Shareholders should note that all the proposed caps as set out in this circular should not be construed as an assurance or forecast by the Company of the future revenue of the Group.

---

## LETTER FROM THE BOARD

---

### IV. INTERNAL CONTROL MECHANISM

To ensure the implementation of the pricing policies in each of the continuing connected transactions agreements of the Group, the Company has adopted the following control mechanism:

1. The Company has adopted the Administrative Measures for Connected Transactions (《關連交易管理辦法》), requiring its subsidiaries to (i) establish management systems and working procedures for connected transactions; (ii) establish or clarify the responsibilities of the departments and positions in charge of the management of connected transactions; and (iii) keep statistics, analysis and daily monitoring on the various connected transactions conducted by each of the subsidiaries. The Company also requires its subsidiaries not to breach the provisions in the framework agreements signed by the Company and its connected persons when entering into their specific continuing connected transactions agreements or contracts;
2. Subsidiaries of the Company have established strict internal control systems, procedures and information systems in order to ensure the fairness of pricing and safeguard the best interests of the Company. Pursuant to the above measures, the subsidiaries of the Company manage the pricing terms through an internal transparent management system. The selling price is determined with reference to the internal price set by the subsidiary according to the applicable pricing system and after joint approvals from the sales department and the financial departments. Likewise, the purchase price will be determined after seeking and comparing prices offered by the selected suppliers in the pricing system of Market Price and after approvals from relevant departments. If the bidding process applies, the price will be determined through the bidding process in accordance with the applicable PRC laws and regulations. The internal audit departments in the subsidiaries of the Company will also audit the various business activities including procurement and sales;
3. The department in charge of connected transactions of the Company is responsible for supervising the daily connected transactions of the Group and reporting the performance of the framework agreements and the relevant data to the management of the Company on a quarterly basis; The internal control department of the Company shall review and evaluate the internal control situation of the Group annually, prepare reports on internal control and submit to the audit and risk management committee for review;
4. The independent non-executive Directors shall conduct annual review of the continuing connected transactions to ensure that the connected transactions agreements are entered into in the ordinary and usual course of business of the Group, on normal or favourable commercial terms and pursuant to the framework agreements, with fair and reasonable terms and in the interests of the Company and its Shareholders as a whole, and will provide confirmation in the annual reports of the Company in accordance with the Hong Kong Listing Rules; and
5. The auditors of the Company shall also conduct annual review of the pricing and the annual caps of the continuing connected transactions under the framework agreements and provide comfort letters.

---

## LETTER FROM THE BOARD

---

### V. GENERAL INFORMATION

#### 1. Information of the Company

The Company is a joint stock limited 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.

#### 2. Information of AVIC

AVIC is 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 directly and indirectly 60.25% equity interest in the Company as at the Latest Practicable Date.

#### 3. Information of AVIC Airborne

AVIC Airborne is a joint stock limited company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. AVIC Airborne is a 16.50% owned subsidiary of the Company as at the Latest Practicable Date, which is mainly engaged in the manufacture and sale of avionics products and electromechanical system products.

#### 4. Information of AVIC Finance

AVIC Finance is a limited liability company established in the PRC and a subsidiary of AVIC as at the Latest Practicable Date. It is licensed by the CBIRC and is engaged in the provision of financial services which principally include absorption of deposits of member companies, handling loans of member companies, handling bills discounting of member companies, handling funds settlement and acceptance/payment of member companies, providing entrustment loans to member companies, underwriting of debentures, non-financing guarantee letters, financial advisory services, credit certification and advisory agency services, inter-bank lending, handling bills acceptance of member companies, handling buyer's credit and spending credit of member companies, fixed-income investments, and other businesses as may be approved by the NAFR.

So far as the Group is aware, AVIC Finance is subject to the following internal control measures, which ensure the safety of the Group's deposits with AVIC Finance:

- (a) As a licensed financial institution in the PRC, AVIC Finance is under the supervision of PBOC and NAFR, including the regular examination of the audited financial statements and other relevant materials required to be filed by AVIC Finance, as well as face-to-face review and interview with the senior management of AVIC Finance;

---

## LETTER FROM THE BOARD

---

- (b) AVIC Finance has established strict internal control measures to ensure effective risk management and compliance with relevant laws and regulations, including the corporate governance structure, internal standards and policies and standard operating procedures, as well as intra-group check and balance mechanism; and
- (c) AVIC Finance will adopt the following additional internal control measures in respect of the Deposit Services provided by AVIC Finance under the Financial Services Framework Agreement: (i) The Group shall have the right to use the deposit funds to offset against any accounts payable by the Group to AVIC Finance in the event that the Group is not able to recover its deposits with AVIC Finance; and (ii) AVIC Finance shall submit monthly and annual reports to the Group in respect of the Group's deposits with AVIC Finance during the period of having deposits with AVIC Finance.

### 5. Information of AVIC Lease

AVIC Lease is a limited liability company incorporated in the PRC and was a subsidiary of AVIC as at the Latest Practicable Date. It is mainly engaged in finance leasing, self-owned equipment leasing, residual value processing and maintenance of leased assets, contract energy management, and consulting services relevant to the above businesses, and non-bank financial services as approved by relevant departments such as factoring.

## VI. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In view of the repeal of the Special Provisions of the State Council on Overseas Share Offerings and Listing of Joint Stock Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) and the Notice on the Implementation of the Mandatory Provisions for the Articles of Association of Companies Listed Overseas (《關於執行〈到境外上市公司章程必備條款〉的通知》, the “**Mandatory Provisions**”) and the consequential amendments to the Hong Kong Listing Rules in respect of the PRC issuers which have come into effect (including, without limitation, the removal of the class meeting and related requirements for the issuance and repurchase of shares by PRC issuers and the removal of the requirements for PRC issuers' articles of association to include the Mandatory Provisions and other ancillary provisions), and taking into account the actual circumstances of the Company and the prevailing legal requirements, the Board proposed to amend the Articles of Association on 22 August 2023 as follows:

1. To amend Article 14 of the Articles of Association as the Trial Administrative Measures of Overseas Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) was implemented on 31 March 2023:

**Article 14** The Company may issue shares to investors inside the PRC and to investors outside the PRC ~~in accordance with the law following approval from the securities regulatory authorities of the State Council, and file with the China Securities Regulatory Commission (“CSRC”) in accordance with regulations.~~

---

## LETTER FROM THE BOARD

---

2. To amend Article 16 and Article 17 of the Articles of Association as the Mandatory Provisions were repealed on 31 March 2023 and it is proposed to delete the chapter of “Special Procedures for Voting of Class Shareholders” from the Articles of Association:

**Article 16** Upon approval from the securities regulatory authorities of the State Council, domestic shareholders of the Company may transfer the shares held by them to overseas investors and such shares could be listed and traded on the overseas stock exchanges. Shares transferred and listed on an overseas stock exchange shall comply with the supervision procedures, regulations and requirements of the overseas stock exchange.

No general meeting ~~or class shareholders’ meeting~~ is required to be held for voting on the listing and trading of shares so transferred on such overseas stock exchange.

**Article 17** Upon approval from the securities regulatory authorities of the State Council, the domestic invested shares can be converted to overseas listed foreign invested shares, and listed and traded on the overseas stock exchanges. The listing and trading of the transferred shares on the overseas stock exchanges shall comply with the supervision procedures, regulations and requirements of the overseas stock exchange.

No general meeting ~~or class shareholders’ meeting~~ is required to be held for voting on converting of domestic invested shares to overseas listed foreign invested shares and listing and trading on the overseas stock exchanges. ~~Upon transfer to overseas listed foreign invested shares, the domestic invested shares shall be in the same class of original overseas listed foreign invested shares.~~

3. To amend Article 19 of the Articles of Association as the Company completed the issuance of 261,522,000 Domestic Shares in July 2023:

**Article 19** Upon the approval of the securities regulatory authorities of the State Council, a total number of 1,679,800,500 shares of overseas listed foreign invested shares (including 1,527,090,000 shares issued by the Company, and 152,710,500 existing shares held by State-owned shareholder of the Company sold pursuant to the relevant requirements of the PRC regulations on reduction of State-owned shares), had been issued and sold after the establishment of the Company.

Upon the approval of the securities regulatory authorities of the State Council, the Company issued and sold 305,416,000 shares of overseas listed foreign invested shares on 10 March, 2010, and Aviation Industry Corporation of China sold 29,217,402 existing shares pursuant to the relevant requirements of the PRC regulations on reduction of state-owned shares. The Company issued 183,404,667 domestic shares on 18 January, 2012; the Company issued and allotted 342,000,000 shares of overseas listed foreign invested shares on 2 March, 2012; the Company issued 491,692,669 Domestic Shares in June 2016. 3,609,687,934 domestic shares of the Company were converted into overseas listed foreign invested shares in June 2018; the Company issued and allotted 279,000,000 shares of overseas listed foreign invested shares in December 2018; the Company canceled a total of 34,459,000 repurchased shares of overseas

---

## LETTER FROM THE BOARD

---

listed foreign invested shares in June and September 2020; the Company issued 1,500,669,406 domestic shares in December 2020; **the Company issued 261,522,000 domestic shares in July 2023.**

The current shareholding structure of the Company is: the total number of issued ordinary shares of the Company amounts to ~~7,972,854,242~~7,711,332,242 shares, among which ~~1,762,191,406~~1,500,669,406 shares are held by shareholders of domestic shares, representing ~~22.10~~19.46% of the total number of issued ordinary shares of the Company, and 6,210,662,836 shares are held by shareholders of overseas listed foreign invested shares, representing ~~77.90~~80.54% of the total number of issued ordinary shares of the Company.

4. To amend Article 20 and Article 21 of the Articles of Association in accordance with current relevant laws and regulations:

**Article 20** ~~After~~**For** the plan ~~to issue~~~~for issuing~~ overseas listed foreign invested shares and domestic invested shares ~~has been approved by the securities regulatory authorities of the State Council,~~ the Board may arrange for implementation of such plan by means of separate issues.

~~The Company's plan for separate issues of overseas listed foreign invested shares and domestic invested shares in accordance with the preceding paragraph may be implemented separately within 15 months of being approved by the securities regulatory authorities of the State Council.~~

**Article 21** When the Company issues overseas listed foreign invested shares and domestic invested shares separately within the total number of shares specified in the issue plan, every such issue shall be fully subscribed for each time. Where special circumstances make it impossible for every such issue to be fully subscribed for at one time, the shares may be issued at several stages, ~~subject to the approval of the securities regulatory authorities of the State.~~

5. To amend Article 22 of the Articles of Association as the Company completed the issuance of 261,522,000 domestic shares in July 2023:

**Article 22** The registered capital of the Company is RMB~~7,972,854,242~~7,711,332,242.

6. To amend Article 27 and Article 28 of the Articles of Association in accordance with current relevant laws and regulations:

**Article 27** The Company may, in the following circumstances, buy back its own issued and outstanding shares following the adoption of a pertinent resolution in accordance with the procedures provided for in the Articles of Association, ~~and submission to and approval by the relevant State authorities:~~

1. cancellation of shares in order to reduce its capital;
2. merger with another company holding shares in the Company, or

---

## LETTER FROM THE BOARD

---

3. other circumstances where laws or administrative regulations so permit.

**Article 28** ~~After the Company may is approved by relevant State authorities to buy back its own shares, it may proceed~~ in any of the following manners:

1. making of a buy-back offer in the same proportion to all shareholders;
  2. buy-back through open transactions on a stock exchange; or
  3. buy-back by an agreement outside a stock exchange.
7. To amend Article 64 of the Articles of Association as the Mandatory Provisions were repealed on 31 March 2023, and it is proposed to delete the chapter of “Special Procedures for Voting of Class Shareholders” from the Articles of Association:

**Article 64** The instrument appointing a proxy to vote shall be delivered to the address of the Company or any other place designated in the notice of the meeting at least 24 hours before the convening of the meeting to which such instrument is relevant, or 24 hours before the designated time for voting. If the instrument is signed by the other person authorized by the appointer, the power of attorney authorizing the signature or other authorization documents shall be notarially certified. Such power of attorney or other authorization documents notarially certified, together with the instrument appointing the proxy shall be placed at the address of the Company or any other place designated in the notice of the meeting.

If the appointer is a legal person, its legal representative or such person authorized by a resolution of the board of directors or other decision-making body of such legal person can attend at any shareholders’ general meeting of the Company as a representative of the appointer.

If a shareholder is a recognized clearing house (or its proxy), it could authorize one or more persons it considers appropriate as its representative at any shareholders’ general meeting, ~~any class shareholders’ meetings~~ or any creditors’ meeting, however, if more than one person are so authorized, the authorization letter should specify the number and class of shares relating to each of the authorized persons. The authorized person can represent a recognized clearing house (or its proxy) to exercise its rights (including speaking rights and voting rights) in the same manner as it is an individual shareholder of the Company.

8. To delete Article 73 of the Articles of Association as the Mandatory Provisions were repealed on 31 March 2023:

~~**Article 73** In the case of an equality of votes cast in favor of and against the relevant resolution, whether on a show of hands or by poll, the chairman of the meeting at which a show of hands takes place or at which the poll is demanded is entitled to have a casting vote.~~

---

## LETTER FROM THE BOARD

---

9. To amend Article 76 of the Articles of Association as the Mandatory Provisions were repealed on 31 March 2023 and it is proposed to delete the chapter of “Special Procedures for Voting of Class Shareholders” from the Articles of Association:

**Article 76** In the event that shareholders request to convene an extraordinary general meeting ~~or a class shareholders’ meeting~~, the following procedures shall be followed:

1. two or more shareholders that collectively represent more than 10% (including 10%) of the voting shares at the meeting proposed to be convened may sign and submit one or several written requests identical in form and content, urging the Board to convene an extraordinary general meeting ~~or a class shareholders’ meeting~~ and clarifying the matters to be considered at the meeting. Upon such written request(s), the Board shall convene the extraordinary general meeting ~~or the class shareholders’ meeting~~ at the earliest time possible. The aforementioned voting shares shall be calculated upon the date when the written request(s) is/are submitted;

.....

10. To delete Chapter Nine of the Articles of Association and to add Article 81 to the Articles of Association as the Mandatory Provisions were repealed on 31 March 2023 and the Hong Kong Listing Rules have also been amended:

### ~~Chapter Nine Special Procedures for Voting of Class Shareholders~~

~~**Article 82** Shareholders that hold different classes of shares shall be class shareholders. Class shareholders shall enjoy rights and bear obligations in accordance with provisions of laws, administrative regulations and the Articles of Association.~~

~~**Article 83** If the Company intends to vary or abrogate the rights of class shareholders, it may do so only after such variation or abrogation has been approved by way of a special resolution at the shareholders’ general meeting and by a separate class shareholders’ meeting convened by the affected class shareholders in accordance with Articles 85 to 89, except for the circumstances that listing and trading on overseas stock exchange of shares transferred set out in Article 16 herein and the concerting of domestic invested shares to overseas listed foreign invested shares set out in Article 17 herein.~~

~~**Article 84** Rights of shareholders of a certain class shall be deemed to be varied or abrogated under the following circumstances:~~

- ~~1. the increase or decrease of the number of shares of such class, or increase or decrease of the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;~~
- ~~2. the conversion of all or part of the shares of such class into shares of another class, or the conversion of all or part of the shares of another class into shares of such class or the grant of the right to such change;~~

---

## LETTER FROM THE BOARD

---

- ~~3. the removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such class;~~
- ~~4. the reduction or removal of a dividend preference, or a property distribution preference during liquidation of the Company, attached to shares of such class;~~
- ~~5. the addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, preemptive rights to rights issues or rights to acquire securities of the Company attached to shares of such class;~~
- ~~6. the removal or reduction of rights to receive amounts payable by the Company in particular currencies attached to shares of such class;~~
- ~~7. the creation of a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of that class;~~
- ~~8. the imposition of restrictions or additional restrictions on the transfer or ownership of shares of such class;~~
- ~~9. the issuance of rights to subscribe for, or convert into, shares of such class or another class;~~
- ~~10. the increase of the rights and privileges of shares of another class;~~
- ~~11. such restructuring of the Company as would cause shareholders of different classes to bear disproportionate liabilities under the restructuring; or~~
- ~~12. the amendment or deletion of the provisions of this Chapter.~~

~~**Article 85** Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall have right to vote at class shareholders' meetings in respect of any of the matters referred to in items (2) to (8) and items (11) to (12) of Article 84, except that interested shareholders shall not have the right to vote at class shareholders' meetings.~~

~~For the purposes of the preceding paragraph, the term "interested shareholders" shall have the following meaning:~~

- ~~1. if the Company is to issue a buyback offer to all of the shareholders in the same proportion or is to buy back its own shares through open transactions on a stock exchange in accordance with Article 28 of the Articles of Association, the controlling shareholder as defined in Article 51 of the Articles of Association shall be an "interested shareholder";~~

---

## LETTER FROM THE BOARD

---

- ~~2. if the Company is to buy back its own shares by agreements outside a stock exchange in accordance with Article 28 of the Articles of Association, holders of shares to which such agreements relate shall be “interested shareholders”;~~
- ~~3. shareholders that, under a proposed restructuring of the Company, would bear liabilities in a proportion smaller than that of the liabilities borne by other shareholders of the same class, and shareholders that have an interest in a proposed restructuring of the Company that is different from the interest in such proposed restructuring of other shareholders of the same class, shall be “interested shareholders”.~~

~~**Article 86** Resolutions of a class shareholders’ meeting may be passed only by two thirds or more of the equity interests carrying voting rights that are represented at the meeting in accordance with Article 85.~~

~~**Article 87** Unless otherwise provided by the relevant laws, regulations and listing rules of the place where the securities of the Company are listed and the articles herein regarding means of shareholders communication, when the Company is to hold a class shareholders’ meeting, it shall issue a written notice informing all the registered shareholders of that class of the matters to be considered at and the date and place of the meeting according to the requirements on the notice period for holding the general meeting as prescribed in this Article 56 in this Articles of Association.~~

~~**Article 88** If a class shareholders’ meeting is to be called by issuance of a meeting notice, notice of such meeting need be delivered only to the shareholders entitled to vote thereat.~~

~~The procedure according to which class shareholders’ meetings are held shall, to the extent possible, be identical to the procedure according to which shareholders’ general meetings are held. Provisions of the Articles of Association relevant to procedures for the holding of shareholders’ general meetings shall be applicable to class shareholders’ meetings.~~

~~**Article 89** In addition to holders of other classes of shares, holders of domestic invested shares and overseas listed foreign invested shares shall be deemed to be shareholders of different classes;~~

~~The special procedures for voting of class shareholders shall not apply:~~

- ~~1. where, as approved by way of a special resolution at the shareholders’ general meeting, the Company issues, either separately or concurrently, domestic invested shares and overseas listed foreign invested shares every 12 months, and the number of the domestic invested shares and overseas listed foreign invested shares intended to be issued does not exceed 20 percent of the issued and outstanding shares of the respective classes;~~
- ~~2. where the plan for issuance of domestic invested shares and overseas listed foreign invested shares upon the establishment of the Company is completed within 15 months of being approved by the securities regulatory authorities of the State Council; or~~

---

## LETTER FROM THE BOARD

---

3. ~~where situations regarding the listing and trading on overseas stock exchange of shares transferred set out in Article 16 herein and the transfer of domestic invested shares to overseas listed foreign invested shares set out in Article 17 herein occur.~~

**Article 81** **In accordance with the regulatory requirements of the place of listing, if the Company is required to convene a meeting of H Shareholders in respect of any material matter, the relevant procedures for convening and voting at the H Shareholders' meeting shall be implemented in accordance with the relevant provisions of this chapter on shareholders' meetings.**

11. To amend Article 170 of the Articles of Association in accordance with the current provisions of the Company Law of the People's Republic of China (the "Company Law"):

**Article 162**~~170~~ The Company shall be dissolved **due to the following reasons** ~~in accordance with the law if:~~

1. the shareholders' general meeting resolves to dissolve the Company **by special resolution**;
  2. dissolution is necessary as a result of the merger or division of the Company;
  3. **the Company's business license is revoked or suspended or the Company is ordered to close down in accordance with the laws**~~; the Company is legally declared bankrupt because it is unable to pay its debts as they fall due;~~
  4. **where the Company gets into serious difficulties in operation and management and its continuation may cause substantial loss in shareholders' interests, and no solution can be found through any other channel, shareholders representing 10% or above of the total voting rights of the Company may request the People's Court to dissolve the Company; or** ~~the Company is ordered to closed down because of its violation of laws and administrative regulations.~~
  5. **the occurrence of other causes for dissolution prescribed by the Articles of Association.**
12. To add Article 163 to the Articles of Association in accordance with the current provisions of the Company Law:

**Article 163** **If the Company falls under the circumstances specified in Article 162 (5) of this Articles of Association, it may survive by amending this Articles of Association.**

**The amendment of this Articles of Association in accordance with the provisions of the preceding paragraph shall be approved by two-thirds or more of the voting rights held by the shareholders attending the shareholders' meeting.**

---

## LETTER FROM THE BOARD

---

13. To amend Article 171, Article 172, Article 174, Article 175 and Article 177 of the Articles of Association in accordance with the current provisions of the Company Law:

**Article ~~164~~<sup>174</sup>** If the Company is dissolved pursuant to the provisions of Article 162 (1), (3), (4) or (5) of this Articles of Association, a liquidation committee shall be established within 15 days from the date of the occurrence of the cause of dissolution to begin liquidation. The liquidation committee is composed of directors or personnel determined by the shareholders' meeting. If a liquidation committee is not established within the prescribed time limit for liquidation, creditors may apply to the People's Court to designate relevant personnel to form a liquidation committee for liquidation. The People's Court shall accept the application and promptly organize a liquidation committee to carry out liquidation. ~~item 1 of the preceding Article, it shall establish a liquidation committee and liquidation shall commence within 15 days from the date on which the cause for dissolution arose. The liquidation committee shall be composed of persons determined by the shareholders' general meeting by ordinary resolution.~~

~~If the Company is to be dissolved pursuant to item 3 of the preceding Article, the People's Court shall, in accordance with relevant laws, arrange for the shareholders, relevant authorities and relevant professionals to establish a liquidation committee to carry out liquidation.~~

~~If the Company is to be dissolved pursuant to item 4 of the preceding Article, the relevant governing authorities shall organize the shareholders, relevant authorities and relevant professionals to establish a liquidation committee to carry out the liquidation.~~

**Article ~~165~~<sup>172</sup>** ~~If the Board decides that the Company should be liquidated (otherwise than because of a declaration of bankruptcy),~~ the notice of the shareholders' general meeting convened for such purpose shall include a statement to the effect that the Board has made full inquiry into the position of the Company and that the Board is of the opinion that the Company can pay its debts in full within 12 months after the commencement of liquidation.

The functions and powers of the Board shall terminate immediately upon the adoption by the shareholders' general meeting of a resolution to carry out liquidation.

The liquidation committee shall take instructions from the shareholders' general meeting, and not less than once a year make a report to the shareholders' general meeting on the committee's receipts and expenditures, the business of the Company and the progress of the liquidation. It shall make a final report to the shareholders' general meeting when the liquidation is completed.

**Article ~~167~~<sup>174</sup>** The liquidation committee shall exercise the following functions and powers during liquidation:

1. to inventory the Company's property, and to prepare a balance sheet and a property list;
2. to notify creditors by notice and public announcement;

---

## LETTER FROM THE BOARD

---

3. to dispose of unfinished business of the Company relating to the liquidation;
4. to pay all outstanding taxes in full and taxes generated during the liquidation process;
5. to liquidate claims and debts;
6. to dispose of the Company's property remaining after the debts are paid in full; and
7. to represent the Company in civil actions.

**Article 168175** After the liquidation committee has inventoried the Company's property and prepared a balance sheet and a property list, it shall formulate a liquidation plan and submit such plan to the shareholders' general meeting or the People's Court~~relevant governing authorities~~ for confirmation.

.....

**Article 170177** Following completion of the liquidation of the Company, the liquidation committee shall prepare a liquidation report, as well as a revenue and expenditure statement and financial account books in respect of the liquidation period, and, after verification thereof by a PRC certified public accountant, submit the same to the shareholders' general meeting or the People's Court~~relevant governing authorities~~ for confirmation.

Within 30 days from the date of confirmation of the aforementioned documents by the shareholders' general meeting or the People's Court~~relevant governing authorities~~, the liquidation committee shall submit the same to the relevant company registration authority, apply for cancellation of the Company's registration and publicly announce the Company's termination.

After the proposed amendments to the Articles of Association become effect, Domestic shareholders and H Shareholders will no longer be deemed to be different class of shareholders, and the class meeting requirements will be removed from the Articles of Association and will no longer apply.

The Board is of the view that the proposed amendments to the Articles of Association (including the removal of the class meeting requirements from the Articles of Association following the repeal of the Mandatory Provisions) will not compromise protection of the shareholders and will not have material impact on measures relating to the shareholders' protection, as H Shares and Domestic Shares are regarded as one class of ordinary shares under the PRC law, and the substantive rights attached to these two kinds of shares (including voting rights, dividends and asset distribution upon liquidation) are the same.

The Company will continue to comply with Appendix 3 to the Hong Kong Listing Rules to meet the core shareholder protection level through compliance with PRC laws in combination with its Articles of Association.

---

## LETTER FROM THE BOARD

---

Save as disclosed in this circular, if the serial numbering of the chapters and articles is changed due to the addition or deletion of certain articles, the serial numbering of the chapters and articles of the Articles of Association as so amended shall be changed accordingly, including references.

The proposed amendments to the Articles of Association are subject to the consideration and approval of the Shareholders by way of special resolutions at the EGM and the Class Meetings.

### VII. PROPOSED AMENDMENTS TO THE RULES GOVERNING THE OPERATION OF SHAREHOLDERS' GENERAL MEETINGS

Pursuant to the above proposed amendments to the Articles of Association, on 22 August 2023, the Board also proposed to amend the Rules Governing the Operation of Shareholders' General Meetings as follows:

1. To amend Article 2, Article 22 and Article 35 of the Rules Governing the Operation of Shareholders' General Meetings as the Mandatory Provisions were repealed on 31 March 2023 and it is proposed to delete the chapter of "Special Procedures for Voting of Class Shareholders" from the Articles of Association and the Rules Governing the Operation of Shareholders' General Meeting:

**Article 2** Shareholders' general meetings can be classified as annual general meetings and extraordinary general meetings ~~or class shareholders' meetings~~.

**Article 22** If an extraordinary general meeting ~~or a class meeting~~ is proposed to be convened by the supervisory committee, or shareholders who individually or jointly hold 10% or more of the total voting shares at the proposed meeting, they may sign one copy or several copies of a written request in the same form and substance clearly specifying the topics for discussion for the meeting and at the same time submit to the board of directors a motion which complies with conditions as provided in the preceding articles of this Rules Governing the Operation of Shareholders' General Meetings.

**Article 35** Shareholders shall be registered to attend general meetings. Shareholders registering for a meeting should provide the following documents.

.....

Any shareholder who is a recognized clearing house (a "Recognized Clearing House") within the meaning of the applicable laws at the place where the shares of the Company are listed or its proxy may authorize one or more persons it considers appropriate as its representative at any shareholders' general meeting ~~or, any class shareholders' meeting~~ or any creditors' meeting to act as its representative; provided, however, that if more than one persons are so authorized the powers of attorney shall set forth the number and class of shares in respect of which each such persons is so authorized. Any person so authorized may exercise all the rights, including the right to speak and vote, on behalf of the Recognized Clearing House (or its proxy) as if that person were an individual shareholder in the Company.

---

## LETTER FROM THE BOARD

---

2. To amend Article 53 of the Rules Governing the Operation of Shareholders' General Meetings as the Mandatory Provisions were repealed on 31 March 2023:

**Article 53** In addition to the requirements in relation to the scrutinizing of ballot under the Listing Rules, before voting starts, shareholders attending the meeting shall elect at least one supervisor and the Board Secretary to be the person responsible for tallying the votes. He shall tally up the votes on the spot and shall sign on the statistical information concerning the voting. ~~When the numbers of votes in favour and against are equal, the chairman of the meeting is entitled to cast one extra vote.~~

3. To delete Chapter Seven of the Rules Governing the Operation of Shareholders' General Meetings and add Article 61 to the Rules Governing the Operation of Shareholders' General Meetings as the Mandatory Provisions were repealed on 31 March 2023 and the Hong Kong Listing Rules have also been amended:

### ~~Chapter 7 – Special Procedures for Voting of Class Shareholders~~

~~**Article 61** Holders of different classes of shares are class shareholders.~~

~~Except for other class shareholders, holders of domestic shares and H shares shall be deemed as different class shareholders.~~

~~**Article 62** If the Company intends to alter or abolish the rights of class shareholders, the proposed resolution shall be approved by way of a special resolution at a shareholders' general meeting in accordance with the provisions of the Articles of Association, and a class meeting shall be called and held. Only class shareholders may attend the class meeting.~~

~~**Article 63** Unless otherwise required by the relevant laws and regulations, the Listing Rules and the Articles of Association, the notice of class shareholders' meeting shall be issued 30 days before the date of the meeting to notify all registered class shareholders about the matters to be considered at and the date and venue of the meeting. The class shareholders who intend to attend the meeting should return their written replies stating their intention to attend the meeting to the Company 20 days before the date of the meeting.~~

~~If the number of shares carrying voting rights represented by the class shareholders who intend to attend the meeting amounts to more than half of the Company's total number of the shares carrying voting rights in this class, the Company may convene the class shareholders' meeting; if not, the Company shall, within five days, notify the shareholders again, by way of a public announcement, about the matters to be considered and the place and date of the meeting. The Company may then convene the class shareholders' meeting after such announcement.~~

~~**Article 64** The notice for class shareholders' general meeting shall only be served on shareholders with the right to vote at such meetings.~~

---

## LETTER FROM THE BOARD

---

~~Article 65~~ The procedures to which class shareholders' meetings are convened shall, to the extent possible, be identical to the procedures which shareholders' general meetings are convened. The articles in the Rules which are in relation to the procedures of shareholders' general meetings shall apply to class shareholders' meetings.

~~Article 66~~ Resolutions to be proposed involving the following conditions will be deemed as altering or abolishing the rights of certain class shareholders. The Board shall submit the same to be considered and discussed at a separate class meeting.

- ~~1. the increase or decrease of the number of shares of such class, or increase or decrease of the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;~~
- ~~2. the conversion of all or part of the shares of such class into shares of another class, or the conversion of all or part of the shares of another class into shares of such class or the grant of the right to such change;~~
- ~~3. the removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such class;~~
- ~~4. the reduction or removal of a dividend preference, or a property distribution preference during liquidation of the Company, attached to shares of such class;~~
- ~~5. the addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, pre-emptive rights to rights issues or rights to acquire securities of the Company attached to shares of such class;~~
- ~~6. the removal or reduction of rights to receive amounts payable by the Company in particular currencies attached to shares of such class;~~
- ~~7. the creation of a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of that class;~~
- ~~8. the imposition of restrictions or additional restrictions on the transfer or ownership of shares of such class;~~
- ~~9. the issuance of rights to subscribe for, or convert into, shares of such class or another class;~~
- ~~10. the increase of the rights and privileges of shares of another class;~~
- ~~11. such restructuring of the Company as would cause shareholders of different classes to bear disproportionate liabilities under the restructuring; or~~
- ~~12. the amendment or deletion of the provisions under Chapter 9 of the Articles of Associates in relation to "Special Procedures for Voting of Class Shareholders".~~

---

## LETTER FROM THE BOARD

---

~~Article 67~~ Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall have right to vote at class shareholders' meetings in respect of any of the matters referred to in subparagraphs 2 to 8 and subparagraphs 11 to 12 of Article 66 of these Rules, except that interested shareholders shall not have the right to vote at class shareholders' meetings. For the purposes of the preceding paragraph, the term "interested shareholders" shall have the following meaning:

- ~~1. if the Company is to issue a buyback offer to all of the shareholders in the same proportion or is to buy back its own shares through open transactions on a stock exchange in accordance with Article 26 of the Articles of Association, the controlling shareholder as defined in Article 51 of the Articles of Association shall be an "interested shareholder";~~
- ~~2. if the Company is to buy back its own shares by agreements outside a stock exchange in accordance with Article 26 of the Articles of Association, holders of shares to which such agreements relate shall be "interested shareholders";~~
- ~~3. shareholders that, under a proposed restructuring of the Company, would bear liabilities in a proportion smaller than that of the liabilities borne by other shareholders of the same class, and shareholders that have an interest in a proposed restructuring of the Company that is different from the interest in such proposed restructuring of other shareholders of the same class, shall be "interested shareholders".~~

~~Article 68~~ Resolutions of a class shareholders' meeting may be passed only by two thirds or more of the equity interests carrying voting rights that are represented at the meeting in accordance with the preceding Article.

The special procedures for voting of class shareholders shall not apply to the following situations:

- ~~1. where, as approved by way of a special resolution at the shareholders' general meeting, the Company issues, either separately or concurrently, domestic invested shares and overseas listed foreign invested shares every 12 months, and the number of the domestic invested shares and overseas listed foreign invested shares intended to be issued does not exceed 20 percent of the issued and outstanding shares of the respective classes;~~
- ~~2. where the plan for issuance of domestic invested shares and overseas listed foreign invested shares upon the establishment of the Company is completed within 15 months of being approved by the securities regulatory authorities of the State Council; and~~
- ~~3. where, upon approval from the securities regulatory authorities of the State Council, domestic shareholders of the Company transfer the shares held by them to overseas investors and such shares could be listed and traded on the overseas stock exchanges as set out in Article 16 of the Articles of Association; and where, upon approval from the~~

---

## LETTER FROM THE BOARD

---

~~securities regulatory authorities of the State Council, the domestic invested shares be converted to overseas listed foreign invested shares, and listed and traded on the overseas stock exchanges as set out in Article 17 of the Articles of Association.~~

**Article 61 In accordance with regulatory requirements of the place of listing, if the Company is required to convene a meeting of H Shareholders in respect of any material matter, the relevant procedures for convening and voting at the H Shareholders' meeting shall be implemented in accordance with the relevant provisions of the Articles of Association on shareholders' meetings.**

Save as disclosed in this circular, if the serial numbering of the chapters and articles is changed due to the addition or deletion of certain articles, the serial numbering of the chapters and articles of the Rules Governing the Operation of Shareholders' General Meetings as so amended shall be changed accordingly, including references.

The proposed amendments to the Rules Governing the Operation of Shareholders' General Meetings are subject to the consideration and approval of the Shareholders by way of an ordinary resolution at the EGM of the Company.

### VIII. EGM AND CLASS MEETINGS

The notices convening the EGM, the H Share Class Meeting and the Domestic Share Class Meeting of the Company to be held at 9:00 a.m., 10:00 a.m. (or immediately upon conclusion of the EGM or any adjournment thereof) and 10:30 a.m. (or immediately upon conclusion of the H Share Class Meeting or any adjournment thereof), respectively, on Tuesday, 19 December 2023 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC are set out on pages 119 to 122, pages 123 to 124 and pages 125 to 126, of this circular, respectively.

Forms of proxy for use at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting are also enclosed. Shareholders who intend to appoint a proxy to attend the EGM, the H Share Class Meeting and/or the Domestic Share Class Meeting shall complete and return the enclosed form(s) of proxy in accordance with the instructions printed on the form as soon as possible and in any event no later than 24 hours before the time fixed for the holding of such meeting(s) or any adjournment thereof (as the case may be). Completion and return of the form(s) of proxy will not preclude you from attending and voting in person at the EGM, the H Share Class Meeting and/or the Domestic Share Class Meeting or any adjournment thereof (as the case may be).

As at the Latest Practicable Date, AVIC was a controlling Shareholder, holding directly and indirectly 3,553,069,569 H Shares and 1,250,899,906 Domestic Shares, representing 60.25% equity interest in the Company. AVIC and its associate(s), if any, will abstain from voting at the EGM in respect of the ordinary resolutions to be proposed in relation to (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023.

---

## LETTER FROM THE BOARD

---

To the best knowledge of the Directors after having made all reasonable enquiries, apart from AVIC and its associates, no other Shareholder has a material interest in the transactions contemplated under the New Agreements, and therefore no other Shareholder will be required to abstain from voting at the EGM in respect of the ordinary resolutions to be proposed in relation to (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023.

In addition, to the best knowledge of the Directors after having made all reasonable enquiries, no Shareholder will be required to abstain from voting at the EGM and/or the Class Meetings in respect of the resolutions in relation to the proposed amendments to the Articles of Association and the proposed amendments to the Rules Governing the Operation of Shareholders' General Meetings.

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, all votes at the EGM and the Class Meetings will be taken by poll. The Company will announce the results of the poll in accordance with the Hong Kong Listing Rules following the EGM and the Class Meetings.

### **IX. RECOMMENDATION**

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 67 of this circular which contains the recommendation of the Independent Board Committee containing its opinion and recommendations on (a) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (b) the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023; (ii) the letter from Maxa Capital, the Independent Financial Adviser, set out on pages 68 to 110 of this circular which contains its advice on (a) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (b) the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023 (together with the principal factors and reasons considered in arriving at such advice) to the Independent Board Committee and the Independent Shareholders; and (iii) additional information set out in the appendices to this circular.

The Directors and the Independent Board Committee, having taken into account the advice of Maxa Capital, consider that (i) the Non-exempt Transactions are on normal commercial terms and are in the ordinary and usual course of business of the Group; (ii) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026 and the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

---

## LETTER FROM THE BOARD

---

The Directors also consider that the proposed amendments to the Articles of Association and/or the Rules Governing the Operation of Shareholders' General Meetings as set out in the notice of the EGM, the H Share Class Meeting and the Domestic Share Class Meeting are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend all Shareholders to vote in favor of such resolution(s) to be proposed at the EGM, the H Share Class Meeting and the Domestic Share Class Meeting.

Yours faithfully,

By Order of the Board

**AviChina Industry & Technology Company Limited**

**Yan Lingxi**

*Chairman*

\* *For identification purpose only*

---

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

---



**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)**

28 November 2023

*To the Independent Shareholders*

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) of the Company dated 28 November 2023 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, capitalised terms and expressions used in this letter shall have the same meanings as those defined in the Circular.

We have been appointed to advise the Independent Shareholders on whether (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023 are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Maxa Capital has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the abovementioned matters.

We wish to draw your attention to the letter from the Board set out on pages 11 to 66 of the Circular and the letter from Maxa Capital set out on pages 68 to 110 of the Circular.

Having considered the advice given by Maxa Capital, we are of the opinion that (i) the Non-exempt Transactions are on normal commercial terms and are in the ordinary and usual course of business of the Group; (ii) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026 and the Proposed Revised Cap for the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023 are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of relevant ordinary resolutions to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee  
**AviChina Industry & Technology Company Limited**  
**Liu Weiwu Mao Fugen Lin Guiping**  
*Independent Non-executive Directors*

\* *For identification purpose only*

---

## LETTER FROM MAXA CAPITAL

---

*The following is the letter of advice from Maxa Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



Unit 1908, Harbour Center  
25 Harbour Road  
Wan Chai  
Hong Kong

28 November 2023

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS, DISCLOSEABLE TRANSACTIONS AND MAJOR TRANSACTIONS I. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER THE EXISTING AGREEMENTS AND II. PROPOSED REVISION OF ORIGINAL ANNUAL CAPS**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the terms of the Non-exempt Transactions and the relevant proposed caps for such transactions (the “**Non-Exempt Annual Caps**”); and (ii) the term of the underlying specific contracts in relation to Finance Lease Services to be entered into pursuant to the Finance Lease and Factoring Framework Agreement which may exceed three years (the “**Finance Lease Term**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 28 November 2023 issued by the Company (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

References are made to the announcements of the Company dated 21 August 2020, 30 August 2022, 5 September 2022 and 28 October 2022, and the circulars dated 10 November 2020 and 16 January 2023 in relation to, among other things, the continuing connected transactions of the Group with AVIC Group contemplated under each of the Existing Agreements. As the term of the Existing Agreements will expire on 31 December 2023 and the Group intends to continue to enter into the transactions of similar nature after that date, the Company entered into the (i) the Mutual Product Supply Agreement; (ii) the Mutual Service Supply Agreement; (iii) the AVIC Airborne Mutual Product and Service Supply Framework Agreement; (iv) the Financial Services Framework Agreement; and (v) the Finance Lease and Factoring Framework Agreement (collectively, the “**Non-Exempt Renewal Agreements**”) for a term of three years commencing from 1 January 2024. Most of the terms of the Non-Exempt Renewal Agreements are substantially the same as those of the Existing Agreements.

---

## LETTER FROM MAXA CAPITAL

---

Reference is also made to the announcement of the Company dated 10 June 2022 and the circular of the Company dated 29 September 2022 in relation to the Share Swap and Absorption. After the Share Swap and Absorption, the number of subsidiaries of the Company has increased, the Board expects that there will be an increase in the Group's demand for the AVIC Finance Factoring Services, and the Original Annual Cap in respect of the AVIC Finance Factoring Services under the Existing Financial Services Framework Agreement will be insufficient to meet the Group's expected needs. On 22 August 2023, the Company and AVIC Finance entered into the Supplemental Financial Services Framework Agreement to increase the Original AVIC Finance Factoring Services Cap to the relevant Proposed Revised Cap.

As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company holding directly and indirectly 60.25% of all issued Shares. Each of AVIC Finance and AVIC Lease is a subsidiary of AVIC. AVIC Airborne is a connected subsidiary of the Company by virtue of being directly owned as to over 10% by AVIC. Accordingly, each of AVIC, AVIC Finance, AVIC Lease and AVIC Airborne is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. The transactions contemplated under the Non-Exempt Renewal Agreements, the Supplemental Financial Services Framework Agreement and the Proposed Revised Cap for the AVIC Finance Factoring Services therefore constitute continuing connected transactions.

As the highest applicable percentage ratio in respect the Non-Exempt Transactions exceeds 5%, such continuing connected transactions are subject to, among others, Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise and provide recommendations to the Independent Shareholders in respect of the Non-Exempt Transactions and the Non-Exempt Annual Caps. We, Maxa Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Given that the Finance Lease Term may exceeds three years, the Company has also appointed us as the Independent Financial Adviser to explain why the said specific contracts in relation to Finance Lease Services require a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration pursuant to Rule 14A.52 of the Hong Kong Listing Rules.

### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we were independent from the Company in accordance with Rule 13.84 of the Hong Kong Listing Rules and, accordingly, are considered eligible to give independent advice on the Non-Exempt Transactions, the Non-Exempt Annual Caps and the Finance Lease Term. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company. Save for this appointment, we were appointed three times as the independent financial adviser by the Company in the last two years in relation to the Share Swap and Absorption and certain continuing connected transactions of the Company, details of which were set out in the circular of the Company dated 29 September 2022, 16 January 2023 and 27 April 2023. The aforesaid previous appointments were limited to providing one-off independent advisory service, for which Maxa Capital received normal professional fees. Accordingly, we do not consider such previous appointments give rise to any conflict of interest for Maxa Capital in acting as the Independent Financial Adviser this time.

---

## LETTER FROM MAXA CAPITAL

---

### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company (the “**Management**”). We have reviewed, inter alia, the statements, the information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Hong Kong Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the EGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration.

The Company confirmed that they have, at our request, provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representation and opinions expressed by the Company, its advisers, the Directors and the Management. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Company, AVIC, AVIC Finance, AVIC Lease, AVIC Airborne and each of their respective subsidiaries or associates.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Non-Exempt Transactions, the Non-Exempt Annual Caps and the Finance Lease Term, we have taken into consideration the following principal factors and reasons:

#### **1. Background**

##### ***1.1 Information of the Group***

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

---

## LETTER FROM MAXA CAPITAL

---

Set out below is the summarised financial information of the Group for the two years ended 31 December 2022 as extracted from the 2022 annual report and the six months ended 30 June 2022 and 2023 as extracted from the 2023 interim report of the Company:

	<b>For the year ended</b>		<b>For the six months</b>	
	<b>31 December</b>		<b>ended 30 June</b>	
	<b>2021</b>	<b>2022</b>	<b>2022</b>	<b>2023</b>
	<b>(audited)</b>	<b>(audited)</b>	<b>(restated)</b>	<b>(unaudited)</b>
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
Revenue	60,296.28	63,639.43	33,515.01	40,872.60
Net profit attributable to owners	2,369.28	2,216.40	1,217.01	1,542.80
				<b>As at</b>
				<b>30 June</b>
				<b>2023</b>
				<b>(unaudited)</b>
				<i>RMB (million)</i>
Total assets	133,889.14	179,122.04		178,282.88
Total liabilities	79,122.63	103,602.75		93,479.03
Total equity	54,766.50	75,519.28		84,803.85

For the year ended 31 December 2022 (“**FY2022**”), the Group’s revenue amounted to approximately RMB63,639.43 million, representing an increase of approximately 5.54% as compared to that for the year ended 31 December 2021 (“**FY2021**”), which is mainly attributable to the increase in revenue of the Group’s aviation ancillary system and related business of approximately 10.28%. The Group recorded profit attributable to owners of approximately RMB2,216.40 million in FY2022, representing a decrease of approximately 6.45% as compared to that for FY2021, which is mainly attributable to (i) the decrease in results of Avicopter resulted in a year-on-year decline in its net profit attributable to the Company; and (ii) the enhanced research and development inputs by the Group resulted in an increase in the research and development expenses and other expenses.

For the six months ended 30 June 2023 (“**1H2023**”), the Group’s revenue amounted to approximately RMB40,872.60 million, representing an increase of approximately 21.95% as compared to that for the six months ended 30 June 2022 (“**1H2022**”), which is mainly attributable to the increase in revenue of the Group’s aviation entire aircraft business of approximately 56.28% and the increase in revenue of the Group’s aviation ancillary system and related business of approximately 20.66%. The Group recorded profit attributable to owners of approximately RMB1,542.80 million in 1H2023, representing an increase of approximately 26.77% as compared to that for 1H2022, which is mainly attributable to the increase in revenue of helicopters and avionics products and the increase in gross profit due to the price adjustment of certain helicopter products during the reporting period.

---

## LETTER FROM MAXA CAPITAL

---

The Group's net assets have been increasing FY2021, FY2022 and 1H2023. The Group's net assets as at 31 December 2022 increased by approximately 37.89% as compared to that as at 31 December 2021, which was mainly due to the Share Swap and Absorption. The Group's net assets as at 30 June 2023 increased by approximately 12.29% as compared to that as at 31 December 2022, which was mainly due to the proceeds of approximately RMB5.5 billion from non-public issuance of domestic Shares by the Company and non-public issuance of A shares by a subsidiary of the Company and net profit of the Group of approximately RMB4 billion during 1H2023.

### **1.2 Information of AVIC**

AVIC is 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 directly and indirectly 60.25% equity interest in the Company as at the Latest Practicable Date.

### **1.3 Information of AVIC Airborne**

AVIC Airborne is a joint stock limited company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. AVIC Airborne is a 16.50% owned subsidiary of the Company, which is mainly engaged in the manufacture and sale of avionics products and electromechanical system products.

### **1.4 Information of AVIC Finance**

AVIC Finance is a limited liability company established in the PRC and a subsidiary of AVIC as at the Latest Practicable Date. It is licensed by the CBIRC and is engaged in the provision of financial services which principally include absorption of deposits of member companies, handling loans of member companies, handling bills discounting of member companies, handling funds settlement and acceptance/payment of member companies, providing entrustment loans to member companies, underwriting of debentures, non-financing guarantee letters, financial advisory services, credit certification and advisory agency services, inter-bank lending, handling bills acceptance of member companies, handling buyer's credit and spending credit of member companies, fixed-income investments, and other businesses as may be approved by the NAFR.

So far as the Group is aware, AVIC Finance is subject to the following internal control measures, which ensure the safety of the Group's deposits with AVIC Finance:

- (a) As a licensed financial institution in the PRC, AVIC Finance is under the supervision of the PBOC and the NAFR, including the regular examination of the audited financial statements and other relevant materials required to be filed by AVIC Finance, as well as face-to-face review and interview with the senior management of AVIC Finance;
- (b) AVIC Finance has established strict internal control measures to ensure effective risk management and compliance with relevant laws and regulations, including the corporate governance structure, internal standards and policies and standard operating procedures, as well as intra-group check and balance mechanism; and

---

## LETTER FROM MAXA CAPITAL

---

- (c) AVIC Finance will adopt the following additional internal control measures in respect of the Deposit Services provided by AVIC Finance under the Financial Services Framework Agreement: (i) the Group shall have the right to use the deposit funds to offset against any accounts payable by the Group to AVIC Finance in the event that the Group is not able to recover its deposits with AVIC Finance; and (ii) AVIC Finance shall submit monthly and annual reports to the Group in respect of the Group's deposits with AVIC Finance during the period of having deposits with AVIC Finance.

### **1.5 Information of AVIC Lease**

AVIC Lease is a limited liability company established in the PRC and a subsidiary of AVIC as at the Latest Practicable Date. It is mainly engaged in finance leasing, self-owned equipment leasing, residual value processing and maintenance of leased assets, contract energy management, and consulting services relevant to the above businesses, and non-bank financial services as approved by relevant departments such as factoring.

## **2. Reasons for and benefits**

### **2.1 Reasons for and benefits of continuing connected transactions under Mutual Product Supply Agreement, Mutual Service Supply Agreement and AVIC Airborne Mutual Product and Service Supply Framework Agreement**

Aviation industry is complex and technology intensive. The manufacturing of an entire aircraft (including the Group's helicopters and trainers) requires different products, parts and components from different enterprises.

The Group is an aviation manufacturing enterprise mainly engaged in the research, development, manufacture and sales of aviation entire aircraft (mainly helicopters and trainer aircraft) and aviation parts and components (mainly avionics products and electromechanical products), and the provision of aviation engineering services.

AVIC Group is the sole relatively complete system aviation manufacturer established under the support of the PRC's national government. It has the research and development capacities to manufacture aviation products independently, and it is mainly engaged in the manufacturing of aircraft, airborne equipment systems and other related pairing products and systems (other than helicopters, trainer aircrafts and aviation parts products manufactured by the Group).

#### **(1) Mutual Product Supply Agreement**

The Group is the sole production platform of helicopters and main production platform of trainer aircrafts for AVIC Group and it primarily provides the aviation entire aircrafts (mainly trainers and general aircrafts) and aviation parts and components (mainly avionics products and electromechanical products) to AVIC Group under the Mutual Product Supply Agreement to meet the orders received by AVIC Group from independent third parties and the production demands of AVIC Group.

---

## LETTER FROM MAXA CAPITAL

---

The Group mainly procures from AVIC Group the necessary parts and components for manufacturing helicopters and trainers by the Group, such as control and navigation systems researched and developed by AVIC Group.

Due to the high technology barriers in aviation industry and the high quality requirements of customers, it is also difficult for the Group and AVIC Group to source substitute aviation products or aviation parts and components of comparable quality, specifications and value in the PRC from other producers.

(2) *Mutual Service Supply Agreement*

The Group primarily provides the aviation engineering services to AVIC Group through AVIC CAPDI, and provide labour services to AVIC Group; while AVIC Group primarily provides labour services and other support or composite services to the Group such as import and export agency services, test flight services and logistic services; in relation to the supply of labour services, AVIC Group will supply to the Group, and vice versa, depending on the requirements of different projects and the needs for the manufacturing businesses. The services under the Mutual Service Supply Agreement are essential to facilitate the smooth running of the Group's business operations.

(3) *AVIC Airborne Mutual Product and Service Supply Framework Agreement*

The transactions contemplated under the AVIC Airborne Mutual Product and Service Supply Framework Agreement are intragroup transactions of the Group, and are mostly product pairing transactions between AVIC Airborne Group and the Group's entire aircraft business. Avionics products and electromechanical products are necessary aviation parts and components for the manufacturing of the aviation entire aircraft. AVIC Airborne Group is the major supplier for the related avionics products and electromechanical products in the Group's helicopters and trainers.

The Company considers that the products and services provided by the relevant party are different from those provided by the counterparty, and are necessary for the business operation of the counterparty. Based on the following grounds, the Directors consider that it is beneficial to continue the relevant continuing connected transactions by way of entering into new framework agreements as set out in Section I of the Letter from the Board:

- (a) the historical connection and long-standing business cooperation relationship between the Group and AVIC Group and AVIC Airborne Group;
- (b) AVIC, AVIC Airborne and their respective associates generally have a better understanding of the Group's business and can better ensure the standards of technology, quality, delivery and technical support of the products to meet the Group's requirements;

---

## LETTER FROM MAXA CAPITAL

---

- (c) the continuing connected transactions between AVIC, AVIC Airborne and their respective associates and the Group in relation to mutual supply of products and services have facilitated and will continue to facilitate the overall operations and growth of the Group's business; and
- (d) the Directors (including the independent non-executive Directors) consider that such continuing connected transactions are and will continue to be conducted on normal commercial terms or better to the Group and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole, and the terms and the proposed caps of such continuing connected transactions will continue to be fair and reasonable to the Company.

We have discussed with Management and understood that the Group sells a large amount of defense related products to AVIC Group and the Group is currently the only helicopter production platform and a main production platform of training aircraft and aviation airborne system products in AVIC Group after several restructuring activities. In respect of certain aviation entire aircraft, AVIC Group is a procurement agent representing the government to purchases entire aircraft from the Group; in respect of the aviation parts, AVIC Group needs to purchase aviation parts from the Group to satisfy its production demand of aircraft without better alternatives due to the high technical barriers of the aviation manufacturing industry and the leading position of the Group in the industry. Therefore, the revenue of the Group generated from the AVIC Group should not be regarded as the Group's reliance on the AVIC Group while the Group and the AVIC Group rely on each other for business development. In addition, Harbin Aircraft Industry Group Co., Ltd.\* and Changhe Aircraft Industries (Group) Co., Ltd.\* have become subsidiaries of the Group after assets restructuring and the connected transactions in relation to sales of the aviation entire aircraft have been reduced accordingly. Taking into account the transaction model between the Group and AVIC Group as described above, we concur with the Directors that the Group can develop independently in a steady and healthy way, and there is no major reliance risk in this regard.

### ***2.2 Reasons for and benefits of continuing connected transactions under Financial Services Framework Agreement***

The reasons for the Group to enter into the Financial Services Framework Agreement are as follows:

- (a) the terms (including the interest rates) on the Deposit Services, the Loan Services, the AVIC Finance Factoring Services and the Other Financial Services offered by AVIC Finance to the Group will be equal to or more favourable than those offered to the Group by major commercial banks in the PRC;
- (b) AVIC Finance is regulated by the PBOC and the NAFR and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, so far as the Group is aware, AVIC Finance has

---

## LETTER FROM MAXA CAPITAL

---

internal control measures in place, the details of which are disclosed in paragraph 4 under Section V of the Letter from the Board, which ensure the safety of the Group's deposits with AVIC Finance;

- (c) AVIC Finance's understanding of the Group's operations will enable it to provide more expedient and efficient services than major commercial banks in the PRC;
- (d) pursuant to the relevant regulations of the PBOC and the NAFR, the customers of AVIC Finance are limited to the group members of AVIC Group, which will ensure more control by AVIC Finance of the risks that it may be exposed to as compared with other financial entities; and
- (e) the Group could satisfy its demands for financial services in daily business operations from the Financial Services Framework Agreement.

### ***2.3 Reasons for and benefits of continuing connected transactions under Finance Lease and Factoring Framework Agreement***

The reasons for the Group to enter into the Finance Lease and Factoring Framework Agreement are as follows:

- (a) the Finance Lease and Factoring Framework Agreement and the transactions contemplated thereunder will help to reduce capital occupation by accounts receivable; satisfy the funding requirement for business development and optimise its financial management and improve its capital usage efficiency and reduce financing costs and risks and thus will facilitate and smooth the business development and operations of the Company; and
- (b) as compared to other financial institutions such as commercial banks, AVIC Lease is able to offer greater flexibility on the financing terms and provide financing services more efficiently with streamlined procedures.

These advantages make AVIC Lease Factoring Services a suitable financing channel complementary to other channels available to the Group.

### ***2.4 Reasons for and benefits of entering into the Supplemental Financial Services Framework Agreement and the Proposed Revised Cap for the AVIC Finance Factoring Services***

Reference is made to the announcement of the Company dated 10 June 2022 and the circular of the Company dated 29 September 2022 in relation to the Share Swap and Absorption. Upon completion of the Share Swap and Absorption, there was an increase in the scope and the amount of services to be obtained by the Group under the Existing Financial Services Framework Agreement arising from an increase in subsidiaries of the Company. Furthermore, it is expected that there will be an increase in transaction amounts under the Existing Financial Services Framework Agreement for the year ending 31 December 2023 as a result of the continued growth and increase in scale of operation of the Group. Therefore, the entering into

---

## LETTER FROM MAXA CAPITAL

---

the Supplemental Financial Services Framework Agreement and the Proposed Revised Cap for the AVIC Finance Factoring Services are beneficial to and necessary for the business operation of the Group.

Having considered the above, we concur with the Directors' view that the Non-exempt Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

### 3. Principal terms of the Non-Exempt Renewal Agreements and the Supplemental Financial Services Framework Agreement

#### 3.1 Mutual Product Supply Agreement

<b>Date</b>	:	22 August 2023
<b>Parties</b>	:	AVIC (for and on behalf of AVIC Group)  The Company (for itself and on behalf of its subsidiaries)
<b>Term</b>	:	Three years from 1 January 2024 to 31 December 2026
<b>Mutual supply of products</b>	:	AVIC Group and the Group will supply the manufacturing raw materials, parts and components, finished and semi-finished aviation products involved in the production and operations of the respective aviation products of each other (including but not limited to aviation entire aircraft and aviation parts and components to the Group, and the helicopters, airplanes and aviation parts and component to AVIC Group) and the related sales and ancillary services.
<b>Key transaction principles</b>	:	If any independent third party can supply the same type of products on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use products supplied by the Group or AVIC Group (as the case may be).  If any independent third party can supply the same type of products at a better price than AVIC Group or the Group (as the case may be) offers, the Group or AVIC Group (as the case may be) shall be entitled to procure products from that independent third party.  The quality standard of the products and the terms and conditions of supply given by AVIC Group to the Group shall not be less favourable than those offered by the independent third parties under comparable conditions.

---

## LETTER FROM MAXA CAPITAL

---

- Pricing principles** : The price of the products and ancillary services will be determined as follows: (i) as most products under the Mutual Product Supply Agreement are designated aviation products, the Government-prescribed Price shall apply; (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means, such as price inquiry and price comparison by fee quotations if tender procedures are not adopted (as the case may be) shall apply; and (iii) if there is no Market Price, the Contractual Price shall apply.
- Payment** : Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into the specific product supply agreement under each transaction.

### 3.2 *Mutual Service Supply Agreement*

- Date** : 22 August 2023
- Parties** : AVIC (for and on behalf of AVIC Group)  
The Company (for itself and on behalf of its subsidiaries)
- Term** : Three years from 1 January 2024 to 31 December 2026
- Mutual supply of services** : AVIC Group will supply certain services relating to the production and business operations of the Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment purchase, maintenance, repair and leasing services; (v) construction and transportation; (vi) design, consultation and network related services; (vii) cultural, educational, hygienic, social security and logistic services; (viii) import and export agency services; (ix) test flight and technology and quality monitoring services; (x) engineering and equipment subcontracting services; and (xi) other related services.

---

## LETTER FROM MAXA CAPITAL

---

The Group will supply certain services relating to the production and business operations of AVIC Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing services; (v) construction and transportation; (vi) design, consultation and network related services; (vii) enterprise entrustment services; (viii) engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting (including aviation engineering services) and equipment main contracting services; and (ix) other related services.

Considering the large number of subsidiaries of the Group and AVIC Group and each of them having different businesses across different regions, despite the types of services supplied by AVIC Group to the Group and the services supplied by the Group to AVIC Group are similar, the services in fact are not the same as they are supplied to different entities in different regions. These services are related to the business operations of the Group, in particular, (i) labour services are mainly required for the manufacturing processes; (ii) supply of power such as electricity, water and steam, (iii) equipment maintenance, repair and leasing services, (iv) design, consultation and network related services, are mainly support services to support the Group's different business segments especially when the entity(ies) demanding and supplying such services are located within the same manufacturing zone; (v) property management and maintenance, and (vi) construction and transportation, are general support services to the Group.

As mentioned above, there is a large number of subsidiaries under the Group and AVIC Group and they are spread across different regions. Within a production base (生產園區), certain subsidiaries of the Group and AVIC Group are located in it. Therefore, within such production base, depending on the specific needs and the capability of the subsidiaries of the Group, they would provide/obtain certain of the above services to/from AVIC Group, or vice versa. As these services are related to the business operation of the Group and are essential to facilitate the smooth running of the Group, therefore, the procurement of services by the Group under the Mutual Service Supply Agreement is in the interest of the Company and its shareholders.

---

## LETTER FROM MAXA CAPITAL

---

**Key transaction principles** : If any independent third party can supply the same type of services on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use the services supplied by the Group or AVIC Group (as the case may be).

If any independent third party can supply the same type of services at a better price than AVIC Group or the Group (as the case may be) offers, the Group or AVIC Group (as the case may be) shall be entitled to opt for the services supplied by that independent third party.

The quality standard of the services and the terms and conditions of supply given by AVIC Group to the Group shall not be less favorable than those offered by the independent third parties under comparable conditions.

**Pricing principles** : The price of the services under the agreement will be determined as follows:

- (i) for power supply services such as the provision of electricity, water, steam, etc., if such power was originally procured at the Government-prescribed Price or the Government-guidance Price, the Government-prescribed Price or the Government-guidance Price shall apply;
- (ii) for services such as construction, transportation, design, consultation and network design, equipment leasing and other services where the Market Price is available, the Market Price as determined by tender procedures or other means, such as price inquiry and price comparison by fee quotations if tender procedures are not adopted (as the case may be) shall apply;
- (iii) for the engineering technology services to be supplied by the Group to AVIC Group (including design, consultation and supervision services), and the engineering and equipment subcontracting services supplied by AVIC Group to the Group, the Market Price or (where applicable) Market Price as determined by tender procedures shall apply. Such tender procedures shall be in compliance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which require tender and bidding); and

---

## LETTER FROM MAXA CAPITAL

---

(iv) if there is no Market Price (for the provision of property management and maintenance services; equipment maintenance, repair and leasing services; cultural, educational, hygienic, social security and logistic services; import and export agency services; test flight and technology and quality monitoring services; and entrustment services), the Contractual Price shall apply.

**Payment** : Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into specific services agreement under each transaction.

### 3.3 *AVIC Airborne Mutual Product and Service Supply Framework Agreement*

**Date** : 22 August 2023

**Parties** : The Company (for itself and on behalf of its subsidiaries, excluding AVIC Airborne Group)

AVIC Airborne (for itself and on behalf of its subsidiaries)

**Term** : Three years from 1 January 2024 to 31 December 2026

**Mutual supply of products and services** : The Group will supply to AVIC Airborne Group aviation parts and components, raw materials, related manufacturing, labour services, and engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting and equipment main contracting services, etc.

AVIC Airborne Group will supply to the Group aviation electronic products, mechanical electronics, parts and components, related manufacturing and labour services, and engineering and equipment subcontracting services.

**Pricing principles** : The price of products and/or services under the agreement will be determined as follows:

(i) as most products under the AVIC Airborne Mutual Product and Service Supply Framework Agreement are designated aviation products, the Government-prescribed Price shall apply;

---

## LETTER FROM MAXA CAPITAL

---

- (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means, such as price inquiry and price comparison by fee quotations if tender procedures are not adopted (as the case may be) shall apply;
- (iii) if there is no Market Price, the Contractual Price shall apply;
- (iv) for production and labour services where Market Price is available, the Market Price as determined through tender procedures or other means, such as price inquiry and price comparison by fee quotations if tender procedures are not adopted (as the case may be) shall apply; if there is no Market Price, the Contractual Price shall apply; and
- (v) for engineering technology services (including design, consultation and supervision services), project engineering main contracting and equipment main contracting services, and engineering and equipment subcontracting services, the Market Price or (if applicable) the Market Price as determined by tender procedures shall apply. The tender procedures mentioned above shall be in compliance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which require tender and bidding).

**Payment** : The parties will make payment according to the AVIC Airborne Mutual Product and Service Supply Framework Agreement and the specific contracts entered into by the relevant member of the Group and AVIC Airborne Group for the provision of products or services.

**Other major terms** : If any independent third party can supply the same type of products or services at a better price than AVIC Airborne Group or the Group (as the case may be) offers, the Group or AVIC Airborne Group (as the case may be) shall be entitled to opt for the products or services supplied by that independent third party.

---

## LETTER FROM MAXA CAPITAL

---

Subject to the terms of the AVIC Airborne Mutual Product and Service Supply Framework Agreement, if the product or service supplied by and the terms and conditions of supply given by AVIC Airborne Group or the Group (as the case may be) does not satisfy the needs of the Group or AVIC Airborne Group (as the case may be) in any aspect, the latter can procure identical or similar products or services from an independent third party.

### 3.4 *Financial Services Framework Agreement*

- Date** : 22 August 2023
- Parties** : The Company (for itself and on behalf of its subsidiaries)  
AVIC Finance
- Term** : Three years from 1 January 2024 to 31 December 2026
- Financial services** : Pursuant to the Financial Services Framework Agreement, AVIC Finance has agreed to provide the Group with the Deposit Services, the Loan Services, the Settlement Services, the Non-financing Guarantee Letter Services, the AVIC Finance Factoring Services and the Other Financial Services (i.e. such other financial services (including but not limited to bill acceptance and discount services) as approved by the NAFR).

The Group is entitled to elect the financial institutions providing the financial services, the amount of deposit and borrowings and the time of withdrawal of deposit based on its business needs.

- Pricing principles** : The pricing principles of the Deposit Services, the AVIC Finance Factoring Services and the Other Financial Services are as follows:

(1) Deposit Services

Interest rates for the Group's deposits with AVIC Finance shall not be lower than the benchmark interest rates during the same period as promulgated by the PBOC for the same type of deposit. The interest rates for the Group's RMB deposits with AVIC Finance shall not be lower than the listed average interest rates for the same type of deposits offered by major commercial banks of the PRC.

---

## LETTER FROM MAXA CAPITAL

---

(2) AVIC Finance Factoring Services

The fees charged by AVIC Finance for the provision of the AVIC Finance Factoring Services shall not be higher than (a) the average fees charged by AVIC Finance to any third party with the same price determination factors as the Group during the same period (including credit rating, term, business category, enterprise category); and (b) the average fees charged by the major commercial banks in the PRC for the same type of services.

(3) Other Financial Services

The fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than (a) the maximum fees determined by the PBOC for the same type of financial services (if applicable); (b) the fees charged by major commercial banks in the PRC for the same type of services during the same period; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other member of AVIC Group with the same credit rating.

**Other major terms** : When AVIC Finance provides the Deposit Services and the Settlement Services to the Group, AVIC Finance is obliged to ensure the safety and normal use of the Group's deposits under the funds of the AVIC Finance. If AVIC Finance is unable to repay the Group's deposits due to various reasons, the Company is entitled to terminate the Financial Services Framework Agreement and to offset the same amount of the outstanding loan due to AVIC Finance against the deposit due to the Group from AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall indemnify the Group the full amount of the loss suffered by the Group and the Group shall be entitled to terminate the Financial Services Framework Agreement. If AVIC Finance is unable to indemnify the Group the full amount of the loss suffered by the Group, upon the Group's request, the shortfall shall be offset by the loans provided by AVIC Finance to the Group.

### 3.5 *Finance Lease and Factoring Framework Agreement*

**Date** : 22 August 2023

**Parties** : The Company (for itself and on behalf of its subsidiaries)

---

## LETTER FROM MAXA CAPITAL

---

AVIC Lease (for itself and on behalf of its subsidiaries)

- Term** : Three years from 1 January 2024 to 31 December 2026
- Services** : Pursuant to the Finance Lease and Factoring Framework Agreement, AVIC Lease has agreed to provide the Group with the Finance Lease Services by itself and to provide the Group with the AVIC Lease Factoring Services through the AVIC Lease Factoring Subsidiary.

(1) Finance Lease Services

- (i) AVIC Lease will provide the Finance Lease Services to the Group by way of direct lease and sale and leaseback, etc. The leased assets include buildings, erections, mechanical equipment and other assets.
- (ii) Under the direct lease service, AVIC Lease (as lessor) will purchase from suppliers the leased assets based on the demands and choice of the Company (as lessee) at a price negotiated between the Group and the supplier, and AVIC Lease will then lease the leased assets to the Company for its use in return for periodic lease payments.
- (iii) Under the sale and leaseback service, the Company (as lessee) will sell the leased assets to AVIC Lease (as lessor) at a negotiated purchase price with reference to the book value and/or original acquisition costs and/or appraised value of the leased assets, and AVIC Lease will then lease the leased assets back to the Company for its use in return for periodic lease payments.
- (iv) During the lease period, the leased assets will be solely owned by AVIC Lease. Subject to the relevant requirements of the Hong Kong Listing Rules, the Company may purchase the leased assets after or (upon the consent of AVIC Lease) prior to the expiry of the lease.

(2) AVIC Lease Factoring Services

Where the Group needs the AVIC Lease Factoring Services, the Group will transfer its outstanding principal amount of the accounts receivable which has

---

## LETTER FROM MAXA CAPITAL

---

not been due, the related interest and other rights as a creditor to the AVIC Lease Factoring Subsidiary, and receive the factoring proceeds.

**Pricing principles** : The lease payment relating to the Finance Lease Services and the fees relating to the AVIC Lease Factoring Services will be determined as follows:

AVIC Lease Factoring Subsidiary shall pay the outstanding principal amount of accounts receivable which has not been due as the factoring amount. The factoring interest shall be determined by the parties with reference to factors including the average factoring interest rate charged by AVIC Lease to its customers and the funding costs. AVIC Lease Factoring Subsidiary will charge service fees with respect to AVIC Lease Factoring Services, which shall not be higher than the fees charged by similar financial factoring companies in the PRC for the same type of factoring services.

**Payment** : For the Finance Lease Services, the Company and AVIC Lease will agree on the manner of payment flexibly based on the actual cash flows, including not limited to the payment of principal by equal or unequal instalments on a quarterly basis, payment of principal and interest by equal instalments on a quarterly basis, payment of principal by equal instalments on a semi-annual basis or payment of principal and interest by equal instalments on an annual basis, etc.

For the AVIC Lease Factoring Services, the Company and AVIC Lease shall agree on the manner of payment flexibly based on the specific factoring project, including but not limited to payment by the Group or the debtor of the accounts receivable or both.

**Separate Contracts** : AVIC Lease and the Group shall enter into specific contracts to set out the specific terms and conditions (including the specific payment terms) for the provision of services according to the principles and scope provided for under the Finance Lease and Factoring Framework Agreement and the relevant legal requirements.

---

## LETTER FROM MAXA CAPITAL

---

The contract period of the specific contracts with respect to Finance Lease Services may exceed three years, depending on the type of leased assets involved. Specific contracts with respect to Finance Lease Services and AVIC Lease Factoring Services duly executed shall remain to have full force and effect for their respective contract periods and shall be subject to the Finance Lease and Factoring Framework Agreement for the three years from 1 January 2024 to 31 December 2026.

### **3.6 Supplemental Financial Services Framework Agreement**

**Date** : 22 August 2023

**Parties** : The Company

AVIC Finance

**Subject Matter** : AVIC Finance has agreed to provide the Group with the AVIC Finance Factoring Services with a maximum daily outstanding factoring financing balance of AVIC Finance Factoring Services (including factoring prepayment, factoring fee and factoring handling charges) shall not exceed RMB2,500 million.

Save as the Proposed Revised Cap for the AVIC Finance Factoring Services, all other terms and conditions under the Existing Financial Services Framework Agreement shall remain the same.

**Major Terms** : The Supplemental Financial Services Framework Agreement shall become effective on the date of completion of internal approval procedures by both parties to the agreement in accordance with relevant laws (including the applicable listing rules) and the articles of association of both parties to the agreement and shall end on 31 December 2023.

### **3.7 Assessment of the terms of Non-Exempt Renewal Agreements and Supplemental Financial Services Framework Agreement**

In assessing the fairness and reasonableness of the terms in the Non-Exempt Renewal Agreements and Supplemental Financial Services Framework Agreement, we have obtained and reviewed (i) the Existing Mutual Product Supply Agreement; (ii) the Existing Mutual Service Supply Agreement; (iii) the Existing Mutual Product and Service Supply and Guarantee Agreement; (iv) the Existing Financial Services Framework Agreement; and (v) the Existing Finance Lease and Factoring Framework Agreement (collectively, the “**Existing Non-Exempt Agreements**”). We noted that the major terms in the Non-Exempt Renewal Agreements and Supplemental Financial Services Framework Agreement are similar with those

---

## LETTER FROM MAXA CAPITAL

---

in the Existing Non-Exempt Agreements which were approved by the independent shareholders at the extraordinary general meetings of the Company held on 20 November 2020 and 10 February 2023.

We noted that the price of the products and services under Non-Exempt Renewal Agreements shall be determined with reference to (i) the Government-prescribed Price or the Government-guidance Price; (ii) Market Price and (iii) Contractual Price.

### *Government-prescribed Price*

Government-prescribed Price is the price jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in the particular transactions, which mainly comprise the relevant costs plus profit margin. The relevant costs will be proposed by the relevant manufacturing enterprises, and confirmed by the relevant price control authorities and the industry regulators in the PRC. The profit margin shall be determined by the relevant authorities.

We have discussed with the Management and understood that majority of products of the Group are specific aviation products and Government-prescribed Price is usually adopted for specific aviation products of the Group, while such Government-prescribed Price will not be published and is not publicly available. The Government-prescribed Price shall be determined by the relevant authorities according to their internal procedures, requirements and standards, and such Government-prescribed Price shall be applicable to the transactions for specific aviation products in the industry.

### *Government-guidance Price*

Government-guidance Price is the price determined by the parties within the range as provided under the laws, regulations, decisions or orders or in respect of particular types of services promulgated by the central government, provincial government or other regulatory authorities in the PRC.

### *Market Price*

Market Price is the price as determined in the following sequence: (i) where there are comparable market prices or charging rates standards determined by independent third parties under normal commercial terms for the transaction, the transaction price shall be determined at such price or standard (the Company will obtain at least two to three such price or standard from Independent Third Parties); or (ii) if there are no such comparable market prices of independent third parties, the transaction price shall be fixed by the price of non-connected transactions between the Company and independent third parties: (a) where the Company is the buyer, through tender procedures in accordance with the relevant PRC laws and regulations relating to tender and bidding or by choosing the most favorable price among at least two to three selected suppliers after taking into account the suppliers' manufacturing qualifications and delivery time, and business relationship between the Company and suppliers according to the Company's internal procurement policy; or (b) where the Company is the supplier, agreeing with the clients within prescribed price range, which is determined according to the Company's internal sales policy with reference to: (i) the transaction volume and business

---

## LETTER FROM MAXA CAPITAL

---

relationship between the Company and the purchaser; and (ii) the prices of similar products and services purchased from the Company by not less than two Independent Third Parties. The Market Price will be determined or approved by the authorised departments/persons of the specific entities within the Group in particular transactions.

We have discussed with the Management and understood that where the Company is the supplier, the Company will normally participate in the public tender procedures announced by its potential clients and the price offered by the Company will be determined according to its internal sales policy and procedures, which is the same to connected parties and independent third parties. We have reviewed the tender result announcements published on the website of AVIC CAPDI (<https://www.avic-apc.com/>) and noted that AVIC CAPDI participated and won the bids for 17 projects as a supplier in 2022. We have also reviewed the bidding document prepared by another subsidiary of the Company for provision of certain products in 2022 which followed the tender procedures of the client. Therefore, we consider the Company has followed the internal sales policy in determining the Market Price, where the Company is the supplier.

As advised by the Management, for the Market Price to be determined by tender procedures, the Group strictly follows the relevant PRC laws and regulations in relation to tender procedures, in particular the Law of the People's Republic of China on Tenders and Bids (中華人民共和國招標投標法). The Market Price may also be determined by other means, such as price inquiry and price comparison by fee quotations if tender procedures are not adopted. We have reviewed the Company's internal procurement policy and price administrative measures applied to all suppliers and noted there is the relevant description of tender procedures, price inquiry and price comparison, which is in line with the statements made by the Management. In view of the above, we consider that the Market Price determined by tender procedures or other means is fair and reasonable, on the normal commercial terms and in the interest of the Company and its Shareholders as a whole, and there are adequate procedures in place to ensure the fairness and reasonableness of the transactions conducted under the reference of the Market Price.

### *Contractual Price*

Contractual Price is the price to be agreed between the relevant parties for the supply of the aviation products, raw materials and related services (as the case may be), which shall be the reasonable costs incurred in supplying the same plus not more than 8% of such costs, which is determined after taking into account (i) the average profit margin of approximately 7% among industrial enterprises; (ii) the average profit margin in the aviation industry; and (iii) the profits previously received by the Group or AVIC Group for similar products, raw materials or services. The specified percentage used to determine the Contractual Price is the maximum profit margin under the relevant continuing connected transactions agreements and specific prices will be determined under separate agreements in each transaction, and the profit margin is in line with industry practice. The above Contractual Price mechanism is applicable to not only the supply of products or services by the Group, but also vice versa by AVIC Group.

We have reviewed the industry data released by the National Bureau of Statistics in the PRC and noted that the industrial enterprises above designated size (i.e., with an annual revenue of RMB20 million or above) recorded an average profit margin of approximately 6.1% for FY2022 and 6.8% for FY2021. We noted (i) the Company is mainly engaged in the research

---

## LETTER FROM MAXA CAPITAL

---

and development, manufacture and sales of aviation products, and relevant engineering services, which falls within the scope of industrial enterprises; and (ii) the Group recorded revenue of approximately RMB63,639.43 million for FY2022, which exceeds the threshold of the designated size, and therefore we consider such industry data is a relevant reference for our assessment of the profit margin used to determine the Contractual Price. We have also reviewed the 2021 annual report and 2022 annual report of the Company and noted that the Group recorded stable net profit margin of approximately 8.0% and 7.8% for FY2021 and FY2022, which is higher than the average profit margin of industrial enterprises above designated size. In view of the above and given the Group can charge AVIC and AVIC Airborne on the same basis that AVIC and AVIC Airborne can charge the Group, we consider the Contractual Price is fair and reasonable.

In respect of the Deposit Services under the Financial Services Framework Agreement, we have reviewed the latest interest rates offered by AVIC Finance for different types of deposit and compared the latest interest rates for the same type of deposit announced by major commercial banks of the PRC and the latest benchmark interest rates promulgated by the PBOC for each deposit service. We noted that the interest rate offered by AVIC Finance for each type of deposit is not lower than the latest benchmark interest rates as promulgated by the PBOC for the same type of deposit and the latest listed average interest rates for the same type of deposits offered by major commercial banks of the PRC.

In respect of the AVIC Finance Factoring Services under the Financial Services Framework Agreement, we have discussed with the Management and understood that the third parties or major commercial banks, which are not as familiar as AVIC Finance with the business of the Group to estimate the risk of the Group's account receivables, normally require more strict conditions than AVIC Finance when providing the same factoring services, and hence the Group would prefer to select AVIC Finance as the service provider in such situation. We have also obtained and reviewed a set of quotation for factoring services provided by AVIC Finance and a major commercial bank in the PRC and we noted that the fee charged by AVIC Finance is lower than the fee charged by the major commercial bank in the PRC for the same type of services.

In respect of the Other Financial Services under the Financial Services Framework Agreement, we have discussed with the Management understood that Other Financial Services provided by AVIC Finance to the Group currently are mainly bill acceptance services while major commercial banks in the PRC normally request for deposits in addition to the fee charged for the same type of services, and the Group therefore would prefer to select AVIC Finance as the service provider in such situation. We have obtained and reviewed a set of receipts in relation to the bill acceptance services provided to the same subsidiary of the Company by AVIC Finance and a major commercial bank and we noted that AVIC Finance did not require for a deposit for the same type of service as the major commercial bank requested while charge fees not less favourable than the major commercial bank to the Group.

Based on the above, given that (i) the Government-prescribed Price and Government-guidance Price are determined, or subject to approval, by the relevant price control authorities and the industry regulators in the PRC; (ii) the Market Price is determined with reference to the terms of comparable transactions with independent third parties or by tender procedures in accordance with the relevant PRC laws and regulations or other means; (iii) the Contractual Price will be determined with reference to the historical profit margin of the Group and the

---

## LETTER FROM MAXA CAPITAL

---

average profit margin of industrial enterprises; (iv) interest rates for the Group's deposits with AVIC Finance shall not be lower than the benchmark interest rates during the same period as promulgated by the PBOC for the same type of deposit and the interest rates for the Group's RMB deposits with AVIC Finance shall not be lower than the listed average interest rates for the same type of deposits offered by major commercial banks of the PRC; (v) the fees charged by AVIC Finance for the provision of the AVIC Finance Factoring Services shall not be higher than (a) the average fees charged by AVIC Finance to any third party with the same price determination factors as the Group during the same period (including credit rating, term, business category, enterprise category); and (b) the average fees charged by the major commercial banks in the PRC for the same type of services; (vi) the fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than (a) the maximum fees determined by the PBOC for the same type of financial services (if applicable); (b) the fees charged by major commercial banks in the PRC for the same type of services during the same period; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other member of AVIC Group with the same credit rating; and (vii) the service fees charged by AVIC Lease Factoring Subsidiary with respect to AVIC Lease Factoring Services shall not be higher than the fees charged by similar financial factoring companies in the PRC for the same type of factoring services, we are of the view that the pricing principles are fair and reasonable, on the normal commercial terms and in the interest of the Company and its Shareholders as a whole.

Having considered (i) the principal business of the Group; (ii) the background of the Share Swap and Absorption; (iii) our assessment on the pricing principles; and (iv) the analysis performed on the Non-Exempt Annual Caps in the section headed "4.3 Assessment to the Non-Exempt Annual Caps" of this letter, we are of the view that the terms of the Non-Exempt Transactions are fair and reasonable, on the normal commercial terms and in the interest of the Company and its Shareholders as a whole.

#### **4. Non-Exempt Annual Caps**

##### ***4.1 Historical amounts, Non-Exempt Annual Cap***

The following table sets forth the historical amounts, the Proposed Revised Cap for the AVIC Finance Factoring Services for the year ending 31 December 2023 (the "FY2023") and the Non-Exempt Annual Caps (except for the Proposed Revised Cap for the AVIC Finance Factoring Services) for each of the year ending 31 December 2024, 2025 and 2026 (the "FY2024", "FY2025" and "FY2026") of the Non-exempt Transactions.

---

## LETTER FROM MAXA CAPITAL

---

(RMB' million)	Historical amount for FY2021	Historical amount for FY2022	Historical amount for 1H2023	Proposed Revised Cap for FY2023	Proposed caps for FY2024	Proposed caps for FY2025	Proposed caps for FY2026
<b>Expenditure transactions of the Group</b>							
Mutual Product Supply Agreement	10,567	11,471	7,149	-	20,980	24,320	26,000
Mutual Service Supply Agreement	375	414	99	1,200	1,610	1,400	1,500
AVIC Airborne Mutual Product and Service Supply Framework Agreement	671	783	674	-	2,800	3,000	3,100
<b>Revenue transactions of the Group</b>							
Mutual Product Supply Agreement	15,674	18,152	13,741	-	43,350	45,220	51,760
Mutual Service Supply Agreement	2,605	2,644	1,180	-	5,600	5,000	5,300
<b>Transactions under the Financial Services Framework Agreement</b>							
Maximum daily outstanding balance of deposits (including accrued interests) for deposit services	19,100	24,432	16,220	-	45,000	45,000	45,000
Maximum daily outstanding factoring financing balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Finance Factoring Services	355	1,050	725	2,500	5,000	5,000	5,000
Other Financial Services	37	47	72	-	3,000	3,000	3,000
<b>Transactions under the Finance Lease and Factoring Framework Agreement</b>							
Maximum daily outstanding factoring financing balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Lease Factoring Services	30	25	5	-	1,000	1,000	1,000

#### **4.2 Basis of determining the Non-Exempt Annual Caps**

##### **(1) Mutual Product Supply Agreement**

Under the Mutual Product Supply Agreement, the Group primarily provides the aviation entire aircraft and avionics products to AVIC Group, and AVIC Group primarily provides the relevant parts and components to the Group which are necessary for the manufacturing of the aforesaid aviation entire aircraft and avionics products.

The proposed caps for the revenue transactions for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

- (i) historical transaction amount and expected growth

The proposed caps for the three years ending 31 December 2026 are determined after taking into account (i) the historical transaction amount of approximately RMB15,674 million and RMB18,152 million respectively for the year ended 31

---

## LETTER FROM MAXA CAPITAL

---

December 2021 and 31 December 2022; (ii) the expected sales volume of products of the Group, in particular, the expected additional sales volume of electromechanical products as a result of the Share Swap and Absorption for the year ending 31 December 2023, and the Company has revised and increased the proposed annual cap for the revenue transactions under the Existing Mutual Product Supply Agreement for the year ending 31 December 2023 to RMB34,516 million (for details please refer to the Company's circular dated 16 January 2023); and (iii) the expected growth of relevant business in 2024 based on the current operation plan which is expected to lead to significant increase of sales volume of aviation products, and after taking into account the orders from AVIC Group and the commercial negotiations ongoing with AVIC Group in relation to potential orders.

- (ii) adequate buffer for potential demands of AVIC Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential product demands of AVIC Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, the research, development and manufacturing of the Group's possible new products, and the potential business development and expansion of the Group in the future.

The proposed caps for the expenditure transactions for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

- (i) expected growth in demand of the Group

The Group will purchase relevant parts and components from AVIC Group for the manufacturing of the aviation entire aircraft and avionics products. The proposed caps for the three years ending 31 December 2026 are determined after taking into account (i) the historical transaction amount of approximately RMB10,567 million and RMB11,471 million respectively for the year ended 31 December 2021 and 31 December 2022; (ii) the expected increase in procurement of parts and components according to the production plan and the expected additional purchase costs for the production of electromechanical products as a result of the Share Swap and Absorption for the year ending 31 December 2023, and the Company has revised and increased the proposed annual cap for the expenditure transactions under the Existing Mutual Product Supply Agreement for the year ending 31 December 2023 to RMB23,640 million (for details please refer to the Company's circular dated 16 January 2023). As the procurement of products has become more stable, the expenditure transactions for 2024 is expected to be lower than in the annual cap for the year 2023. The annual growth rate of the expenditure transactions for each of 2025 to 2026 is expected to be 16% and 7%, respectively.

- (ii) adequate buffer for potential demands of the Group

---

## LETTER FROM MAXA CAPITAL

---

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential product demands of the Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, the research, development and manufacturing of the Group's possible new products, and the potential business development and expansion of the Group in the future.

(2) *Mutual Service Supply Agreement*

The proposed caps for the revenue transactions for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

(i) provision of aviation engineering services to AVIC Group

Under the Mutual Service Supply Agreement, the Group mainly provides aviation engineering services to AVIC Group through AVIC CAPDI. The proposed caps for the three years ending 31 December 2026 are determined after taking into account the steady annual growth of the aviation engineering industry. It is expected that the revenue of aviation engineering services of the Group will grow at an annual rate of around 6% from 2024 to 2026 taking into account the compound annual growth rate of around 7% in the past three years.

(ii) Provision of labour services and other services to AVIC Group

The Group expects that the revenue from labour services due to the Share Swap and Absorption will increase by around RMB270 million for the year ending 31 December 2024. Besides, based on the signed contracts, orders and the Group's manufacturing plan and business development, the expected revenue from manufacturing-related labour services for aviation entire aircraft business is approximately RMB1,300 million for the year ending 31 December 2024.

As the Group expects a decrease in provision of labour services to AVIC Group in 2025 and 2026 under the signed contracts, orders and the Group's manufacturing plan, hence there is a slight decrease in the proposed annual caps for the year ending 31 December 2025 and 31 December 2026 as compared to the proposed annual cap for the year ending 31 December 2024.

The Group did not have a high utilisation rate for the annual caps for revenue transactions under the Existing Mutual Service Supply Agreement for the years ended 31 December 2021 and 31 December 2022 mainly due to the decrease in contracts and orders as affected by the market and the revenue growth of the engineering services provided by the Group was lower than expected at the time when setting the original caps in the Existing Mutual Service Supply Agreement.

(iii) adequate buffer for potential demands of AVIC Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential services demands of AVIC Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry (based on

---

## LETTER FROM MAXA CAPITAL

---

the expected growth of around 5% in the 2023 gross domestic product in the PRC and the growth rate in revenue of aviation industry was around 7% in 2022), and the potential business development and expansion of AVIC Group in the future.

The proposed caps for the three years ending 31 December 2026 for the expenditure transactions are determined with reference to, among other things, the following factors:

(i) provision of labour services by AVIC Group

AVIC Group mainly provides labour services such as corresponding outsourcing and comprehensive services to the Group. For the year ending 31 December 2024, the Group expects to incur additional labour expenditure of approximately RMB240 million due to the Share Swap and Absorption. Along with the business development and increase of the Group's sales volume, the labour expenditures (such as outsourcing labour services) are expected to increase substantially in 2024 as compared to 2023. However, as the Group expects a decrease in its demand for certain types of labour services from AVIC Group in 2025 and 2026 based on the signed contracts, orders and the Group's manufacturing plan, hence the Group expects a decrease in the proposed annual caps for the year ending 31 December 2025 and 31 December 2026 as compared to the proposed annual cap for the year ending 31 December 2024. When determining the proposed annual caps for 2024 to 2026, the Group also took into account the historical and expected growth rates in labour wages.

The Group did not have a high utilisation rate for the annual caps for expenditure transactions under the Existing Mutual Service Supply Agreement for the years ended 31 December 2021 and 31 December 2022 mainly because the sales of certain aircraft models did not experience growth as expected when determining the original annual caps in the Existing Mutual Service Supply Agreement, thereby resulting in a cut down of the corresponding labour expenditure.

(ii) adequate buffer for potential demands of the Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential services demands of the Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry (based on the expected growth of around 5% in the 2023 gross domestic product in the PRC and the growth rate in revenue of AVIC Group was around 7% in 2022) and the potential business development and expansion of the Group in the future, as well as the historical growth rate in the Group's operating revenue of approximately 5.5% for the year ended 31 December 2022 as compared to that of the year ended 31 December 2021.

(3) *AVIC Airborne Mutual Product and Service Supply Framework Agreement*

The proposed caps for the three years ending 31 December 2026 for the expenditure transactions are determined with reference to, among other things, the following factors:

---

## LETTER FROM MAXA CAPITAL

---

(i) intragroup transactions of the Group

The transactions under the AVIC Airborne Mutual Product and Service Supply Framework Agreement are intragroup transactions of the Group, and are mostly product pairing transactions between the AVIC Airborne Group (mainly the avionic products and electromechanical products) and the Group's entire aircraft companies (mainly the helicopters and trainers). Avionics products and electromechanical products are necessary aviation parts and components for the manufacturing of the aviation entire aircraft. AVIC Airborne Group is the major supplier for the related avionics products and electromechanical products in the Group's helicopters and trainers.

Therefore, when determining the proposed caps for the transactions contemplated under the AVIC Airborne Mutual Product and Service Supply Framework Agreement, the Company has also taken into account the growth rates of the revenue transactions of AVIC Airborne Group under the Mutual Product Supply Agreement.

(ii) historical transaction amount and annual growth trend

Under the Existing Mutual Product and Service Supply and Guarantee Agreement, the expenditure transactions amount for the year ended 31 December 2022 has increased by approximately 17% when compared to that of 31 December 2021. Along with the growth in production and sales of the Group's aviation entire aircraft products, the Group has a corresponding higher demand for purchase of avionics products, which is expected to have a substantial increase for the year ending 31 December 2024 when compared to that for the year ended 31 December 2022, and an expected growth rate of approximately 7% to 9% between 2025 and 2026. Further, upon completion of the Share Swap and Absorption, it is expected that the Group will incur additional purchase costs for electromechanical products as a result. The Company has revised and increased the proposed annual caps for the expenditure transactions under the Existing Mutual Product and Service Supply and Guarantee Agreement for the year ending 31 December 2023 (for details please refer to the Company's circular dated 16 January 2023). It is expected that the additional purchase costs for electromechanical products for 2024 to 2026 would be around RMB1,400 million in total.

(iii) adequate buffer for potential demands of the Group

The Company also sets a 10% buffer for the proposed caps to cover the potential demands of the Group for the relevant products and services. The 10% buffer is added based on the development in national economy and aviation industry (based on the expected growth of around 5% in the 2023 gross domestic product in the PRC and the growth rate in revenue of AVIC Group was around 7% in 2022), the potential business development and expansion of the Group in the

---

## LETTER FROM MAXA CAPITAL

---

future, as well as the historical growth rate in the Group's operating revenue of approximately 5.5% for the year ended 31 December 2022 as compared to that of the year ended 31 December 2021.

(4) *Financial Services Framework Agreement*

Deposit Services

The proposed cap for the Deposit Services under the Financial Services Framework Agreement is the same as the annual cap under the Existing Financial Services Framework Agreement, which is determined with reference to, among other things, the following factors: (i) the maximum daily outstanding balance of deposits (including accrued interests) of approximately RMB19,100 million, RMB24,432 million and RMB16,220 million placed by the Group in AVIC Finance in the year ended 31 December 2021 and 2022 and the six months ended 30 June 2023; (ii) the cash and bank balances of the Group of approximately RMB30,378 million as at 30 June 2023; (iii) the expected payments as may be made by major customers in the aviation entire aircraft business segment and the expected payment schedule for the products provided by the Group during the relevant period; (iv) the expected growth in the business of the Group, leading to an increasing demand for the Deposit Services with higher level of funds; and (v) the fund management strategy of the Group of allocating a certain percentage of funds to AVIC Finance for more efficient use of funds available.

Besides, the proposed cap for the Deposit Services under the Financial Services Framework Agreement has also taken into account the increase in the number of subsidiaries of the Company after completion of the Share Swap and Absorption. Prior to completion of the Share Swap and Absorption, AVIC Electromechanical was listed on the Shenzhen Stock Exchange (stock code: 002013.SZ) and its market capitalization immediately prior to completion of the Share Swap and Absorption was approximately RMB41,632.36 million, and it had more than 20 subsidiaries. The consolidated total assets of the AVIC Electromechanical Group as at 31 December 2020 and 31 December 2021 amounted to approximately RMB30,247.22 million and RMB34,893.66 million respectively. The consolidated revenue of the AVIC Electromechanical Group for the year ended 31 December 2020 and 31 December 2021 was approximately RMB12,224.10 million and RMB14,992.20 million respectively. After completion of the Share Swap and Absorption, the expected demand for the Deposit Services of the Group will increase considering the increase in the number of subsidiaries of the Company.

AVIC Finance Factoring Services

The proposed caps for the AVIC Finance Factoring Services are determined with reference to, among other things, the following factors: (i) the historical maximum daily outstanding factoring financing balance of the AVIC Finance Factoring Services for the year ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023 respectively; (ii) the increase in the number of subsidiaries of the Company after completion of the Share Swap and Absorption as well as the expected demand of the Group for accounts receivable financing services from AVIC Finance after taking

---

## LETTER FROM MAXA CAPITAL

---

into account the forecast in the Group's business for 2024 to 2026 which considers the expected growth in the Group's revenue and accounts receivables; (iii) the total accounts receivable of the Group in the latest financial statements; and (iv) the Group may increase its demand for AVIC Finance Factoring Services towards the end of the year for the investment needs for the next financial year and the need to maintain certain level of working capital.

### Other Financial Services

The proposed caps for the Other Financial Services under the Financial Services Framework Agreement are determined with reference to, among other things, the following factors: (i) the historical transaction amount of Other Financial Service received by the Group for the year ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023; (ii) the expected increase in demand for Other Financial Services due to an increase in subsidiaries of the Company after completion of the Share Swap and Absorption, and each subsidiary with its own business needs and financial demands; (iii) in accordance with the 14<sup>th</sup> Five-Year Plan, certain subsidiaries of the Company have been enhancing its research and development input for new airplane models, which may affect the short-term liquidity of the Group in 2024 to 2026, thereby increasing the Group's demand in using bill acceptance and discount services to raise funds and for greater efficiency and flexibility in utilising the financing methods for additional funds; (iv) towards the end of the year, the Group has the need to maintain certain level of working capital, therefore, the Group may use more bill acceptance and discount services for greater efficiency in the use of funds; and (v) as disclosed in the 2022 annual report of the Company, as at 31 December 2022, the Group's notes payable amounted to approximately RMB10,417.3 million (comprising banker's acceptance bill of approximately RMB5,381.7 million and commercial acceptance bill of RMB5,035.6 million), the Group expects to increase its use of bill acceptance and discount services provided by AVIC Finance instead of other commercial banks in 2024 to 2026 when settling payment taking into account the advantages of engaging services provided by AVIC Finance as compared to other commercial banks as set out in section 5.3(b) of the Letter from the Board. The Company considers that it will not over-rely on the bill acceptance and discount services provided by AVIC Finance because the Company has adopted certain internal control mechanism to ensure the implementation of pricing policies in the continuing connected transactions agreements of the Group (as set out in section IV of the Letter from the Board).

---

## LETTER FROM MAXA CAPITAL

---

The Group did not have a high utilisation rate for the annual caps for Other Financial Services for the years ended 31 December 2021 and 31 December 2022 because the Group did not utilise bill acceptance and discount services or other financial services of AVIC Finance as originally planned after considering its cash flow status and financing needs during such period.

(5) *Financial Lease and Factoring Framework Agreement*

AVIC Lease Factoring Services under the Finance Lease and Factoring Framework Agreement

The proposed caps for the AVIC Lease Factoring Services under the Finance Lease and Factoring Framework Agreement are determined with reference to, among other things, the following factors: (i) the expected demand of the Group for accounts receivable financing services from AVIC Lease after taking into account the forecast in the Group's business for 2024 to 2026 which considers (a) the expected growth in the Group's revenue and accounts receivables, and (b) the long settlement cycle of main aircraft body manufacturing business which may create pressure on the Group's liquidity; (ii) the total accounts receivable of the Group in the latest financial statements and the historical trend of the level of accounts receivable in the Group's financial statements; and (iii) the Group may increase its demand for AVIC Lease Factoring Services towards the end of the year (a) due to the enhancement in research and development input for new airplane models of certain subsidiaries of the Company in line with the 14<sup>th</sup> Five-Year Plan which may affect the short term liquidity of the Group, (b) for the investment needs for the next financial year (which are estimated based on the potential orders, signed contracts, historical investment amount and quantity of fixed assets), and (c) for the need to maintain certain level of working capital.

The Group did not have a high utilisation rate for the annual caps for AVIC Lease Factoring Services for the years ended 31 December 2021 and 31 December 2022 because the Group did not utilise the AVIC Lease Factoring Services as originally planned after considering its cash flow status, its financing needs and the various financing channels during such period.

---

## LETTER FROM MAXA CAPITAL

---

(6) *Supplemental Financial Services Framework Agreement*

The Proposed Revised Cap for the AVIC Finance Factoring Services for the year ending 31 December 2023 is determined based on the historical maximum daily outstanding factoring financing balance for the year ended 31 December 2021 and 31 December 2022 and the expected increase in the demand for the AVIC Finance Factoring Services by AVIC Airborne Group after considering (i) the maximum daily outstanding factoring financing balance (including factoring prepayment, factoring fee and factoring handling charges) of the factoring services under the Existing Financial Services Framework Agreement for the year ended 31 December 2022 (i.e. RMB1,050 million) almost reached the original annual cap for the financial year ending 31 December 2023 (i.e. RMB1,200 million); and (ii) upon completion of the Share Swap and Absorption, the number of the Company's subsidiaries has increased, which would lead to an increase in demand for the AVIC Finance Factoring Services by AVIC Airborne Group in the second half of 2023 (being approximately RMB600 million), and it is expected that the original annual cap will be insufficient to satisfy the Group's demand for AVIC Finance Factoring Services for the year ending 31 December 2023. Further, due to the Group's business nature, the Group generates a higher level of revenue and accounts receivables in the second half of the year compared to the first half of the year; coupled with the investment needs for the next financial year and the needs of the Group to maintain certain level of working capital towards the end of the year, the Group would have a higher demand for AVIC Finance Factoring Services in late 2023.

### **4.3** *Assessment to the Non-Exempt Annual Caps*

In assessing the fairness and reasonableness of the Non-Exempt Annual Caps, we have reviewed the calculation of the Non-Exempt Annual Caps and noted that the Non-Exempt Annual Caps are calculated as the sum of estimated transaction amounts for respective transactions under certain agreements prepared by the relevant subsidiaries of the Group in FY2024, FY2025 and FY2026 with certain buffers. We have discussed with the Management and it is confirmed that the estimated transaction amounts are calculated based on several factors, including but not limited to existing and expected orders, manufacturing plans, expected business growth, expected growth of financial demand and expected growth of account receivables of the Group.

---

## LETTER FROM MAXA CAPITAL

---

### 4.3.1 Mutual Product Supply Agreement

In respect of the proposed annual caps for the expenditure transactions of the Group, we have reviewed the historical transaction amounts of expenditure transactions of the Group for FY2021, FY2022 and 1H2023, which represent the utilisation rates of the existing annual caps for the expenditure transactions of approximately 59.1%, 60.9% and 30.2% for the corresponding periods, respectively. We have discussed with the Management and understood that the settlement of the expenditure transactions usually concentrates in the second half of the year and therefore the transaction amount of expenditure transactions in the second half of 2023 is expected to be higher as compared to that for 1H2023. We have obtained and reviewed the 2022 interim connected transactions monitor sheet of the Company and noted that the transaction amount of expenditure transactions of the Group for 1H2022 represented approximately 43.7% of such transaction amount for FY2022. The proposed annual caps for the expenditure transaction for FY2025 and FY2026 represent annual growth rates of approximately 15.9% and 6.9% respectively. As advised by the Management, the increase of the proposed annual cap for the expenditure transaction for FY2024 of approximately 82.9% as compared to the historical expenditure transaction amounts for FY2022 is mainly due to the expected additional purchase cost for the production of electromechanical products as a result of an increase in more than 20 subsidiaries of the Company after completion of the Share Swap and Absorption (the “**Absorbed Subsidiaries**”). We have also obtained and reviewed the estimated transaction amounts for expenditure transactions of such absorbed subsidiaries and noted that (i) the estimated transaction amounts for expenditure transactions of Absorbed Subsidiaries for FY2024 are approximately 10.9% of the proposed annual cap for the expenditure transaction for FY2024; and (ii) the proposed annual cap for the expenditure transaction for FY2024 deducting the estimated transaction amounts for expenditure transactions of Absorbed Subsidiaries for FY2024 represents a compound annual growth rate (the “**CAGR**”) of approximately 27.7% as compared to the historical expenditure transaction amounts for FY2022. We further noted that (i) the proposed annual caps for the expenditure transaction for FY2024, FY2025 and FY2026 are in line with the expected transaction amounts with a buffer of 10% as shown in the calculation; (ii) the total operating cost of the Group for FY2022 and 1H2023 increased by approximately 5.53% and 22.04% as compared to that for FY2021 and 1H2022, respectively; and (iii) the annual growth rates of the proposed annual caps for the expenditure transactions for FY2025 and FY2026 are within the range of the growth rates of total operating cost of the Group for FY2022 and 1H2023; and (iv) the CAGR indicated by the proposed annual cap for FY2024 without the impact of the Absorbed Subsidiaries is close to the growth rates of total operating cost of the Group for 1H2023.

In respect of the proposed annual caps for the revenue transactions of the Group, we have reviewed the historical transaction amounts of revenue transactions of the Group for FY2021, FY2022 and 1H2023, which represent the utilisation rates of the existing annual caps for the revenue transactions of approximately 86.1%, 87.8% and 39.8% for the corresponding periods. We have discussed with the Management and understood that the settlement of the revenue transactions usually concentrates in the second half of

---

## LETTER FROM MAXA CAPITAL

---

the year and therefore the transaction amount of revenue transactions in the second half of 2023 is expected to be higher as compared to that for 1H2023. We have obtained and reviewed the 2022 interim connected transactions monitor sheet of the Company and noted that the transaction amount of revenue transactions of the Group for 1H2022 represented approximately 41.3% of such transaction amount for FY2022. The proposed annual caps for the revenue transactions for FY2025 and FY2026 represent annual growth rates of approximately 4.3% and 14.5% respectively. As advised by the Management, the increase of the proposed annual cap for the revenue transaction for FY2024 of approximately 138.8% as compared to the historical revenue transaction amounts for FY2022 is mainly due to the expected addition sales volume of electromechanical products as a result of an increase in Absorbed Subsidiaries. We have also obtained and reviewed the estimated transaction amounts for revenue transactions of such absorbed subsidiaries and noted that (i) the estimated transaction amounts for revenue transactions of Absorbed Subsidiaries for FY2024 are approximately 26.1% of the proposed annual cap for the revenue transaction for FY2024; and (ii) the proposed annual cap for the revenue transaction for FY2024 deducting the estimated transaction amounts for revenue transactions of Absorbed Subsidiaries for FY2024 represents a CAGR of approximately 32.9% as compared to the historical revenue transaction amounts for FY2022. We further noted that (i) the proposed annual caps for the revenue transaction for FY2024, FY2025 and FY2026 are in line with the expected transaction amounts with a buffer of 8% as shown in the calculation; (ii) the revenue of the Group for FY2022 and 1H2023 increased by approximately 5.54% and 21.95% as compared to that for FY2021 and 1H2022, respectively; and (iii) the annual growth rates of the proposed annual caps for the revenue transactions for FY2025 and FY2026 are within the range of the growth rates of revenue for FY2022 and 1H2023.

In view of the above, we consider the proposed annual caps under the Mutual Product Supply Agreement are fair and reasonable.

### *4.3.2 Mutual Service Supply Agreement*

In respect of the proposed annual caps for the expenditure transactions of the Group, we have reviewed the historical transaction amounts of expenditure transactions of the Group for FY2021, FY2022 and 1H2023, which represent the utilisation rates of the existing annual caps for the expenditure transaction of approximately 48.7%, 49.3% and 10.6% for the corresponding periods. We noted that the historical utilisation rate of the existing cap for 1H2023 is relatively low. We have discussed with the Management in this regard and understood that the settlement of the expenditure transactions usually concentrates in the second half of the year and therefore the transaction amount of expenditure transactions in the second half of 2023 is expected to be higher as compared to that for 1H2023. We have obtained and reviewed the 2022 interim connected transactions monitor sheet of the Company and noted that the transaction amount of expenditure transactions of the Group for 1H2022 represented approximately 25.7% of such transaction amount for FY2022. The proposed annual caps for the expenditure transaction for FY2025 and FY2026 represent a reduction rate of approximately 13.0% and a growth rate of approximately 7.1% respectively. As disclosed in the Letter from the Board, the existing annual cap for expenditure transaction for FY2023 is proposed to revise to RMB1,200 million considering the

---

## LETTER FROM MAXA CAPITAL

---

expected increase of the Group's purchase amount as a result of the Share Swap and Absorption. As advised by the Management, the increase of the proposed annual cap for the expenditure transactions for FY2024 of approximately 34.17% as compared to the proposed revised cap for expenditure transactions for FY2023 is mainly due to the expected increase of labour expenditures of the Group of approximately 25%, which is mainly contributed by the expected increase of labour procurement plan for the aviation entire aircraft business of the Group. We further noted that (i) the proposed annual caps for the expenditure transaction for FY2024, FY2025 and FY2026 are in line with the expected transaction amounts with a buffer of 10% as shown in the calculation; (ii) the total operating costs of the Group for FY2022 and 1H2023 increased by approximately 5.53% and 22.04% as compared to that for FY2021 and 1H2022, respectively; and (iii) the annual growth rate of the proposed annual caps for the expenditure transaction for FY2026 are within the range of the growth rates of total operating costs for FY2022 and 1H2023.

In respect of the proposed annual caps for the revenue transactions, we have reviewed the historical transaction amounts of revenue transactions of the Group for FY2021, FY2022 and 1H2023, which represent the utilisation rates of the existing annual caps for the revenue transaction of approximately 52.9%, 46.9% and 17.4% for the corresponding periods. We noted that the historical utilisation rate of the existing cap for 1H2023 is relatively low. We have discussed with the Management in this regard and understood that the settlement of the revenue transactions usually concentrates in the second half of the year and therefore the transaction amount of revenue transactions in the second half of 2023 is expected to be higher as compared to that for 1H2023. We have obtained and reviewed the 2022 interim connected transactions monitor sheet of the Company and noted that the transaction amount of revenue transactions of the Group for 1H2022 represented approximately 38.4% of such transaction amount for FY2022. The proposed annual caps for the revenue transactions for FY2025 and FY2026 represent a reduction rate of approximately 10.7% and a growth rate of 6.0% respectively. As advised by the Management, the increase of the proposed annual cap for the revenue transaction for FY2024 of approximately 111.8% as compared to the historical revenue transaction amounts for FY2022 is mainly due to the expected additional supply of aviation engineering services and labour services as a result of the business development of the Group. We further noted that (i) the proposed annual caps for the revenue transaction for FY2024, FY2025 and FY2026 are in line with the expected transaction amounts with a buffer of 8% as shown in the calculation; (ii) the revenue of the Group for FY2022 and 1H2023 increased by approximately 5.54% and 21.95% as compared to that for FY2021 and 1H2022, respectively; and (iii) the annual growth rate of the proposed annual caps for the revenue transactions for FY2026 are within the range of the growth rates of revenue for FY2022 and 1H2023.

---

## LETTER FROM MAXA CAPITAL

---

In view of the above, we consider the proposed annual caps under the Mutual Service Supply Agreement are fair and reasonable are fair and reasonable.

### *4.3.3 AVIC Airborne Mutual Product and Service Supply Framework Agreement*

In respect of the proposed annual caps for the expenditure transactions of the Group, we have reviewed the historical transaction amounts of expenditure transactions of the Group for FY2021, FY2022 and 1H2023, which represent the utilisation rates of the existing annual caps for the expenditure transaction of approximately 54.6%, 52.6% and 17.6% for the corresponding periods. We noted that the historical utilisation rate of the existing cap for 1H2023 is relatively low. We have discussed with the Management in this regard and understood that the settlement of the expenditure transactions usually concentrates in the second half of the year and therefore the transaction amount of expenditure transactions in the second half of 2023 is expected to be higher as compared to that for 1H2023. We have obtained and reviewed the 2022 interim connected transactions monitor sheet of the Company and noted that the transaction amount of expenditure transactions of the Group for 1H2022 represented approximately 38.4% of such transaction amount for FY2022. The proposed annual caps for the expenditure transactions for FY2025 and FY2026 represent annual growth rates of approximately 7.1% and 3.3%, respectively. As advised by the Management, increase of the proposed annual cap for the expenditure transaction for FY2024 of approximately 257.6% as compared to the historical expenditure transactions for FY2022 are mainly due to the expected additional purchase cost for electromechanical products as a result of an increase in Absorbed Subsidiaries. We have also obtained and reviewed the estimated transaction amounts for expenditure transactions of such absorbed subsidiaries and noted that (i) the estimated transaction amounts for expenditure transactions of Absorbed Subsidiaries for FY2024 are approximately 48.3% of the proposed annual cap for the expenditure transaction for FY2024; and (ii) the proposed annual cap for the expenditure transaction for FY2024 deducting the estimated transaction amounts for expenditure transactions of Absorbed Subsidiaries for FY2024 represents a CAGR of approximately 36.0% as compared to the historical expenditure transaction amounts for FY2022. We further noted that (i) the proposed annual caps for the expenditure transaction for FY2024, FY2025 and FY2026 are in line with the expected transaction amounts with a buffer of 10% as shown in the calculation; (ii) the revenue of AVIC Airborne for FY2022 and 1H2023 increased by approximately 13.69% and 2.75% as compared to that for FY2021 and 1H2022, respectively; and (iii) the annual growth rates of the proposed annual caps for the expenditure transactions for FY2025 and FY2026 are within the range of the growth rates of the revenue of AVIC Airborne for FY2022 and 1H2023.

In view of the above, we consider the proposed annual caps for expenditure transactions of the Group under the AVIC Airborne Mutual Product and Service Supply Framework Agreement are fair and reasonable are fair and reasonable.

---

## LETTER FROM MAXA CAPITAL

---

### 4.3.4 *Financial Services Framework Agreement*

In respect of the proposed annual caps for the Deposit Services, we have reviewed the historical maximum daily outstanding balance of deposits (including accrued interests) of the Group for FY2021, FY2022 and 1H2023, which represent the utilisation rates of the existing annual caps for the Deposit Services of approximately 54.6%, 69.8% and 36.0% for the corresponding periods. The proposed annual caps for the Deposit Services for FY2024, FY2025 and FY2026 will remain the same as the existing annual cap for the Deposit Services FY2023. As advised by the Management, the monetary funds held by the Group are subject to seasonal factors and are normally higher at the end of the year. We further noted that (i) the proposed annual caps for the Deposit Services for FY2024, FY2025 and FY2026 are in line with the expected maximum daily outstanding balance of deposits with certain buffer as shown in the calculation; (ii) the restated monetary funds of the Group reached RMB43,773.73 million as at 31 December 2022, which is close to the proposed annual caps for the Deposit Services for FY2024, FY2025 and FY2026; and (iii) the revenue of the Group for FY2022 and 1H2023 increased by approximately 5.54% and 21.95% as compared to that for FY2021 and 1H2022, respectively.

In respect of the proposed annual caps for the AVIC Finance Factoring Services, we have reviewed the historical maximum daily outstanding factoring financing balance of the AVIC Finance Factoring Services for FY2021, FY2022 and 1H2023, which represent the utilisation rates of the existing annual caps for the AVIC Finance Factoring Services of approximately 29.6%, 87.5% and 60.4% for the corresponding periods. As disclosed in the Letter from the Board, the existing annual cap for AVIC Finance Factoring Services for FY2023 is proposed to revise to RMB2,500 million considering the expected increase of the Group's demand for the AVIC Finance Factoring Services due to the increased number of the Company's subsidiaries upon completion of the Share Swap and Absorption. The proposed annual caps for the AVIC Finance Factoring Services for FY2024, FY2025 and FY2026 will further increase by 100.0% to RMB5,000 million as compared to the proposed revised cap for the AVIC Finance Factoring Services for FY2023. We noted that the proposed annual caps represent a substantial increase as compared to the historical maximum daily outstanding factoring financing balance of the AVIC Finance Factoring Services for 1H2023. We have discussed with the Management in this regard and understood that (i) the settlement of the transactions in relation to AVIC Finance Factoring Services usually concentrates in the fourth quarter of the year and therefore maximum daily outstanding factoring financing balance of the AVIC Finance Factoring Services for the second half of 2023 is expected to be higher as compared to that for 1H2023; and (ii) the Group may increase its demand for AVIC Finance Factoring Services towards the end of the year for the potential investment and working capital needs of the Group. We have obtained and reviewed the 2022 interim connected transactions monitor sheet of the Company and noted that maximum daily outstanding factoring financing balance of the AVIC Finance Factoring Services for 1H2022 represented approximately 11.6% of such maximum daily outstanding factoring financing balance for FY2022. The proposed annual caps for the AVIC Finance Factoring Services are calculated with reference to the expected demand of the Group for accounts receivable financing services from AVIC Finance and the expected growth of the accounts receivables of the Group for

---

## LETTER FROM MAXA CAPITAL

---

FY2024 to FY2026. We further noted that (i) the proposed annual caps for the AVIC Finance Factoring Services for FY2024, FY2025 and FY2026 are in line with the expected maximum daily outstanding factoring financing balance with certain buffer as shown in the calculation; (ii) the accounts receivables of the Group reached RMB42,783.41 million as at 30 June 2023, representing an increase of approximately 39.81% as compared to that as at 31 December 2022; and (iii) the proposed annual caps of RMB5,000 million are approximately 11.7% of the accounts receivables of the Group as at 30 June 2023.

In respect of the proposed annual caps for the Other Financial Services, we have discussed with the Management and noted (i) the proposed annual caps for the Other Financial Services for FY2024, FY2025 and FY2026 will increase by 250.0% to RMB3,000 million as compared to that for FY2023; (ii) the proposed annual caps for the Other Financial Services for FY2024, FY2025 and FY2026 are in line with the expected transaction amounts with certain buffer as shown in the calculation; (iii) the proposed annual caps for the Other Financial Services for FY2024, FY2025 and FY2026 of RMB3,000 million are approximately 7.4%, 33.3% and 46.2% of the account payables, notes payables and notes receivables of the Group of RMB40,497.52 million, RMB8,999.36 million and RMB6,489.51 million as at 30 June 2023, respectively. We noted that the proposed annual caps represent a substantial increase as compared to the historical transaction amount for 1H2023. We have discussed with the Management in this regard and understood that (i) the settlement of the transactions in relation to the Other Financial Services usually concentrates in the fourth quarter of the year and therefore the transaction amount for the second half of 2023 is expected to be higher as compared to that for 1H2023; (ii) the Group may increase its demand for Other Financial Services towards the end of the year for the potential investment and working capital needs of the Group; and (iii) the enhancing of the research and development input in certain subsidiaries of the Company may affect the short-term liquidity of the Group in 2024 to 2026, thereby increasing the Group's demand in utilising Other Financial Services. We have obtained and reviewed the 2022 interim connected transactions monitor sheet of the Company and noted that the transaction amount of the Other Financial Services for 1H2022 represented approximately 10.7% of such transaction amount for FY2022. We have also noted from the 2022 annual report of the Company that the research and development expenses of the Company increased by approximately 28.7% to approximately RMB4,442.5 million for FY2022 as compared to that for FY2021.

In view of the above, we consider the proposed annual caps under the Financial Services Framework Agreement are fair and reasonable.

#### *4.3.5 Finance Lease and Factoring Framework Agreement*

In respect of the proposed annual caps for the AVIC Lease Factoring Services, we have discussed with the Management and noted that the proposed annual caps for the AVIC Lease Factoring Services are calculated with reference to the expected demand of the Group for accounts receivable financing services from AVIC Lease and the expected growth of the accounts receivables of the Group for FY2024 to FY2026. We noted that

---

## LETTER FROM MAXA CAPITAL

---

the proposed annual caps represent a substantial increase as compared to the historical maximum daily outstanding factoring financing balance of AVIC Lease Factoring Services for 1H2023. We have discussed with the Management in this regard and understood that (i) the settlement of the transactions in relation to the AVIC Lease Factoring Services usually concentrates in the fourth quarter of the year and therefore the maximum daily outstanding factoring financing balance of AVIC Lease Factoring Services for the second half of 2023 is expected to be higher as compared to that for 1H2023; and (ii) the Group may increase its demand for AVIC Lease Factoring Services towards the end of the year (a) due to the enhancement in research and development input for new airplane models of certain subsidiaries of the Company in line with the 14<sup>th</sup> Five-Year Plan which may affect the short term liquidity of the Group; (b) for the investment needs for the next financial year (which are estimated based on the potential orders, signed contracts, historical investment amount and quantity of fixed assets); and (c) for the need to maintain certain level of working capital. We have obtained and reviewed the 2022 interim connected transactions monitor sheet of the Company and noted that the Company has not recorded any transaction amount of the AVIC Lease Factoring Services for 1H2022 while the historical maximum daily outstanding factoring financing balance of AVIC Lease Factoring Services for FY2022 was approximately RMB25 million. We have also noted from the 2022 annual report of the Company that the research and development expenses of the Company increased by approximately 28.7% to approximately RMB4,442.5 million for FY2022 as compared to that for FY2021. The proposed annual caps for the AVIC Lease Factoring Services for FY2024, FY2025 and FY2026 will decrease by 33.3% to RMB1,000 million as compared to the existing annual cap for AVIC Lease Factoring Services for FY2023. We further noted that (i) the proposed annual caps for the AVIC Lease Factoring Services for FY2024, FY2025 and FY2026 are in line with the expected maximum daily outstanding factoring financing balance with certain buffer as shown in the calculation; (ii) the accounts receivables of the Group reached RMB42,783.41 million as at 30 June 2023, representing an increase of approximately 39.81% as compared to that as at 31 December 2022; and (iii) the proposed annual caps of RMB1,000 million are approximately 2.3% of the accounts receivables of the Group as at 30 June 2023.

In view of the above, we consider the proposed annual caps for the AVIC Lease Factoring Services under the Financial Services Framework Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

#### ***4.4 Assessment to the Proposed Revised Cap for the AVIC Finance Factoring Services***

In assessing the fairness and reasonableness of the Proposed Revised Cap for the AVIC Finance Factoring Services, we have reviewed the historical maximum daily outstanding factoring financing balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Finance Factoring Services of the Group for FY2021, FY2022 and 1H2023 and noted that the historical maximum daily outstanding factoring financing balance for FY2022 have increased by approximately 195.8% as compared with that for FY2021 and the utilisation rate of the existing annual caps of AVIC Finance Factoring Services for FY2022 and FY2023 reached 87.5% and 60.4%, respectively. We noted that the Proposed Revised Cap

---

## LETTER FROM MAXA CAPITAL

---

represents a substantial increase as compared to the historical maximum daily outstanding factoring financing balance of the AVIC Finance Factoring Services for 1H2023. We have discussed with the Management in this regard and understood that (i) the settlement of the transactions in relation to AVIC Finance Factoring Services usually concentrates in the fourth quarter of the year and therefore the maximum daily outstanding factoring financing balance of AVIC Finance Factoring Services for the second half of 2023 is expected to be higher as compared to that for 1H2023; and (ii) the Group may increase its demand for AVIC Finance Factoring Services towards the end of the year for the potential investment and working capital needs of the Group. We have obtained and reviewed the 2022 interim connected transactions monitor sheet of the Company and noted that maximum daily outstanding factoring financing balance of the AVIC Finance Factoring Services for 1H2022 represented approximately 11.6% of such balance for FY2022.

We have also reviewed the calculation of the Proposed Revised Cap for the AVIC Finance Factoring Services and understood that such cap is the sum of estimated transaction amounts prepared by the relevant subsidiaries of the Group in FY2023 with certain buffer. We have discussed with the Management and it is confirmed that the increase of estimated transaction amounts of AVIC Finance Factoring Services in FY2023 is mainly due to increase of demand for AVIC Finance Factoring Services caused by the increasing number of subsidiaries of the Group as a result of the Share Swap and Absorption. We further noted that (i) the accounts receivables of the Group reached RMB42,783.41 million as at 30 June 2023, representing an increase of approximately 39.81% as compared to that as at 31 December 2022; and (ii) the proposed annual cap of RMB2,500 million is approximately 5.8% of the accounts receivables of the Group as at 30 June 2023.

In view of the above, we consider the Proposed Revised Cap for the AVIC Finance Factoring Services is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

#### **4.5 Assessment to the Finance Lease Term**

In assessing the reasons for the Finance Lease Term which requires a longer period than three years, we have taken into consideration the information set out in the Circular and the following principal factors based on the information provided by, and discussion with, the Management:

- (i) The Group used to lease aviation related equipment from AVIC Lease under finance lease arrangement. The term of such finance lease transaction was determined with reference to the use life of the equipment (usually ranging from 10 years to 15 years).
- (ii) The relevant aviation related equipment is used for manufacturing entire aircraft, avionics products and electromechanical products and is usually expensive to purchase. A longer term of such finance lease of specific aviation related assets is beneficial to the Group to optimise its capital structure and manage its liquidities throughout the expected term of the relevant finance leases without incurring material capital risk or changing the right of use and ultimate ownership of the leased assets.

We have also reviewed the finance lease transactions announced by companies in the aviation industry listed on the Hong Kong Stock Exchange during the one-year period (i.e. 22 August 2022 to 22 August 2023) prior to the date of the Finance Lease and Factoring Framework

---

## LETTER FROM MAXA CAPITAL

---

Agreement (the “**Comparable Finance Leases**”), which represent the recent market practice in relation to aviation related assets. On best effort basis, we have identified an exhaustive list of three Comparable Finance Leases during such period, the principal terms of which are set out below:

<b>Date of the announcement</b>	<b>Company name &amp; stock code</b>	<b>Leased assets</b>	<b>Finance lease term</b>
28-Aug-22	China Southern Airlines Company Limited (1055.HK)	Aircraft, simulators, aviation related equipment	5 to 10 years
26-Sep-22	China Eastern Airlines Corporation Limited (670.HK)	Aircraft and aircraft engines	May more than 3 years but less than 15 years
20-Sep-22	Air China Limited (753.HK)	Aircraft and engines, simulators, ground support equipment and special vehicles	Mostly more than three years but within the use life of leased assets (over 10 years for aircraft and engines, 3 to 12 years for simulators, ground support equipment and special vehicles)

Based on the above, we consider it is a normal business practice for finance leases in relation to aviation related assets with a term of more than 3 years.

### 5. Internal control

As advised by the Management and set out in the Letter from the Board, the Company will apply an internal control mechanism in respect of the Non-Exempt Transactions and the Non-Exempt Annual Caps, details of which are included in the sections headed “IV. INTERNAL CONTROL MECHANISM”.

Pursuant to Rules 14A.55 and 14A.56 of the Hong Kong Listing Rules, the independent non-executive Directors and auditor of the Company will conduct annual review and provide confirmation letter regarding the continuing connected transactions of the Company each year. We have reviewed the annual reports of the Company for FY2021 and FY2022 and noted that the independent non-executive Directors and the auditor of the Company have reviewed the continuing connected transactions during such years and provided the relevant confirmation letter. As confirmed with the Company, the Company will continue to comply with the relevant annual review requirement under the Hong Kong Listing Rules on an on-going basis.

Based on the above, we are of the view that the Group has effective internal policies in place to continue to monitor the Non-Exempt Transactions and the Non-Exempt Annual Caps, therefore the interests of the Company and its Shareholders would be safeguarded.

---

## LETTER FROM MAXA CAPITAL

---

### RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that (i) the terms of the Non-Exempt Transactions and the Non-Exempt Annual Caps are fair and reasonable; and (ii) the Non-Exempt Transactions are on normal commercial terms, in the ordinary and usual course of business of the Group, and in the interests of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Non-Exempt Transactions and the Non-Exempt Annual Caps to be proposed at the EGM.

Yours faithfully  
For and on behalf of  
**Maxa Capital Limited**  
**Dian Deng**  
*Managing Director*

*Ms. Dian Deng is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.*

## 1. FINANCIAL INFORMATION OF THE GROUP

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2023 and the audited consolidated financial statements of the Group for the three years ended 31 December 2022 together with the relevant notes to the financial statements of the Group can be found on pages 18 to 102 of the interim report of the Group for the six months ended 30 June 2023, pages 130 to 348 of the annual report of the Group for the year ended 31 December 2022, pages 131 to 340 of the annual report of the Group for the year ended 31 December 2021 and pages 116 to 256 of the annual report of the Group for the year ended 31 December 2020.

Please also see below the hyperlinks to the interim report for the six months ended 30 June 2023 and the annual reports for the three years ended 31 December 2022 (in reverse chronological order), respectively.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0915/2023091500238.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042600453.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042500665.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042701542.pdf>

## 2. STATEMENT OF INDEBTEDNESS

### **Borrowings**

As at 30 September 2023, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB15,812,672,649, comprising secured and guaranteed borrowings of approximately RMB415,384,461 and unsecured and unguaranteed borrowings of approximately RMB15,397,288,188. Included in the outstanding secured and guaranteed borrowings, amount of approximately RMB77,522,149, RMB301,461,400 and RMB36,400,921 were secured by credit guarantee, accounts receivable and the Group's building and machinery equipment, respectively.

### **Lease liabilities**

As at 30 September 2023, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding lease liabilities of approximately RMB417,964,538. The Group's lease liabilities are unsecured and unguaranteed.

### **Contingent liabilities and guarantee**

As at 30 September 2023, the Group did not have contingent liabilities.

As at 30 September 2023, the Group had an external guarantee of RMB33,479,800.

**Pledge of assets**

As at 30 September 2023, the Group's guaranteed bank loans and other borrowings, lease liabilities and bank credit were secured by the pledge of the Group's accounts receivable, collection rights, buildings and equity.

Save as aforesaid and apart from intra-group liabilities and normal accounts and notes payable in the ordinary course of business of the Group, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, lease commitments, guarantees or other material contingent liabilities as at the close of business on the Latest Practicable Date.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Group since the Latest Practicable Date.

**3. SUFFICIENCY OF WORKING CAPITAL**

As at the Latest Practicable Date, after due enquiry and taking into account the available funds (including the internally generated funds and the banking facilities and factoring services available to the Group), the Directors are of the opinion that the Group will have sufficient working capital for its present requirement, that is for at least 12 months from the date of publication of this circular.

**4. FINANCIAL AND TRADING PROSPECTS**

In the second half of 2023, AVIC will continue to strengthen scientific and technological innovation, collaborate in technological research and development and ensure a safe and stable supply chain of the industrial chain; enhance the scale and quality of strategic emerging industries, and promote the transformation and upgrading of the traditional industries; and implement the improvement actions of further reform, so as to continuously improve its core competitiveness and core functions.

30 October 2023 is the 20th anniversary of the listing of the Company, which is a milestone for us and also a new beginning. In the second half of 2023, the Group will continue to be committed to building a world-class aviation high-tech industrial group by seizing the opportunity to complete the integration and reorganisation of the helicopter business. The Group will actively expand the influence through the Tianjin Helicopter Expo, support the construction of the civil helicopter industry base in Tianjin and advance the progress of civil helicopter industrialisation. The Group will make further efforts to promote the Leading Innovative Power Project and pool strengths to carry out original and leading scientific and technological researches. The Group will optimize the industrial layout and actively seek the merger and acquisition opportunities in the domestic and overseas aviation industrial chain, thus further optimizing the capital structure and shareholders' structure. The Group will strengthen market connections and safeguard market image, enhance governance capability, prevent operational risks and continue to promote high-quality development.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

## 2. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required: (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, are set out below:

### Interests in the Shares, underlying shares and debentures of the Company

Name	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
<b>Director</b>					
Yan Lingxi	H Shares	Beneficial owner	267,740	0.003%	Long position
<b>Supervisors</b>					
Zheng Qiang	H Shares	Beneficial owner	239,687	0.003%	Long position
		Interest of spouse	966	0.000%	Long position
Zhao Zhuo	H Shares	Beneficial owner	69,110	0.001%	Long position

*Note:* As at the Latest Practicable Date, Mr. Sun Jizhong held 48,513 A shares in AVIC Shenfei Aircraft Company Limited\* (中航沈飛股份有限公司)(“**AVIC Shenfei**”), representing approximately 0.002% of the total issued share capital of AVIC Shenfei. Mr. Zheng Qiang held 33,500 A shares in AVIC Industry- Finance Holdings Co., Ltd\* (中航工業產融控股股份有限公司) (“**AVIC Industry-Finance**”), representing approximately 0.0003% of the total issued share capital of AVIC Industry-Finance. AVIC Shenfei and AVIC Industry-Finance are subsidiaries of AVIC, and therefore are associated corporation (within the meaning of Part XV of the SFO) of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interests or short positions of the Company and its associated corporations (within the meaning of Part XV of the SFO): (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange; or (ii) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Hong Kong Listing Rules, required to be notified to the Company and the Hong Kong Stock Exchange.

### 3. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as the Directors are aware, the following person(s) (other than a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Class of Shares	Capacity	Number of Shares	Approximate	Nature of
				percentage of shareholdings to the same class of Shares in issue	
AVIC <sup>(Note 1)</sup>	H Shares	Beneficial owner; Interest in controlled corporation	3,553,069,569	57.21%	Long position
	Domestic Shares <sup>(Note 2)</sup>	Beneficial owner	1,250,899,906	70.99%	Long position
Tianjin Free Trade Zone Investment Company Limited* (天津保稅區投資有限公司) (“ <b>Tianjin Free Trade Zone Investment</b> ”)	Domestic Shares <sup>(Note 2)</sup>	Beneficial owner	249,769,500	14.17%	Long position
Airbus <sup>(Note 3)</sup>	H Shares	Beneficial owner	312,255,827	5.03%	Long position
National Military-civilian Integration Industrial Investment Fund Co., Ltd.* (國家軍民融合產業投資基金有限責任公司) (“ <b>National Industrial Investment Fund</b> ”)	Domestic Shares <sup>(Note 4)</sup>	Beneficial owner	261,522,000	14.84%	Long position

*Notes:*

1. Out of the 3,553,069,569 H Shares held by AVIC, 3,297,780,902 H Shares are held directly as beneficial owner, 183,404,667 H Shares are held through AVIC Airborne Systems Company Limited\* (中航機載系統有限公司), its wholly-owned subsidiary, 18,346,000 H Shares are held by AVIC through China Aviation Industry (Hong Kong) Company Limited\* (中國航空工業集團(香港)有限公司), its wholly-owned subsidiary, and 53,538,000 H Shares are held through AVIC Industry-Finance, its non-wholly-owned subsidiary.
2. Pursuant to the equity acquisition and share issuance agreement dated 28 November 2019, the Company issued 1,500,669,406 Domestic Shares as the consideration for the acquisition, among which, 1,250,899,906 and 249,769,500 Domestic Shares were issued to AVIC and Tianjin Free Trade Zone Investment, respectively. The issuance of Domestic Shares was completed on 24 December 2020.
3. European Aeronautic Defence and Space Company – EADS N.V. officially changed its name to Airbus on 1 January 2014.
4. Pursuant to the share subscription agreement dated 9 May 2023, the Company issued 261,522,000 Domestic Shares to National Industrial Investment Fund. The issuance of Domestic Shares was completed on 3 July 2023.

Save and except that Mr. Liu Bingjun (a non-executive Director of the Company) is the vice director of the Capital Operation Department of AVIC, none of the Directors was also a director and/or employee of the above substantial shareholders.

**4. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors or supervisors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

**5. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS**

As at the Latest Practicable Date, none of the Directors or supervisors had any direct or indirect interest in any asset which had been, since 31 December 2022, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

**6. CONSENT AND QUALIFICATION OF EXPERT**

The following are the qualifications of the expert who has given opinions or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Maxa Capital	A corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities

As at the Latest Practicable Date, the above expert did not have shareholding interest in any member of the Group or any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which has been, since 31 December 2022, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, the above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and references to its name included in this circular in the form and context in which it is included.

**7. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

**8. NO MATERIAL ADVERSE CHANGE**

The Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2022 (being the date to which the latest published accounts of the Group were made up) up to and including the Latest Practicable Date.

**9. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

## 10. MATERIAL CONTRACTS

The particulars of material contracts (not being contracts entered into in the ordinary course of business) entered into by the member of the Group within the two years immediately preceding the issue of this circular are set out as follows:

- (i) the share swap and absorption agreement dated 10 June 2022 entered into between AVIC Airborne and AVIC Electromechanical, pursuant to which AVIC Airborne agreed to issue A shares to the shareholders of AVIC Electromechanical in exchange for the entire AVIC Electromechanical's A shares held by them. For details, please refer to the announcement of the Company dated 10 June 2022.
- (ii) the subscription agreements dated 10 June 2022 entered into between the AVIC Airborne and the Company, AVIC Aviation Industry Investment Co., Ltd. (中航航空產業投資有限公司) (“**AVIC Aviation Industry Investment**”), AVIC Shenfei and AVIC Chengdu Aircraft Industrial (Group) Co., Ltd. (成都飛機工業(集團)有限責任公司) (“**Chengdu Aircraft Industry**”), pursuant to which, (i) the Company agreed to subscribe for AVIC Airborne' A shares at a total consideration of RMB500 million in cash; (ii) AVIC Aviation Industry Investment agreed to subscribe for AVIC Airborne' A shares at a total consideration of RMB300 million in cash; (iii) AVIC Shenfei agreed to subscribe for AVIC Airborne' A shares at a total consideration of RMB180 million in cash; and (iv) Chengdu Aircraft Industry agreed to subscribe for AVIC Airborne' A shares at a total consideration of RMB180 million in cash. For details, please refer to the announcement of the Company dated 10 June 2022.
- (iii) the indicative agreement dated 9 January 2023 and entered into by the Company, AVIC and AVICOPTER in relation to the acquisition of 100% of Changhe Aircraft Industries (Group) Co., Ltd.\* (昌河飛機工業(集團)有限責任公司) and Harbin Aircraft Industry Group Co., Ltd.\* (哈爾濱飛機工業集團有限責任公司) by AVICOPTER from the Company and AVIC by way of issuing an aggregate of 142,129,270 shares of AVICOPTER (being RMB5,078.2788 million in aggregate) (as amended by the supplemental agreements dated 15 March 2023 and 18 July 2023). For details, please refer to the announcements of the Company dated 9 January 2023, 15 March 2023 and 18 July 2023.
- (iv) the indicative share subscription agreement dated 9 January 2023 and entered into by the Company and AVICOPTER in relation to the proposed raising of funds of RMB200 million by AVICOPTER by issue of shares to the Company (as supplemented by the supplemental agreement dated 18 July 2023). For details, please refer to the announcements of the Company dated 9 January 2023 and 18 July 2023.
- (v) the indicative share subscription agreement dated 9 January 2023 and entered into by AVICOPTER and AVIC Airborne Systems Co., Ltd.\* (中航機載系統有限公司) in relation to the proposed raising of funds of RMB100 million by AVICOPTER by issuance of shares to AVIC Airborne Systems Co., Ltd. (as supplemented by the supplemental agreement dated 18 July 2023). For details, please refer to the announcements of the Company dated 9 January 2023 and 18 July 2023.
- (vi) The share subscription agreement dated 9 May 2023 entered into between the Company and National Industrial Investment Fund, pursuant to which the Company has agreed to issue and National Industrial Investment Fund has agreed to subscribe for an aggregate of 261,522,000

Domestic Shares at the subscription price of HK\$4.34 (equivalent to approximately RMB3.82) per subscription share. For details, please refer to the announcement of the Company dated 9 May 2023.

## 11. MISCELLANEOUS

- (i) Mr. Xu Bin, the company secretary of the Company, is a master degree holder and a senior economist. Mr. Xu graduated from Nanchang University in 2000 majoring in law, and then obtained an MBA degree in 2012 from Beihang University. Mr. Xu served as a lawyer at Jiangxi Ganxing Law Firm since June 2000, and in-house legal counsel at Jiangxi Hongdu Aviation Industry Group Co., Ltd.\* (江西洪都航空工業集團有限責任公司) since October 2001. He also successively served as senior manager, head assistant, and deputy head of the Securities and Legal Department of the Company from February 2003 to June 2014. Mr. Xu was a director of Chengdu CAIC Electronics Co., Ltd.\* (成都凱天電子股份有限公司) from December 2013 to 2020, the director of the Compliance Department of the Company from June 2014 to February 2021 and the director of the Planning and Investment Department of the Company since February 2021, a supervisor of Jiangxi Hongdu Aviation Industry Co., Ltd.\* (江西洪都航空工業股份有限公司) from October 2019 and a director of AVIC Airborne from December 2020. Mr. Xu has been serving as the Board Secretary of the Company since August 2020.
- (ii) The registered address of the Company is situated at 2nd floor, Building 27, No. 26 Xihuan South Street, Economic Technological Development Area, Beijing, PRC. The H share registrar of the Company is Computershare Hong Kong Investor Services Limited, whose address is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iii) The principal place of business of the Company in Hong Kong is at Unit 2202A, 22th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
- (iv) This circular is in both English and Chinese. In the event of inconsistency, the English version of this circular shall prevail over the Chinese version.

## 12. DOCUMENTS ON DISPLAY

Electronic copies of the following documents will be published on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company (<https://www.avichina.com/>) for a period of 14 days from the date of this circular (both days inclusive):

- (i) the agreements in connection with the Non-exempt Transactions and the Supplemental Financial Services Framework Agreement;
- (ii) the letter from the Independent Financial Adviser dated 28 November 2023, the text of which is set out on pages 68 to 110 of this circular; and
- (iii) the written consent referred to under the section headed "6. Consent and qualification of expert" in this appendix.

---

## NOTICE OF EGM

---



### 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)

## NOTICE OF EGM

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (“EGM”) of AviChina Industry & Technology Company Limited (the “Company”) will be held at 9:00 a.m. on Tuesday, 19 December 2023, at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC to consider and approve the following resolutions. Unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 28 November 2023 (the “Circular”):

### ORDINARY RESOLUTIONS

1. “**THAT** the terms of the Mutual Product Supply Agreement and the proposed annual caps in respect thereof for the three financial years ending 31 December 2026 be and are hereby approved, ratified and confirmed; and any Director or authorised representative of the chairman of the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorised representative may in his absolute discretion deem fit.”
2. “**THAT** the terms of the Mutual Service Supply Agreement and the proposed annual caps in respect thereof for the three financial years ending 31 December 2026 be and are hereby approved, ratified and confirmed; and any Director or authorised representative of the chairman of the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorised representative may in his absolute discretion deem fit.”
3. “**THAT** the terms of the AVIC Airborne Mutual Product and Service Supply Framework Agreement and the proposed annual caps in respect of the expenditure transactions thereunder for the three financial years ending 31 December 2026 be and are hereby approved, ratified and confirmed; and any Director or authorised representative of the chairman of the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give

---

## NOTICE OF EGM

---

- effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorised representative may in his absolute discretion deem fit.”
4. “**THAT** the terms of the Financial Services Framework Agreement and the proposed annual caps in respect of the Deposit Services, the AVIC Finance Factoring Services and the Other Financial Services thereunder for the three financial years ending 31 December 2026 be and are hereby approved, ratified and confirmed; and any Director or authorised representative of the chairman of the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorised representative may in his absolute discretion deem fit.”
5. “**THAT** the terms of the Finance Lease and Factoring Framework Agreement and the proposed annual caps in respect of the AVIC Lease Factoring Services thereunder for the three financial years ending 31 December 2026 be and are hereby approved, ratified and confirmed; and any Director or authorised representative of the chairman of the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorised representative may in his absolute discretion deem fit.”
6. “**THAT** the terms of the Supplemental Financial Services Framework Agreement and the revision of the Original AVIC Finance Factoring Services Cap thereunder for the year ending 31 December 2023 be and are hereby approved, ratified and confirmed; and any Director or authorised representative of the chairman of the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorised representative may in his absolute discretion deem fit.”
7. “**THAT:**
- (1) subject to the required approval or endorsement from or registration with the relevant regulatory authorities in the PRC, the proposed amendments to the Rules Governing the Operation of Shareholders’ General Meeting (details of which are set out in the section headed “Proposed Amendments to the Rules Governing the Operation of Shareholders’ General Meeting” in the letter from the Board contained in the Circular) be and are hereby approved and confirmed; and

---

## NOTICE OF EGM

---

- (2) any one of the Directors or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect to the proposed amendments to the Rules Governing the Operation of Shareholders' General Meetings, including, without limitation, to obtain all necessary approvals from the relevant regulatory authorities in the PRC, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder, as such Director or authorized representative may in his absolute discretion deem appropriate.”

### SPECIAL RESOLUTION

8. **“THAT:**

- (1) subject to the required approval or endorsement from or registration with the relevant regulatory authorities in the PRC, the proposed amendments to the Articles of Association (details of which are set out in the section headed “Proposed Amendments to the Articles of Association” in the letter from the Board contained in the Circular) be and are hereby approved and confirmed; and
- (2) any one of the Directors or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect to the proposed amendments to the Articles of Association, including, without limitation, to obtain all necessary approvals from the relevant regulatory authorities in the PRC, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder, as such Director or authorized representative may in his absolute discretion deem appropriate.”

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

Beijing, 28 November 2023

*Notes:*

**1. CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY TO ATTEND AND VOTE AT THE EGM**

As disclosed in the announcement of the Company dated 14 November 2023, the H Share register of members of the Company will be closed from Wednesday, 29 November 2023 to Tuesday, 19 December 2023 (both days inclusive), during which period no transfer of H shares will be registered. Shareholders of the Company whose names appear on the Company's Register of Members at the opening of business on Tuesday, 19 December 2023 are entitled to attend and vote at the EGM.

In order to be eligible to attend and vote at the EGM, holders of the Company's H Shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H Shares Registrar, not later than 4:30 p.m. on Tuesday, 28 November 2023 at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong.

---

## NOTICE OF EGM

---

### 2. REGISTRATION PROCEDURES FOR ATTENDING THE EGM

The Shareholder or its proxies shall produce its identification proof. If a corporation Shareholder's legal representative or any other person authorised by the board of directors or other governing body of such corporate Shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorisation document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.

### 3. PROXIES

- a. Any Shareholder who is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his behalf at the EGM. A proxy need not be a Shareholder. Any Shareholder who wishes to appoint a proxy should first review the form of proxy for use in the EGM.
- b. Any Shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorised in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the board of the body corporate or by attorneys duly authorised. If the instrument is signed by an attorney of the appointer, the power of attorney authorising the attorney to sign or other documents of authorisation must be notarially certified. In order to be valid, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorisation, where appropriate, must be delivered in the case of holders of Domestic Shares, to the correspondence address designated by the Company, and in the case of holders of H Shares, to Computershare Hong Kong Investor Services Limited, the Company's H Share registrar, at 17M Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM and return of a form of proxy will not preclude a Shareholder from attending EGM or any adjournment thereof (as the case may be) in person and voting at the EGM if he or she so wishes.

### 4. THE EGM IS EXPECTED TO LAST FOR HALF A DAY. SHAREHOLDERS ATTENDING THE MEETING ARE RESPONSIBLE FOR THEIR OWN TRANSPORTATION AND ACCOMMODATION EXPENSES.

Designated address of the Company:

6/F, Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the PRC (Postal code: 100029)

Telephone No: 86-10-58354348

Facsimile No: 86-10-58354310

Attention: Ms. Pu Yuanqing

### 5. Resolutions no. 1-6 above will be voted by poll by Independent Shareholders. Resolutions no. 7-8 above will be voted by poll by the Shareholders.

*As at the date of this notice, the Board comprises executive Directors Mr. Yan Lingxi and Mr. Sun Jizhong, non-executive Directors Mr. Lian Dawei, Mr. Liu Bingjun, Mr. Xu Gang and Mr. Wang Jun as well as independent non-executive Directors Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping.*

\* For identification purpose only

---

## NOTICE OF CLASS MEETING FOR HOLDERS OF H SHARES

---



### 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)

## NOTICE OF CLASS MEETING FOR HOLDERS OF H SHARES

**NOTICE IS HEREBY GIVEN THAT** the class meeting of holders of H Shares (the “**H Share Class Meeting**”) of AviChina Industry & Technology Company Limited\* (the “**Company**”) will be held at 10:00 a.m. (or immediately upon conclusion of the EGM or any adjournment thereof) on Tuesday, 19 December 2023 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC to consider and approve the following resolution. Unless otherwise indicated, capitalised terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 28 November 2023 (the “**Circular**”):

### SPECIAL RESOLUTION

1. “**THAT:**

- (1) subject to the required approval or endorsement from or registration with the relevant regulatory authorities in the PRC, the proposed amendments to the Articles of Association (details of which are set out in the section headed “Proposed Amendments to the Articles of Association” in the letter from the Board contained in the Circular) be and are hereby approved and confirmed; and
- (2) any one of the Directors or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect to the proposed amendments to the Articles of Association, including, without limitation, to obtain all necessary approvals from the relevant regulatory authorities in the PRC, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder, as such Director or authorized representative may in his absolute discretion deem appropriate.”

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

Beijing, 28 November 2023

---

## NOTICE OF CLASS MEETING FOR HOLDERS OF H SHARES

---

Notes:

**1. CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY TO ATTEND AND VOTE AT THE H SHARE CLASS MEETING**

As disclosed in the announcement of the Company dated 14 November 2023, the H Share register of members of the Company will be closed from Wednesday, 29 November 2023 to Tuesday, 19 December 2023 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of the Company's H Shares whose names appear on the Company's Register of Members at the opening of business on Tuesday, 19 December 2023 are entitled to attend and vote at the H Share Class Meeting.

In order to be eligible to attend and vote at the H Share Class Meeting, holders of the Company's H Shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H Shares Registrar, not later than 4:30 p.m. on Tuesday, 28 November 2023 at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong.

**2. REGISTRATION PROCEDURES FOR ATTENDING THE H SHARE CLASS MEETING**

The Shareholder or its proxies shall produce his identification proof. If a corporation Shareholder's legal representative or any other person authorized by the board of directors or other governing body of such corporate Shareholder attends the H Share Class Meeting, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorization of that legal representative or other person.

**3. PROXIES**

- a. Any Shareholder who is entitled to attend and vote at the H Share Class Meeting is entitled to appoint one or more proxies to attend and vote on his behalf at the H Share Class Meeting. A proxy needs not be a Shareholder. Any Shareholder who wishes to appoint a proxy should first review the form of proxy for use in the H Share Class Meeting.
- b. Any Shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the board of the body corporate or by attorneys duly authorized. If the instrument is signed by an attorney of the appointer, the power of attorney authorizing the attorney to sign or other documents of authorization must be notarially certified. In order to be valid, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered to Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, at 17M Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the H Share Class Meeting and return of a form of proxy will not preclude a Shareholder from attending H Share Class Meeting or any adjournment thereof (as the case may be) in person and voting at the H Share Class Meeting if he or she so wishes.

**4. THE H SHARE CLASS MEETING IS EXPECTED TO LAST FOR HALF A DAY. SHAREHOLDERS ATTENDING THE MEETING ARE RESPONSIBLE FOR THEIR OWN TRANSPORTATION AND ACCOMMODATION EXPENSES.**

Designated address of the Company:  
6/F, Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the PRC (Postal code: 100029)  
Telephone No: 86-10-58354348  
Facsimile No: 86-10-58354310  
Attention: Ms. Pu Yuanqing

*As at the date of this notice, the Board comprises executive Directors Mr. Yan Lingxi and Mr. Sun Jizhong, non-executive Directors Mr. Lian Dawei, Mr. Liu Bingjun, Mr. Xu Gang and Mr. Wang Jun as well as independent non-executive Directors Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping.*

\* For identification purpose only

---

## NOTICE OF CLASS MEETING FOR HOLDERS OF DOMESTIC SHARES

---



**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)**

### NOTICE OF CLASS MEETING FOR HOLDERS OF DOMESTIC SHARES

**NOTICE IS HEREBY GIVEN THAT** the class meeting of holders of Domestic Shares (the “**Domestic Share Class Meeting**”) of AviChina Industry & Technology Company Limited\* (the “**Company**”) will be held at 10:30 a.m. (or immediately upon conclusion of the H Share Class Meeting or any adjournment thereof) on Tuesday, 19 December 2023 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC to consider and approve the following resolution. Unless otherwise indicated, capitalized terms used in this notice and the following resolution shall have the same meanings as those defined in the circular of the Company dated 28 November 2023 (the “**Circular**”):

#### SPECIAL RESOLUTION

1. “**THAT:**

- (1) subject to the required approval or endorsement from or registration with the relevant regulatory authorities in the PRC, the proposed amendments to the Articles of Association (details of which are set out in the section headed “Proposed Amendments to the Articles of Association” in the letter from the Board contained in the Circular) be and are hereby approved and confirmed; and
- (2) any one of the Directors or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect to the proposed amendments to the Articles of Association, including, without limitation, to obtain all necessary approvals from the relevant regulatory authorities in the PRC, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder, as such Director or authorized representative may in his absolute discretion deem appropriate.”

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

Beijing, 28 November 2023

---

## **NOTICE OF CLASS MEETING FOR HOLDERS OF DOMESTIC SHARES**

---

*Notes:*

### **1. REGISTRATION PROCEDURES FOR ATTENDING THE DOMESTIC SHARE CLASS MEETING**

The Shareholder or its proxies shall produce his identification proof. If a corporation Shareholder's legal representative or any other person authorized by the board of directors or other governing body of such corporate Shareholder attends the Domestic Share Class Meeting, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorization of that legal representative or other person.

### **2. PROXIES**

- a. Any Shareholder who is entitled to attend and vote at the Domestic Share Class Meeting is entitled to appoint one or more proxies to attend and vote on his behalf at the Domestic Share Class Meeting. A proxy needs not be a Shareholder. Any Shareholder who wishes to appoint a proxy should first review the form of proxy for use in the Domestic Share Class Meeting.
- b. Any Shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the board of the body corporate or by attorneys duly authorized. If the instrument is signed by an attorney of the appointer, the power of attorney authorizing the attorney to sign or other documents of authorization must be notarially certified. In order to be valid, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered to the correspondence address designated by the Company not less than 24 hours before the time for holding the Domestic Share Class Meeting and return of a form of proxy will not preclude a Shareholder from attending Domestic Share Class Meeting or any adjournment thereof (as the case may be) in person and voting at the Domestic Share Class Meeting if he or she so wishes.

### **3. THE DOMESTIC SHARE CLASS MEETING IS EXPECTED TO LAST FOR HALF A DAY. SHAREHOLDERS ATTENDING THE MEETING ARE RESPONSIBLE FOR THEIR OWN TRANSPORTATION AND ACCOMMODATION EXPENSES.**

Designated address of the Company:

6/F, Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the PRC (Postal code: 100029)

Telephone No: 86-10-58354348

Facsimile No: 86-10-58354310

Attention: Ms. Pu Yuanqing

*As at the date of this notice, the Board comprises executive Directors Mr. Yan Lingxi and Mr. Sun Jizhong, non-executive Directors Mr. Lian Dawei, Mr. Liu Bingjun, Mr. Xu Gang and Mr. Wang Jun as well as independent non-executive Directors Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping.*

\* *For identification purpose only*