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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

**ENTERING INTO THE PARTNERSHIP AGREEMENT IN RELATION TO THE
FORMATION OF THE FUND**

Reference is made to the announcement of the Company dated 26 February 2018 in relation to the formation of AVIC Rongfu and the voluntary announcement dated 2 July 2019 in relation to the proposed entering into the Partnership Agreement in relation to the formation of the Fund.

On 25 July 2019, the Company entered into the Partnership Agreement with AVIC, AVIC Capital, AVIC Rongfu, Guangde Investment Fund and Zhenjiang Investment in relation to the formation of the Fund with an initial total capital commitment of RMB4 billion. Pursuant to the Partnership Agreement, the Company and AVIC Rongfu agreed to make a capital contribution of RMB600 million and RMB50 million in cash, representing 15% and 1.25% of the total capital contribution of the Fund, respectively. Upon establishment, the partnership interest in the Fund will be held as to 15%, 10%, 15%, 1.25%, 50% and 8.75% by the Company, AVIC, AVIC Capital, AVIC Rongfu, Guangde Investment Fund and Zhenjiang Investment, respectively.

As at the date of this announcement, AVIC is the controlling shareholder of the Company and AVIC Capital is a subsidiary of AVIC. AVIC Rongfu is a subsidiary of the Company, which is directly and indirectly held as to over 10% by AVIC. Therefore, each of AVIC, AVIC Capital and AVIC Rongfu is a connected person of the Company. The Fund is also a connected person of the Company by virtue of AVIC's partnership interest and management power in the Fund. Each of the formation of the Fund and the payment of management fees by the Fund to AVIC Rongfu 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 each of the formation of the Fund and the payment of management fees by the Fund to AVIC Rongfu under the Partnership Agreement is more than 0.1% but less than 5%, each of the formation of the Fund and the payment of management fees by the Fund to AVIC Rongfu under the Partnership Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement.

A. INTRODUCTION

Reference is made to the announcement of the Company dated 26 February 2018 in relation to the formation of AVIC Rongfu and the voluntary announcement dated 2 July 2019 in relation to the proposed entering into the Partnership Agreement in relation to the formation of the Fund.

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B. THE PARTNERSHIP AGREEMENT

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

1. Date

25 July 2019

2. Parties

- (i) the Company;
- (ii) AVIC;
- (iii) AVIC Capital;
- (iv) AVIC Rongfu;
- (v) Guangde Investment Fund; and
- (vi) Zhenjiang Investment.

3. Capital contribution

Pursuant to the Partnership Agreement, the initial total capital contribution of each of the Partners in the Fund is as follows:

Party	Capital contribution (RMB in millions)	Approximate percentage of partnership interest in the Fund (%)	Capacity
AVIC Rongfu	50	1.25	General Partner
AVIC	400	10.00	Limited Partner
the Company	600	15.00	Limited Partner
AVIC Capital	600	15.00	Limited Partner
Guangde Investment Fund	2,000	50.00	Limited Partner
Zhenjiang Investment	350	8.75	Limited Partner
Total	4,000	100	

Each of the Partners shall make its capital contribution in cash to the Fund during the Investment Period pursuant to the capital contribution payment notice issued by the Executive Partner in writing at least 20 business days in advance.

4. Purpose and business scope

The purpose of the Fund is to invest in reform and restructuring projects, mixed-ownership reform projects, research institutes transformation projects, re-financing projects of listed companies, and other projects in the aviation industry as approved by the Investment Decision Committee by means of equity investment and other investment methods as permitted by applicable laws, regulations and the Partnership Agreement to bring economic returns to the Partners.

The business scope of the Fund includes equity investment, equity investment management and management consulting, subject to the approval by the industrial and commercial administrative authorities.

5. Introduction of new partners

Within 12 months after the formation of the Fund, the Executive Partner may introduce Integration Fund or other Subsequent Strategic Investor(s) (as agreed by the Executive Partner, Guangde Investment Fund and AVIC) as Limited Partner(s) to the Fund pursuant to

the Partnership Agreement, with an increased total capital contribution not exceeding RMB10,000 million in any event.

6. Term of the Fund

The term of the Fund shall be seven (7) years commencing from the date of the issuance of business license of the Fund by the industrial and commercial administrative authorities. Upon expiration, the term of the Fund can be extended for one year subject to the approval by the Partners' meeting for not more than twice.

7. Name of the Fund

The name of the Fund is tentatively to be “Beijing AVIC Phase I Aviation Industrial Investment Fund* (Limited Partnership) (北京中航一期航空工業產業投資基金 (有限合夥))”, subject to the approval of industry and commercial registration.

8. Management of the Fund

Executive Partner

The General Partner shall serve as the Executive Partner of the Fund. Pursuant to the Partnership Agreement, the Executive Partner has the independent and exclusive rights to the management, control, operation and decision-making of the Fund directly or through representative appointed by it. The Executive Partner is authorized to (among other things) enter into contracts, agreements and other arrangements in relation to the daily operation and management on behalf of the Fund and shall be responsible for carrying out the investment business of the Fund.

During the term of the Fund, the Executive Partner is entitled to management fees calculated in the following manner:

- (1) during the Investment Period: 0.9% of the paid-in capital contribution (excluding the overdue capital contribution that should have been paid in) per annum; and
- (2) during the Divestment Period: 0.6% of the paid-in capital contribution (excluding the overdue capital contribution that should have been paid in) per annum.

The management fees will be accrued two times each year. Each six-month period is an accrual period. The accrual date is the establishment date of the Fund, 30 June and 31 December of each year. The management fees shall be paid within 10 working days upon each accrual date.

Project Management Committee

The Project Management Committee is responsible for, among other things, considering and deciding on initiating an investment project, engaging in intermediaries, determining the remuneration standards of independent experts and other important matters of the invested enterprises as specified under the Partnership Agreement.

The Project Management Committee shall comprise seven (7) members, which shall be nominated by the Partners and appointed by the Executive Partner. AVIC, the Company and AVIC Capital shall be entitled to nominate four (4) members in total. Each of AVIC Rongfu, Guangde Investment Fund and Zhenjiang Investment shall be entitled to nominate one (1) member, respectively. Integration Fund shall be entitled to nominate one (1) member of the Project Management Committee if it is introduced into the partnership pursuant to the Partnership Agreement. By then, the Project Management Committee shall comprise eight (8) members.

Investment Decision Committee

The Investment Decision Committee is the investment decision-making organization of the Fund, which is responsible for, among other things, investment decision, management and withdrawal matters of the projects and investment, and management, post-investment management and withdrawal plans approval.

The Investment Decision Committee shall comprise nine (9) members, which shall be nominated by AVIC, the Company, AVIC Capital, the Executive Partner and Guangde Investment Fund and appointed by the Executive Partner. AVIC shall be entitled to nominate five (5) members in total, and each of the Company, AVIC Capital, the Executive Partner and Guangde Investment Fund shall be entitled to nominate one (1) member, respectively. The Subsequent Strategic Investor shall be entitled to nominate one (1) member of the Investment Decision Committee if it is introduced into the partnership pursuant to the Partnership Agreement. By then, the Investment Decision Committee shall comprise ten (10) members.

9. Restriction on transfer of partnership interest

Unless otherwise agreed under the Partnership Agreement, no transfer of partnership interest in the Fund by a Limited Partner in part or in full may be made without the consent of the General Partner as well as other Limited Partners, and the General Partner cannot transfer all or any part of its partnership interest in the Fund.

10. Profit distribution

The distributable profits derived from investment projects, after deducting relevant tax fees and disbursement, shall be allocated among the Partners in the following order of priority within ten (10) business days upon receiving such profits:

- (1) to each of the Partners in proportion to its respective paid-in capital contribution until it has received an amount equal to 100% of its paid-in capital contribution;
- (2) to each of the Partners until it has received an amount equal to the Benchmark Return;
- (3) as to the profit after distributing the Benchmark Return but within an internal rate of return of 10% of the total paid-in capital contribution, to the Executive Partner; and
- (4) as to the balance, 20% to the General Partner, and the remaining 80% to the Limited Partners in proportion to their respective paid-in capital contribution.

C. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE PARTNERSHIP AGREEMENT

Upon establishment, the partnership interest in the Fund will be held as to 15%, 10%, 15%, 1.25%, 50% and 8.75% by the Company, AVIC, AVIC Capital, AVIC Rongfu, Guangde Investment Fund and Zhenjiang Investment, respectively. The primary objective of the Fund is mainly to carry out equity investment in the aviation industry. The formation of the Fund is in line with the development strategy of aviation industry, and is also beneficial to achieve synergy effect for the Group. It is expected that the investment in the Fund will bring long-term investment returns to the Company and its shareholders as a whole.

The transaction under the Partnership Agreement has been entered into by the parties on normal commercial terms after arm's length negotiation. The Directors (including the independent non-executive Directors) are of the view that the terms of the Partnership Agreement are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

As at the date of this announcement, no formal agreement in relation to the introduction of new partner(s) of the Fund has been entered into by the parties. The Company will comply with the relevant requirements of the Hong Kong Listing Rules when and where appropriate.

D. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC is the controlling shareholder of the Company and AVIC Capital is a subsidiary of AVIC. AVIC Rongfu is a subsidiary of the Company, which is directly and indirectly held as to over 10% by AVIC. Therefore, each of AVIC, AVIC Capital and AVIC Rongfu is a connected person of the Company. The Fund is also a connected person of the Company by virtue of AVIC's partnership interest and management power in the Fund. Each of the formation of the Fund and the payment of management fees by the Fund to AVIC Rongfu 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 each of the formation of the Fund and the payment of management fees by the Fund to AVIC Rongfu under the Partnership Agreement is more than 0.1% but less than 5%, each of the formation of the Fund and the payment of management fees by the Fund to AVIC Rongfu under the Partnership 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 Partnership Agreement 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 Partnership Agreement.

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 and development, manufacture and sales of civil aviation products, and relevant engineering services.

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 Capital

AVIC Capital is a subsidiary of AVIC as at the date of the announcement, which is mainly engaged in financial leasing business, trust business, securities business, financial companies business, future business, industrial investment business and international business.

Information on AVIC Rongfu

AVIC Rongfu is a limited liability company incorporated in the PRC. As at the date of this announcement, AVIC Rongfu is a subsidiary of the Company and is directly held as to 50%, 14.29% and 35.71% by the Company, AVIC and AVIC Capital respectively.

Information on Guangde Investment Fund

Guangde Investment Fund is a limited partnership incorporated in the PRC and an independent third party of the Company. It is mainly engaged in investment in non-listed enterprises, investment in shares non-publicly offered by listed companies and relevant consultancy services.

Information on Zhenjiang Investment

Zhenjiang Investment is limited partnership incorporated in the PRC and an independent third party of the Company. It is mainly engaged in equity investment and investment management.

F. 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 Capital”	AVIC Capital Co., Ltd.* (中航資本控股股份有限公司), a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange (stock code: 600705)
“AVIC Rongfu”	AVIC Rongfu Fund Management Limited Company* (中

	航融富基金管理有限公司), a limited liability company incorporated in the PRC, and a subsidiary of the Company as at the date of this announcement
“Benchmark Return”	the return calculated based on the paid-up capital contribution of each of the Partners at an internal rate of return of 8% per annum
“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
“Divestment Period”	the remaining term of the Fund upon expiration of the Investment Period
“Fund”	Beijing AviChina Phase I Aviation Industrial Investment Fund (Limited Partnership)* (北京中航一期航空工業產業投資基金(有限合夥))(subject to the industrial and commercial registration), a limited partnership proposed to be established under the Partnership Agreement
“General Partner” or “Executive Partner”	AVIC Rongfu
“Group”	the Company and its subsidiaries
“Guangde Investment Fund”	China Life Guangde (Tianjin) Equity Investment Fund Partnership (Limited Partnership)* (國壽廣德(天津)股權投資基金合夥企業(有限合夥)), a limited partnership incorporated in 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
“Integration Fund”	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), a limited liability company incorporated in the PRC and an independent third party of the Company

“Investment Decision Committee”	the investment decision-making organization of the Fund, details of which are set out in the section headed “Investment Decision Committee” in this announcement
“Investment Period”	the period commencing from the establishment of the Fund to the earlier of: (i) the fourth anniversary of the establishment of the Fund, or (ii) the date when 100% of the subscribed capital contribution is paid in, promised to paid in or reserved for investment and payment of management fees and other partnership fees, unless otherwise agreed upon by the Partners
“Limited Partner(s)”	collectively, the Company, AVIC, AVIC Capital, Guangde Investment Fund, Zhenjiang Investment, and other subsequent partner(s) which may join the Fund as limited partner(s) as agreed under the Partnership Agreement, and each a “Limited Partner”
“Partner(s)”	the General Partner and Limited Partners, or each of them
“Partnership Agreement”	the Partnership Agreement entered into by the Company with AVIC, AVIC Capital, AVIC Rongfu, Guangde Investment Fund and Zhenjiang Investment on 25 July 2019 in relation to the formation of the Fund
“PRC”	the People’s Republic of China
“Project Management Committee”	the project management organization of the Fund, details of which are set out in the section headed “Project Management Committee” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Subsequent Strategic Investor”	the investor to be introduced by AVIC Rongfu pursuant to the Partnership Agreement and as agreed by AVIC Rongfu, Guangde Investment Fund and AVIC, which is of strategic significance to the Fund in respect of capital raising, project investment and etc. (excluding Integration Fund)
“Zhenjiang Investment”	Zhenjiang Dingqiang Intelligent Manufacturing Investment Partnership (Limited Partnership)* (鎮江鼎強智能製造投資合夥企業（有限合夥）), a limited partnership incorporated in the PRC

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

Beijing, 25 July 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*