

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.



中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

CONNECTED TRANSACTION

DISPOSAL OF 100% OF THE EQUITY INTEREST IN SHAANXI BAOCHENG BY AVIC AVIONICS TO AVIC AIRBORNE SYSTEMS

On 4 December 2019, AVIC Airborne Systems entered into the Equity Transfer Agreement with AVIC Avionics, pursuant to which, AVIC Avionics agreed to sell and AVIC Airborne Systems agreed to acquire, 100% of the equity interest in Shaanxi Baocheng for a consideration of RMB481,981,016.05. Immediately upon completion of the Transfer, AVIC Avionics will no longer hold any equity interest in Shaanxi Baocheng.

As at the date of this announcement, AVIC Avionics is a subsidiary of the Company and AVIC is the controlling Shareholder of the Company. AVIC Airborne Systems is a wholly-owned subsidiary of AVIC and is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The entering into of the Equity Transfer Agreement between AVIC Avionics and AVIC Airborne Systems constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the Equity Transfer Agreement exceeds 0.1% but is less than 5%, the entering into of the Equity Transfer Agreement is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement.

A. INTRODUCTION

On 4 December 2019, AVIC Airborne Systems entered into the Equity Transfer Agreement with AVIC Avionics, pursuant to which, AVIC Avionics agreed to sell and AVIC Airborne Systems agreed to acquire, 100% of the equity interest in Shaanxi Baocheng for a consideration of RMB481,981,016.05. Immediately upon completion of the Transfer, AVIC Avionics will no longer hold any equity interest in Shaanxi Baocheng.

B. THE EQUITY TRANSFER AGREEMENT

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

1. Date

4 December 2019

2. Parties

- (1) Vendor: AVIC Avionics; and
- (2) Purchaser: AVIC Airborne Systems

3. Target

100% of the equity interest in Shaanxi Baocheng

4. Consideration

The total consideration for the Transfer is RMB481,981,016.05, which was determined after arm's length negotiations between the parties with reference to (i) the appraised value of Shaanxi Baocheng as of 30 April 2019 as set out in the valuation report of which was prepared by a professional independent PRC valuer based on asset-based approach, and (ii) the state-owned exclusive capital reserve of Shaanxi Baocheng as of 30 April 2019.

5. Terms of Payment

The parties agreed that AVIC Airborne Systems shall pay a total consideration of RMB481,981,016.05 in two installments in respect of the Transfer to AVIC Avionics, among which 50% shall be fully paid within 5 business days upon the effectiveness of the Equity Transfer Agreement and the remaining 50% shall be fully paid within 30 business days upon completion of change in the industrial and commercial registration formalities in respect of 100% equity interest in Shaanxi Baocheng.

6. Conditions precedent

The Equity Transfer Agreement shall become effective upon the fulfillment of all the following conditions precedent:

- (1) the completion of respective internal decision procedures by the parties in respect of the Transfer;
- (2) AVIC Avionics, as the sole shareholder of Shaanxi Baocheng, issues shareholder decision in respect of the Transfer;
- (3) the approval by State Administration of Science, Technology and Industry for National Defence in respect of the Transfer;
- (4) the meeting of holders of the convertible corporate bonds of AVIC Avionics approves the change in use of proceeds; and
- (5) the approval by AVIC in respect of the Transfer.

C. REASONS FOR AND BENEFITS OF THE TRANSFER

The disposal of the equity interest in Shaanxi Baocheng will help AVIC Avionics increase its profitability, thus promoting the continuous development of AVIC Avionics.

D. CONSEQUENCE OF THE TRANSFER AND ITS IMPACTS ON THE COMPANY'S FINANCIAL STATUS

Upon completion of the Transfer, AVIC Avionics will no longer hold any equity interest in Shaanxi Baocheng. It is estimated that the Transfer will generate a book gain of approximately RMB200 million, being the difference between the book value of 100% equity interest in Shaanxi Baocheng held by AVIC Avionics as of 30 April 2019 (after deducting the state-owned exclusive capital reserve of Shaanxi Baocheng as of 30 April 2019) and the consideration of the Transfer, which will be proportionally credited into the accounts of the Company. The final amount is subject to calculation based on relevant data on the actual completion date. AVIC Avionics intends to use the proceeds to supplement its general working capital.

E. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC Avionics is a subsidiary of the Company and AVIC is the controlling Shareholder of the Company. AVIC Airborne Systems is a wholly-owned subsidiary of AVIC and is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The entering into of the Equity Transfer Agreement between AVIC Avionics and AVIC Airborne Systems constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the Equity Transfer Agreement exceeds 0.1% but is less than 5%, the entering into of the Equity Transfer Agreement is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement.

Each of Mr. Chen Yuanxian and Mr. Yan Lingxi, the Directors, who are the vice general manager and a department chief of AVIC, respectively, had abstained from

voting on the relevant Board resolution approving the Equity Transfer Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save for disclosed above, none of the Directors has or is deemed to have a material interest in the transaction under the Equity Transfer Agreement.

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

F. GENERAL INFORMATION

Information on the Company

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

Information on AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. AVIC Avionics is a 43.21% owned subsidiary of the Company, which is mainly engaged in the manufacture of avionics products and related accessories.

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

Information on AVIC Airborne Systems

AVIC Airborne Systems is a limited liability company incorporated in the PRC and is a subsidiary of AVIC as at the date of this announcement. It is mainly engaged in research and development, production, sales, investment and management of various types of aircrafts and engine-supporting airborne electromechanical systems and equipment.

Information on Shaanxi Baocheng

Shaanxi Baocheng is a limited liability company incorporated in the PRC, and is mainly engaged in the research and manufacture and production of aviation gyroscope instruments, airborne, vehicle navigation systems, sensors, emergency magnetic compass and other products. As at the date of this announcement, Shaanxi Baocheng is a wholly-owned subsidiary of AVIC Avionics.

According to the China Accounting Standards for Business Enterprises, the net profits (before and after taxation and extraordinary items) of Shaanxi Baocheng for the financial year ended 31 December 2017 and 31 December 2018 are set out below:

	For the year ended 31 December 2017 (RMB)	For the year ended 31 December 2018 (RMB)
<i>Net profit before taxation and extraordinary items</i>	-30,527,585.67	-118,333,067.51
<i>Net profit after taxation and extraordinary items</i>	-31,802,907.01	-152,272,093.13

The book value of the net assets of Shaanxi Baocheng as at 30 June 2019 prepared in accordance with Chinese Accounting Standards for Business Enterprises was approximately RMB407,811,353.43. As set out in the valuation report prepared by a professional independent PRC valuer based on asset-based approach, the appraised value of Shaanxi Baocheng as of 30 April 2019 was approximately RMB568.28 million.

G. DEFINITIONS

“AVIC”	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), the controlling Shareholder of the Company, holding 56.04% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC Airborne Systems”	AVIC Airborne Systems Company Limited* (中航機載系統有限公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of the announcement
“AVIC Avionics”	China Avionics Systems Co., Ltd.* (中航航空電子系統股份有限公司), a non-wholly-owned subsidiary of the Company with 43.21% equity interest held by the Company as at the date of this announcement
“Board”	the board of directors of the Company
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange

“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreement”	the equity transfer agreement entered into by AVIC Airborne Systems with AVIC Avionics on 4 December 2019, pursuant to which, AVIC Avionics agreed to sell, and AVIC Airborne Systems agreed to acquire, 100% of the equity interest in Shaanxi Baocheng
“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
“PRC”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
"Shaanxi Baocheng"	Shaanxi Baocheng Aviation Instrument Co., Ltd.* (陝西寶成航空儀錶有限責任公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of AVIC Avionics as at the date of this announcement.
“Shareholders”	the shareholders of the Company
“Transfer”	the transfer of 100% of the equity interest in Shaanxi Baocheng by AVIC Avionics to AVIC Airborne Systems

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

Beijing, 4 December 2019

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

** For identification purposes only*