

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 TRANSACTIONS

CAPITAL INCREASE IN XINGHUA HUAYI

On 29 October 2020, JONHON Optronics entered into: (1) the Capital Increase Agreement with the Fund, Shenyang Xinghua, Huayi Technology and Xinghua Huayi, pursuant to which, JONHON Optronics, the Fund and the Employees' Shareholding Platform have agreed to make a capital contribution of RMB69.69 million, RMB100 million and RMB14.4704 million to Xinghua Huayi, respectively; and (2) the Shareholders Agreement with the Fund, Shenyang Xinghua, Huayi Technology and Xinghua Huayi, pursuant to which, the parties have agreed on the corporate governance and shareholder's rights of Xinghua Huayi.

As at the date of this announcement, JONHON Optronics is a subsidiary of the Company and AVIC is the controlling shareholder of the Company. Each of Shenyang Xinghua and Xinghua Huayi is a subsidiary of JONHON Optronics and a connected subsidiary of the Company by virtue of being owned as to over 10% directly and indirectly by AVIC. The Fund is also a connected person of the Company by virtue of AVIC's partnership interest and management power in the Fund.

The capital contributions by the Investors in Xinghua Huayi will lead to a dilution of equity interest in Xinghua Huayi by the Company, which constitutes a deemed disposal and a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. In addition, the transfer of Disposed Assets by JONHON Optronics to Xinghua Huayi also constitutes a connected transaction of the Company. Given that JONHON Optronics grants an option to the Fund under the Shareholders Agreement, pursuant to which the Fund is entitled to procure JONHON Optronics to repurchase the equity interest in Xinghua Huayi it holds, it also constitutes a grant of option to a connected person 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 aforementioned transactions under the Agreements is more than 0.1% but less than

5%, each of them is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement.

A. INTRODUCTION

On 29 October 2020, JONHON Optronic entered into: (1) the Capital Increase Agreement with the Fund, Shenyang Xinghua, Huayi Technology and Xinghua Huayi, pursuant to which, JONHON Optronic, the Fund and the Employees' Shareholding Platform have agreed to make a capital contribution of RMB69.69 million, RMB100 million and RMB14.4704 million to Xinghua Huayi, respectively; and (2) the Shareholders Agreement with the Fund, Shenyang Xinghua, Huayi Technology and Xinghua Huayi, pursuant to which, the parties have agreed on the corporate governance and shareholder's rights of Xinghua Huayi.

B. THE CAPITAL INCREASE

The principal terms of the Capital Increase Agreement are summarized as follows:

1. Date

29 October 2020

2. Parties

- (1) JONHON Optronic (as the existing shareholder and the Investor);
- (2) Shenyang Xinghua (as the existing shareholder);
- (3) Xinghua Huayi (as the target company);
- (4) the Fund (as the Investor); and
- (5) Huayi Technology (as the existing shareholder).

In addition, in order to incentivize its employees, Xinghua Huayi will set up the Employees' Shareholding Platform by adopting an employee share incentive plan. The Employees' Shareholding Platform shall make a capital contribution to Xinghua Huayi subject to the same terms and conditions of the Capital Increase Agreement and the Shareholders Agreement, and will hold 5.00% of the equity interest in Xinghua Huayi upon completion of the Capital Increase.

3. Capital contribution

Pursuant to the Capital Increase Agreement, JONHON Optronic, the Fund and Employees' Shareholding Platform have agreed to a make capital contribution of RMB69.69 million, RMB100 million and RMB14.4704 million to Xinghua Huayi, respectively. Among the capital contributions made by the above parties to Xinghua Huayi, a total of RMB10.9361 million will be contributed to its registered capital and RMB173.2243 million will be contributed to its capital reserve.

The capital contributions have been determined after arm's length negotiations between the parties with reference to various factors including the appraised value of the equity interests in Xinghua Huayi as set out in the valuation report prepared by a professional independent PRC valuer based on asset-based approach as at the Valuation Benchmark Date, the appraised value of the Disposed Assets as set out in the valuation report prepared by a professional independent PRC valuer based on revenue approach as at the Valuation Benchmark Date, as well as the business nature, future development plan and funding demands of Xinghua Huayi.

Since the income approach is adopted by a professional independent PRC valuer for preparing the valuation report mentioned above in respect of the valuation of the Disposed Assets, such valuation constitutes a profit forecast under Rule 14.61 of the Hong Kong Listing Rules. Further announcement will be made by the Company within 15 business days after the publication of this announcement in accordance with Rule 14.60A and Rule 14.62 of the Hong Kong Listing Rules.

The following table sets out the shareholding structure of Xinghua Huayi as (i) at the date of this announcement and immediately prior to the completion of the Capital Increase, and (ii) immediately after the completion of the Capital Increase pursuant to the Capital Increase Agreement

	As at the date of this announcement and immediately prior to the completion of the Capital Increase			Immediately after the completion of the Capital Increase		
	Registered Capital (RMB)	Capital Reserve (RMB)	Percentage of total equity interests (%)	Registered Capital (RMB)	Capital Reserve (RMB)	Percentage of total equity interests (%)
JONHON Optronics	2,437,500	0	39.00	6,575,900	65,551,600	38.27
Shenyang Xinghua	2,062,500	0	33.00	2,062,500	0	12.00
the Fund	-	-	-	5,938,400	94,061,600	34.55
Huayi Technology	1,750,000	0	28.00	1,750,000	0	10.18
Employees'	-	-	-	859,300	13,611,100	5.00

Shareholding
Platform

Total	6,250,000	0	100.00	17,186,100	173,224,300	100.00
--------------	------------------	----------	---------------	-------------------	--------------------	---------------

4. Payment

The capital contribution shall be paid up by the Fund in one lump-sum cash to the bank account designated by Xinghua Huayi. The capital contribution to be made by JONHON Optronics will be settled by transferring the Disposed Assets within 30 business days upon the Completion Date.

5. Change in name

Upon completion of the Capital Increase, Xinghua Huayi proposes to change its name to AVIC Huayi Rail Transportation Electric Appliance Co., Ltd.* (中航華億軌道交通電器有限公司) (subject to the approval by market supervision management authorities).

6. Conditions precedent

The capital contributions of the Fund and JONHON Optronics will be conditional on the conditions precedent including but not limited to:

- (1) there is no PRC laws, judgments, rulings, adjudications or injunctions of any courts, arbitration institutions or relevant government authorities restricting, prohibiting or canceling the Capital Increase, nor is there any pending or potential litigations, arbitrations, judgments, rulings, adjudications or injunctions that have had or will have a material adverse effect on the Capital Increase;
- (2) the board resolution is concluded by Xinghua Huayi in relation to the approval of the Capital Increase, the signing of relevant transaction documents and the change of name;
- (3) the consents of any third party (including but not limited to approval of the Capital Increase by AVIC and the Company) are obtained by Xinghua Huayi and its existing shareholders in relation to the Capital Increase and the signing and execution of relevant transaction documents, and the signing and execution of relevant transaction documents will not result in a breach of any PRC laws and regulations by Xinghua Huayi; and
- (4) the transaction documents in respect of the Capital Increase have been duly signed by each party and delivered to other parties, including but not limited to the Capital Increase Agreement, the Shareholders Agreement and the articles of association of Xinghua Huayi.

On the same date, the parties to the Capital Increase Agreement entered into the Shareholders Agreement, pursuant to which, the parties have agreed on the corporate

governance (such as the composition of the board of directors and the supervisory committee) and shareholder's rights of Xinghua Huayi (such as right of first refusal and right of co-sale). The board of directors of Xinghua Huayi will consist of five members, of which, each of JONHON Optronic, Shenyang Xinghua, the Fund and Huayi Technology shall nominate one director, and the remaining one director shall be an employee director. In addition, pursuant to relevant stipulations under the Shareholders Agreement, JONHON Optronic grants an option to the Fund, pursuant to which the Fund is entitled to procure JONHON Optronic to repurchase the equity interest in Xinghua Huayi held by the Fund.

C. REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE

The Capital Increase will be conducive to the development of rail transportation business of Xinghua Huayi, realizing enlargement of capacities, consolidation of resources, and promotion of the capabilities in the research and development and industrialization of rail transportation products, thus improving the market share of Xinghua Huayi in rail transportation business.

D. FINANCIAL EFFECT OF THE CAPITAL INCREASE

Upon completion of the Capital Increase, Xinghua Huayi will be owned as to 38.27%, 34.55%, 12.00%, 10.18% and 5.00% by JONHON Optronic, the Fund, Shenyang Xinghua, Huayi Technology and the Employees' Shareholding Platform, respectively. Xinghua Huayi will remain as a subsidiary of the Company. In addition, JONHON Optronic will cease to own the Disposed Assets directly, while it will control the Disposed Assets through Xinghua Huayi. Thus, the financial results of Xinghua Huayi and the Disposed Assets will continue to be consolidated into the consolidated financial statements of the Company.

As the deemed disposal of Xinghua Huayi and the transfer of Disposed Assets by JONHON Optronic to Xinghua Huayi will not result in the loss of control over Xinghua Huayi and Disposed Assets by JONHON Optronic, the transaction contemplated thereunder will be accounted for as an equity transaction that will not result in the recognition of any profit or loss.

E. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, JONHON Optronic is a subsidiary of the Company and AVIC is the controlling shareholder of the Company. Each of Shenyang Xinghua and Xinghua Huayi is a subsidiary of JONHON Optronic and a connected subsidiary of the Company by virtue of being owned as to over 10% directly and indirectly by AVIC. The Fund is also a connected person of the Company by virtue of AVIC's partnership interest and management power in the Fund.

The capital contributions by the Investors in Xinghua Huayi will lead to a dilution of equity interest in Xinghua Huayi by the Company, which constitutes a deemed disposal and a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. In addition, the transfer of Disposed Assets by JONHON Optronic to Xinghua Huayi also constitutes a connected transaction of the Company. Given that JONHON Optronic grants an option to the Fund under the Shareholders Agreement, pursuant to which the Fund is entitled to procure JONHON Optronic to

repurchase the equity interest in Xinghua Huayi it holds, it also constitutes a grant of option to a connected person 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 aforementioned transactions under the Agreements is more than 0.1% but less than 5%, each of them 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 transactions under the Agreements 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 transactions under the Agreements.

The Agreements are 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 Agreements are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

F. GENERAL INFORMATION

Information on AVIC

AVIC is 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, 56.35% equity interest in the Company as at the date of this announcement.

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 aviation products, and relevant engineering services.

Information on JONHON Optronic

JONHON Optronic is a joint stock limited liability company incorporated in the PRC whose shares are listed on the Shenzhen Stock Exchange, and is a non-wholly owned subsidiary held by the Company as to 38.67% as at the date of this announcement. It is mainly engaged in research and development, production, sales and provision of services of high-end optical, electrical, and fluid connectors and relevant equipment.

Information on Shenyang Xinghua

Shenyang Xinghua is a limited liability company incorporated in the PRC and is mainly engaged in research and development, production and sales of aviation electrical appliances, electrical connectors, micro motors, automatic protection switches and relevant products. As at the date of this announcement, Shenyang Xinghua is a subsidiary of JONHON Optronic and is owned as to 62.87% and 37.13% by JONHON Optronic and AVIC, respectively.

Information on the Fund

The Fund is a limited partnership incorporated in the PRC, whose partnership interest is held as to 12%, 8%, 12%, 1%, 40%, 7% and 20% by the Company, AVIC, AVIC Capital Co., Ltd.* (中航資本控股股份有限公司), AVIC Rongfu Fund Management Limited Company* (中航融富基金管理有限公司), 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)), 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)) and 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) as at the date of the announcement. The sole general partner and the executive partner of the Fund is AVIC Rongfu Fund Management Limited Company, which is a subsidiary of the Company and is directly and indirectly held as to over 10% by AVIC. China Life Guangde (Tianjin) Equity Investment Fund Partnership (Limited Partnership) is a limited partnership beneficially owned as to 99.95% and 0.05% by China Life Insurance Co., Ltd. *(中國人壽保險股份有限公司) and China Life Real Estate Investment Management Co., Ltd. *(國壽置業投資管理有限公司) as at the date of the announcement. China Life Insurance Co., Ltd. is a state-owned enterprise incorporated in the PRC which is mainly engaged in various life insurance services, consulting and agency services. National Military-civilian Integration Industrial Investment Fund Co., Ltd. is a limited liability company incorporated in the PRC, whose substantial shareholder is the Ministry of Finance of the PRC, which holds 14.29% of its equity interest as at the date of the announcement. Please refer to the announcement of the Company dated 25 July 2019 in relation to the formation of the Fund for further details. The Fund is mainly engaged in equity investment, equity investment management and management consulting.

Information on Huayi Technology

Huayi Technology is a limited liability company incorporated in the British Virgin Islands and is mainly engaged in equity investment. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Huayi Technology and its ultimate beneficial owner, being Tong Mei Kwan, a Hong Kong citizen, are independent third parties of the Company and its connected persons.

Information on Employees' Shareholding Platform

Employees' Shareholding Platform is proposed to be a limited partnership for the purpose of adopting the employee share incentive plan of Xinghua Huayi, and it will hold 5.00% of the equity interest in Xinghua Huayi upon completion of the Capital Increase.

Information on Xinghua Huayi

Xinghua Huayi is a limited liability company incorporated in the PRC and a subsidiary of JONHON Optronics as at the date of this announcement, which is mainly engaged in scientific research, production and sales of rail transportation electrical connectors, integrated products, sensors and other products.

According to the China Accounting Standards for Business Enterprises, the net profits (before and after taxation and extraordinary items) of Xinghua Huayi for the financial year ended 31 December 2018 and 31 December 2019 are set out below:

	For the year ended 31 December 2018	For the year ended 31 December 2019
	<i>(RMB)</i>	<i>(RMB)</i>
<i>Net profit before taxation and extraordinary items</i>	11,126,619.80	11,845,107.91
<i>Net profit after taxation and extraordinary items</i>	10,990,569.17	12,084,811.16

The book value of the net assets of Xinghua Huayi as at 30 June 2020 prepared in accordance with Chinese Accounting Standards for Business Enterprises was approximately RMB101,783,643.16. As set out in the valuation report prepared by a professional independent PRC valuer based on asset-based approach, the appraised value of Xinghua Huayi as of the Valuation Benchmark Date was approximately RMB105,247,800.

The original costs for the equity interest in Xinghua Huayi under the Capital Increase Agreement represent the capital contribution paid up by the existing shareholders of Xinghua Huayi, details of which are set out in the paragraph headed "Capital contribution".

Information on the Disposed Assets

The Disposed Assets under the Capital Contribution Agreement are assets in relation to rail transportation business (such as rail vehicle equipment and rail signal equipment) held by JONHON Optronic. According to the valuation report prepared by a professional independent PRC valuer based on revenue approach, the appraised value of the Disposed Assets as at the Valuation Benchmark Date is RMB69.69 million. The book value of the Disposed Assets is RMB26,790,590.58 as at the Valuation Benchmark Date.

Since no independent accounting was carried out by JONHON Optronic in respect of the Disposed Assets, there is no corresponding net profit (before and after taxation and extraordinary items) attributable to the Disposed Assets for the financial year ended 31 December 2018 and 31 December 2019.

G. DEFINITIONS

“Agreement(s)”	collectively, the Capital Increase Agreement and the Shareholders 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 56.35% equity interest in the Company directly and indirectly as at the date of this announcement
“Board”	the board of directors of the Company

“Capital Increase”	the capital increase in Xinghua Huayi resulting from the capital contributions by the Investors and relevant arrangements among the shareholders of Xinghua Huayi pursuant to the Agreements
“Capital Increase Agreement”	the capital contribution agreement entered into among JONHON Optronic, Shenyang Xinghua, Xinghua Huayi, the Fund and Huayi Technology on 29 October 2020 in relation to the capital contributions by the Investors in Xinghua Huayi
“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
“Completion Date”	the date upon satisfaction (or written waiver, if applicable) of all the conditions precedent for the capital contributions by the Fund and JONHON Optronic or the date as jointly agreed by each party to the Capital Increase Agreement (if later)
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Disposed Assets”	the assets in relation to rail transportation business (such as rail vehicle equipment and rail signal equipment) to be transferred by JONHON Optronic as the capital contribution to Xinghua Huayi under the Capital Increase Agreement
“Employees’ Shareholding Platform”	a limited partnership proposed to be established for the purpose of adopting the employee share incentive plan of Xinghua Huayi, which will hold 5.00% of the equity interest in Xinghua Huayi upon completion of the Capital Increase
“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)), 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
“Huayi Technology”	Huayi Technology Co., Ltd.* (華億科技有限公司), a limited liability company incorporated in the British Virgin Islands
“Investor(s)”	each or all of JONHON Optronic, the Fund and the Employees’ Shareholding Platform, each of whom proposed to make a capital contribution to Xinghua Huayi pursuant to the Capital Increase Agreement
“JONHON Optronic”	AVIC JONHON Optronic Technology Co., Ltd.* (中航光電科技股

份有限公司), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, with 38.67% of its equity interest held by the Company as at the date of this announcement

“PRC”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Shareholders Agreement”	the shareholders agreement entered into among JONHON Optronic, Shenyang Xinghua, Xinghua Huayi, the Fund and Huayi Technology on 29 October 2020, pursuant to which, the parties have agreed on the corporate governance and shareholder's rights of Xinghua Huayi
“Shenyang Xinghua”	AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd.* (瀋陽興華航空電器有限責任公司), a limited liability company incorporated in the PRC and a subsidiary of JONHON Optronic as at the date of this announcement
“Xinghua Huayi”	Shenyang Xinghua Huayi Rail Transportation Electric Appliance Co., Ltd.* (瀋陽興華華億軌道交通電器有限公司), a limited liability company incorporated in the PRC and a subsidiary of JONHON Optronic as at the date of this announcement
“Valuation Benchmark Date”	31 October 2019

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

Beijing, 29 October 2020

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*