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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 TRANSACTION
NON-EXERCISE OF THE RIGHT OF FIRST REFUSAL**

BACKGROUND

As at the date of this announcement, Lithium Battery Luoyang is a subsidiary of Chengfei Jicheng, which is held as to 1.92% by Hongdu Aviation and 63.98% by Chengfei Jicheng. Chengfei Jicheng proposed to transfer its 45% equity interest in Lithium Battery Luoyang to Lithium Battery Jiangsu in a consideration of approximately RMB1,094,282,300.

Pursuant to the Company Law of the PRC, Hongdu Aviation, as a shareholder of Lithium Battery Luoyang, under the same condition, is entitled to the Right of First Refusal with respect to any transfer of equity interest in Lithium Battery Luoyang by Chengfei Jicheng to any other persons (excluding the existing shareholders of Lithium Battery Luoyang), pursuant to which Hongdu Aviation has a pre-emptive right to purchase the equity interest.

NON-EXERCISE OF THE RIGHT OF FIRST REFUSAL

Recently, Chengfei Jicheng notified the Company that Chengfei Jicheng proposed to transfer its 45% equity interest in Lithium Battery Luoyang to Lithium Battery Jiangsu in a consideration of approximately RMB1,094,282,300.

On 31 May 2019, the board of directors of Hongdu Aviation, a subsidiary of the Company, approved, among other things, that Hongdu Aviation would not exercise the Right of First Refusal to acquire the 45% equity interest in Lithium Battery Luoyang. The Board of the Company has also approved the above non-exercise the Right of First Refusal.

HONG KONG LISTING RULES IMPLICATION

As at the date of this announcement, Hongdu Aviation is a subsidiary of the Company. Chengfei Jicheng is a subsidiary of AVIC, the controlling shareholder of the Company, and Chengfei Jicheng is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The non-exercise of the Right of First Refusal 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 non-exercise of the Right of First Refusal is more than 0.1% but less than 5%, the non-exercise of the Right of First Refusal is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement.

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B. NON-EXERCISE OF THE RIGHT OF FIRST REFUSAL

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C. REASONS FOR AND BENEFITS OF NON-EXERCISE OF THE RIGHT OF FIRST REFUSAL

The equity interest in Lithium Battery Luoyang held by Hongdu Aviation is for the purposes of financial investment. Having taken into the operation condition of Hongdu Aviation, the non-exercise of the Right of First Refusal is consistent with the future development strategy and the investment plan of Hongdu Aviation. Upon the completion of the Proposed Equity Transfer, the equity interest in Lithium Battery Luoyang held by Hongdu Aviation will remain unchanged and the financial results of Lithium Battery Luoyang will still not be consolidated into the consolidated

financial statements of the Company. Therefore, there will be no adverse effect on the financial condition and operation results of Hongdu Aviation.

D. HONG KONG LISTING RULES IMPLICATION

As at the date of this announcement, Hongdu Aviation is a subsidiary of the Company. Chengfei Jicheng is a subsidiary of AVIC, the controlling shareholder of the Company, and Chengfei Jicheng is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. The non-exercise of the Right of First Refusal 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 non-exercise of the Right of First Refusal exceeds 0.1% but is less than 5%, the non-exercise of the Right of First Refusal 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 vice general manager and department chief of AVIC, respectively, had abstained from voting on the relevant Board resolution approving the non-exercise of the Right of First Refusal 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 non-exercise of the Right of First Refusal.

The non-exercise of the Right of First Refusal is considered on normal commercial terms. The Directors (including the independent non-executive Directors) are of the view that the non-exercise of the Right of First Refusal is fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

E. 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 Hongdu Aviation

Hongdu Aviation is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange (stock code: 600316). As at the date of this announcement, Hongdu Aviation is held as to 43.77% by the Company. It is mainly engaged in the design, development, manufacture and sale of trainers, general-purpose aeroplanes and other aero products, including parts and components.

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 of Chengfei Jicheng

Chengfei Jicheng is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shenzhen Stock Exchange (stock code: 002190). As at the date of this announcement, Chengfei Jicheng is a subsidiary of AVIC. Chengfei Jicheng is mainly engaged in businesses such as design, research and development and manufacturing of moulds; manufacturing of parts (excluding engines and propellers) for aircraft and helicopters.

Information of Lithium Battery Jiangsu

Lithium Battery Jiangsu is a limited liability company incorporated in the PRC, which is actually controlled by AVIC. Lithium Battery Jiangsu is mainly engaged in businesses such as the research and development, manufacturing, sales and market application exploration of lithium-ion power battery, battery management system (BMS), energy storage battery and relevant integrated products.

Information of Lithium Battery Luoyang

Lithium Battery Luoyang is a limited liability company incorporated in the PRC. As at the date of this announcement, Lithium Battery Luoyang is a subsidiary of Chengfei Jicheng, which is held as to 1.92% by Hongdu Aviation and 63.98% by Chengfei Jicheng. Lithium Battery Luoyang is mainly engaged in businesses such as the research and development, manufacturing, sales and market application exploration of lithium-ion power battery and relevant integrated products, importation and exportation of goods and technologies.

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

	For the year ended 31 December 2017	For the year ended 31 December 2018
	<i>(RMB 10 thousand)</i>	<i>(RMB 10 thousand)</i>
<i>Net profit before taxation and extraordinary items</i>	-42,574.61	-81,448.65
<i>Net profit after taxation and extraordinary items</i>	-37,742.48	-74,842.42

The book value of the net assets of Lithium Battery Luoyang as at 31 December 2018 prepared in accordance with Chinese Accounting Standards for Business Enterprises was approximately RMB3,781.69 million. And the appraised value of the net assets of Lithium Battery Luoyang as at 30 June 2018 was approximately RMB2,431,617.5 thousand.

F. DEFINITION

“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
“Board”	the board of directors of the Company
“Chengfei Jicheng”	Sichuan Chengfei Integration Technology Corporation Limited* (四川成飛集成科技股份有限公司), a joint stock limited liability company incorporated in the PRC whose A shares are listed on the Shenzhen Stock Exchange, a subsidiary of AVIC as at the date of the announcement
“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
“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
“Hongdu Aviation”	Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange, is held as to 43.77% by the Company as at the date of this announcement
“Lithium Battery Jiangsu”	China Aviation Lithium Battery (Luoyang) Co., Ltd.* (中航鋰電科技有限公司), a limited liability company incorporated in the PRC
“Lithium Battery Luoyang”	China Aviation Lithium Battery Co., Ltd.* (中航鋰電(洛陽)有限公司), a limited liability company incorporated in the PRC and a subsidiary of Chengfei Jicheng, which is held as to 1.92% by Hongdu Aviation and 63.98% by Chengfei Jicheng as at the date of the announcement
“PRC”	the People's Republic of China
“Proposed Equity Transfer”	the proposed transfer of 45% equity interest in Lithium Battery Luoyang from Chengfei Jicheng to Lithium Battery Jiangsu in a consideration of approximately RMB1,094,282,300
“Right of First Refusal”	the right of first refusal of Hongdu Aviation to acquire the equity interest in Lithium Battery Luoyang held by Chengfei Jicheng pursuant to the Company Law of the PRC

“RMB” Renminbi, the lawful currency of the PRC

“Shareholders” the shareholders of the Company

“%” per cent.

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

Beijing, 31 May 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*