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中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2357)

**CONNECTED TRANSACTIONS
SALE AND LEASEBACK OF ASSETS**

On 12 December 2018, Jinzhou Renewable Energy, AVIC Renewable Energy and AVIC Leasing entered into a series of agreements in relation to the Sale and Leaseback Transaction. Such agreements include (i) the Transfer Agreement between Jinzhou Renewable Energy and AVIC Leasing, pursuant to which, Jinzhou Renewable Energy agreed to sell the Assets to AVIC Leasing at a consideration of RMB200 million; (ii) the Leaseback Agreement between Jinzhou Renewable Energy and AVIC Leasing, pursuant to which, AVIC Leasing agreed to leaseback the Assets to Jinzhou Renewable Energy during the Lease Period and upon expiry of the Lease Period and subject to full performance of its obligations by Jinzhou Renewable Energy under the Leaseback Agreement, AVIC Leasing shall transfer the title of the Assets to Jinzhou Renewable Energy at a nominal price of RMB100; (iii) the Consulting Service Agreement between Jinzhou Renewable Energy and AVIC Leasing in connection with the provision of consulting services by AVIC Leasing for the Sale and Leaseback Transaction at a consideration of RMB10 million; and (iv) three Security Agreements in favor of Jinzhou Renewable Energy for its performance under the Transfer Agreement, the Leaseback Agreement and the Consulting Service Agreement.

As at the date of this announcement, Jinzhou Renewable Energy is a wholly-owned subsidiary of AVIC Renewable Energy and AVIC Renewable Energy is a non-wholly-owned subsidiary of the Company. AVIC Leasing is a subsidiary of AVIC, which is the controlling shareholder of the Company. Therefore, AVIC Leasing is a connected person of the Company. The Sale and Leaseback Transaction constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable size test percentage ratio in respect of the Sale and Leaseback Transaction is more than 0.1% but less than 5%, the Sale and Leaseback Transaction is subject to reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

A. INTRODUCTION

On 12 December 2018, Jinzhou Renewable Energy, AVIC Renewable Energy and AVIC Leasing entered into a series of agreements in relation to the Sale and Leaseback Transaction. Such agreements include (i) the Transfer Agreement between Jinzhou Renewable Energy and AVIC Leasing, pursuant to which, Jinzhou Renewable Energy agreed to sell the Assets to AVIC Leasing at a consideration of RMB200 million; (ii) the Leaseback Agreement between Jinzhou Renewable Energy and AVIC Leasing, pursuant to which, AVIC Leasing agreed to leaseback the Assets to Jinzhou Renewable Energy during the Lease Period and upon expiry of the Lease Period and subject to full performance of its obligations by Jinzhou Renewable Energy under the Leaseback Agreement, AVIC Leasing shall transfer the title of the Assets to Jinzhou Renewable Energy at a nominal price of RMB100; (iii) the Consulting Service Agreement between Jinzhou Renewable Energy and AVIC Leasing in connection with the provision of consulting services by AVIC Leasing for the Sale and Leaseback Transaction at a consideration of RMB10 million; and (iv) three Security Agreements in favor of Jinzhou Renewable Energy for its performance under the Transfer Agreement, the Leaseback Agreement and the Consulting Service Agreement.

B. THE SALE AND LEASEBACK TRANSACTION

B.1 THE TRANSFER AGREEMENT

The principal terms of the Transfer Agreement are summarized as follows:

1. Date

12 December 2018

2. Parties

- (1) Transferor: Jinzhou Renewable Energy; and
- (2) Transferee: AVIC Leasing

3. Consideration

Under the Transfer Agreement, Jinzhou Renewable Energy agreed to transfer two sets of unit equipment to AVIC Leasing at a consideration of RMB200 million. The consideration payable under the Transfer Agreement was arrived at after arm's length negotiations between the parties and with reference to, inter alia, the book

value of the Assets as of 30 June 2018 according to the interim financial report of Jinzhou Renewable Energy prepared in accordance with the China Accounting Standards for Business Enterprises, the financing demand of Jinzhou Renewable Energy and the whole arrangement of the Sale and Leaseback Transaction.

4. Payment

The consideration shall be paid by AVIC Leasing to Jinzhou Renewable Energy in two instalments, including RMB20 million payable by AVIC Leasing to Jinzhou Renewable Energy within 7 business days upon fulfillment of certain events (including but not limited to the execution of all agreements relating to the Sale and Leaseback Transaction), and the remaining RMB180 million payable by AVIC Leasing to Jinzhou Renewable Energy within 7 business days upon fulfillment of certain events (including but not limited to the receipt of certain payment by AVIC Leasing under the Leaseback Agreement and the Consulting Service Agreement).

5. Transfer of title of the Assets

Jinzhou Renewable Energy shall issue a certificate of title transfer to AVIC Leasing before AVIC Leasing pays the first instalment. The title of the Assets shall be transferred to AVIC Leasing from the date when AVIC Leasing receives such certificate.

B.2 THE LEASEBACK AGREEMENT

The principal terms of the Leaseback Agreement are summarized as follows:

1. Date

12 December 2018

2. Parties

(1) Lessee: Jinzhou Renewable Energy; and

(2) Lessor: AVIC Leasing

3. Lease Period

Under the Leaseback Agreement, AVIC Leasing agreed to leaseback the Assets to Jinzhou Renewable Energy for a term of 12 years commencing from the date when AVIC Leasing pays the first instalment to Jinzhou Renewable Energy under the Transfer Agreement.

4. Rent and payment

Jinzhou Renewable Energy shall pay a total rent of RMB299,940,799.38 to AVIC Leasing during the Lease Period in 24 instalments on a semi-annual basis.

The semi-annual rent is calculated with reference to (a) the total consideration under the Transfer Agreement of RMB200 million, (b) the annual rental interest rate of 6.65% (being the benchmark interest rate for loans over five years announced by the People's Bank of China plus 1.75%) and (c) the actual utilized days by Jinzhou Renewable Energy during the Lease Period.

The rent payable by Jinzhou Renewable Energy to AVIC Leasing under the Leaseback Agreement has been arrived at following arm's length negotiation between the parties with reference to the prevailing market prices for comparable leaseback transactions after taking into account various factors, such as finance costs, value of the Assets, Lease Period, etc.

5. Title of the Assets during and after the Lease Period

During the Lease Period, the title of the Assets will be vested in AVIC Leasing and Jinzhou Renewable Energy will be entitled to utilize the Assets.

Upon expiry of the Lease Period and subject to full performance of its obligations by Jinzhou Renewable Energy under the Leaseback Agreement, AVIC Leasing shall transfer the title of the Assets back to Jinzhou Renewable Energy at a nominal price of RMB100.

6. Deposit

Jinzhou Renewable Energy shall pay the deposit of RMB8 million to AVIC Leasing which shall be returned to Jinzhou Renewable Energy upon expiry of the Lease Period if Jinzhou Renewable Energy performs all of its obligations under the Leaseback Agreement.

B.3 THE CONSULTING SERVICE AGREEMENT

In order to facilitate the Sale and Leaseback Transaction, Jinzhou Renewable Energy also entered into the Consulting Service Agreement with AVIC Leasing on the same date, pursuant to which, AVIC Leasing agreed to provide consulting services for the Sale and Leaseback Transaction to Jinzhou Renewable Energy and Jinzhou Renewable Energy agreed to pay a total of RMB10 million to AVIC Leasing in four instalments.

B.4 THE SECURITY AGREEMENTS

In order to provide security in favor of Jinzhou Renewable Energy under the Sale and Leaseback Transaction, Jinzhou Renewable Energy entered into the Mortgage Agreement and the Accounts Receivable Pledge Agreement with AVIC Leasing, and AVIC Renewable Energy entered into the Share Pledge Agreement with AVIC Leasing, on the same date, respectively.

Under the Mortgage Agreement, Jinzhou Renewable Energy agreed to set a mortgage for the benefit of AVIC Leasing over certain land use rights to create security for the obligations of Jinzhou Renewable Energy under the Transfer Agreement, the Leaseback Agreement and the Consulting Service Agreement for a period

commencing from the effective date of the Leaseback Agreement to three years upon the expiration of Lease Period. The mortgaged properties under the Mortgage Agreement include a property located in Hongshanzi Village of Shibao Town, Donghe Village of Wukehudong Town, and Bailingmiao Town with a gross area of 35,221 square metres, and a property located in Donghe Village of Wuke Town of Damao Qi, Hongshan Village of Shibao Town, and Wendubuling Village of Shibao Town with a gross area of 6,750 square metres.

Under the Accounts Receivable Pledge Agreement, Jinzhou Renewable Energy agreed to set a pledge for the benefit of AVIC Leasing over certain accounts receivable to create security for the obligations of Jinzhou Renewable Energy under the Leaseback Agreement for a period commencing from the effective date of the Leaseback Agreement to three years upon the expiration of Lease Period. The accounts receivable under the Accounts Receivable Pledge Agreement refer to the electricity fees and other fees payable to Jinzhou Renewable Energy by Inner Mongolia Electric Power (Group) Co., Ltd.* (內蒙古電力(集團)有限責任公司) for the electricity provided by Jinzhou Renewable Energy for a period from 2018 to 2030.

Under the Share Pledge Agreement, AVIC Renewable Energy agreed to set a pledge for the benefit of AVIC Leasing over 100% equity interest of Jinzhou Renewable Energy, which is held by AVIC Renewable Energy, to create security for the obligations of Jinzhou Renewable Energy under the Leaseback Agreement and the Consulting Service Agreement for a period commencing from the effective date of the Leaseback Agreement to three years upon the expiration of Lease Period.

C. INFORMATION ON THE ASSETS

The Assets under the Sales and Leaseback Transaction include two sets of unit equipment, which are mainly used for wind power generation. According to the interim financial report of Jinzhou Renewable Energy prepared in accordance with the China Accounting Standards for Business Enterprises, the book value of the Assets as at 30 June 2018 under the Transfer Agreement was approximately RMB316,849,135.81.

The net profits of the Assets for the financial years ended 31 December 2016 and 2017 (before and after taxation and extraordinary items) are set forth as below:

	For the year ended 31 December 2016 (audited) (RMB)	For the year ended 31 December 2017 (audited) (RMB)
Net profit before taxation and extraordinary items	1,342,266.94	8,049,617.40
Net profit after taxation and extraordinary items	1,342,266.94	8,049,617.40

D. REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Sale and Leaseback Transaction would provide Jinzhou Renewable Energy with an immediate cash inflow, mitigate its cash pressure, supplement its daily operating cash flow and fund its project capital.

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

E. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, Jinzhou Renewable Energy is a wholly-owned subsidiary of AVIC Renewable Energy and AVIC Renewable Energy is a non-wholly-owned subsidiary of the Company. AVIC Leasing is a subsidiary of AVIC, which is the controlling shareholder of the Company. Therefore, AVIC Leasing is a connected person of the Company. The Sale and Leaseback Transaction constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable size test percentage ratio in respect of the Sale and Leaseback Transaction is more than 0.1% but less than 5%, the Sale and Leaseback Transaction is subject to reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

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

F. GENERAL INFORMATION

Information on the Company

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

Information on Jinzhou Renewable Energy

Jinzhou Renewable Energy is a limited liability company incorporated in the PRC and is a subsidiary of the Company as at the date of this announcement. Jinzhou Renewable Energy is mainly engaged in the development, construction and operation for wind power generation project and relevant services.

Information on AVIC Renewable Energy

AVIC Renewable Energy is a limited liability company incorporated in the PRC and is a subsidiary of the Company as at the date of this announcement. It is mainly engaged in project investment, resource acquisition, construction engineering and project operation in new energy businesses. As at the date of this announcement, AVIC Renewable Energy holds 100% of the equity interest in Jinzhou Renewable Energy.

Information on AVIC

AVIC is held and controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products. AVIC is the controlling shareholder of the Company, holding 58.66% equity interest in the Company directly and indirectly as at the date of this announcement.

Information on AVIC Leasing

AVIC Leasing is a limited liability company incorporated in the PRC with a registered capital of RMB7,465,905,085. AVIC Leasing is mainly engaged in finance lease and self-owned equipment lease businesses, etc.

G. DEFINITIONS

“Accounts Receivable Pledge Agreement”	the accounts receivable pledge agreement entered into by Jinzhou Renewable Energy with AVIC Leasing on 12 December 2018, pursuant to which, Jinzhou Renewable Energy agreed to set a pledge for the benefit of AVIC Leasing over certain accounts receivable
“Assets”	two sets of unit equipment to be transferred by Jinzhou Renewable Energy to AVIC Leasing under the Transfer Agreement
“AVIC”	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), the controlling shareholder of the Company, holding 58.66% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC Leasing”	AVIC International Leasing Co., Ltd.* (中航國際租賃有限公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of this announcement
“AVIC Renewable Energy”	AVIC Renewable Energy Investment Co., Ltd.* (中國航空工業新能源投資有限公司), a limited liability company incorporated in the

	PRC and a subsidiary of the Company as at the date of this announcement
“Board”	the board of directors of the Company
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company incorporated in the PRC, whose shares are listed on the Hong Kong Stock Exchange
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Consulting Service Agreement”	the consulting service agreement entered into by Jinzhou Renewable Energy with AVIC Leasing on 12 December 2018, pursuant to which, AVIC Leasing agreed to provide consulting services for the Sale and Leaseback Transaction at a consideration of RMB10 million
“Director(s)”	the director(s) of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Jinzhou Renewable Energy”	Jinzhou (Baotou) Renewable Energy Co., Ltd. * (金州（包頭）可再生能源有限公司), a limited liability company incorporated in the PRC and a subsidiary of the Company as at the date of this announcement
“Lease Period”	the period during which AVIC Leasing agreed to leaseback the Assets to Jinzhou Renewable Energy under the Leaseback Agreement, being a term of 12 years commencing from the date when AVIC Leasing pays the first instalment to Jinzhou Renewable Energy under the Transfer Agreement
“Leaseback Agreement”	the leaseback agreement entered into by Jinzhou Renewable Energy with AVIC Leasing on 12 December 2018, pursuant to which, AVIC Leasing agreed to leaseback the Assets to Jinzhou Renewable Energy during the Lease Period
“Mortgage Agreement”	the mortgage agreement entered into by Jinzhou Renewable Energy with AVIC Leasing on 12 December 2018, pursuant to which, Jinzhou Renewable Energy agreed to set a mortgage for the benefit of AVIC Leasing over certain land use rights

“PRC”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Leaseback Transaction”	the sales of the Assets by Jinzhou Renewable Energy to AVIC Leasing and the leaseback of the Assets by AVIC Leasing to Jinzhou Renewable Energy during the Lease Period under a series of agreements, including the Transfer Agreement, the Leaseback Agreement, the Consulting Service Agreement and the Security Agreements
“Security Agreements”	the Mortgage Agreement, the Accounts Receivable Pledge Agreement and the Share Pledge Agreement
“Share Pledge Agreement”	the share pledge agreement entered into by AVIC Renewable Energy with AVIC Leasing on 12 December 2018, pursuant to which, AVIC Renewable Energy agreed to set a pledge for the benefit of AVIC Leasing over 100% equity interest of Jinzhou Renewable Energy, which is held by AVIC Renewable Energy
“Shareholders”	the shareholders of the Company
“subsidiary(ies)”	has the same meaning as defined in the Hong Kong Listing Rules
“Transfer Agreement”	the transfer agreement entered into by Jinzhou Renewable Energy with AVIC Leasing on 12 December 2018, pursuant to which, Jinzhou Renewable Energy agreed to sell the Assets to AVIC Leasing at a consideration of RMB200 million
“%”	per cent

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

Beijing, 12 December 2018

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

** For identification purposes only*