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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 company with limited liability established in the People's Republic of China)*

(Stock Code: 02357)

**DISCLOSEABLE AND CONNECTED TRANSACTIONS:  
ASSET SWAP COMPRISING (1) ACQUISITION OF NATIONAL DEFENCE  
RELATED ASSETS AND (2) DISPOSAL OF PARTS AND COMPONENTS  
MANUFACTURING ASSETS**

**THE ASSET SWAP TRANSACTIONS**

In order to optimize resource allocation, and improve industrial structure and further enhance the competitiveness and profitability of Hongdu Aviation (a non-wholly-owned subsidiary of the Company), Hongdu Aviation and Hongdu Group (a connected person of the Company) entered into the ASA (i.e. the asset swap agreement), pursuant to which Hongdu Aviation agreed to (i) acquire the Acquisition Assets from Hongdu Group; and (ii) dispose of the Disposal Assets to Hongdu Group.

The Acquisition Assets are Hongdu Group's defence business related assets.

The Disposal Assets are Hongdu Aviation's parts and components manufacturing business related assets.

The consideration for the acquisition of the Acquisition Assets is RMB1,362,424,500, such consideration shall be satisfied by Hongdu Aviation transferring the Disposal Assets to Hongdu Group. The consideration for the disposal of the Disposal Assets is RMB2,208,462,300, such consideration shall be satisfied by Hongdu Group (i) transferring the Acquisition Assets to Hongdu Aviation; and (ii) paying the difference between the consideration for the Acquisition and the Disposal (being RMB846,037,800) to Hongdu Aviation in cash.

The coming into effect of the ASA and the completion of the Asset Swap Transactions are subject to the satisfaction of the conditions set out in the ASA, including the approvals of the ASA being given by the respective shareholders of Hongdu Aviation and the Company, and the prescribed approvals being given by the relevant PRC governmental authorities.

**IMPLICATIONS UNDER HK LISTING RULES**

The Asset Swap Transactions comprise both the Acquisition and the Disposal. Pursuant to the relevant requirements of the HK Listing Rules, the Company classifies the Asset Swap Transactions by reference to the larger of the Acquisition or the Disposal in terms of percentage ratios, and complies with the applicable requirements of the HK Listing Rules based on such classification.

The Asset Swap Transactions constitute both a discloseable transaction of the Company under Chapter 14 of the HK Listing Rules and a non-exempt connected transaction of the Company under Chapter 14A of the HK Listing Rules. Accordingly, the Asset Swap Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under the HK Listing Rules. The Company will convene the EGM at which resolution(s) will be proposed for the Independent Shareholders to consider and, if thought fit, approve the Asset Swap Transactions.

In accordance with the HK Listing Rules, the IBC (i.e. the independent board committee) comprising of all the independent non-executive Directors has been established to consider the Asset Swap Transactions and to advise the Independent Shareholders on how to vote on the resolution(s) to be proposed at the EGM in relation thereof. The Independent Financial Adviser will be appointed by the Company to advise the IBC in this regard.

As at the Announcement Date, it is expected that the circular together with the notice of the EGM will be despatched to the Shareholders on or before 29 June 2019.

## **1. INTRODUCTION**

The Board announces that on 31 May 2019 (after trading hours), the Parties entered into the ASA whereby, among other things, Hongdu Aviation agreed to (i) acquire the Acquisition Assets from Hongdu Group; and (ii) dispose of the Disposal Assets to Hongdu Group.

## **2. ASA**

Set out below is a summary of the principal terms of the ASA.

### **2.1 Date**

31 May 2019 (after trading hours).

### **2.2 Parties**

The parties to the ASA are Hongdu Aviation (a non-wholly-owned subsidiary of the Company) and Hongdu Group. Please refer to sections 5.1 and 5.2 respectively for more information on Hongdu Aviation and Hongdu Group.

### **2.3 Assets to be acquired by the Group under the ASA**

The Acquisition Assets are Hongdu Group's national defence business related assets, more information of which is set out in section 3 of this announcement.

### **2.4 Assets to be disposed of by the Group under the ASA**

The Disposal Assets are Hongdu Aviation's parts and components manufacturing business related assets, more information of which is set out in section 4 of this announcement.

### **2.5 The consideration, basis for the determination and relevant information**

The Acquisition Consideration is equivalent to the Appraisal Value (Acquisition Assets), being RMB1,362,424,500.

The Disposal Consideration is equivalent to the Appraisal Value (Disposal Assets), being RMB2,208,462,300.

Each of the Acquisition Consideration and the Disposal Consideration is determined after arm's length negotiations between the Parties with reference to the appraisal results as confirmed by AVIC, namely, the Appraisal Value. The Appraisal Value was determined by the Valuer who was appointed jointly by the Group and Hongdu Group to issue a valuation report in respect of the Acquisition Assets and the Disposal Assets, respectively. Set out below is the information on the Appraisal Value and the valuation approach:

<b>Assets</b>	<b>Appraisal Value (RMB) as at the Reference Date</b>	<b>Appraisal approach</b>
Acquisition Assets	1,362,424,500	Asset-based approach
Disposal Assets	2,208,462,300	Asset-based approach

The Acquisition Consideration shall be satisfied by Hongdu Aviation transferring the Disposal Assets to Hongdu Group. The Disposal Consideration shall be satisfied by Hongdu Group (i) transferring the Acquisition Assets to Hongdu Aviation; and (ii) paying the difference between the Acquisition Consideration and the Disposal Consideration, being RMB846,037,800, to Hongdu Aviation in cash within 12 months after the Completion Date. Each Party shall be deemed to have fully performed its obligation to pay consideration to another Party after it has delivered the relevant assets to the other Party and, where applicable, paid the difference between the Acquisition Consideration and the Disposal Consideration to the other Party.

There is no original acquisition cost of the Acquisition Assets and the Disposal Assets since none of these assets were acquired by Hongdu Group or Hongdu Aviation (as applicable) from third parties.

## **2.6 Effectiveness Conditions**

The ASA shall come into effect upon satisfaction of the Effectiveness Conditions as summarised below:

- (a) the board of directors and the shareholders' meeting of Hongdu Aviation having approved the Asset Swap Transactions;
- (b) the Board and the Shareholders having approved the Asset Swap Transactions in accordance with the applicable laws and regulations (including but not limited to the HKLR);
- (c) Hongdu Group having approved the Asset Swap Transactions in accordance with its articles of association;
- (d) AVIC having filed the Valuation Reports and approved the Asset Swap Transactions; and
- (e) the Assets Swap Transactions having been approved by the competent authorities respectively responsible for supervising state-owned assets and the relevant industry.

Save and except for (i) the approval of the board of directors of Hongdu Aviation referred to in (a) above; (ii) the approval of the Board referred to in (b) above; and (iii)

the approval of Hongdu Group referred to in (c) above, other Effectiveness Conditions has not been fulfilled as at the Announcement Date.

## **2.7 Completion Conditions**

Completion is conditional upon satisfaction of the Completion Conditions as summarised below:

- (a) the Effectiveness Conditions having been satisfied;
- (b) Hongdu Aviation having waived compliance by AVIC with its undertaking not to inject defence assets given in 2010 in accordance with the relevant requirements of the SSE;
- (c) no breach of the ASA which may have material adverse effect on the innocent Party having occurred or would occur;
- (d) the Asset Swap Transactions not being subject to any restraining or prohibition order under applicable laws or regulations; and
- (e) the representations and warranties given by each of Hongdu Aviation and Hongdu Group under the ASA remaining true, accurate and valid in all material respects.

None of the Completion Conditions has been fulfilled as at the Announcement Date.

## **2.8 Completion**

Subject to the satisfaction of the Completion Conditions in accordance with the ASA, Completion shall take place on a date to be determined by the Parties jointly.

With effect from the Completion Date, all the assets and liabilities attaching to the Acquisition Assets and the relevant employees will be transferred to Hongdu Aviation. Similarly, with effect from the Completion Date, all the assets and liabilities attaching to the Disposal Assets and the relevant employees will be transferred to Hongdu Group.

## **2.9 Other material terms**

The respective transferors of the assets subject to the Asset Swap Transactions shall be entitled to the profits arising from, and be responsible for any loss incurred in respect of, the transferred assets during the Transitional Period.

# **3. FURTHER INFORMATION ON THE ACQUISITION ASSETS**

## **3.1 Basic information**

The Acquisition Assets are Hongdu Group's national defence business related assets and all the rights and benefits attaching thereto together with all the debts and other obligations which such business and assets are subject to as at the Reference Date, more details of which are set out below:

Production plants and facilities and related properties	Feilong Machinery Factory and related ancillary facilities and operating liabilities, the relevant land use rights of 12 pieces of lands with an aggregate area of approximately 893,047.04 sq. m and 27 properties with an aggregate area of approximately 41,344.05 sq. m
Total assets	RMB1,399,572,506.66
Total liabilities	RMB101,638,645.86
Net assets	RMB1,297,933,860.80

### 3.2 Profit or loss for the last two financial years

Set out below is the financial information on the Acquisition Assets for the two financial years ended 31 December 2017 and 2018 respectively and which was prepared in accordance with the PRC Accounting Standards:

	<b>For the year ended 31 December 2017 (Audited)</b>	<b>For the year ended 31 December 2018 (Unaudited)</b>
	RMB	RMB
Profit before tax and extraordinary items	9,533,441.82	7,484,017.96
Profit after tax and extraordinary items	8,103,425.55	6,361,415.27

## 4. FURTHER INFORMATION ON THE DISPOSAL ASSETS

### 4.1 Basic information

The Disposal Assets are Hongdu Aviation's certain parts and components manufacturing business related assets and all the rights and benefits attaching thereto together with all the debts and other obligations which such assets are subject to as at the Reference Date, more details of which are set out below:

Production plants and facilities and related properties	Thermal surface treatment factory, sheet metal fabrication factory, clamp welding hydraulic accessories plant factory, composite materials factory, mechanical processing factory, parts possessing factory, numerical control machinery factory, machinery processing factory for accessories, machine tools manufacturing factory, equipment and energy centre and other production workshops for parts and components and the corresponding supporting facilities and equipment, the associated operating and financial liabilities, the relevant land use rights of nine pieces of lands with an aggregate area of approximately 1,444,526.67 sq. m and 16 properties with an aggregate area of approximately 227,068.46 sq. m
Total assets	RMB4,608,180,091.19
Total liabilities	RMB2,471,323,922.02
Net assets	RMB2,136,856,169.17

## 4.2 Profit or loss for the last two financial years

Set out below is the financial information on the Disposal Assets for the two financial years ended 31 December 2017 and 2018 respectively and which was prepared in accordance with the PRC Accounting Standards:

	<b>For the year ended 31 December 2017 (Audited)</b>	<b>For the year ended 31 December 2018 (Unaudited)</b>
	RMB	RMB
Loss before tax and extraordinary items	40,169,878.58	57,264,247.52
Loss after tax and extraordinary items	40,169,878.58	57,264,247.52

## 5. INFORMATION ON THE PARTIES

### 5.1 The Group and Hongdu Aviation

The Company is a joint stock limited liability company established in the PRC and listed on the HKEX. The Company is mainly engaged in the research and development, manufacture and sales of civil aviation products, and relevant engineering services.

Hongdu Aviation is a company established in the PRC and a non-wholly-owned subsidiary of the Company. As at the Announcement Date, the shares of Hongdu Aviation are listed on the SSE. The principal business of Hongdu Aviation is design, development, manufacture and sale of trainers, general-purpose aeroplanes and other aero products, including parts and components.

### 5.2 Hongdu Group

Hongdu Group is a company established in the PRC and a wholly-owned subsidiary of AVIC. Hongdu Group is principally engaged in research and development, production, sales and service of aviation aircraft, trainers, helicopters, drones and aviation components. As at the Announcement Date, Hongdu Group is interested in approximately 4.38% of the equity interests of Hongdu Aviation. By virtue of Hongdu Group being a wholly-owned subsidiary of a connected person of the Company, namely AVIC (the controlling shareholder of the Company), it is an associate of a connected person of the Company and therefore is also a connected person of the Company.

## 6. EXPECTED GAIN OR LOSS

It is expected that an gain of approximately RMB7,120,000 will be accrued. The said gain represents the difference between (i) RMB2,143,971,700, being the sum of (x) the book value of the Acquisition Assets as at the Reference Date (being RMB1,297,933,900 as extracted from the Valuation Report (Acquisition)) and the cash consideration that the Group will receive (being RMB846,037,800) as disclosed in section 2.5 of this announcement; and (ii) the book value of the Disposal Assets as at the Reference Date (being RMB2,136,856,200 as extracted from the Valuation Report (Disposal)). It is expected that the said gain will be recognized in the equity of the Company in proportion to the Company's shareholding in Hongdu Aviation.

The financial impact of the Asset Swap Transactions will be determined on the basis of the relevant figures as at the Completion Date and, accordingly, may be subject to change and different from the disclosure above.

## **7. INTENDED USE OF PROCEEDS**

As disclosed in section 2.5 of this announcement, the Group will receive a cash consideration in the amount of RMB846,037,800 under the Asset Swap Transactions. As at the Announcement Date, the Group intends to apply the said cash consideration to enhance the R&D capability with regard to the principal business, to settle the payables in relation to the production, and to replenish the cash flow of Hongdu Aviation.

## **8. REASONS AND BENEFITS OF THE ASSET SWAP TRANSACTIONS**

As disclosed in the November Announcement, the Asset Swap Transactions could help Hongdu Aviation to optimize resource allocation, improve industrial structure, enrich product lines, increase revenue sources, improve income structure, and enhance the market competitiveness and profitability of Hongdu Aviation. In this connection and for the purpose of focusing on the core businesses of the Group, such as in the research & development and manufacture of trainers aircrafts in order to optimize the assets and personnel structure of the Group, the Group entered into the Asset Swap Transactions under which (i) the parts and components manufacturing business, which involves more assets and employees, will be disposed of; and (ii) the defence products business will be acquired by the Group. The defence products business has certain level of profitability and it is expected that as a result of the Asset Swap Transactions, the gearing ratio of the Group will fall, the revenue of the Group will increase, and both the Group's profitability and core competitiveness will be improved.

After taking into account the factors set out in the preceding paragraph, the Directors (excluding the INEDs whose views will be provided after taking into account the opinion and advice from the IFA) are of the view that (i) the terms of the Asset Swap Transactions are fair and reasonable; (ii) the Asset Swap Transactions are on normal commercial terms or better to the Group; and (iii) the Asset Swap Transactions are in the interests of the Company and the Shareholders as a whole. None of the current Directors has a material interest in the Asset Swap Transactions. However, by virtue of Mr. Tan Ruisong (a former executive Director), Mr. Chen Yuanxian (a current executive Director), Mr. Wang Xuejun (a current executive Director) and Mr. Li Yao (a former non-executive Director) being the chairman, vice general manager, departmental director and chief accountant of AVIC respectively when the relevant Board meeting was held, they had abstained from voting on the relevant Board resolution(s) approving the transactions contemplated in the ASA.

## **9. IMPLICATIONS UNDER HKLR**

### **9.1 Discloseable and connected transactions**

The Asset Swap Transactions comprise both the Acquisition and the Disposal. Pursuant to the relevant requirements of the HKLR, the Company classifies the Asset Swap Transactions by reference to the larger of the Acquisition or the Disposal in terms of percentage ratios, and complies with the applicable requirements of the HKLR based on such classification. As the highest applicable percentage ratio in respect of the Asset Swap Transactions exceeds 5% but is less than 25%, the Asset Swap Transactions constitute a discloseable transaction of the Company under Chapter 14 of the HKLR.

In addition, as the highest percentage ratio (other than profits ratio) in respect of the Asset Swap Transactions being 5% or above, the Asset Swap Transactions also constitute an non-exempt connected transaction of the Company under Chapter 14A of the HKLR. Accordingly, the Asset Swap Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under the HKLR.

## **9.2 Shareholders required to abstain from voting at the EGM**

As at the Announcement Date, AVIC is a controlling shareholder of the Company interested in approximately 56.04% of the Shares in issue directly and indirectly. By virtue of the relationship between AVIC and Hongdu Group as disclosed in section 5.2 of this announcement, AVIC has a material interest in the Asset Swap Transactions and, therefore, AVIC and its associates will be required to abstain from voting on the resolution(s) at the EGM approving the Asset Swap Transactions. To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, no Shareholder would be required to abstain from voting on the shareholders' resolution(s) approving the Asset Swap Transactions except for AVIC and its associates.

## **9.3 Formation of the IBC**

The IBC comprising only of the INEDs has been formed and will, after taking into account the advice of the IFA, advise the Independent Shareholders on, among other things, (i) whether the terms of the ASA are fair and reasonable; (ii) whether the ASA is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the ASA is in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the ASA.

## **9.4 Appointment of the independent financial adviser**

In accordance with the HKLR, the IFA will be appointed to advise the IBC and the Independent Shareholders on, among other things, (i) whether the terms of the ASA are fair and reasonable; (ii) whether the ASA is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the ASA is in the interests of the Company and the Shareholders as a whole; and (iv) whether the Independent Shareholders should vote in favour of the ASA. The advice of the IFA to the IBC and the Independent Shareholders will be included in the circular in relation to the ASA. The Company will issue an announcement announcing the appointment of the IFA in due course.

## **10. EGM AND CIRCULAR**

The Company will convene and hold the EGM for the Independent Shareholders to consider and, if thought fit, to approve the Asset Swap Transactions. As additional time is required to prepare the information to be included in the circular containing, among other things, (i) further details of the Asset Swap Transactions; (ii) a letter from the IBC containing its recommendations to the Independent Shareholders; and (iii) a letter from the IFA containing its advice to the IBC and the Independent Shareholders, such circular is expected to be despatched to the Shareholders on or before 29 June 2019.

**Shareholders and potential investors of the Company should be aware that the coming into effect of the ASA and the completion of the Asset Swap Transactions are subject to a number of conditions being satisfied, including but not limited to the approval of the**



**Asset Swap Transactions being granted by the Independent Shareholders and, hence, the Asset Swap Transactions may or may not proceed. Accordingly, they are advised to exercise caution when they deal or contemplate dealing in the Shares or other securities (if any) of the Company.**

## **11. DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

"Acquisition"	the acquisition of the Acquisition Assets by Hongdu Aviation pursuant to the ASA
"Acquisition Assets"	the assets to be acquired by Hongdu Aviation pursuant to the ASA
"Acquisition Consideration"	the consideration for the Acquisition to be satisfied by Hongdu Aviation
"Announcement Date"	the date of this announcement, being 31May 2019
"Appraisal Value"	the Appraisal Value (Acquisition Assets) or the Appraisal Value (Disposal Assets), as the case may be
"Appraisal Value (Acquisition Assets)"	the value of the Acquisition Assets determined by the Valuer and contained in the Valuation Report (Acquisition), being RMB1,362,424,500
"Appraisal Value (Disposal Assets)"	the value of the Disposal Assets determined by the Valuer and contained in the Valuation Report (Disposal), being RMB2,208,462,300
"ASA"	the asset swap agreement entered into between Hongdu Aviation and Hongdu Group and dated 31 May 2019
"Asset Swap Transactions"	the sale and purchase of the Acquisition Assets and the Disposal Assets contemplated in the ASA and other incidental transactions contemplated therein
"associate"	has the meaning given to it under the HKLR
"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 Announcement Date
"Board"	the board of Directors
"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 established in the PRC and listed on HKEX

"Completion"	completion of the Asset Swap Transactions
"Completion Conditions"	the conditions precedent for Completion
"Completion Date"	the date on which Completion occurs
"connected person"	has the meaning given to it under the HKLR
"controlling shareholder"	has the meaning given to it under the HKLR
"Director"	a director of the Company
"Disposal"	the disposal of the Disposal Assets by Hongdu Aviation pursuant to the ASA
"Disposal Assets"	the assets to be disposed of by Hongdu Aviation pursuant to the ASA
"Disposal Consideration"	the consideration for the Disposal to be satisfied by Hongdu Group
"Effectiveness Conditions"	the conditions precedent for the ASA to come into effect
"EGM"	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, to approve the Asset Swap Transactions (including any adjournment thereof)
"Group"	the Company and its subsidiaries
"HK Listing Rules" or "HKLR"	the Rules Governing the Listing of Securities on the HKEX
"HKEX"	The Stock Exchange of Hong Kong Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hongdu Aviation"	Jiangxi Hongdu Aviation Industry Co., Ltd.# (江西洪都航空工業股份有限公司), a company established in the PRC
"Hongdu Group"	Jiangxi Hongdu Aviation Industry Group Co., Ltd.# (江西洪都航空工業集團有限責任公司), a company established in the PRC
"IBC"	the independent board committee of the Company established in accordance with the HKLR to advise the Independent Shareholders on the Asset Swap Transactions
"IFA" or "Independent Financial Adviser"	the independent financial adviser to be appointed by the Company in accordance with the HKLR for the purposes of the Asset Swap Transactions

"Independent Shareholders"	Shareholders other than those who (i) have a material interest in the Asset Swap Transactions and therefore are, together with their associates, required to abstain from voting on the resolution(s) approving the Asset Swap Transactions under the HKLR; and (ii) are otherwise required to abstain from voting on (or voting in favour of) the resolution(s) approving the Asset Swap Transactions under other applicable laws, rules or regulations
"INED"	an independent non-executive Director
"November Announcement"	the announcement of the Company dated 14 November 2018 wherein the Company disclosed the proposed asset swap between Hongdu Aviation and Hongdu Group
"Party"	a party to the ASA
"percentage ratios"	has the meaning given to it under Rule 14.07 of the HKLR
"PRC"	the People's Republic of China
"PRC Accounting Standards"	Accounting Standards for Business Enterprises (中國企業會計準則) as promulgated by the Ministry of Finance of the PRC
"Reference Date"	the date on which the audit and valuation of the Acquisition Assets and the Disposal Assets was based, being 30 November 2018
"RMB"	Renminbi, the lawful currency of the PRC
"Shareholder"	a holder of any of the issued Shares
"Shares"	the shares of the Company, all being H shares
"sq. m"	square metres
"SSE"	the Shanghai Stock Exchange
"Transitional Period"	(i) the period commencing from the first day immediately after the Reference Date (inclusive) and ending on the date on which Completion occurs; or (ii) in relation to the calculation of profit, loss or other financial figures, the period commencing from the first day immediately after the Reference Date (inclusive) and ending on the last day of the month which the Completion Date falls
"Valuation Report (Acquisition)"	the report on the valuation of the Acquisition Assets as at the Reference Date issued by the Valuer

"Valuation Report (Disposal)"	the report on the valuation of the Disposal Assets as at the Reference Date issued by the Valuer
"Valuation Reports"	collectively, the Valuation Report (Acquisition) and the Valuation Report (Disposal)
"Valuer"	China Enterprise Appraisals Consultation Co., Ltd# (北京中企華資產評估有限責任公司), an independent appraisal valuer with securities and futures related business qualification

By Order of the board of directors  
**AviChina Industry & Technology Company Limited\***  
**Xu Bin**  
*Company Secretary*

Beijing, 31 May 2019

*As at the date of this announcement, the Board comprises (i) Mr. Chen Yuanxian and Mr. Wang Xuejun as executive directors; (ii) Mr. Yan Lingxi, Mr. Lian Dawei and Mr. Xu Gang as non-executive directors; and (iii) Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin as independent non-executive directors.*

\* *For identification purpose only*

# *For ease of reference, the names of the PRC established companies or entities (if any) and the PRC laws and regulations (if any) have generally been included in this announcement in both Chinese and English languages and in the event of inconsistency, the Chinese language shall prevail.*

^ *Where the context so permits or requires, words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders and vice versa.*