
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AviChina Industry & Technology Company Limited**, you should at once hand this circular and the enclosed proxy form and reply slip to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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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)

- I. NON-EXEMPT TRANSACTIONS AND MAJOR TRANSACTIONS:**
- (1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER THE EXISTING AGREEMENTS**
 - (2) ENTERING INTO OF FINANCE LEASE AND FACTORING FRAMEWORK AGREEMENT**
 - (3) PROPOSED REVISION OF ORIGINAL DEPOSIT SERVICES CAP**
- II. PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION;**
- III. PROPOSED APPOINTMENT OF A DIRECTOR;**
- AND**
- IV. NOTICE OF EGM**

**Independent Financial Adviser to the Independent Board
Committee and the Independent Shareholders**



A letter from the Board is set out on pages 9 to 50 of this circular. A letter from the Independent Board Committee is set out on page 51 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 52 to 85 of this circular.

A notice convening the EGM of AviChina Industry & Technology Company Limited to be held at 9:00 a.m. on Friday, 11 December 2020 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the People's Republic of China is set out on pages EGM-1 to EGM-5 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed and are also published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk). Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed on it on or before Friday, 20 November 2020. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed on the form not less than 24 hours before the time fixed for the holding of EGM or any adjournment of that meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM or any adjournment of that meeting (as the case may be) and voting in person if you so wish.

10 November 2020

* For identification purpose only

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DEFINITIONS

The following terms have the following meanings in this circular, unless the context otherwise requires:

“Articles of Association”	the articles of association of the Company (as amended from time to time)
“associates”	has the same meaning ascribed to it under the Hong Kong Listing Rules
“Acquisition”	the acquisition of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft by the Company, which is expected to be completed by the end of 2020, the details of the acquisition are disclosed in the circular of the Company dated 6 January 2020
“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 directly and indirectly 56.35% of all issued Shares as at the Latest Practicable Date
“AVIC Avionics”	China Avionics Systems Co., Ltd.* (中航航空電子系統股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange and a connected subsidiary of the Company as at the Latest Practicable Date
“AVIC Avionics Group”	AVIC Avionics and its subsidiaries
“AVIC Finance”	AVIC Finance Co., Ltd.* (中航工業集團財務有限責任公司), a limited liability company established in the PRC and a subsidiary of AVIC as at the Latest Practicable Date
“AVIC Finance Factoring Services”	the receivable factoring services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“AVIC Group”	AVIC and its subsidiaries (excluding the Group)
“AVIC Helicopter”	AVIC Helicopter Co., Ltd.* (中航直升機有限責任公司), a limited liability company incorporated in the PRC, a subsidiary of AVIC as at the Latest Practicable Date which will become a wholly-owned subsidiary of the Company upon the completion of the Acquisition
“AVIC Lease”	AVIC International Lease Co., Ltd.* (中航國際租賃有限公司), a limited liability company established in the PRC and a subsidiary of AVIC as at the Latest Practicable Date

DEFINITIONS

“AVIC Lease Factoring Services”	the factoring services to be provided by AVIC Lease Factoring Subsidiary to the Group under the Finance Lease and Factoring Framework Agreement
“AVIC Lease Factoring Subsidiary”	any of AVIC Lease’s subsidiar(ies) legally established to carry out the factoring business
“AVIC Planning”	China Aviation Planning and Design Institute (Group) Co., Ltd.* (中國航空規劃設計研究總院有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company as at the Latest Practicable Date
“AVICOPTER”	AVICOPTER PLC* (中航直升機股份有限公司), a joint stock limited liability company whose shares are listed on the Shanghai Stock Exchange and a subsidiary of the Company as at the Latest Practicable Date
“AVICOPTER Group”	AVICOPTER and its subsidiaries
“Board”	the board of Directors
“CBIRC”	China Banking and Insurance Regulatory Commission
“Changhe Aircraft”	Changhe Aircraft Industries (Group) Co., Ltd.* (昌河飛機工業(集團)有限責任公司), a limited liability company incorporated in the PRC, a subsidiary of AVIC as at the Latest Practicable Date which will become a subsidiary of the Company upon the completion of the Acquisition
“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
“Contractual Price”	the price to be agreed between the relevant parties for the supply of the aviation products, raw materials and related services (as the case may be), which shall be the reasonable costs incurred in supplying the same plus not more than 8% of such costs, which is determined after taking into account the average profit margin of approximately 7% among industrial enterprises, the average profit margin in the aviation industry and the profits previously received by the Group or AVIC Group for similar products, raw materials or services. The 8% margin used to determine the Contractual Price is the maximum profit margin under the relevant continuing connected transactions agreements and specific prices will be determined under separate agreements in each transaction

DEFINITIONS

“Deposit Services”	the deposit services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 9:00 a.m. on Friday, 11 December 2020 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC for the purpose of considering and, if thought fit, approving, among other things, (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023; (ii) the proposed revision of the Original Deposit Services Cap; (iii) the proposed amendments to the Articles of Association; and (iv) the proposed appointment of a Director
“Existing Agreements”	the Existing Mutual Product Supply Agreement, the Existing Mutual Service Supply Agreement, the Existing Land Use Rights and Properties Leasing Agreement, the Existing Mutual Product and Service Supply and Guarantee Agreement and the Existing Financial Services Framework Agreement
“Existing Financial Services Framework Agreement”	the financial services framework agreement entered into between AVIC Finance and the Company and dated 30 August 2017, for a term of three years commencing from 1 January 2018
“Existing Financial Services (Supplemental) Framework Agreement”	the supplemental agreement to the Existing Financial Service Framework Agreement entered into between AVIC Finance and the Company and dated 21 August 2020 in respect of the proposed revision of the Original Deposit Services Cap
“Existing Land Use Rights and Properties Leasing Agreement”	the land use rights and properties leasing agreement entered into between AVIC and the Company and dated 30 August 2017, for a term of three years commencing from 1 January 2018
“Existing Mutual Product Supply Agreement”	the mutual product supply agreement entered into between AVIC and the Company and dated 30 August 2017, for a term of three years commencing from 1 January 2018
“Existing Mutual Product and Service Supply and Guarantee Agreement”	the mutual product and service supply and guarantee agreement entered into between the Company, AVIC Avionics and AVICOPTER and dated 30 August 2017, for a term of three years commencing from 1 January 2018
“Existing Mutual Service Supply Agreement”	the mutual service supply agreement entered into between AVIC and the Company and dated 30 August 2017, for a term of three years commencing from 1 January 2018

DEFINITIONS

“Finance Lease and Factoring Framework Agreement”	the finance lease and factoring framework agreement entered into between AVIC Lease and the Company and dated 21 August 2020, details of which are set out under Section II of the letter from the Board of this circular
“Finance Lease Services”	the finance lease services to be provided by AVIC Lease to the Group under the Finance Lease and Factoring Framework Agreement
“Financial Services Framework Agreement”	the financial services framework agreement entered into between AVIC Finance and the Company and dated 21 August 2020, details of which are set out in paragraph 2.4 under Section I of the letter from the Board of this circular
“Government-guidance Price”	the price determined by the parties within the range as provided under the laws, regulations, decisions or orders or in respect of particular types of services promulgated by the government or other regulatory authorities in the PRC
“Government-prescribed Price”	the price jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in the particular transactions, which mainly comprise the relevant costs plus profit margin. The relevant costs will be proposed by the relevant manufacturing enterprises, and confirmed by the relevant price control authorities and the industry regulators in the PRC
“Group”	the Company and its subsidiaries from time to time; however, in respect of the Mutual Product and Service Supply and Guarantee Agreement, the “Group” means the Company and its subsidiaries (other than the AVIC Avionics Group) from time to time
“Guarantee Services”	the guarantee services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“H Shares”	the overseas-listed foreign invested share(s) in the Company’s share capital, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“Harbin Aircraft”	Harbin Aircraft Industry Group Co., Ltd.* (哈爾濱飛機工業集團有限責任公司), a limited liability company incorporated in the PRC, a subsidiary of AVIC as at the Latest Practicable Date which will become a subsidiary of the Company upon the completion of the Acquisition

DEFINITIONS

“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
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin, to advise the Independent Shareholders on (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023; and (ii) the proposed revision of the Original Deposit Services Cap
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, to advise the Independent Board Committee and the Independent Shareholders on (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023; and (ii) the proposed revision of the Original Deposit Services Cap
“Independent Shareholders”	Shareholders (other than AVIC and its associates) who are not required to abstain from voting on the resolution(s) to be proposed at the EGM to approve (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023; and (ii) the proposed revision of the Original Deposit Services Cap
“Independent Third Parties”	independent third parties (to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry), including the ultimate beneficial owners of such party, not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates (within the meaning of the Hong Kong Listing Rules)
“Land Use Rights and Properties Leasing Agreement”	the land use rights and properties leasing agreement entered into between AVIC and the Company and dated 21 August 2020
“Latest Practicable Date”	5 November 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein
“Loan Services”	the loan services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement

DEFINITIONS

“Market Price”	the price as determined in the following sequence: (i) where there are comparable market prices or charging rates standards determined by independent third parties under normal commercial terms for the transaction, the transaction price shall be determined at such price or standard; or (ii) if there are no such comparable market prices of independent third parties, the transaction price shall be fixed by the price of non-connected transactions between the Company and independent third parties: (a) where the Company is the buyer, through tender procedures in accordance with the relevant PRC laws and regulations relating to tender and bidding or by choosing the most favorable price among at least two to three selected suppliers after taking into account the suppliers’ manufacturing qualifications and delivery time, and business relationship between the Company and suppliers according to the Company’s internal procurement policy; or (b) where the Company is the supplier, agreeing with the clients within prescribed price range after taking into account the transaction volumes and business relationship between the Company and purchasers according to the Company’s internal sales policy. The Market Price will be determined or approved by the authorized departments/persons of the specific entities within the Group in particular transactions
“Mutual Product Supply Agreement”	the mutual product supply agreement entered into between AVIC and the Company and dated 21 August 2020, details of which are set out in paragraph 2.1 under Section I of the letter from the Board of this circular
“Mutual Product and Service Supply and Guarantee Agreement”	the mutual product and service supply and guarantee agreement entered into between the Company and AVIC Avionics and dated 21 August 2020, details of which are set out in paragraph 2.3 under Section I of the letter from the Board of this circular
“Mutual Service Supply Agreement”	the mutual service supply agreement entered into between AVIC and the Company and dated 21 August 2020, details of which are set out in paragraph 2.2 under Section I of the letter from the Board of this circular
“New Agreements”	the Renewal Agreements and the Finance Lease and Factoring Framework Agreement

DEFINITIONS

“Non-exempt Transactions”	(i) the transactions contemplated under the Mutual Product Supply Agreement; (ii) the revenue transactions contemplated under the Mutual Service Supply Agreement; (iii) the expenditure transactions contemplated under the Mutual Product and Service Supply and Guarantee Agreement; (iv) the Deposit Services contemplated under the Financial Services Framework Agreement; (v) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement and the AVIC Finance Factoring Services contemplated under the Financial Services Framework Agreement on an aggregated basis; and (vi) both direct lease and sale and leaseback transactions contemplated under the Finance Lease and Factoring Framework Agreement, which are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules
“Original Deposit Services Cap”	the original cap for the year ending 31 December 2020 for the deposit services under the Existing Financial Services Framework Agreement
“Other Financial Services”	such financial services (including but not limited to bill acceptance and discount services) as approved by the CBIRC (other than the Deposit Services, the Loan Services, the Settlement Services, the Guarantee Services, the AVIC Finance Factoring Services) to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“PBOC”	the People’s Bank of China
“percentage ratios”	has the same meaning ascribed to it under the Hong Kong Listing Rules
“PRC”	the People’s Republic of China
“Proposed Deposit Services Revised Cap”	the proposed revised cap for the year ending 31 December 2020 for the deposit services under the Existing Financial Services (Supplemental) Framework Agreement
“Renewal Agreements”	the Mutual Product Supply Agreement, the Mutual Service Supply Agreement, the Land Use Rights and Properties Leasing Agreement, the Mutual Product and Service Supply and Guarantee Agreement and the Financial Services Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“Settlement Services”	the settlement services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“Shares”	shares of RMB1.00 each in the capital of the Company
“Shareholders”	the holders of Shares

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Chen Yuanxian

Mr. Wang Xuejun

Non-executive Directors:

Mr. Yan Lingxi

Mr. Lian Dawei

Mr. Xu Gang

Independent non-executive Directors:

Mr. Liu Renhuai

Mr. Liu Weiwu

Mr. Wang Jianxin

Registered Office:

2nd floor, Building 27

No. 26 Xihuan South Street

Beijing Economic Technological

Development Area

Beijing, PRC

Place of business in Hong Kong:

Unit 2202A, 22th Floor

Fairmont House

8 Cotton Tree Drive

Central

Hong Kong

10 November 2020

To the Shareholders

Dear Sir or Madam,

**I. CONTINUING CONNECTED TRANSACTIONS AND MAJOR
TRANSACTIONS:**

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER THE
EXISTING AGREEMENTS**

**(2) ENTERING INTO OF FINANCE LEASE AND FACTORING FRAMEWORK
AGREEMENT**

(3) PROPOSED REVISION OF ORIGINAL DEPOSIT SERVICES CAP

II. PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION;

III. PROPOSED APPOINTMENT OF A DIRECTOR;

AND

IV. NOTICE OF EGM

Reference is made to the announcement of the Company dated 21 August 2020 in relation to, among other things, (1) the renewal of continuing connected transactions under the Existing Agreements; (2) the entering into of Finance Lease and Factoring Framework Agreement; and (3) the proposed revision of the

LETTER FROM THE BOARD

Original Deposit Services Cap. Reference is also made to the announcement of the Company dated 16 October 2020 in relation to (among other things) the proposed amendments to the Articles of Association and the proposed appointment of a Director.

The purpose of this circular is to provide you with, among other things, information relating to the resolutions to be considered and, if appropriate, approved at the EGM:

- (1) details relating to (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023; (ii) the Proposed Deposit Services Revised Cap; (iii) the proposed amendments to the Articles of Association; and (iv) the proposed appointment of a Director;
- (2) a letter of recommendation from the Independent Board Committee to the Independent Shareholders;
- (3) a letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders; and
- (4) a notice of the EGM.

I. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER THE EXISTING AGREEMENTS

1. Background

References are made to the announcement of the Company dated 30 August 2017 and the circular dated 16 November 2017 in relation to, among other things, the continuing connected transactions of the Group with AVIC Group contemplated under each of the Existing Agreements.

As the term of the Existing Agreements will expire on 31 December 2020 and the Company intends to continue to enter into the transactions of similar nature after that date, the Company entered into the Renewal Agreements for a term of three years commencing from 1 January 2021. Most of the terms of the Renewal Agreements are substantially the same as those of the Existing Agreements.

2. Terms of Non-exempt Transactions under the Renewal Agreements

2.1 Mutual Product Supply Agreement

As the Existing Mutual Product Supply Agreement is due to expire on 31 December 2020 and the Group from time to time needs to procure from or supply to AVIC Group various products for its businesses, the Company entered into the Mutual Product Supply Agreement with AVIC.

LETTER FROM THE BOARD

Principal terms of the Mutual Product Supply Agreement are summarized as follows:

- Date** : 21 August 2020
- Parties** : AVIC (for and on behalf of AVIC Group)
The Company (for itself and on behalf of its subsidiaries)
- Term** : Three years from 1 January 2021 to 31 December 2023
- Mutual supply of products** : AVIC Group and the Group will supply the manufacturing raw materials, parts and components, finished and semi-finished aviation products involved in the production and operations of the respective aviation products of each other (including but not limited to aviation entire aircraft and aviation parts and components to the Group, and the helicopters, airplanes and aviation parts and component to AVIC Group) and the related sales and ancillary services.
- Key transaction principles** : If any independent third party can supply the same type of products on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use products supplied by the Group or AVIC Group (as the case may be).
- If any independent third party can supply the same type of products at a better price than AVIC Group or the Group (as the case may be) offers, the Group or AVIC Group (as the case may be) shall be entitled to procure products from that independent third party.
- The quality standard of the products and the terms and conditions of supply given by AVIC Group to the Group shall not be less favourable than those offered by the independent third parties under comparable conditions.

LETTER FROM THE BOARD

Pricing principles : The price of the products and ancillary services will be determined as follows: (i) as most products under the Mutual Product Supply Agreement are designated aviation products, the Government-prescribed Price shall apply; (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means (as the case may be) shall apply; and (iii) if there is no Market Price, the Contractual Price shall apply.

Note: please refer to “Government-prescribed Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular for the detailed definitions of the terms.

Payment : Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into the specific product supply agreement under each transaction.

2.2 Mutual Service Supply Agreement

As the Existing Mutual Service Supply Agreement is due to expire on 31 December 2020 and the Group from time to time needs to procure from or supply to AVIC Group various services for its businesses, the Company entered into the Mutual Product Supply Agreement with AVIC.

Principal terms of the Mutual Service Supply Agreement are summarized as follows:

Date : 21 August 2020

Parties : AVIC (for and on behalf of AVIC Group)

The Company (for itself and on behalf of its subsidiaries)

Term : Three years from 1 January 2021 to 31 December 2023

LETTER FROM THE BOARD

Mutual supply of services : AVIC Group will supply certain services relating to the production and business operations of the Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment purchase, maintenance, repair and leasing services; (v) construction and transportation; (vi) design, consultation and network related services; (vii) cultural, educational, hygienic, social security and logistic services; (viii) import and export agency services; (ix) test flight and technology and quality monitoring services; (x) engineering and equipment subcontracting services; and (xi) other related services.

The Group will supply certain services relating to the production and business operations of AVIC Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing services; (v) construction and transportation; (vi) design, consultation and network related services; (vii) enterprise entrustment services; (viii) engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting and equipment main contracting services; and (ix) other related services.

Key transaction principles : If any independent third party can supply the same type of services on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use the services supplied by the Group or AVIC Group (as the case may be).

If any independent third party can supply the same type of services at a better price than AVIC Group or the Group (as the case may be) offers, the Group or AVIC Group (as the case may be) shall be entitled to opt for the services supplied by that independent third party.

The quality standard of the services and the terms and conditions of supply given by AVIC Group to the Group shall not be less favourable than those offered by the independent third parties under comparable conditions.

LETTER FROM THE BOARD

Pricing principles : The price of the services under the agreement will be determined as follows:

- (i) for power supply services such as the provision of electricity, water, steam, etc., if such power was originally procured at the Government-prescribed Price or the Government-guidance Price, the Government-prescribed Price or the Government-guidance Price shall apply;
- (ii) for services such as construction, transportation, design, consultation and network design and other services where the Market Price is available, the Market Price as determined by tender procedures or other means (as the case may be) shall apply;
- (iii) for the engineering technology services to be supplied by the Group to AVIC Group (including design, consultation and supervision services), and the engineering and equipment subcontracting services supplied by AVIC Group to the Group, the Market Price or (where applicable) Market Price as determined by tender procedures shall apply. Such tender procedures shall be in compliance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which require tender and bidding); and
- (iv) if there is no Market Price (for the provision of property management and maintenance services; equipment maintenance, repair and leasing services; cultural, educational, hygienic, social security and logistic services; import and export agency services; test flight and technology and quality monitoring services; and entrustment services), the Contractual Price shall apply.

Note: please refer to “Government-prescribed Price”, “Government-guidance Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular for the detailed definitions of the terms.

LETTER FROM THE BOARD

Payment : Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into specific services agreement under each transaction.

2.3 Mutual Product and Service Supply and Guarantee Agreement

The Existing Mutual Product and Service Supply and Guarantee Agreement entered into by the Company, AVIC Avionics and AVICOPTER is due to expire on 31 December 2020. As disclosed in the announcement of the Company dated 28 November 2019, in light of the Acquisition, which is expected to be completed in 2020, AVICOPTER will cease to be a connected subsidiary of the Company and thus the transactions between the Group and AVICOPTER Group will no longer constitute continuing connected transactions of the Company.

However, as the Group continues to have the need to procure from and supply to AVIC Avionics Group various products and services in its business operation and give the guarantee to AVIC Avionics Group, the Company entered into the Mutual Product and Service Supply and Guarantee Agreement with AVIC Avionics Group.

Principal terms of the Mutual Product and Service Supply and Guarantee Agreement are summarized as follows:

Date : 21 August 2020

Parties : The Company (for itself and on behalf of its subsidiaries, excluding AVIC Avionics Group)
AVIC Avionics (for itself and on behalf of its subsidiaries)

Term : Three years from 1 January 2021 to 31 December 2023

Mutual supply of products, services and guarantee : The Group will supply to AVIC Avionics Group aviation parts and components, raw materials, related manufacturing, labour and guarantee services, and engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting and equipment main contracting services, etc.

AVIC Avionics Group will supply to the Group aviation electronic products, parts and components, related manufacturing and labour services, and engineering and equipment subcontracting services.

LETTER FROM THE BOARD

- Pricing principles** : The price of products and/or services under the agreement will be determined as follows:
- (i) as most products under the Mutual Product and Service Supply and Guarantee Agreement are designated aviation products, the Government-prescribed Price shall apply;
 - (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means (as the case may be) shall apply;
 - (iii) if there is no Market Price, the Contractual Price shall apply;
 - (iv) for power supply services such as the provision of electricity, water, steam, etc., if such power was originally procured at the Government-prescribed Price or the Government-guidance Price, the Government-prescribed Price or the Government-guidance Price shall apply;
 - (v) for production, labour, leasing and guarantee services where Market Price is available, the Market Price as determined through tender procedures or other means (as the case may be) shall apply; if there is no Market Price, the Contractual Price shall apply; and
 - (vi) for engineering technology services (including design, consultation and supervision services), project engineering main contracting and equipment main contracting services, and engineering and equipment subcontracting services, the Market Price or (if applicable) the Market Price as determined by tender procedures shall apply. Such tender procedures shall be in compliance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which require tender and bidding).

Note: please refer to detailed definitions of “Government-prescribed Price”, “Government-guidance Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular.

LETTER FROM THE BOARD

- Payment** : The parties will charge fees according to the Mutual Product and Service Supply and Guarantee Agreement and the specific contracts entered into by the relevant member of the Group and AVIC Avionics Group for the provision of products or services.
- Other major terms** : If any independent third party can supply the same type of products or services at a better price than AVIC Avionics Group or the Group (as the case may be) offers, the Group or AVIC Avionics Group (as the case may be) shall be entitled to opt for the products or services supplied by that independent third party.

Subject to the terms of the Mutual Product and Service Supply and Guarantee Agreement, if the product or service supplied by and the terms and conditions of supply given by AVIC Avionics Group or the Group (as the case may be) does not satisfy the needs of the Group or AVIC Avionics Group (as the case may be) in any aspect, the latter can procure identical or similar products or services from an independent third party.

2.4 Financial Services Framework Agreement

As the Existing Financial Services Framework Agreement is due to expire on 31 December 2020, and the Group continues to have the need of the financial services from AVIC Finance from time to time, the Company entered into the Financial Services Framework Agreement with AVIC Finance.

Principal terms of the Financial Services Framework Agreement are summarized as follows:

- Date** : 21 August 2020
- Parties** : The Company (for itself and on behalf of its subsidiaries)
AVIC Finance
- Term** : Three years from 1 January 2021 to 31 December 2023

LETTER FROM THE BOARD

Financial services : Pursuant to the Financial Services Framework Agreement, AVIC Finance has agreed to provide the Group with the Deposit Services, the Loan Services, the Settlement Services, the Guarantee Services, the AVIC Finance Factoring Services and the Other Financial Services (i.e. such other financial services (including but not limited to bill acceptance and discount services) as approved by the CBIRC).

The Group is entitled to elect the financial institutions providing the financial services, the amount of deposit and borrowings and the time of withdrawal of deposit based on its business needs.

Pricing principles : The pricing principles of the Deposit Services, the AVIC Finance Factoring Services and the Other Financial Services are as follows:

(1) Deposit Services

Interest rates for the Group's deposits with AVIC Finance shall not be lower than (a) the minimum benchmark interest rates promulgated by the PBOC for the same type of deposit; (b) the interest rates for the same type of deposits offered by major commercial banks of the PRC to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other member of AVIC Group.

(2) AVIC Finance Factoring Services

The fees charged by AVIC Finance for the provision of the AVIC Finance Factoring Services shall not be higher than (a) the loan prime rate (LPR) announced by National Interbank Funding Center; and (b) the fees charged by major commercial banks in the PRC for the same type of factoring financial services.

(3) Other Financial Services

The fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than (a) the maximum fees determined by PBOC for the same type of financial services (if applicable); (b) the fees charged by major commercial banks in the PRC for the same type of services; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other member of AVIC Group with the same credit rating.

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Please refer to paragraph 4 under Section I of this letter from the Board for the proposed caps for the Deposit Services, AVIC Finance Factoring Services and Other Financial Services.

Other major terms : If AVIC Finance is unable to repay the Group's deposits, the Company is entitled to terminate the Financial Services Framework Agreement and to offset the deposit due to the Group from AVIC Finance against the outstanding loan due to AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall indemnify the Group the full amount of the loss suffered by the Group and the Group is entitled to terminate the Financial Services Framework Agreement.

3. Historical Amounts, Annual Caps and Utilisation Rates of the Continuing Connected Transactions under the Existing Agreements

Set out below are the historical amounts, annual caps and utilisation rates of the continuing connected transactions under the Existing Agreements for the two years ended 31 December 2019 and the six months ended 30 June 2020.

<i>(RMB' million)</i>	For the year ended 31 December 2018	For the year ended 31 December 2019	For the six months ended 30 June 2020
Expenditure transactions of the Group			
Existing Mutual Product Supply Agreement			
<i>Actual</i>	6,414	8,197	3,564
<i>Annual Cap</i>	17,200	22,100	26,000
<i>Utilisation rate</i>	37.29%	37.09%	N/A
Existing Mutual Service Supply Agreement			
<i>Actual</i>	202	353	114
<i>Annual Cap</i>	2,400	2,900	3,800
<i>Utilisation rate</i>	8.42%	12.17%	N/A

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<i>(RMB' million)</i>	For the year ended 31 December 2018	For the year ended 31 December 2019	For the six months ended 30 June 2020
Existing Mutual Product and Service Supply and Guarantee Agreement			
<i>Actual</i>	502	924	329
<i>Annual Cap</i>	1,300	1,700	2,100
<i>Utilisation rate</i>	38.62%	54.35%	N/A
Revenue transactions of the Group			
Existing Mutual Product Supply Agreement			
<i>Actual</i>	18,900	22,530	11,047
<i>Annual Cap</i>	35,000	44,000	53,900
<i>Utilisation rate</i>	54.00%	51.20%	N/A
Existing Mutual Service Supply Agreement			
<i>Actual</i>	2,362	2,610	1,038
<i>Annual Cap</i>	9,500	10,500	12,000
<i>Utilisation rate</i>	24.86%	24.86%	N/A
Existing Mutual Product and Service Supply and Guarantee Agreement			
<i>Actual</i>	772	1,079	450
<i>Annual Cap</i>	2,000	2,600	3,200
<i>Utilisation rate</i>	38.60%	41.50%	N/A
Transactions under Existing Financial Services Framework Agreement			
Maximum daily outstanding balances of deposits (including accrued interests) for deposit services			
<i>Actual</i>	7,778	8,698	6,803
<i>Annual Cap</i>	11,000	11,000	11,000*
<i>Utilisation rate</i>	70.71%	79.07%	N/A
Other financial services**			
<i>Actual</i>	703	144	65
<i>Including: Factoring services provided by AVIC Finance</i>	88	54	0
<i>Annual Cap</i>	4,000	4,000	4,000
<i>Utilisation rate</i>	17.58%	3.60%	N/A

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* The cap for the year 2020 are proposed to be revised. Please refer to Section III of the letter from the Board of this circular for details.

** The historical amounts of other financial services under the Existing Financial Services Framework Agreement and the caps for the three years ending 31 December 2020 also include those of factoring services provided by AVIC Finance.

4. Proposed Caps for the Continuing Connected Transactions under the Renewal Agreements

4.1 Proposed caps for the Continuing Connected Transactions under the Renewal Agreements

Based on the factors set out in paragraph 4.2 under Section I of the letter from the Board of this circular, the Directors have estimated the caps for each of the continuing connected transactions under the Renewal Agreements for each of the three years ending 31 December 2023, which are set out below:

<i>(RMB' million)</i>	Year ending 31 December 2021	Year ending 31 December 2022	Year ending 31 December 2023	Cross-reference to the letter from the Board of this circular
Expenditure transactions of the Group				
Mutual Product Supply Agreement	17,880	18,850	20,600	Paragraph 2.1 under Section I
Mutual Service Supply Agreement*	770	840	930	Paragraph 2.2 under Section I
Mutual Product and Service Supply and Guarantee Agreement	1,230	1,490	1,810	Paragraph 2.3 under Section I
Revenue transactions of the Group				
Mutual Product Supply Agreement	18,210	20,670	23,190	Paragraph 2.1 under Section I
Mutual Service Supply Agreement	4,920	5,640	6,780	Paragraph 2.2 under Section I
Mutual Product and Service Supply and Guarantee Agreement*	280	340	420	Paragraph 2.3 under Section I
Transactions under Financial Services Framework Agreement				
Maximum daily outstanding balances of deposits (including accrued interests) for Deposit Services	35,000	35,000	35,000	Paragraph 2.4 under Section I
Maximum daily outstanding factoring financing balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Finance Factoring Services**	1,200	1,200	1,200	Paragraph 2.4 under Section I
Other Financial Services*	1,200	1,200	1,200	Paragraph 2.4 under Section I

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* Such continuing connected transactions are subject to reporting and announcement requirements but are exempt from Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules, the proposed caps of which are disclosed in the table above for reference only.

** AVIC Finance Factoring Services are Non-exempt Transactions after being aggregated with AVIC Lease Factoring Services.

4.2 Basis of determination of the proposed caps for Non-exempt Transactions

(1) Mutual Product Supply Agreement

Under the Mutual Product Supply Agreement, the Group primarily provides the aviation entire aircraft and avionics products to AVIC Group, and AVIC Group primarily provides the relevant parts and components to the Group which are necessary for the manufacturing of the aforesaid aviation entire aircraft and avionics products.

The proposed caps for the revenue transactions for the three years ending 31 December 2023 are determined with reference to, among other things, the following factors:

- (i) exclusion of intragroup sales of helicopter products after the Acquisition

Upon the completion of the Acquisition, most sales of helicopter products by the Group will become intragroup transactions. Thus, the sales of helicopter products to AVIC Group is expected to significantly decrease for the three years ending 31 December 2023.

- (ii) historical transaction amount and expected growth

The proposed caps for the three years ending 31 December 2023 are determined after taking into account (A) the historical transaction amount (excluding the transactions between Harbin Aircraft and Changhe Aircraft on one hand and the Group on the other hand, which will cease to be continuing connected transactions of the Company upon the completion of the Acquisition) of approximately RMB4.9 billion for the first half of 2020; and (B) the expected increase of sales volume of products of the Group (as enlarged by Harbin Aircraft and Changhe Aircraft and their respective subsidiaries), in particular, the expected significant increase of sales volume of trainer aircraft and defence products after taking into account the orders received from AVIC Group and the current commercial negotiations with AVIC Group on the potential orders based on the current operation plan.

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- (iii) provision of avionics products to AVIC Group

The Group also mainly provides avionics products to AVIC Group, the transaction amounts of which are expected to record an expected annual growth rate of 10% based on the signed contracts, orders, historical amounts and the Group's manufacturing plan. The proposed caps for the three years ending 31 December 2023 are determined after taking into account the steady annual growth of the avionic business.

- (iv) adequate buffer for potential demands of AVIC Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential product demands of AVIC Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, the research, development and manufacturing of the Group's possible new products, and the potential business development and expansion of AVIC Group in the future.

The proposed caps for the expenditure transactions for the three years ending 31 December 2023 are determined with reference to, among other things, the following factors:

- (i) expected growth in demand of the Group

The Group will purchase parts and components from AVIC Group for the manufacturing of the aviation entire aircraft and related avionics products. As the Group's new products are under stable development and the market demand for such products increases significantly, the demand for parts and components will also increase accordingly. In 2020, the purchase of parts and components by the Group is expected to increase significantly as a result of (A) the Group's need to manufacture and deliver the helicopter products in the three years ending 31 December 2023 under the delayed orders of major customer(s) in the past three years; and (B) the long production cycle of the Group's major products under the signed contracts, orders and the Group's manufacturing plan. The annual growth rate of the expenditure transactions for each of 2021 to 2023 is expected to be 15%, 5% and 9%, respectively.

- (ii) purchase of parts and components after Acquisition

Upon the completion of the Acquisition, the sale by Harbin Aircraft and Changhe Aircraft to the Group will cease to be continuing connected transactions of the Group. However, as Harbin Aircraft and Changhe Aircraft will continue to purchase parts and components from AVIC Group, the total amount of purchase of parts and components will still increase.

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- (iii) adequate buffer for potential demands of the Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential product demands of the Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, the research, development and manufacturing of the Group's possible new products, and the potential business development and expansion of the Group in the future.

(2) *Mutual Service Supply Agreement*

The proposed caps for the revenue transactions for the three years ending 31 December 2023 are determined with reference to, among other things, the following factors:

- (i) provision of aviation engineering services to AVIC Group

The Group mainly provides aviation engineering services to AVIC Group through AVIC Planning. AVIC Planning is a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company as at the Latest Practicable Date, which is mainly engaged in aviation engineering services. The proposed caps for the three years ending 31 December 2023 are determined after taking into account the expected steady annual growth of the aviation engineering industry. It is expected that the revenue of aviation engineering services will grow at an annual rate of 10% to 15% from 2021 to 2023 based on the signed contracts, orders, historical amounts and its operation plan.

- (ii) adequate buffer for potential demands of AVIC Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential services demands of AVIC Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, and the potential business development and expansion of AVIC Group in the future.

The proposed caps for the three years ending 31 December 2023 for the expenditure transactions are determined with reference to, among other things, the following factors:

- (i) provision of labour services by AVIC Group

AVIC Group mainly provides labour services such as corresponding outsourcing and comprehensive services to the Group, the demand of which is affected by the overall production and sales of the Group's products. Along with the business development and expected increase of

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the Group's sales volume, the labour expenditures (such as outsourcing labour services) are also expected to increase. It is expected that the transaction amounts of such services for each of 2021 to 2023 will range from approximately RMB0.3 billion to approximately RMB0.5 billion based on the signed contracts, orders, historical amounts and the Group's manufacturing plan.

- (ii) adequate buffer for potential demands of the Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential services demands of the Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry and the potential business development and expansion of the Group in the future.

(3) *Mutual Product and Service Supply and Guarantee Agreement*

- (i) exclusion of transactions with AVICOPTER after the Acquisition

Upon the completion of the Acquisition, AVICOPTER will cease to be a connected subsidiary of the Company and the transactions between AVICOPTER Group and the other members of the Group for the three years ending 31 December 2023 will not be continuing connected transactions of the Group.

- (ii) intragroup transactions of the Group (including AVIC Avionics Group)

The transactions under the Mutual Product and Service Supply and Guarantee Agreement are intragroup transactions of the Group (including AVIC Avionics Group), and are mostly product pairing transactions between the Group's avionics companies (i.e. AVIC Avionics Group) and the Group's entire aircraft companies (i.e. AVICOPTER Group) (i.e. the provision of avionics products by AVIC Avionics Group for the manufacturing of the aviation entire aircraft by the Group) as well as the provision of connectors and integrated components by the Group for the manufacturing of avionics products by AVIC Avionics Group. Avionics products are necessary aviation parts and components for the manufacturing of the aviation entire aircraft. AVIC Avionics Group is the major supplier for the related avionics products in the Group's helicopters and trainers.

Therefore, when determining the caps under the Mutual Product and Service Supply and Guarantee Agreement, the Company has also taken into account the expected growth rates (approximately 10%) of the revenue transactions of AVIC Avionics Group under the Mutual Product Supply Agreement.

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- (iii) historical transaction amount and annual growth trend

The proposed caps for the transactions under the Mutual Product and Service Supply and Guarantee Agreement represent an estimated annual growth rate of 10% in the historical transaction amount of 2019 after taking into account (i) the exclusion of the transactions between AVICOPTER Group and the other members of the Group after completion of the Acquisition; and (ii) the potential expansion of the business.

- (iv) adequate buffer for potential demands of the Group

The Company also sets a 10% buffer for the proposed caps to cover the potential demands of the Group and/or AVIC Avionics Group for relevant product, service and guarantee. The 10% buffer is added based on the development in national economy and aviation industry and the potential business development and expansion of the Group and/or AVIC Avionics Group in the future.

As noted from the above, when determining the proposed caps for transactions under the Mutual Product Supply Agreement, the Mutual Service Supply Agreement and the Mutual Product and Service Supply and Guarantee Agreement, the Board has taken into account the current operation plan and manufacturing plan of the Group and the potential business development and expansion of the Group (including AVIC Avionics Group) and AVIC Group, details of which are set out as following:

- (i) the Group strives to become the flagship company to provide high-tech aviation products and services for military and civil purposes, and therefore has devised and implemented the current operation plans and manufacturing plans to enhance the core manufacturing capacity. Under such plans, the Group will need more parts and components of AVIC Group (such as control and navigation systems researched and developed by AVIC Group) for manufacturing of helicopters and trainer aircrafts and labour services provided by AVIC Group to support the its overall production and sales expansion, and the Board has therefore taken into account such need when determining the proposed caps for the expenditure transactions under the Mutual Product Supply Agreement and Mutual Service Supply Agreement; and
- (ii) the Group understands that AVIC Group will steadily develop its businesses, upgrade the aviation products (including, among others, helicopters and trainer aircrafts) and increase investment in research and production. As the Group is the major helicopter manufacturer and trainer manufacturer and a major provider for aviation electronic systems in the PRC, the Group believes that the demand for the Group's products (such as helicopters, trainer aircrafts, connectors, integrated components, aircraft

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parameter acquisition equipment, sensors, etc) and aviation engineering services and thus the expected sales volume of the Group's products and services under the Mutual Product Supply Agreement and the Mutual Service Supply Agreement will increase accordingly. The expected increase of demand for the Group's products will also stimulate the Group's demand for product pairing transactions with AVIC Avionics Group, thereby increase the expected transaction amounts under the Mutual Product and Service Supply and Guarantee Agreement.

Further, the Group will implement the operation and manufacturing plan during the three years ending 31 December 2023 to meet the postponed orders and the delayed delivery schedule having been placed or requested by major customers, and new orders as may be received from AVIC Group during the three years ending 31 December 2023 taking into account AVIC Group's target to achieve the development goal as discussed above.

(4) *Financial Services Framework Agreement*

Deposit Services

The proposed cap for the Deposit Services under the Financial Services Framework Agreement is determined with reference to, among other things, the following factors: (i) the deposit of approximately RMB8.7 billion placed by the Group in AVIC Finance as in December 2019; (ii) the increase in the number of subsidiaries after the completion of the Acquisition; (iii) the deposit of approximately RMB11.5 billion placed by Harbin Aircraft, Changhe Aircraft and their respective subsidiaries in AVIC Finance as of January 2020; (iv) the cash and bank balances of the Group of approximately RMB12 billion as at 30 June 2020; (v) the expected payments as may be made by major customers and the expected payment schedule for the products provided by the Group (as enlarged by Harbin Aircraft and Changhe Aircraft and their respective subsidiaries) during the relevant period; (vi) the expected growth in the business of the Group and AVIC Group, leading to an increasing demand for Deposit Services with higher level of funds; and (vii) the fund management strategy of the Group of allocating a certain percentage of funds to AVIC Finance for more efficient use of funds available.

AVIC Finance Factoring Services

The proposed caps for the AVIC Finance Factoring Services are determined with reference to, among other things, the following factors: (i) As disclosed in the unaudited consolidated financial statements of the Company for the six months ended 30 June 2020, the Group's accounts and notes receivables are approximately RMB25.39 billion (unaudited) and RMB21.67 billion (audited) as at 30 June 2020 and 31 December 2019, respectively; (ii) after taking into account of the current operation plan and manufacturing plan of the Group and

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the potential business development and expansion of the Group as disclosed above, the Group believes that the demand for the Group's products and services and thus the expected sales volume thereof will increase accordingly. The expected increase in the sales volume will also stimulate the increase in the Group's accounts and notes receivables for 2021 to 2023, which will in turn promote the expected demand of the Group for accounts receivable financing services from AVIC Finance; and (iii) In order to improve the efficiency of capital utilization and satisfy the funding requirement for potential business development and expansion, the Group will adhere to alleviate capital occupation by accounts receivable.

Other Financial Services

The proposed caps for the Other Financial Services under the Financial Services Framework Agreement are determined with reference to, among other things, the following factors: (i) the historical transaction amount of Other Financial Services received by the Group of approximately RMB65 million for the six months ended 30 June 2020; (ii) the expected growth of bills receivable along with the Group's business, which would enables the Group to use more bill acceptance and discount services for greater efficiency in the use of funds; and (iii) the expected growth for financing needs of the Group given the future development of the Group and AVIC.

The Board has taken into account the low utilisation rates when determining the proposed caps, but after the following assessment, the Board considers that the low utilisation rates do not affect the determination of the proposed caps:

- (i) *Expected improvement of demand of helicopter products:* During the past three years, the Group mainly sold aviation entire aircraft (mainly helicopters and trainer aircraft) to its major customers through AVIC Group. Given the delayed orders of certain helicopter products since 2018, the corresponding demand for the Group's helicopter products for the three years ending 31 December 2020 was weaker than expected. Such weaker demand and the postponed delivery date of the helicopter products led to (a) the lower-than-expected amount of revenue transactions under the Existing Mutual Product Supply Agreement for the three years ending 31 December 2020; (b) the lower-than-expected and delayed demand by the Group for parts and components from AVIC Group for the manufacturing of the helicopter products, which in turn led to the lower-than-expected amount of expenditure transactions under the Existing Mutual Product Supply Agreement; (c) the lower-than-expected demand by the Group for labour services rendered by AVIC Group under the Existing Mutual Service Supply Agreement; and (d) the lower-than-expected intragroup transactions under the Existing Mutual Product and Service Supply and Guarantee Agreement, all of which contributed to the low utilisation rates of the respective historical caps for the three years

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ending 31 December 2020. As the Group will continue to work on the delayed orders during the three years ending 31 December 2023, and expects to receive new orders for such products which require delivery during the three years ending 31 December 2023, the Board believes that the utilisation rates of the proposed caps will improve in the future and the low historical utilisation rates do not affect the determination of proposed caps for the transactions under the Mutual Product Supply Agreement and the Mutual Product and Service Supply and Guarantee Agreement, and the expenditure transactions under the Mutual Service Supply Agreement.

- (ii) *Business strategy of AVIC Planning and assumption of successful bid to a maximum extent regarding Mutual Service Supply Agreement:* The proposed caps for the revenue transactions under the Mutual Service Supply Agreement almost halved the historical caps for the revenue transactions under the Existing Mutual Service Supply Agreement. Such proposed caps are determined in accordance with the business strategy of AVIC Planning, which gives priority to enhancing its operation quality and promoting efficiency, rather than merely focusing on increasing its transaction volume. In addition, the proposed caps (i.e. the expected annual *maximum* amount of) for the revenue transactions under the Mutual Service Supply Agreement are based on the assumption that AVIC Planning could win most of the bids endeavoured to be submitted by it for AVIC Group's potential projects in the three years ending 31 December 2023. As the Company cannot predict whether AVIC Planning can offer more favourable prices and terms than its competitors to AVIC Group for AVIC Group's every potential new project, the historical success rate of AVIC Planning's bid and the utilisation rates of the existing caps are not indicative of the likelihood of the Group to secure AVIC Group's new projects in the future. Therefore, the Group continues to assume that AVIC Planning could demonstrate its resources and capabilities to a maximum extent in the bids submitted and as may be submitted by it for AVIC Group's potential projects during the three years ending 31 December 2023.
- (iii) *Assumption of using Other Financial Services from AVIC Group to a maximum extent:* The proposed caps for Other Financial Services under the Financial Services Framework Agreement are determined based on the assumption that the expected demands of the Group for Other Financial Services will be mostly satisfied by AVIC Finance. Depending on whether the price and other terms available from other similar service providers are more favourable to the Group, the Group may or may not use the Other Financial Services from AVIC Finance at different times during the three years ending 31 December 2023. As the historical utilisation rates of the existing caps for Other Financial Services are not indicative of the likelihood of the Group to use AVIC Group's Other Financial Services in

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the future, the Group continues to assume that the expected demands of the Group for Other Financial Services will be mostly satisfied by AVIC Finance during the three years ending 31 December 2023.

5. Reasons for and Benefits of Continuing the Existing Continuing Connected Transactions

5.1 *Continuing connected transactions (other than the transactions under the Financial Services Framework Agreement)*

Aviation industry is complex and technology intensive. The manufacturing of an entire aircraft (including the Group's helicopters and trainers) requires different products, parts and components from different enterprises.

The Group is an aviation manufacturing enterprise mainly engaged in the research, development, manufacture and sales of aviation entire aircraft (mainly helicopters and trainer aircraft) and aviation parts and components (mainly avionics products), and the provision of aviation engineering services.

AVIC Group is the sole full-system aviation manufacturer in the PRC. It has the research and development capacities to manufacture aviation products independently, and it is mainly engaged in the manufacturing of aircraft (other than helicopters and trainer aircraft), airborne equipment systems and other related pairing products and systems.

(1) *Mutual Product Supply Agreement*

The Group is the major production platform of helicopters and production platform of trainer aircrafts. Upon completion of the Acquisition, the Group will primarily provide the aviation entire aircrafts (mainly trainers and general aircrafts) and aviation parts and components (mainly avionics products and optronics products) to AVIC Group under the Mutual Product Supply Agreement to meet the orders received by AVIC Group from independent third parties and the production demands of AVIC Group.

The Group mainly procures from AVIC Group the necessary parts and components for manufacturing helicopters and trainers by the Group, such as control and navigation systems researched and developed by AVIC Group.

Due to the high technology in aviation industry and the high quality requirements of customers, it is also difficult for the Group and AVIC Group to source substitute aviation products or aviation parts and components of comparable specifications or quality, and value in the PRC from other producers.

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(2) *Mutual Service Supply Agreement*

The Group primarily provides the aviation engineering services to AVIC Group through AVIC Planning, and AVIC Group primarily provides labour services and other composite services to the Group.

(3) *Mutual Product and Service Supply and Guarantee Agreement*

The transactions contemplated under the Mutual Product and Service Supply and Guarantee Agreement are intragroup transactions of the Group, and are mostly product pairing transactions between the Group's avionics companies (i.e. AVIC Avionics Group) and the Group's entire aircraft business. Avionics products are necessary aviation parts and components for the manufacturing of the aviation entire aircraft. AVIC Avionics Group is the major supplier for the related avionics products in the Group's helicopters and trainers.

The Company considers that the products and services provided by the relevant party are different from those provided by the counterparty, and are necessary for the business operation of the counterparty. Based on the following grounds, the Directors consider that it is beneficial to continue the relevant continuing connected transactions by way of entering into Renewal Agreements as set out in Section I of the letter from the Board of this circular:

- (a) the historical connection and long-standing business cooperation relationship between the Group and AVIC Group, and the Group's connected subsidiary AVIC Avionics Group;
- (b) AVIC, AVIC Avionics, and their respective associates generally have a better understanding of the Group's business and can better ensure the standards of technology, quality, delivery and technical support of the products to meet the Group's requirements;
- (c) the continuing connected transactions between AVIC, AVIC Avionics, and their respective associates and the Group in relation to mutual supply of products and services have facilitated and will continue to facilitate the overall operations and growth of the Group's business; and
- (d) the Directors (excluding the independent non-executive Directors, who will give their opinion after considering the advice from Gram Capital in respect of Non-exempt Transactions) consider that such continuing connected transactions are and will continue to be conducted on normal commercial terms or better to the Group and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole, and the terms and the proposed caps of such continuing connected transactions will continue to be fair and reasonable to the Company.

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Taking into account the transaction model between the Group and AVIC Group as described above, the Company considers that the Group can develop independently in a steady and healthy way, and there is no major reliance risk in this regard.

5.2 Continuing connected transactions under the Financial Services Framework Agreement

The reasons for the Group to enter into the Financial Services Framework Agreement are as follows:

- (a) The terms (including the interest rates) on the Deposit Services, the Loan Services, the AVIC Finance Factoring Services and the Other Financial Services offered by AVIC Finance to the Group will be equal to or more favourable than those offered to the Group by major commercial banks in the PRC;
- (b) AVIC Finance is regulated by the PBOC and the CBIRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, so far as the Group is aware, AVIC Finance has internal control measures in place, the details of which are disclosed in paragraph 4 under Section VI of the letter from the Board of this circular, which ensure the safety of the Group's deposits with AVIC Finance;
- (c) AVIC Finance's understanding of the Group's operations will enable it to provide more expedient and efficient services than major commercial banks in the PRC;
- (d) Pursuant to the relevant regulations of the PBOC and the CBIRC, the customers of AVIC Finance are limited to the members of AVIC Group and the Group, which will ensure more control by AVIC Finance of the risks that it may be exposed to as compared with other financial entities; and
- (e) The Group could satisfy its demands for financial services in daily business operations from the Financial Services Framework Agreement.

II. ENTERING INTO OF FINANCE LEASE AND FACTORING FRAMEWORK AGREEMENT

On 21 August 2020, the Company entered into the Finance Lease and Factoring Framework Agreement with AVIC Lease for a term of three years commencing from 1 January 2021. The Finance Lease and Factoring Framework Agreement is a new agreement consolidated from existing agreements relating to the Finance Lease Services and AVIC Lease Factoring Services.

1. Finance Lease and Factoring Framework Agreement

Principal terms of the Finance Lease and Factoring Framework Agreement are summarized as follows:

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Date	:	21 August 2020
Parties	:	The Company (for itself and on behalf of its subsidiaries) AVIC Lease (for itself and on behalf of its subsidiaries)
Term	:	Three years from 1 January 2021 to 31 December 2023
Services	:	Pursuant to the Finance Lease and Factoring Framework Agreement, AVIC Lease has agreed to provide the Group with the Finance Lease Services by itself and the AVIC Lease Factoring Services through the AVIC Lease Factoring Subsidiary.

(1) Finance Lease Services

- (i) AVIC Lease will provide Finance Lease Services to the Group, by way of direct lease and sale and leaseback, etc. The leased assets include, among others, buildings, erections, mechanical equipment and other assets.
- (ii) Under the direct lease service, AVIC Lease (as lessor) will purchase from suppliers the leased assets based on the demands and choice of the Company (as lessee) at a price negotiated between the Group and the supplier, and AVIC Lease will then lease the leased assets to the Company for its use in return for periodic lease payments.
- (iii) Under the sale and leaseback service, the Company (as lessee) will sell the leased assets to AVIC Lease (as lessor) at a negotiated purchase price with reference to the book value and/or original acquisition costs and/or appraised value of the leased assets, and AVIC Lease will then lease the leased assets back to the Company for its use in return for periodic lease payments.
- (iv) During the lease period, the leased assets will be solely owned by AVIC Lease. Subject to the relevant requirements of the Hong Kong Listing Rules, the Company may purchase the leased assets after or (upon the consent of AVIC Lease) prior to the expiry of the lease.

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(2) AVIC Lease Factoring Services

Where the Group needs the AVIC Lease Factoring Services, the Group will transfer its outstanding principal amount of the accounts receivable which has not been due, the related interest and other rights as a creditor to the AVIC Lease Factoring Subsidiary.

**Pricing
principles**

: The lease payment relating to the Finance Lease Services and the fees relating to the AVIC Lease Factoring Services will be determined as follows:

(1) Finance Lease Services

The lease payment of a finance lease comprise the principal amount of the finance lease and the lease interest. The principal amount shall be the gross price of the leased assets for the purchase by AVIC Lease. The lease interest shall be determined with reference to (a) the financing costs for Finance Lease Services provided by AVIC Lease (inclusive of interest, consulting services fees and other fees and expenses), which is no higher than the financing costs incurred by domestic independent finance lease companies for providing services of same or similar nature (as determined based on comprehensive internal rate of return after taxation); and (b) the interest rates charged or quoted by other major financial institutions for providing services of same or similar nature.

(2) AVIC Lease Factoring Services

AVIC Lease Factoring Subsidiary shall pay the outstanding principal amount of accounts receivable which has not been due as the factoring amount. The factoring interest shall be determined by the parties with reference to factors including the average factoring interest rate charged by AVIC Lease to its customers and the funding costs. AVIC Lease Factoring Subsidiary will charge service fees with respect to AVIC Lease Factoring Services, which shall not be higher than the fees charged by similar financial factoring companies in the PRC for the same type of factoring services.

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Please refer to paragraph 2.2 under Section II of the letter from the Board of this circular for the proposed caps for the Finance Lease Services (comprising (i) the cap for right-of-use assets in direct lease transactions; and (ii) the cap for disposal of leased assets in sale and leaseback transactions) and AVIC Lease Factoring Services.

Payment: : For the Finance Lease Services, the Company and AVIC Lease will agree on the manner of payment flexibly based on the actual cash flows, including but not limited to the payment of principal by equal or unequal instalments on a quarterly basis, payment of principal and interest by equal instalments on a quarterly basis, payment of principal by equal instalments on a semi-annual basis or payment of principal and interest by equal instalments on an annual basis, etc.

For the AVIC Lease Factoring Services, the Company and AVIC Lease shall agree on the manner of payment flexibly based on the specific factoring project, including but not limited to payment by the Group or the debtor of the accounts receivable or both.

Separate Contracts: : AVIC Lease and the Group shall enter into specific contracts to set out the specific terms and conditions (including the specific payment terms) for the provision of services according to the principles and scope provided for under the Finance Lease and Factoring Framework Agreement and the relevant legal requirements.

The contract period of the specific contracts with respect to Finance Lease Services may exceed three years, depending on the type of leased assets involved. Specific contracts with respect to Finance Lease Services and AVIC Lease Factoring Services duly executed shall remain to have full force and effect for their respective contract periods and shall be subject to the Finance Lease and Factoring Framework Agreement for the three years from 1 January 2021 to 31 December 2023.

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2. Proposed Caps for the Continuing Connected Transactions under the Finance Lease and Factoring Framework Agreement

2.1 Proposed caps for the Finance Lease and Factoring Framework Agreement for the three years ending 31 December 2023

Finance Lease Services under the Finance Lease and Factoring Framework Agreement

It is estimated that the maximum outstanding balance payable by the Group to AVIC Lease (inclusive of the outstanding principal amount and interest and other expenses deducting the deposit) in relation to the Finance Lease Services under the Finance Lease and Factoring Framework Agreement for each of the three years ending 31 December 2023 may amount to as much as RMB3 billion. For the purpose of the Hong Kong Listing Rules, the direct lease service under the Finance Lease Services involves “acquisition” of the right-of-use assets, while the sale and leaseback service under the Finance Lease Services involves “disposal”. Based on the factors set out in paragraph 2.2 under Section II of the letter from the Board of this circular, the Directors propose the caps for each of the direct lease service and the sale and leaseback service under the Finance Lease Services for each of the three years ending 31 December 2023 as follows:

<i>(RMB' billion)</i>	Proposed caps for the year ending 31 December		
	2021	2022	2023
Direct Lease	2	2	2
Sale and leaseback	2	2	2

AVIC Lease Factoring Services under the Finance Lease and Factoring Framework Agreement

Based on the factors set out in paragraph 2.2 of Section II under the letter from the Board of this circular, the Directors propose to fix the proposed cap for each of the three years ending 31 December 2023 at RMB1.5 billion, which means that at any time during the term of the Finance Lease and Factoring Framework Agreement, the balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Lease Factoring Services under the Finance Lease and Factoring Framework Agreement shall not exceed RMB1.5 billion.

2.2 Basis of determination of the proposed caps

Finance Lease Services under the Finance Lease and Factoring Framework Agreement

The proposed caps for the direct lease and sale and leaseback transactions under the Finance Lease and Factoring Framework Agreement are determined with reference to, among other things, the following factors: (i) the total value of right-of-use assets under existing direct lease agreements and the amount of assets subject to the existing

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sale and leaseback arrangements during the three years ending 31 December 2023; (ii) the Group's future development plans and its demand for the Finance Lease Services by AVIC Lease arising from the Group's daily operation and development (in the case of direct lease, the total value of right-of-use assets expected to be acquired by the Company, and in the case of the sale and leaseback, the amounts of the assets subject to finance lease arrangement) during the period; (iii) the nature, value and expected use life of the assets leased to the Group (including but not limited to wind turbines, auxiliary equipment and other general-purpose equipment, the expected use life of which ranges from 5 years to 12 years); and (iv) the capability and flexibility of AVIC Lease in providing Finance Lease Services to the Group.

The demand for the Finance Lease Services mainly generates from various clean energy projects undertaken by the Group under its aviation engineering services segment. These projects are capital intensive at construction stage as well as initial stage of production and require a lot of capital to invest in fixed assets (such as wind turbines and auxiliary equipment). For 2021 to 2023, the financing demands of the Group to support these clean energy projects are expected to be approximately RMB2 billion, and the Group will need to utilise (amongst other financial resources) direct lease as well as sale and leaseback in order to fund its capital requirements. Given the Group remains positive on the development of the energy industry, the Group expects there to be an increase in clean energy projects and the Group would therefore require continuous and steady Finance Lease Services from AVIC Lease in order to effectively revitalize fixed assets and ensure stable and sustainable cash inflows. In addition, as disclosed in the basis of determination of the proposed caps for revenue transactions under the Mutual Product Supply Agreement, the Group expects there to be a steady growth in avionics business, and thus the financing demands of the Group to invest in fixed assets required for avionics business will also increase. In particular, the Company proposes to finance for its avionics business by utilising sale and leaseback service for its equipment (such as temperature-height test chambers) and direct lease service for other general-purpose equipment (such as turning centres and numerical control lathes).

AVIC Lease Factoring Services under the Finance Lease and Factoring Framework Agreement

The proposed caps for the AVIC Lease Factoring Services under the Finance Lease and Factoring Framework Agreement are determined with reference to, among other things, the following factors: (i) As disclosed in the unaudited consolidated financial statements of the Company for the six months ended 30 June 2020, the Group's accounts and notes receivables are approximately RMB25.39 billion (unaudited) and RMB21.67 billion (audited) as at 30 June 2020 and 31 December 2019, respectively; (ii) after taking into account of the current operation plan and manufacturing plan of the Group and the potential business development and expansion of the Group as disclosed above, the Group believes that the demand for the Group's products and services and thus the expected sales volume thereof will increase accordingly. The expected increase in the sales volume will also stimulate the increase in the Group's accounts and notes receivables for 2021 to 2023, which will in turn

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promote the expected demand of the Group for accounts receivable financing services from AVIC Lease; and (iii) in order to improve the efficiency of capital utilization and satisfy the funding requirement for potential business development and expansion, the Group will adhere to alleviate capital occupation by accounts receivable.

3. Reasons for and Benefits of the Finance Lease and Factoring Framework Agreement

The Finance Lease and Factoring Framework Agreement and the transactions contemplated under that agreement will help to reduce capital occupation by accounts receivable, satisfy the funding requirement for business development, optimize its financial management, improve its capital usage efficiency and reduce financing costs and risks and thus will facilitate and smooth the business development and operations of the Company. Compared to other financial institutions such as commercial banks, AVIC Lease is able to offer greater flexibility on the financing terms and provide financing services more efficiently with streamlined procedures. These advantages make AVIC Lease Factoring Services a suitable financing channel complementary to other channels available to the Group.

III. PROPOSED REVISION OF ORIGINAL DEPOSIT SERVICES CAP

1. Background

The Company considers that in light of the increase in the number of subsidiaries after the completion of the Acquisition, the Original Deposit Services Cap will be insufficient to meet the expected demand for Deposit Services. On 21 August 2020, AVIC Finance and the Company entered into the Existing Financial Services (Supplemental) Framework Agreement to increase the Original Deposit Services Cap to the Proposed Deposit Services Revised Cap.

2. Proposed Revision of Original Deposit Services Cap

Details of the proposed revision to the cap are as follows:

RMB' million	Actual transaction amount for the six months ended 30 June 2020	Original Deposit Services Cap	Proposed Deposit Services Revised Cap
Maximum daily outstanding balances of deposits (including accrued interests) placed by the Group	6,803	11,000	23,000

By the Latest Practicable Date, the Original Deposit Services Cap had not been exceeded.

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3. Basis of Determination of the Proposed Deposit Services Revised Cap

In determining the Proposed Deposit Services Revised Cap, the Company has considered that: (i) the deposit of approximately RMB8.7 billion placed by the Group in AVIC Finance as in December 2019; (ii) the increase in the number of subsidiaries after the completion of the Acquisition; (iii) the deposit of approximately RMB11.5 billion placed by Harbin Aircraft, Changhe Aircraft and their respective subsidiaries in AVIC Finance as in January 2020; (iv) the expected growth in the business of the Group and AVIC Group, leading to an increasing demand for Deposit Services with higher level of funds; and (v) the fund management strategy of the Group of allocating a certain percentage of funds to AVIC Finance for more efficient use of funds available.

IV. HONG KONG LISTING RULES IMPLICATIONS

Continuing connected transactions implications

As at the Latest Practicable Date, AVIC was a controlling shareholder of the Company holding directly and indirectly 56.35% of all issued Shares. Each of AVIC Finance and AVIC Lease is a subsidiary of AVIC. AVIC Avionics is a connected subsidiary of the Company by virtue of being directly and indirectly owned as to over 10% by AVIC. Accordingly, each of AVIC, AVIC Finance, AVIC Lease and AVIC Avionics is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. The transactions contemplated under the New Agreements and the proposed revision of the Original Deposit Services Cap therefore constitute continuing connected transactions.

Non-exempt Transactions

As the highest applicable percentage ratios in respect of (i) the transactions contemplated under the Mutual Product Supply Agreement; (ii) the revenue transactions contemplated under the Mutual Service Supply Agreement; (iii) the expenditure transactions contemplated under the Mutual Product and Service Supply and Guarantee Agreement; (iv) the Deposit Services contemplated under the Financial Services Framework Agreement; (v) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement with the AVIC Lease Factoring Subsidiary and the AVIC Finance Factoring Services under the Financial Services Framework Agreement with AVIC Finance on an aggregated basis; and (vi) both direct lease and sale and leaseback transactions contemplated under the Finance Lease and Factoring Framework Agreement exceed 5%, such continuing connected transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratios in respect of the Proposed Deposit Services Revised Cap exceeds 5%, the proposed revision of the Original Deposit Services Cap is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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Gram Capital's opinion

As the term of the underlying specific contracts in relation to Finance Lease Services to be entered into pursuant to the Finance Lease and Factoring Framework Agreement may exceed three years, the Company has appointed Gram Capital as the Independent Financial Adviser to explain why the specific contracts in relation to Finance Lease Services require a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration pursuant to Rule 14A.52 of the Hong Kong Listing Rules. Please refer to the letter from Gram Capital of this circular for details.

Notifiable transactions implications

Major transactions

As the highest applicable percentage ratio in respect of the Deposit Services under the Financial Services Framework Agreement exceeds 25%, the Deposit Services also constitute major transactions under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the Proposed Deposit Services Revised Cap exceeds 25%, the proposed revision of the Original Deposit Services Cap also constitutes a major transaction under Chapter 14 of the Hong Kong Listing Rules and is subject to reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

General

Mr. Chen Yuanxian and Mr. Yan Lingxi are Directors. They are also the vice general manager and a department chief of AVIC, respectively. They abstained from voting on the relevant Board resolution approving (i) the transactions contemplated under the New Agreements and the proposed caps for such transactions; and (ii) the proposed revision of the Original Deposit Services Cap in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save as disclosed above, none of the other Directors has or is deemed to have a material interest in the above-mentioned continuing connected transactions and the proposed revision.

Shareholders should note that all the proposed caps as set out in this circular should not be construed as an assurance or forecast by the Company of the future revenue of the Group.

V. FINANCIAL EFFECT OF THE MAJOR TRANSACTION WITH RESPECT TO DEPOSIT SERVICES

The Company expects more cash will be available for deposit with AVIC Finance from 2020 to 2023. Therefore, it expects that there will be an increase in interest income to be earned from AVIC Finance in the same period. However, given that the interest income earned from AVIC Finance in the past years only

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represent a small fraction (being not more than 0.15%) of its revenue and net assets, the Company anticipates that the interest income to be earned from the deposits under the Deposit Services will not have any material impact on its corresponding revenue and net assets.

VI. INTERNAL CONTROL MECHANISM

To ensure the implementation of the pricing policies in each of the continuing connected transactions agreements of the Group, the Company has adopted the following control mechanism:

1. The Company has adopted the Administrative Measures for Connected Transactions (《關連交易管理辦法》), requiring its subsidiaries to (i) establish management systems and working procedures for connected transactions; (ii) establish or clarify the responsibilities of the departments and positions in charge of the management of connected transactions; and (iii) keep statistics, analysis and daily monitoring on the various connected transactions conducted by each of the subsidiaries. The Company also requires its subsidiaries not to breach the provisions in the framework agreements signed by the Company and AVIC when entering into their specific continuing connected transactions agreements or contracts;
2. Subsidiaries of the Company have established strict internal control systems, procedures and information systems, such as the Measures for Price Administration of Marketing and International Business Department (《市場營銷與國際業務部價格管理辦法》), the Review and Approval Procedures and Management Measures for Supply Chain Procurement Prices (《供應鏈採購價格審批流程及管理辦法》), etc., in order to ensure the fairness of pricing and safeguard the best interests of the Company. Pursuant to the above measures, the subsidiaries of the Company manage the pricing terms through an internal transparent management system. The selling price is determined with reference to the internal price set by the subsidiary according to the applicable pricing system and after joint approvals from the sales department and the financial departments. Likewise, the purchase price will be determined after seeking and comparing prices offered by the selected suppliers in the pricing system of Market Price and after approvals from relevant departments. If the bidding process applies, the price will be determined through the bidding process in accordance with the applicable PRC laws and regulations. The internal audit departments in the subsidiaries of the Company will also audit the various business activities including procurement and sales;
3. The department in charge of connected transactions of the Company is responsible for supervising the daily connected transactions of the Group and reporting the performance of the framework agreements and the relevant data to the management of the Company on a quarterly basis; The internal control department of the Company shall review and evaluate the internal control situation of the Group annually, prepare reports on internal control and submit to the audit committee for review;
4. The independent non-executive Directors of the Company shall conduct annual review of the continuing connected transactions to ensure that the connected transactions agreements are entered into on normal or favourable commercial terms and pursuant to the framework

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agreements, with fair and reasonable terms and in the interests of the Company and its Shareholders as a whole, and will provide confirmation in the annual reports of the Company; and

5. The auditors of the Company shall also conduct annual review of the pricing and the annual caps of the continuing connected transactions under the framework agreements and provide comfort letters.

VII. GENERAL INFORMATION

1. Information relating to 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.

2. Information of 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 was the controlling shareholder of the Company, holding, directly and indirectly, 56.35% of all issued Shares as at the Latest Practicable Date.

3. Information of AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange. AVIC Avionics is owned by the Company as to 39.43% and is a subsidiary of the Company as at the Latest Practicable Date. It is mainly engaged in the manufacture of avionics products and related accessories.

4. Information of AVIC Finance

AVIC Finance is a limited liability company incorporated in the PRC on 8 April 2007 and was a subsidiary of AVIC as at the Latest Practicable Date. It is licensed by the CBIRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrustment loans and entrustment investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory services, credit certification and other advisory agency services and security to member companies, and other financial services as may be approved by the CBIRC.

So far as the Group is aware, AVIC Finance is subject to the following internal control measures, which ensure the safety of the Group's deposits with AVIC Finance:

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- (a) As a licensed financial institution in the PRC, AVIC Finance is under the supervision of PBOC and CBIRC, including the regular examination of the audited financial statements and other relevant materials required to be filed by AVIC Finance, as well as face-to-face review and interview with the senior management of AVIC Finance;
- (b) AVIC Finance has established strict internal control measures to ensure effective risk management and compliance with relevant laws and regulations, including the corporate governance structure, internal standards and policies and standard operating procedures, as well as intra-group check and balance mechanism; and
- (c) AVIC Finance will adopt the following additional internal control measures in respect of the Deposit Services provided by AVIC Finance under the Financial Services Framework Agreement: (i) The Group shall have the right to use the deposit funds to offset against any accounts payable by the Group to AVIC Finance in the event that the Group is not able to recover its deposits with AVIC Finance; and (ii) AVIC Finance shall submit monthly and annual reports to the Group in respect of the Group's deposits with AVIC Finance during the period of having deposits with AVIC Finance.

5. Information of AVIC Lease

AVIC Lease is a limited liability company incorporated in the PRC and was a subsidiary of AVIC as at the Latest Practicable Date. It is mainly engaged in finance leasing, self-owned equipment leasing, residual value processing and maintenance of leased assets, contract energy management, and consulting services relevant to the above businesses, and non-bank financial services as approved by relevant departments such as factoring.

VIII. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

To strengthen investors' confidence and stabilize the stock price of the Company, the Company repurchased a total of 34,459,000 H Shares from May to June 2020 and has completed the cancellation thereof. Considering the share repurchase and cancellation, and pursuant to the Company Law of the PRC and the Reply of the State Council on Adjustment of the Notice Period for General Meeting and Other Matters Applicable to Overseas Listed Company, the Board proposed to amend the Articles of Association as follows:

1. To amend the following original articles in the Articles of Association to reflect the reduction of registered capital:

Article 19 Upon the approval of the securities regulatory authorities of the State Council, a total number of 1,679,800,500 shares of overseas listed foreign invested shares (including 1,527,090,000 shares issued by the Company, and 152,710,500 existing shares held by State-owned shareholder of the Company sold pursuant to the relevant requirements of the PRC regulations on reduction of State-owned shares), had been issued and sold after the establishment of the Company.

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Upon the approval of the securities regulatory authorities of the State Council, the Company issued and sold 305,416,000 shares of overseas listed foreign invested shares on 10 March, 2010, and Aviation Industry Corporation of China sold 29,217,402 existing shares pursuant to the relevant requirements of the PRC regulations on reduction of state-owned shares. The Company issued 183,404,667 domestic shares on 18 January, 2012; the Company issued and allotted 342,000,000 shares of overseas listed foreign invested shares on 2 March, 2012; the Company issued 491,692,669 Domestic Shares in June 2016. 3,609,687,934 domestic shares of the Company were converted into overseas listed foreign invested shares in June 2018; the Company issued and allotted 279,000,000 shares of overseas listed foreign invested shares in December 2018; the Company canceled a total of 34,459,000 repurchased shares of overseas listed foreign invested shares in June and September 2020.

The current shareholding structure of the Company is: the total number of issued ordinary shares of the Company amounts to ~~6,245,121,836~~ 6,210,662,836 shares, all being overseas listed foreign invested shares.

Article 22 The registered capital of the Company is RMB~~6,245,121,836~~ 6,210,662,836.

2. To amend the following original articles in the Articles of Association in accordance with the applicable laws and regulations:

Article 26 When the Company is to reduce its capital, it must prepare a balance sheet and an inventory of assets.

The Company shall notify its creditors within 10 days of adopting the resolution to reduce its registered capital and shall publish a public announcement of the resolution in newspapers ~~at least three times~~ within 30 days of the said date. Creditors shall, within 30 days of receiving a written notice or within ~~90~~ 45 days of the date of the first public announcement for those who have not received a written notice, be entitled to require the Company to pay its debts in full or to provide a corresponding guarantee for repayment.

The reduced registered capital of the Company may not be less than the statutory minimum.

Article 56 Unless otherwise provided by the relevant laws, regulations and listing rules of the place where the securities of the Company are listed and the articles herein regarding means of shareholders communication, or waived by all shareholders of the Company on the receipt of a written notice, a written notice of a general meeting shall be given no less than ~~thirty~~ twenty (~~30~~ 20) days prior to the annual general meeting or fifteen (15) days prior to the extraordinary general meeting, by notifying all of the shareholders who are registered on the register of members of the Company of the matters to be considered at the meeting and the date and the place of the meeting. ~~A shareholder who intends to attend the general meeting shall deliver to the Company his written reply concerning the attendance at such general meeting not less than twenty (20) days prior to the date of the meeting.~~

The date of the meeting and the date of the notice shall not be included when determining the notification period.

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The date of notice stated in this section is the date on which the Company or the Company's appointed share registrar delivers such notice to the relevant postal office for mailing.

~~Article 58 The Company shall, based on the written replies it receives 20 days before the date of the shareholders' general meeting from the shareholders, calculate the number of shares carrying voting rights represented by the shareholders who intend to attend the meeting. If the number of shares carrying voting rights represented by the shareholders who intend to attend the meeting amounts to more than half of the Company's total number of shares carrying voting rights, the Company may convene the meeting; if not, the Company shall, within five days, notify the shareholders again, by way of a public announcement, the matters to be considered at and the place and date of the meeting. The Company may then convene the meeting after such announcement.~~

~~A~~ ~~An extraordinary~~ general meeting shall not decide on matters that have not been stated in the notice of the meeting.

Article 87 Unless otherwise provided by the relevant laws, regulations and listing rules of the place where the securities of the Company are listed and the articles herein regarding means of shareholders communication, when the Company is to hold a class shareholders' meeting, it shall issue a written notice ~~30 days prior to the meeting~~ informing all the registered shareholders of that class of the matters to be considered at and the date and place of the meeting according to the requirements on the notice period for holding the general meeting as prescribed in Article 56 in this Articles of Association. ~~Shareholders that intend to attend the meeting shall, within 20 days prior to the day on which the meeting is to be held, serve a written reply on the Company stating that they will attend the meeting.~~

~~If the number of shares carrying the right to vote at the meeting represented by the shareholders intending to attend the meeting is more than half of the total number of shares of that class carrying the right to vote at the meeting, the Company may hold the class shareholders' meeting. If not, the Company shall, within five days, inform the shareholders once again of the matters to be considered at and the date and place of the meeting in the form of a public announcement. After such notification by public announcement, the Company may hold the class shareholders' meeting.~~

Article 167 The Company may carry out mergers either in the form a merger by absorption or the form of a merger by new establishment.

If the Company is involved in a merger, the parties to the merger shall enter into a merger agreement. The parties to the merger shall prepare a balance sheet and a property list. Within 10 days from the date of adoption of the merger resolution, the Company shall notify its creditors and within 30 days it shall publish an announcement in the designated newspapers ~~at least three times.~~

When the Company is merged, the claims and debts of each party to the merger shall be succeeded to by the company surviving the merger or the new company established subsequent to the merger.

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Article 168 If the Company is to be divided, its property shall be divided accordingly.

For division of the Company, the parties to the division shall enter into a division agreement and prepare a balance sheet and a property list. Within 10 days from the date of adoption of the division resolution, the Company shall notify its creditors and within 30 days it shall publish an announcement in the designated newspapers ~~at least three times.~~

The post-division companies shall be jointly and severally liable for the pre-division debts of the Company.

Article 173 The liquidation committee shall notify creditors within a period of 10 days from the date of its establishment and publish an announcement of the liquidation in the newspapers ~~at least three times~~ within 60 days. Creditors shall, within thirty (30) days after receipt of the notice, or for those who do not receive the notice, within forty-five (45) days from the date of the announcement, declare their claims to the liquidation committee. In reporting claims, a creditor shall explain the relevant particulars of the claims with supporting materials. Claims shall be registered by the liquidation committee.

During the period of declaration of claims, the liquidation committee shall not repay any debts to the creditors.

Article 175 After the liquidation committee has inventoried the Company's property and prepared a balance sheet and a property list, it shall formulate a liquidation plan and submit such plan to the shareholders' general meeting or the relevant governing authorities for confirmation.

The liquidation expenses including the payment to liquidation members and consultants, shall be appropriated in priority from the assets of the Company before paying off other creditors.

After the resolution of the shareholders' general meeting to dissolve the Company or the Company is declared bankrupt according to law or ordered to close down, without the permission of the liquidation committee, no persons shall be entitled to dispose of the Company's property.

The property of the Company shall be distributed in accordance with the following sequence: paying off the liquidation expenses, wages of employees ~~and labor insurance premiums~~ social insurance premiums and statutory compensation, outstanding taxes and the debts of the Company.

The remaining property of the Company after paying off all the debts and expenses as prescribed by the preceding paragraph shall be distributed in accordance with the classes of the shares and in proportion to the number of shares held by the shareholders.

Relevant remaining property shall be distributed in proportion to the number of ordinary shares held by the shareholders.

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During liquidation, the Company may not engage in new business activities.

The members of the liquidation committee shall be faithful in the discharge of their duties and perform their liquidation obligations in accordance with the law.

The members of the liquidation committee may not use their power and authority to accept bribes or other illegal income or misappropriate the Company's property. If the Company or a creditor sustains a loss due to a willful act or gross negligence on the part of a member of the liquidation committee, such liquidation committee member shall be liable for damages.

The proposed amendments to the Articles of Association are subject to the Shareholders' consideration and approval by way of a special resolution at the EGM, at which an authorization will also be sought to authorize any executive Director to make corresponding revision to the amendments to the Articles of Association according to the opinions of the relevant regulatory authorities. The proposed amendments to the Articles of Associations are also subject to the approval, registration and/or filing with the relevant regulatory authorities.

IX. PROPOSED APPOINTMENT OF A DIRECTOR

Due to other work commitment, on 16 October 2020, Mr. Chen Yuanxian ("**Mr. Chen**") applied to the Board for resignation as the Director of the Company, the chairman of the Board as well as all other positions in each of the special committees of the Board. The terms of office of Mr. Chen as a Director will not be terminated until the appointment of the candidate for new Director has been approved at the EGM.

Mr. Chen has confirmed to the Company that he has no disagreement with the Board and there are no matters that need to be brought to the attention of the Shareholders of the Company in connection with his resignation.

The Board takes this opportunity to express sincere gratitude for the contributions that Mr. Chen has made for the Company during his term of service.

At the Board meeting held on 16 October 2020, Mr. Zhao Hongwei ("**Mr. Zhao**") has been nominated as the candidate of executive Director with a term of office commencing from the date on which his proposed appointment is approved at the EGM until the date on which the resolution relating to the election of the new session of the Board will be considered at the annual general meeting to be convened in 2021. The salary of Mr. Zhao will be determined by the Remuneration Committee of the Company by reference to his qualifications, experience and the prevailing market conditions, subject to the authorization of the EGM. As at the Latest Practicable Date, no director service contract has been entered into between Mr. Zhao and the Company.

The biographical details of Mr. Zhao are set out as follows:

Mr. Zhao Hongwei, 53, a senior engineer. Mr. Zhao successively graduated from Nanjing University of Aeronautics and Astronautics with a bachelor degree majoring in industrial management engineering, and Zhejiang University with a MBA degree. Mr. Zhao commenced his career in aviation industry in 1989. He successively served as the manager of the Comprehensive Planning Department and deputy general manager

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of China National Aero-Technology Import & Export Shanghai Corporation, deputy general manager of AVIC Auto Maintenance Equipment Co., Ltd., deputy general manager and general manager of China National Aero-Technology Import & Export Hangzhou Corporation, and general manager and chairman of AVIC International Lease Co., Ltd. Mr. Zhao served as the general manager of AVIC Capital Co., Ltd. (“**AVIC Capital**”) from June 2017 to October 2020, and served as the director of AVIC Capital since June 2017.

As far as the Directors are aware, save as disclosed in this circular, as at the Latest Practicable Date, Mr. Zhao does not hold any directorships in other public listed companies nor did he hold any position with the Company or other members of the Group in the last three years. Mr. Zhao does not have any relationship with any Director, supervisor, senior management or substantial or controlling Shareholders of the Company. Except for 721,500 shares in AVIC Capital, an associated corporation of the Company, which represent approximately 0.008% of the total issued share capital of AVIC Capital as at the Latest Practicable Date, Mr. Zhao has no other any interests or short positions within the meaning of Part XV of the SFO in the Shares, underlying shares or debentures of the Company or any of its associated corporations. Save as disclosed above, there is no other information that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Hong Kong Listing Rules nor are there any matters that need to be brought to the attention of the Shareholders of the Company in relation to the proposed appointment of Mr. Zhao.

Such proposal in relation to the appointment of Mr. Zhao will be submitted for the consideration and approval of the Shareholders by way of an ordinary resolution at the EGM.

X. EGM

The EGM will be held at 9:00 a.m. on Friday, 11 December 2020 at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC. The notice of the EGM is set out on pages EGM-1 to EGM-5 of this circular.

A reply slip and a form of proxy for use at the EGM are also enclosed. Shareholders who intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed on it on or before Friday, 20 November 2020. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed on the form as soon as possible and in any event no later than 24 hours before the time fixed for the holding of EGM or any adjournment of that meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of that meeting (as the case may be).

As at the Latest Practicable Date, AVIC was a controlling Shareholder, holding directly and indirectly 3,499,531,569 H Shares, representing 56.35% equity interest in the Company. AVIC and its associate(s), if any, will abstain from voting at the EGM in respect of the ordinary resolutions to be proposed in relation to (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023; and (ii) the proposed revision of the Original Deposit Services Cap.

To the best knowledge of the Directors after having made all reasonable enquiries, apart from AVIC and its associates, holding 3,499,531,569 H Shares in the Company, no other Shareholder has a material interest in (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the

LETTER FROM THE BOARD

three years ending 31 December 2023; and (ii) the proposed revision of the Original Deposit Services Cap, and therefore no other Shareholder will be required to abstain from voting at the EGM in respect of the ordinary resolutions to be proposed in relation to (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023; and (ii) the proposed revision of the Original Deposit Services Cap.

Further, to the best knowledge of the Directors after having made all reasonable enquiries, no Shareholder will be required to abstain from voting on the resolutions relating to the proposed amendments to the Articles of Association and the proposed appointment of a Director at the EGM.

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, all votes at the EGM will be taken by poll. The Company will announce the results of the poll in accordance with the Hong Kong Listing Rules following the EGM.

XI. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 51 of this circular which contains the recommendation of the Independent Board Committee containing its opinion and recommendations on (a) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023; and (b) the proposed revision of the Original Deposit Services Cap; (ii) the letter from Gram Capital, the Independent Financial Adviser, set out on pages 52 to 85 of this circular which contains its advice on (a) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023; and (b) the proposed revision of the Original Deposit Services Cap (together with the principal factors and reasons considered in arriving at such advice) to the Independent Board Committee and the Independent Shareholders; and (iii) additional information set out in the appendices to this circular.

The Directors (including the independent non-executive Directors) and the Independent Board Committee, having taken into account the advice of Gram Capital, consider that (i) the Non-exempt Transactions are on normal commercial terms in so far as the Company and the Independent Shareholders are concerned, and in the ordinary and usual course of business of the Group; (ii) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023 and the proposed revision of the Original Deposit Services Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

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The Directors also consider that the resolutions as set out in the notice of the EGM in relation to the proposed amendments to the Articles of Association and the proposed appointment of a Director is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of these resolutions to be proposed at the EGM.

Yours faithfully,
By Order of the Board
AviChina Industry & Technology Company Limited*
Wang Xuejun
Chairman

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

10 November 2020

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) of the Company dated 10 November 2020 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, capitalised terms and expressions used in this letter shall have the same meanings as those defined in the Circular.

We have been appointed to advise the Independent Shareholders on whether (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023; and (ii) the proposed revision of the Original Deposit Services Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the abovementioned matters.

We wish to draw your attention to the letter from the Board set out on pages 9 to 50 of the Circular and the letter from Gram Capital set out on pages 52 to 85 of the Circular.

Having considered the advice given by Gram Capital, we are of the opinion that (i) the Non-exempt Transactions are on normal commercial terms in so far as the Company and the Independent Shareholders are concerned, and in the ordinary and usual course of business of the Group; (ii) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2023 and the proposed revision of the Original Deposit Services Cap are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of relevant ordinary resolutions to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee
AviChina Industry & Technology Company Limited*

Liu Renhuai,

Liu Weiwu,

Wang Jianxin

Independent Non-executive Directors

* *For identification purpose only*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

10 November 2020

*To: The independent board committee and the independent shareholders
of AviChina Industry & Technology Company Limited**

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 10 November 2020 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

References are made to the Company’s announcement dated 30 August 2017 and the Company’s circular dated 16 November 2017 in relation to, among other things, the continuing connected transactions of the Group with AVIC Group contemplated under each of the Existing Agreements, namely, (1) the Existing Mutual Product Supply Agreement, (2) the Existing Mutual Service Supply Agreement, (3) the Existing Land Use Rights and Properties Leasing Agreement, (4) the Existing Mutual Product and Service Supply and Guarantee Agreement, and (5) the Existing Financial Services Framework Agreement. As the term of the Existing Agreements will expire on 31 December 2020 and the Company intends to continue to enter into the transactions of similar nature after that date, the Company entered into the Renewal Agreements on 21 August 2020 for a term of three years commencing from 1 January 2021. Most of the terms of the Renewal Agreements are substantially the same as those of the Existing Agreements.

On 21 August 2020, the Company entered into the Finance Lease and Factoring Framework Agreement with AVIC Lease for a term of three years commencing from 1 January 2021. The Finance Lease and Factoring Framework Agreement is a new agreement consolidated from existing agreements relating to the Finance Lease Services and the AVIC Lease Factoring Services.

LETTER FROM GRAM CAPITAL

The Company considers that in light of the increase in the number of subsidiaries after the completion of the Acquisition, the Original Deposit Services Cap will be insufficient to meet the expected demand for Deposit Services. On 21 August 2020, AVIC Finance and the Company entered into the Existing Financial Services (Supplemental) Framework Agreement to increase the Original Deposit Services Cap to the Proposed Deposit Services Revised Cap.

With reference to the Board Letter, as the highest applicable percentage ratios in respect of (i) the transactions contemplated under the Mutual Product Supply Agreement (the “**Mutual Product Supply Transactions**”); (ii) the revenue transactions contemplated under the Mutual Service Supply Agreement (the “**Service Supply Transactions**”); (iii) the expenditure transactions contemplated under the Mutual Product and Service Supply and Guarantee Agreement (the “**Product, Service and Guarantee Transactions**”); (iv) the Deposit Services contemplated under the Financial Services Framework Agreement; (v) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement with AVIC Lease and the AVIC Finance Factoring Services under the Financial Services Framework Agreement with AVIC Finance on an aggregated basis (the “**Factoring Transactions**”); and (vi) the Finance Lease Services under the Finance Lease and Factoring Framework Agreement exceed 5%, such continuing connected transactions (i.e., the Non-exempt Transactions) are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. As the highest applicable percentage ratios in respect of the Proposed Deposit Services Revised Cap exceeds 5%, the proposed revision of the Original Deposit Services Cap (the “**Deposit Cap Revision**”) is subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap are on normal commercial terms and are fair and are reasonable; (ii) whether the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap are in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

As at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital’s independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of

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the Company (the “**Management**”). We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors’ representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, AVIC, AVIC Finance, AIVC Lease and each of their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap, we have taken into consideration the following principal factors and reasons:

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Background of the transactions

Information on the Company

With reference to the Board Letter, the Company is mainly engaged in the research, development, manufacture and sales of aviation products, and relevant engineering services.

Set out below are the Group's consolidated financial information for the six months ended 30 June 2020, the six months ended 30 June 2019 and the two years ended 31 December 2019 as extracted from the Company's interim report for the six months ended 30 June 2020 (the "2020 Interim Report") and the Company's annual report for the year ended 31 December 2019 (the "2019 Annual Report"):

	For the year ended 31 December 2019 (audited) RMB'000	For the year ended 31 December 2018 (audited) (restated) RMB'000	Year-on-year change %
Revenue	42,119,126	35,755,622	17.80
– Aviation entire aircraft	15,309,526	11,010,731	39.04
– Aviation parts and components	20,951,733	19,149,069	9.41
– Aviation engineering services	5,857,867	5,595,822	4.68
Gross profit	9,014,958	7,793,918	15.67

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The Group recorded revenue of approximately RMB42.12 billion for the year ended 31 December 2019 (“FY2019”), representing an increase of approximately 17.80% as compared to that for the year ended 31 December 2018 (“FY2018”). Each of the Group’s business segments recorded an increase in revenue from FY2018 to FY2019. The Group recorded gross profit of approximately RMB9.01 billion for FY2019, representing an increase of approximately 15.67% as compared to FY2018.

	For the six months ended 30 June 2020 (unaudited)	For the six months ended 30 June 2019 (unaudited) (restated)	Year-on-year change
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	20,197,605	18,178,682	11.11
– Aviation entire aircraft	7,741,726	6,349,540	21.93
– Aviation parts and components	10,008,529	9,337,084	7.19
– Aviation engineering services	2,447,350	2,492,058	(1.79)
Gross profit	4,057,070	3,898,602	4.06

The Group recorded revenue of approximately RMB20.20 billion for the six months ended 30 June 2020 (“HY2020”), representing an increase of approximately 11.11% as compared to that for the six months ended 30 June 2019 (“HY2019”). While revenue from aviation engineering services recorded a slight decrease, the Group’s other business segments both recorded an increase in revenue from HY2019 to HY2020. The Group recorded gross profit of approximately RMB4.06 billion for HY2020, representing an increase of approximately 4.06% as compared to HY2019.

As at 30 June 2020, the Group recorded total assets of approximately RMB92.61 billion.

Information on AVIC

With reference to the Board Letter, 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.

As further mentioned in the Board Letter, AVIC Group is the sole full-system aviation manufacturer in the PRC. AVIC Group has the research and development capacities to manufacture aviation products independently, and it is mainly engaged in the manufacturing of aircraft (other than helicopters and trainer aircraft), airborne equipment systems and other related pairing products and systems.

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Information on AVIC Avionics

With reference to the Board Letter, AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose shares are listed on the Shanghai Stock Exchange. AVIC Avionics is a connected subsidiary of the Company, as at the Latest Practicable Date. It is mainly engaged in the manufacture of avionics products and related accessories.

Information on AVIC Finance

With reference to the Board Letter, AVIC Finance is a limited liability company incorporated in the PRC on 8 April 2007 and a subsidiary of AVIC. It is licensed by the CBIRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrustment loans and entrustment investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory services, credit certification and other advisory agency services and security to member companies, and other financial services as may be approved by the CBIRC.

As further advised by the Management, AVIC Finance is required to operate in compliance with 《企業集團財務公司管理辦法》 (Administrative Measures on Finance Companies of Enterprise Groups*) (the “Measures”) issued by the former China Banking Regulatory Commission to regulate the operation of group finance companies and reduce the possible financial risk. We noted that the Measures set out certain compliance and risk control requirements/measures in relation to the operation of finance companies of enterprise groups. The table below sets out the key financial ratio requirements of the Measures and the respective financial ratios of AVIC Finance as at 31 December 2018, 31 December 2019 and 30 June 2020 as provided by the Company.

Financial ratio	Requirements	Financial ratios of AVIC Finance		
		As at 30 June 2020 (approximate %)	As at 31 December 2019 (approximate %)	As at 31 December 2018 (approximate %)
Capital adequacy ratio	Not less than 10%	15.32	13.09	13.17
Inter-financial institution borrowing balances to total capital ratio	Not more than 100%	26.92	nil	nil
Total amount of outstanding guarantees to total capital ratio	Not more than 100%	1.55	5.49	40.85
Short-term and long-term investment to total capital ratio	Not more than 70%	1.35	59.82	nil
Self-owned fixed assets to total capital ratio	Not more than 20%	0.08	0.08	0.06

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As shown in the table above, AVIC Finance complied with the relevant financial ratio requirements as set out in the Measures as at the relevant dates. As advised by the Management, there is no record of non-compliance with relevant laws and regulations of the PRC by AVIC Finance during FY2018, FY2019 and HY2020.

Information on AVIC Lease

With reference to the Board Letter, AVIC Lease is a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the Latest Practicable Date. It is mainly engaged in finance leasing, self-owned equipment leasing, residual value processing and maintenance of leased assets, contract energy management, and consulting services relevant to the above businesses, and non-bank financial services as approved by relevant departments such as factoring.

Reasons for and benefits of the transactions

The Mutual Product Supply Transactions, the Service Supply Transactions and the Product, Service and Guarantee Transactions

With reference to the Board Letter, Aviation industry is complex and technology intensive. The manufacturing of an entire aircraft (including the Group's helicopters and trainers) requires different products, parts and components from different enterprises.

(i) Mutual Product Supply Agreement

The Group is the major production platform of helicopters and production platform of trainer aircrafts. Upon completion of the Acquisition, the Group will primarily provide the aviation entire aircrafts (mainly trainers and general aircrafts) and aviation parts and components (mainly avionics products and optronics products) to AVIC Group under the Mutual Product Supply Agreement to meet the orders received by AVIC Group from independent third parties and the production demands of AVIC Group. The Group mainly procures from AVIC Group the necessary parts and components for manufacturing helicopters and trainers by the Group, such as control and navigation systems researched and developed by AVIC Group.

Due to the high technology in aviation industry and the high quality requirements of customers, it is also difficult for the Group and AVIC Group to source substitute aviation products or aviation parts and components of comparable specifications or quality, and value in the PRC from other producers.

(ii) Mutual Service Supply Agreement

The Group primarily provides the aviation engineering services to AVIC Group through AVIC Planning, and AVIC Group primarily provides labour services and other composite services to the Group.

(iii) Mutual Product and Service Supply and Guarantee Agreement

The transactions contemplated under the Mutual Product and Service Supply and Guarantee Agreement are intragroup transactions of the Group, and are mostly product pairing transactions between the Group's avionics companies (i.e. AVIC Avionics Group) and the Group's entire aircraft business. Avionics

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products are necessary aviation parts and components for the manufacturing of the aviation entire aircraft. AVIC Avionics Group is the major supplier for the related avionics products in the Group's helicopters and trainers.

Having considered the above and (i) the historical connection and long-standing business cooperation relationship between the Group and AVIC Group, and the Group's connected subsidiary AVIC Avionics Group; and (ii) that AVIC, AVIC Avionics, and their respective associates generally have a better understanding of the Group's business and can better ensure the standards of technology, quality, delivery and technical support of the products to meet the Group's requirements, we consider that the Mutual Product Supply Transactions, the Service Supply Transactions and the Product, Service and Guarantee Transactions are in the ordinary and usual course of business of the Group and are in the interest of the Company and the Shareholders as a whole.

The Deposit Services, the Deposit Cap Revision, the Factoring Transactions and the Finance Lease Services

(i) The Financial Services Framework Agreement and the Existing Financial Services (Supplemental) Framework Agreement

With reference to the Board Letter, AVIC Finance is regulated by the PBOC and the CBIRC and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. To ensure the safety of the Group's deposits with AVIC Finance, AVIC Finance has internal control measures in place, the details of which are set out under section headed "Information of AVIC Finance" of the Board Letter. As illustrated in the section above, AVIC Finance complied with the relevant financial ratio requirements as set out in the Measures as at the relevant dates during FY2018, FY2019 and HY2020.

Pursuant to the relevant regulations of the PBOC and the CBIRC, the customers of AVIC Finance are limited to the group members of AVIC Group, which will ensure more control by AVIC Finance of the risks that it may be exposed to as compared with other financial entities. In addition, AVIC Finance has been incorporation with the Group by entering into the financial services framework agreements since 2010. AVIC Finance's understanding of the Group's operations will enable it to provide more expedient and efficient services than major commercial banks in the PRC.

Pursuant to the Financial Services Framework Agreement and Existing Financial Services (Supplemental) Framework Agreement (for the Deposit Cap Revision), the terms (including the interest rates) on the Deposit Services and the AVIC Finance Factoring Services offered by AVIC Finance to the Group will be equal to or more favorable than those offered to the Group by major commercial banks in the PRC. In addition, the Financial Services Framework Agreement and Existing Financial Services (Supplemental) Framework Agreement do not restrict the Group from entering into factoring transactions and placing deposits with other financial institutions.

Having considered the above, we consider that the Deposit Services, the Deposit Cap Revision and the AVIC Finance Factoring Services are in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

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(ii) *The Finance Lease and Factoring Framework Agreement*

With reference to the Board Letter, the Finance Lease and Factoring Framework Agreement and the transactions contemplated thereunder will help to reduce capital occupation by accounts receivable, satisfy the funding requirement for business development, optimize its financial management, improve its capital usage efficiency and reduce financing costs and risks and thus will facilitate and smooth the business development and operations of the Company. Compared to other financial institutions such as commercial banks, AVIC Lease is able to offer greater flexibility on the financing terms and provide financing services more efficiently with streamlined procedures. These advantages make AVIC Lease Factoring Services a suitable financing channel complementary to other channels available to the Group.

As further mentioned in the Board Letter, the term of the underlying specific contracts in relation to Finance Lease Services to be entered into pursuant to the Finance Lease and Factoring Framework Agreement may exceed three years. In assessing the reasons for the duration of the specific contracts to be longer than three years, we have considered, the following factors:

- The lease period of each finance lease contract shall be determined with reference to, among other things, the useful life of the relevant leased assets (i.e. buildings, erections, mechanical equipment and other assets), which, as confirmed by the Management, may be longer than three years.
- By entering into finance lease(s) with a longer duration, the Group's payment obligation of equipment and assets costs is allowed to be spread over a longer period, which would reduce the financial burden of the Group.

In considering whether it is normal business practice for agreements of similar nature with the underlying specific contracts in relation to Finance Lease Services to have a lease term of such duration, we noted that it is not unusual for companies in the aviation industry to enter into finance lease transactions of assets and equipment which were of similar nature as the Finance Lease Services, with duration of more than three years. For example, we noted the following finance lease transactions announced by companies in the aviation industry listed on the Hong Kong Stock Exchange during the one-year period before the entering into of the Finance Lease and Factoring Framework Agreement. The purpose of our review was to identify if there are Hong Kong listed companies entering into finance lease transactions with similar terms as the Finance Lease and Factoring Framework Agreement. We are of the view that the one-year period can demonstrate similar transactions conducted by companies under proximate timeframe before the entering into of the Finance Lease and Factoring Framework Agreement and we consider such transactions fair and representative.

- With reference to the announcement of Air China Limited (stock code: 753) dated 30 October 2019, the company entered into a framework agreement which involved, among others, (i) the provision of finance and operating lease services in respect of, among other things, aircraft, engines, simulators, equipment and vehicles to the company group; and (ii) the provision finance and operating lease services in respect of, among other things, equipment and vehicles by the company group. According to the announcement, the finance lease terms and operating lease terms under the framework agreement would exceed three years in most cases.

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- With reference to the announcement of China Southern Airlines Company Limited (stock code: 1055) dated 10 October 2019, the company entered into a finance lease framework agreement which involved, among others, the leasing of aircraft and aircraft related assets and equipment to the company group. According to the announcement, the leased period of the leased aircraft, related assets and equipment would be longer than three year.
- With reference to the announcement of China Eastern Airlines Corporation Limited (stock code: 670) dated 30 August 2019, the company entered into certain framework agreements which involved, among others, the leasing of (i) special vehicles and equipment, (ii) properties, (iii) aircraft and (iv) aircraft engines to the company. According to the announcement, the leased period of the same would be longer than three year.

In addition, we also noted that the Group previously entered into a finance lease contract (which was of similar nature as the specific contracts in relation to Finance Lease Services) with an Independent Third Party during 2019. The term of such contract was also more than three years.

Taking into account of the above, we are of the view that (i) the duration of the specific contracts in relation to Finance Lease Services, which is longer than three years, is required and it is normal business practice for the agreements of this type to be of such duration; and (ii) the Finance Lease Services and the AVIC Lease Factoring Services are in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

Principal terms of the Non-exempt Transactions

Set out below are the principal terms of the Non-exempt Transactions, details of which are set out in the Board Letter.

(i) ***The Mutual Product Supply Transactions, the Service Supply Transactions and the Product, Service and Guarantee Transactions***

The Mutual Product Supply Agreement

Date:	21 August 2020
Parties:	AVIC (for and on behalf of AVIC Group) The Company (for itself and on behalf of its subsidiaries)
Term:	Three years from 1 January 2021 to 31 December 2023

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Mutual supply of products: AVIC Group and the Group will supply the manufacturing raw materials, parts and components, finished and semi-finished aviation products involved in the production and operations of the respective aviation products of each other (including but not limited to aviation entire aircraft and aviation parts and components to the Group, and the helicopters, airplanes and aviation parts and component to AVIC Group) and the related sales and ancillary services.

Key transaction principles: If any independent third party can supply the same type of products on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use products supplied by the Group or AVIC Group (as the case may be).

If any independent third party can supply the same type of products at a better price than AVIC Group or the Group (as the case may be) offers, the Group or AVIC Group (as the case may be) shall be entitled to procure products from that independent third party.

The quality standard of the products and the terms and conditions of supply given by AVIC Group to the Group shall not be less favorable than those offered by the independent third parties under comparable conditions.

Pricing principles: The price of the products and ancillary services will be determined as follows: (i) as most products under the Mutual Product Supply Agreement are designated aviation products, the Government-prescribed Price shall apply; (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means (as the case may be) shall apply; and (iii) if there is no Market Price, the Contractual Price shall apply.

Payment: Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into the specific product supply agreement under each transaction.

The Mutual Service Supply Agreement

Date: 21 August 2020

Parties: AVIC (for and on behalf of AVIC Group)

The Company (for itself and on behalf of its subsidiaries)

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Term:	Three years from 1 January 2021 to 31 December 2023
Mutual supply of services:	<p>AVIC Group will supply certain services relating to the production and business operations of the Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment purchase, maintenance, repair and leasing services; (v) construction and transportation; (vi) design, consultation and network related services; (vii) cultural, educational, hygienic, social security and logistic services; (viii) import and export agency services; (ix) test flight and technology and quality monitoring services; (x) engineering and equipment subcontracting services; and (xi) other related services.</p> <p>The Group will supply certain services relating to the production and business operations of AVIC Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing services; (v) construction and transportation; (vi) design, consultation and network related services; (vii) enterprise entrustment services; (viii) engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting and equipment main contracting services; and (ix) other related services.</p>
Key transaction principles:	<p>If any independent third party can supply the same type of services on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use the services supplied by the Group or AVIC Group (as the case may be).</p> <p>If any independent third party can supply the same type of services at a better price than AVIC Group or the Group (as the case may be) offers, the Group or AVIC Group (as the case may be) shall be entitled to opt for the services supplied by that independent third party.</p> <p>The quality standard of the services and the terms and conditions of supply given by AVIC Group to the Group shall not be less favorable than those offered by the independent third parties under comparable conditions.</p>

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- Pricing principles: The price of the services under the agreement will be determined as follows:
- (i) for power supply services such as the provision of electricity, water, steam, etc., if such power was originally procured at the Government-prescribed Price or the Government-guidance Price, the Government-prescribed Price or the Government-guidance Price shall apply;
 - (ii) for services such as construction, transportation, design, consultation and network design and other services where the Market Price is available, the Market Price as determined by tender procedures or other means (as the case may be) shall apply;
 - (iii) for the engineering technology services to be supplied by the Group to AVIC Group (including design, consultation and supervision services), and the engineering and equipment subcontracting services supplied by AVIC Group to the Group, the Market Price or (where applicable) Market Price as determined by tender procedures shall apply. Such tender procedures shall be in compliance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which require tender and bidding); and
 - (iv) if there is no Market Price (for the provision of property management and maintenance services; equipment maintenance, repair and leasing services; cultural, educational, hygienic, social security and logistic services; import and export agency services; test flight and technology and quality monitoring services; and entrustment services), the Contractual Price shall apply.
- Payment: Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into the specific services agreement under each transaction.

Mutual Product and Service Supply and Guarantee Agreement

Date: 21 August 2020

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Parties:	<p>The Company (for itself and on behalf of its subsidiaries, excluding AVIC Avionics Group)</p> <p>AVIC Avionics (for itself and on behalf of its subsidiaries)</p>
Term:	<p>Three years from 1 January 2021 to 31 December 2023</p>
Mutual supply of products, services and guarantee:	<p>The Group will supply to AVIC Avionics Group aviation parts and components, raw materials, related manufacturing, labour and guarantee services, and engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting and equipment main contracting services, etc.</p> <p>AVIC Avionics Group will supply to the Group aviation electronic products, parts and components, related manufacturing and labour services, and engineering and equipment subcontracting services.</p>
Pricing principles:	<p>The price of products and/or services under the agreement will be determined as follows:</p> <ul style="list-style-type: none">(i) as most products under the Mutual Product and Service Supply and Guarantee Agreement are designated aviation products, the Government-prescribed Price shall apply;(ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means (as the case may be) shall apply;(iii) if there is no Market Price, the Contractual Price shall apply;(iv) for power supply services such as the provision of electricity, water, steam, etc., if such power was originally procured at the Government-prescribed Price or the Government-guidance Price, the Government-prescribed Price or the Government-guidance Price shall apply;(v) for production, labour, leasing and guarantee services where Market Price is available, the Market Price as determined through tender procedures or other means (as the case may be) shall apply; if there is no Market Price, the Contractual Price shall apply; and

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- (vi) for engineering technology services (including design, consultation and supervision services), project engineering main contracting and equipment main contracting services, and engineering and equipment subcontracting services, the Market Price or (if applicable) the Market Price as determined by tender procedures shall apply. Such tender procedures shall be in compliance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which require tender and bidding).

Payment:

The parties will charge fees according to the Mutual Product and Service Supply and Guarantee Agreement and the specific contracts entered into by the relevant member of the Group and AVIC Avionics Group for the provision of products or services.

Other major terms:

If any independent third party can supply the same type of products or services at a better price than AVIC Avionics Group or the Group (as the case may be) offers, the Group or AVIC Avionics Group (as the case may be) shall be entitled to opt for the products or services supplied by that independent third party.

Subject to the terms of the Mutual Product and Service Supply and Guarantee Agreement, if the product or service supplied by and the terms and conditions of supply given by AVIC Avionics Group or the Group (as the case may be) does not satisfy the needs of the Group or AVIC Avionics Group (as the case may be) in any aspect, the latter can procure identical or similar products or services from an independent third party.

Government-prescribed Price and the Government-guidance Price

As advised by the Management, the Government-prescribed Price is jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in particular transactions, which mainly comprises the relevant costs plus a profit margin. The Government-guidance Price is determined by the parties within the scope as provided under the laws, regulations, decisions or orders promulgated by the central government, provincial government or other regulatory authorities in the PRC. The existing prices of aviation products of the Group are mainly prescribed by the PRC government, and such Government-prescribed Price will not be published and is not publicly available.

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Market Price

As advised by the Management, Market Price is (i) where there are comparable market prices or standard charging rates entered into by independent third parties under normal commercial terms from transaction records of previous similar transactions, the transaction price shall be fixed at such price or standard; or (ii) if the transactions have no comparable market prices entered into between independent third parties, the transaction price shall be fixed by the price of non-connected transactions between the Company and independent third parties: (a) (as buyer) by tender procedures or choosing the most favorable price among at least two to three selected suppliers after taking into account the suppliers' manufacturing qualifications and delivery time, and business relationship between the Company and suppliers according to the Company's internal procurement policy or (b) (as supplier) negotiating with clients within prescribed price range according to the Company's internal sales policy after taking into account the transaction volumes and business relationship between the Company and purchasers. The Market Price will be determined or approved by the authorized departments/persons of the specific entities under the Group in particular transactions. For products determined by tender procedures, the Group strictly follows the relevant PRC laws and regulations, in particular the 中華人民共和國招標投標法 (Law of the People's Republic of China on Tenders and Bids*).

Contractual Price

As advised by the Management, Contractual Price is the price to be agreed between the relevant parties for provision of aviation products, raw materials and related services (as the case may be), which shall be the reasonable costs incurred in providing the same plus not more than 8.0% of such costs, which is determined after taking into account the average profit margin of approximately 7% of the costs among industrial enterprises, the average profit margin in the aviation industry and the profits previously made by the Group or AVIC Group for similar products or services. The 8% margin used to determine the Contractual Price is the maximum profit margin and specific price will be determined under separate agreement in each transaction.

In respect of the margin of not more than 8%, we noted that such margin does not deviate from the Group's net profit margin of approximately 7.2%, 7.0% and 7.8% for FY2018, FY2019 and HY2020 respectively. Having also considered that the Contractual Price will be agreed between the relevant parties, where the margin is applied to both parties (i.e. purchaser and supplier) on the same basis, we consider the Contractual Price determination to be fair and reasonable.

Taking into account that (i) the Government-prescribed Price is jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in particular transactions; (ii) the Market Price is determined with reference to comparable market prices, by tender procedures (or choosing the most favorable price among at least two to three selected suppliers), or according to the Company's internal sales policy; and (iii) the Contractual Price is determined with reference to the costs plus a margin close to the Group's historical profit margin and the average profit margin of industrial enterprises, we are of the view that the terms of the Mutual Product Supply Transactions, the Service Supply Transactions and the Product, Service and Guarantee Transactions are on normal commercial terms and are fair and reasonable.

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(ii) *The Deposit Services, the Deposit Cap Revision, the Factoring Transactions and the Finance Lease Services*

The Financial Services Framework Agreement

Date: 21 August 2020

Parties: The Company (for itself and on behalf of its subsidiaries)
AVIC Finance

Term: Three years from 1 January 2021 to 31 December 2023

Financial services: Pursuant to the Financial Services Framework Agreement, AVIC Finance has agreed to provide the Group with the Deposit Services, the Loan Services, the Settlement Services, the Guarantee Services, the AVIC Finance Factoring Services and the Other Financial Services (i.e. such other financial services (including but not limited to bill acceptance and discount services) as approved by the CBIRC).

The Group is entitled to elect the financial institutions providing the financial services, the amount of deposit and borrowings and the time of withdrawal of deposit based on its business needs.

Pricing principles: The pricing principles of the Deposit Services, the AVIC Finance Factoring Services and the Other Financial Services are as follows:

(1) Deposit Services

Interest rates for the Group's deposits with AVIC Finance shall not be lower than (a) the minimum benchmark interest rates promulgated by the PBOC for the same type of deposit; (b) the interest rates for the same type of deposits offered by major commercial banks of the PRC to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other member of AVIC Group.

(2) AVIC Finance Factoring Services

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The fees charged by AVIC Finance for the provision of the AVIC Finance Factoring Services shall not be higher than (a) the loan prime rate (LPR) announced by National Interbank Funding Center; and (b) the fees charged by major commercial banks in the PRC for the same type of factoring financial services.

(3) Other Financial Services

The fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than (a) the maximum fees determined by PBOC for the same type of financial services (if applicable); (b) the fees charged by major commercial banks in the PRC for the same type of services; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other member of AVIC Group with the same credit rating.

Other major terms:

If AVIC Finance is unable to repay the Group's deposits, the Company is entitled to terminate the Financial Services Framework Agreement and to offset the deposit due to the Group from AVIC Finance against the outstanding loan due to AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall indemnify the Group the full amount of the loss suffered by the Group and the Group is entitled to terminate the Financial Services Framework Agreement.

The Existing Financial Services (Supplemental) Framework

With reference to the Board Letter, the Company considers that in light of the increase in the number of subsidiaries after the completion of the Acquisition, the Original Deposit Services Cap will be insufficient to meet the expected demand for Deposit Services. On 21 August 2020, AVIC Finance and the Company entered into the Existing Financial Services (Supplemental) Framework Agreement to increase the Original Deposit Services Cap to the Proposed Deposit Services Revised Cap.

The Finance Lease and Factoring Framework Agreement

Date: 21 August 2020

Parties: The Company (for itself and on behalf of its subsidiaries)
AVIC Lease (for itself and on behalf of its subsidiaries)

Term: Three years from 1 January 2021 to 31 December 2023

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Services:

Pursuant to the Finance Lease and Factoring Framework Agreement, AVIC Lease has agreed to provide the Group with the Finance Lease Services by itself and the AVIC Lease Factoring Services through the AVIC Lease Factoring Subsidiary.

(1) Finance Lease Services

- (i) AVIC Lease will provide Finance Lease Services to the Group, by way of direct lease and sale and leaseback, etc. The leased assets include, among others, buildings, erections, mechanical equipment and other assets.
- (ii) Under the direct lease service, AVIC Lease (as lessor) will purchase from suppliers the leased assets based on the demands and choice of the Company (as lessee) at a price negotiated between the Group and the supplier, and AVIC Lease will then lease the leased assets to the Company for its use in return for periodic lease payments.
- (iii) Under the sale and leaseback service, the Company (as lessee) will sell the leased assets to AVIC Lease (as lessor) at a negotiated purchase price with reference to the book value and/or original acquisition costs and/or appraised value of the leased assets, and AVIC Lease will then lease the leased assets back to the Company for its use in return for periodic lease payments.
- (iv) During the lease period, the leased assets will be solely owned by AVIC Lease. Subject to the relevant requirements of the Hong Kong Listing Rules, the Company may purchase the leased assets after or (upon the consent of AVIC Lease) prior to the expiry of the lease.

(2) AVIC Lease Factoring Services

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Where the Group needs the AVIC Lease Factoring Services, the Group will transfer its outstanding principal amount of the accounts receivable which has not been due, the related interest and other rights as a creditor to the AVIC Lease Factoring Subsidiary.

Pricing principles:

The lease payment relating to the Finance Lease Services and the fees relating to the AVIC Lease Factoring Services will be determined as follows:

(1) Finance Lease Services

The lease payment of a finance lease comprise the principal amount of the finance lease and the lease interest. The principal amount shall be the gross price of the leased assets for the purchase by AVIC Lease. The lease interest shall be determined with reference to (a) the financing costs for Finance Lease Services provided by AVIC Lease (inclusive of interest, consulting services fees and other fees and expenses), which is no higher than the financing costs incurred by domestic independent finance lease companies for providing services of same or similar nature (as determined based on comprehensive internal rate of return after taxation); and (b) the interest rates charged or quoted by other major financial institutions for providing services of same or similar nature.

(2) AVIC Lease Factoring Services

AVIC Lease Factoring Subsidiary shall pay the outstanding principal amount of accounts receivable which has not been due as the factoring amount. The factoring interest shall be determined by the parties with reference to factors including the average factoring interest rate charged by AVIC Lease to its customers and the funding costs. AVIC Lease Factoring Subsidiary will charge service fees with respect to AVIC Lease Factoring Services, which shall not be higher than the fees charged by similar financial factoring companies in the PRC for the same type of factoring services.

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Payment: For the Finance Lease Services, the Company and AVIC Lease will agree on the manner of payment flexibly based on the actual cash flows, including but not limited to the payment of principal by equal or unequal instalments on a quarterly basis, payment of principal and interest by equal instalments on a quarterly basis, payment of principal by equal instalments on a semi-annual basis or payment of principal and interest by equal instalments on an annual basis, etc.

For the AVIC Lease Factoring Services, the Company and AVIC Lease shall agree on the manner of payment flexibly based on the specific factoring project, including but not limited to payment by the Group or the debtor of the accounts receivable or both.

Separate Contracts: AVIC Lease and the Group shall enter into specific contracts to set out the specific terms and conditions (including the specific payment terms) for the provision of services according to the principles and scope provided for under the Finance Lease and Factoring Framework Agreement and the relevant legal requirements.

The contract period of the specific contracts with respect to Finance Lease Services may exceed three years, depending on the type of leased assets involved. Specific contracts with respect to Finance Lease Services and AVIC Lease Factoring Services duly executed shall remain to have full force and effect for their respective contract periods and shall be subject to the Finance Lease and Factoring Framework Agreement for the three years from 1 January 2021 to 31 December 2023.

The Deposit Services and the Deposit Cap Revision

The Deposit Services provided by AVIC Finance are on a non-exclusive basis. Pursuant to the Financial Services Framework Agreement and the Existing Financial Services Framework Agreement, the interest rates for the Group's deposits with AVIC Finance shall not be lower than (a) the minimum benchmark interest rates promulgated by the PBOC for the same type of deposit; (b) the interest rates for the same type of deposits offered by major commercial banks of the PRC to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other member of AVIC Group. Upon our further inquiry, the Management confirmed that the Group would compare the interest rates offered two to three major independent commercial banks and make reference to the interest rates offered by AVIC Finance to other members of AVIC Group to ensure that the deposit interest rates under the Deposit Services would be no less favourable to the Group than those offered by Independent Third Parties.

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The Factoring Transactions

The factoring services provided by AVIC Finance and AVIC Lease are on a non-exclusive basis. Pursuant to the Financial Services Framework Agreement, the fees charged by AVIC Finance for the provision of the AVIC Finance Factoring Services shall not be higher than (a) the loan prime rate (LPR) announced by National Interbank Funding Center; and (b) the fees charged by major commercial banks in the PRC for the same type of factoring financial services. Pursuant to the Finance Lease and Factoring Framework Agreement, the factoring interest shall be determined by the parties with reference to factors including the average factoring interest rate charged by AVIC Lease to its customers and the funding costs. Upon our further inquiry, the Management confirmed that the Group would compare the interest rates offered two to three major independent commercial banks to ensure that the factoring interest rates under the Factoring Transactions would be no less favourable to the Group than those offered by Independent Third Parties.

The Finance Lease Services

The finance lease services provided by AVIC Lease are on a non-exclusive basis. Pursuant to the Finance Lease and Factoring Framework Agreement, the lease interest shall be determined with reference to (a) the financing costs for Finance Lease Services provided by AVIC Lease (inclusive of interest, consulting services fees and other fees and expenses), which is no higher than the financing costs incurred by domestic independent finance lease companies for providing services of same or similar nature (as determined based on comprehensive internal rate of return after taxation); and (b) the interest rates charged or quoted by other major financial institutions for providing services of same or similar nature. Upon our further inquiry, the Management confirmed that the Group would compare the lease interest offered two to three major independent finance lease companies to ensure that the lease interest under the Finance Lease Services would be no less favourable to the Group than those offered by Independent Third Parties.

Taking into account the above, we are of the view that the terms of the Deposit Services, the Deposit Cap Revision, the Factoring Transactions and the Finance Lease Services are on normal commercial terms and are fair and reasonable.

Internal control mechanism

With reference to the Board Letter, to ensure the implementation of the pricing policies in each of the continuing connected transactions agreements of the Group, the Company has adopted the certain control mechanism, details of which are set out under the section headed "INTERNAL CONTROL MECHANISM" of the Board Letter. Such mechanism is the same as that adopted for transactions contemplated under the Existing Agreements. For our due diligence purpose, we obtained and reviewed a copy of the said internal control mechanism. We noted that the internal control mechanism is in line with that as set out in the Board Letter. We also discussed with relevant personnel of the Company's department which would be involved in the oversight of the Group's continuing connected transactions. We understood that the relevant personnel is aware of the internal control mechanism, and the department had monitored and will continue to monitor the implementation of the Group's internal control mechanism. As advised by the relevant personnel, the department has circulated the Administrative Measures for Connected Transactions (《關連交易管

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理辦法》) to the Company's subsidiaries, requiring them to (i) establish management systems and working procedures for connected transactions; (ii) establish or clarify the responsibilities of the departments and positions in charge of the management of connected transactions; and (iii) keep statistics, analysis and daily monitoring on the various connected transactions conducted by each of the subsidiaries. The department is also responsible for supervising the daily connected transactions of the Group and reporting the performance of the framework agreements and the relevant data to the management of the Company on a quarterly basis.

Having also considered that, in accordance with the internal control mechanism,

- (i) Subsidiaries of the Company (the Non-exempt Transactions are mainly conducted by the Company's subsidiaries) have established strict internal control systems, procedures and information systems in order to ensure the fairness of pricing and safeguard the best interests of the Company. Pursuant to the measures, the subsidiaries of the Company manage the pricing terms through an internal transparent management system.
 - The selling price is determined with reference to the internal price set by the subsidiary according to the applicable pricing system and after joint approvals from the sales department and the financial departments.
 - The purchase price will be determined after seeking and comparing prices offered by the selected suppliers in the pricing system of Market Price and after approvals from relevant departments.
 - If the bidding process applies, the price will be determined through the bidding process in accordance with the applicable PRC laws and regulations.
 - The internal audit departments in the subsidiaries of the Company will audit the various business activities including procurement and sales.
- (ii) The internal control department of the Company shall review and evaluate the internal control situation of the Group annually, prepare reports on internal control and submit to the audit committee for review.
- (iii) The independent non-executive Directors of the Company shall conduct annual review of the continuing connected transactions to ensure that the connected transactions agreements are entered into on normal or favourable commercial terms and pursuant to the framework agreements, with fair and reasonable terms and in the interests of the Company and its Shareholders as a whole, and will provide confirmation in the annual reports of the Company.
- (iv) The auditors of the Company shall also conduct annual review of the pricing and the annual caps of the continuing connected transactions under the framework agreements and provide comfort letters.

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we consider the effective implementation of such mechanism would help to ensure fair pricing of the Non-exempt Transactions and to ensure that the proposed annual caps of the Non-exempt Transactions will not be exceeded.

With reference to the Company's annual report for FY2018 and the 2019 Annual Report, the Company had reviewed, among others, the transactions contemplated under the Existing Agreements and relevant internal control procedures, the results of which have been submitted to independent non-executive Directors. In addition, the Board (including the independent non-executive Directors) has reviewed the transactions contemplated under the Existing Agreements and confirmed that (i) the transactions were entered into in the ordinary and usual course of business of the Group; (ii) the transactions were either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; (iii) the transactions were entered into in accordance with the terms under relevant agreements, and the terms hereunder were fair and reasonable and in the interests of the Company and its shareholders as a whole; and (iv) the amounts of the transactions have not exceeded the respective annual caps (the "**Board's Confirmation**").

In addition, the Company's auditors were engaged to report on the Group's continuing connected transaction for FY2018 and FY2019 (including the transactions contemplated under the Existing Agreements) in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and the Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. For the purpose of Rule 14A.56 of the Hong Kong Listing Rules, the Company's auditors, have reviewed the relevant continuing connected transactions, and have confirmed that: (i) nothing has come to their attention that caused them to believe that the continuing connected transactions have not been approved by the Board; (ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that caused them to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group; (iii) nothing has come to their attention that caused them to believe that the continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) with respect to the aggregate amount of each continuing connected transactions, nothing has come to their attention that caused them to believe that the continuing connected transactions have exceeded the annual cap as set by the Company (the "**Auditor's Confirmation**").

Taking into account our discussion with the relevant personnel, the Board's Confirmation and the Auditor's Confirmation, we do not doubt the effectiveness of the internal control mechanism for the Non-exempt Transactions in ensuring fair pricing of the Non-exempt Transactions and in ensuring that the proposed annual caps of the Non-exempt Transactions will not be exceeded.

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Proposed annual caps

(i) *The Mutual Product Supply Transactions*

Set out below are (i) the historical annual caps for each of the two years ended 31 December 2019 and the year ending 31 December 2020; (ii) the historical transaction amounts for each of the two years ended 31 December 2019 and the year ending 31 December 2020; and (iii) the proposed annual caps for the three years ending 31 December 2023:

	For the year ended 31 December 2018 <i>RMB'million</i>	For the year ended 31 December 2019 <i>RMB'million</i>	For the year ending 31 December 2020 <i>RMB'million</i>
Expenditure			
Existing annual caps	17,200	22,100	26,000
Historical transaction amounts	6,414	8,197	3,564 <i>(note: for the six months ended 30 June 2020)</i>
Utilisation rate	37.29%	37.09%	N/A
	For the year ending 31 December 2021 <i>RMB'million</i>	For the year ending 31 December 2022 <i>RMB'million</i>	For the year ending 31 December 2023 <i>RMB'million</i>
Proposed annual caps	17,880	18,850	20,600
	For the year ended 31 December 2018 <i>RMB'million</i>	For the year ended 31 December 2019 <i>RMB'million</i>	For the year ending 31 December 2020 <i>RMB'million</i>
Revenue			
Existing annual caps	35,000	44,000	53,900
Historical transaction amounts	18,900	22,530	11,047 <i>(note: for the six months ended 30 June 2020)</i>
Utilisation rate	54.00%	51.20%	N/A
	For the year ending 31 December 2021 <i>RMB'million</i>	For the year ending 31 December 2022 <i>RMB'million</i>	For the year ending 31 December 2023 <i>RMB'million</i>
Proposed annual caps	18,210	20,670	23,190

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In arriving at the proposed annual caps, the Management has considered, among other things, (i) exclusion of intragroup sales of helicopter products after the Acquisition; (ii) the historical transaction amount and expected growth; (iii) the provision of avionics products to the AVIC Group; (iv) expected growth in demand of the Group; (v) purchase of parts and components after Acquisition; and (vi) adequate buffer for potential demands of AVIC Group and the Group, details of which are set out in the section headed “Basis of determination of the proposed caps for Non-exempt Transactions” of the Board Letter.

For our due diligence purpose, we obtained and reviewed the calculation of the proposed annual caps of the transaction for the three years ending 31 December 2023. We noted that the calculation is based on the estimated transaction amounts of the Company’s subsidiaries for the each of three years ending 31 December 2023 and for the year ending 31 December 2020. As advised by the Management, the estimated transaction amounts for the year ending 31 December 2020 are estimated based on the existing contracts and the current operation of the relevant subsidiaries, while the estimated transaction amounts for the three year ending 31 December 2023 are estimated based on the development plan of the Group and the relevant subsidiaries.

For revenue transactions, we noted that the estimated transaction amounts for the three year ending 31 December 2023 are lower than that for the year ending 31 December 2020. We noted from the calculation that such decrease is as a result of the Acquisition, which is expected to be completed by the end of 2020. Upon completion of the Acquisition, most of the sales to Harbin Aircraft and Changhe Aircraft would be classified as intragroup transactions and the estimated transaction amount would decrease significantly starting from 2021. For 2022 and 2023, the estimated sales amounts by the subsidiaries are expected to increase by approximately 14% and 12% taking into account the expected increase in aircraft sales.

For expenditure transactions, we noted that the estimated transaction amounts for the three years ending 31 December 2023 are expected to increase by approximately 15%, 5% and 9% in 2021, 2022 and 2023 respectively based on the Group’s operating plan and signed contracts. In addition, despite that the sale by Harbin Aircraft and Changhe Aircraft to the Group will cease to be continuing connected transactions of the Group upon the completion of the Acquisition, Harbin Aircraft and Changhe Aircraft will continue to purchase parts and components from AVIC Group. The total amount of purchase of parts and components will still increase.

In assessing the reasonableness of the estimated transaction amounts, we also enquired into the Management of the basis for estimated transaction amounts of each subsidiaries concerned (except for one subsidiary which accounts for less than 0.5% of the relevant proposed annual caps). The respective subsidiaries estimated the transaction amounts mainly on the following bases: estimated sales and purchase of different types of aircrafts, parts and components according to the subsidiaries’ development and operating plans, contract amounts and historical transaction amounts. The estimated transaction amounts (for both revenue and expenditure) transactions are in line with such bases and we do not doubt the reasonableness of the same.

Having considered the above, in particular, that the proposed annual caps for the each of three years ending 31 December 2023 are based on the estimated transaction amounts of the Company’s subsidiaries, we do not doubt the fairness and reasonableness of the estimated transaction amounts for each of the three years ending 31 December 2023. Accordingly, we also consider that the proposed annual caps of the Mutual Product Supply Transactions for each of the three years ending 31 December 2023 are fair and reasonable.

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(ii) The Service Supply Transactions

Set out below are (i) the historical annual caps for each of the two years ended 31 December 2019 and the year ending 31 December 2020; (ii) the historical transaction amounts for each of the two years ended 31 December 2019 and the year ending 31 December 2020; and (iii) the proposed annual caps for the three years ending 31 December 2023:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ending 31 December 2020
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Existing annual caps	9,500	10,500	12,000
Historical transaction amounts	2,362	2,610	1,038
			<i>(note: for the six months ended 30 June 2020)</i>
Utilisation rate	24.86%	24.86%	N/A
	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Proposed annual caps	4,920	5,640	6,780

In arriving at the proposed annual caps, the Management has considered, among other things, (i) the provision of aviation engineering services to AVIC Group; and (ii) adequate buffer for potential demands of AVIC Group, details of which are set out in the section headed “Basis of determination of the proposed caps for Non-exempt Transactions” of the Board Letter.

For our due diligence purpose, we obtained and reviewed the calculation of the proposed annual caps of the transaction for the three years ending 31 December 2023. We noted that the calculation is based on the estimated transaction amounts of the Company’s subsidiaries for the each of three years ending 31 December 2023 and for the year ending 31 December 2020. As advised by the Management, the estimated transaction amounts for the year ending 31 December 2020 are estimated based on the existing contracts and the current operation of the relevant subsidiaries, while the estimated transaction amounts for the three year ending 31 December 2023 are based on the development plan of the Group and the relevant subsidiaries.

We noted that the estimated transaction amounts for the three year ending 31 December 2023 are higher than that for the year ending 31 December 2020. We noted from the calculation that the estimated transaction amounts are expected to increase by approximately 22%, 15% and 20% in 2021, 2022 and 2023 respectively. Such increases are mainly from the provision of aviation engineering services by AVIC Planning based on the potential demand from AVIC Group. Transactions between AVIC Planning and AVIC Group contribute over 90% the estimated transaction amounts in 2021, 2022 and 2023.

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Having considered the above, in particular, that the proposed annual caps for the each of three years ending 31 December 2023 are based on the estimated transaction amounts of the Company's subsidiaries, we do not doubt the fairness and reasonableness of the estimated transaction amounts for each of the three years ending 31 December 2023. Accordingly, we also consider that the proposed annual caps of the Service Supply Transactions for each of the three years ending 31 December 2023 are fair and reasonable.

(iii) The Product, Service and Guarantee Transactions

Set out below are (i) the historical annual caps for each of the two years ended 31 December 2019 and the year ending 31 December 2020; (ii) the historical transaction amounts for each of the two years ended 31 December 2019 and the year ending 31 December 2020; and (iii) the proposed annual caps for the three years ending 31 December 2023:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ending 31 December 2020
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Existing annual caps	1,300	1,700	2,100
Historical transaction amounts	502	924	329
			<i>(note: for the six months ended 30 June 2020)</i>
Utilisation rate	38.62%	54.35%	N/A
	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Proposed annual caps	1,230	1,490	1,810

In arriving at the proposed annual caps, the Management has considered, among other things, (i) exclusion of transactions with AVICOPTER after the Acquisition; (ii) intragroup transactions of the Group (including AVIC Avionics Group); (iii) historical transaction amount and annual growth trend and (iv) adequate buffer for potential demands of the Group, details of which are set out in the section headed "Basis of determination of the proposed caps for Non-exempt Transactions" of the Board Letter. For our due diligence purpose, we obtained and reviewed the calculation of the proposed annual caps of the transaction for the three years ending 31 December 2023.

We noted from the calculation the historical transaction amounts for the two years ended 31 December 2019 and the estimated transaction amounts for the four years ending 31 December 2023. The estimated transaction amounts from 2018 to 2020 represent the transactions between the Group and AVIC Avionics Group, and between the Group and AVICOPTER Group; while the estimated transaction amounts from 2021 to 2023 represent the transactions between the Group and AVIC Avionics Group only. With reference to the Board Letter, upon completion of the Acquisition, AVICOPTER will cease to be a connected subsidiary of the Company. The management did not include transactions between the Group and AVICOPTER Group in the 2021 to 2023 estimation.

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We noted that the estimated transaction amount for the year ending 31 December 2021 are determined based on (i) the historical transaction amounts between the Group and AVIC Avionics Group for the year ended 31 December 2019 (we noted from the calculation that transaction amounts with AVIC Avionics Group represented approximately 100% of the total historical amounts in 2019); (ii) an annual growth rate of 10%; and (iii) an annual buffer of 10%. The estimated transaction amount for the two years ending 31 December 2023 are determined based on (i) the estimated transaction amounts in the previous year; (ii) an annual growth rate of 10%; and (iii) an annual buffer of 10%. As advised by the Management, such annual increases mainly cater for the increase in the Group's demand for products and labour services from AVIC Avionics Group taking into account the Group's expected sales volume. In this regard, as illustrated from the section above, the Group recorded an increase in revenue of approximately 17.80% and 11.11% respectively during FY2019 (as compared to FY2018) and during HY2020 (as compared to HY2019), which are in line with the expected increase of the aforementioned transaction amounts.

Having considered the above, we do not doubt the fairness and reasonableness of the estimated transaction amounts for each of the three years ending 31 December 2023. Accordingly, we also consider that the proposed annual caps of the Product, Service and Guarantee Transactions for each of the three years ending 31 December 2023 are fair and reasonable.

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(iv) The Deposit Services and the Deposit Cap Revision

Set out below are (i) the historical maximum daily deposit balance and the existing annual caps under the Existing Financial Services Framework Agreement; (ii) the proposed revised annual cap for the Deposit Services for the year ending 31 December 2020; and (iii) the proposed annual caps for the Deposit Services for the three years ending 31 December 2023:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ending 31 December 2020	
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	
Maximum daily				
outstanding balances of				
deposits (including				
accrued interests)				
placed by the Group				
Existing annual caps	11,000	11,000	11,000	
Historical transaction amounts	7,778	8,698	8,803	
			<i>(Note: for the six months ended 30 June 2020)</i>	
Utilisation rate	70.71%	79.07%	N/A	
	For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Maximum daily				
outstanding balances				
of deposits (including				
accrued interests)				
placed by the Group				
Proposed annual caps	23,000	35,000	35,000	35,000

In arriving at the proposed annual caps, the Management has considered, among other things, (i) the deposit of approximately RMB8.7 billion placed by the Group in AVIC Finance as in December 2019; (ii) the increase in the number of subsidiaries after the completion of the Acquisition; (iii) the deposit of approximately RMB11.5 billion placed by Harbin Aircraft, Changhe Aircraft and their respective subsidiaries in AVIC Finance as of January 2020; (iv) the cash and bank balances of the Group of approximately RMB12 billion as at 30 June 2020; (v) the expected payments as may be made by major customers and the expected payment schedule for the products provided by the Group (as enlarged by Harbin Aircraft and Changhe Aircraft and their respective subsidiaries) during the relevant period; (vi) the expected growth in the business of the Group and AVIC Group, leading to an increasing demand for Deposit Services with higher level of funds; and (vii) the fund management strategy of the Group of allocating a certain percentage of funds to AVIC Finance for more efficient use of funds available.

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For our due diligence purpose, we obtained and reviewed the calculation of the proposed annual caps of the transaction for the three years ending 31 December 2023. We noted that the calculation is based on the estimated deposit demand in AVIC Finance from the Company's subsidiaries for the each of three years ending 31 December 2023 and for the year ending 31 December 2020. As advised by the Management, the proposed annual caps for the Deposit Services and the Deposit Cap Revision are estimated and adjusted based on the estimated deposit demand provided by subsidiaries taking into account the Group's fund management strategy.

To assess the possible demand for cash deposits of the Group, we noted from the 2020 Interim Report that the Group had unaudited current assets of approximately RMB71.96 billion as at 30 June 2020, among which accounts and notes receivables, pledged deposits, term deposits with initial terms of over three months and cash and cash equivalents amounted to approximately RMB25.39 billion, RMB462.69 million, RMB924.84 million and RMB12.04 billion respectively.

In addition, as advised by the Management, the Group's demand for fund management is expected to increase taking into account the increase in the Group's scale after the completion of the Acquisition. In this regard, we noted from the Company's circular dated 6 January 2020 in relation to the Acquisition that the target group (i.e. AVIC Helicopter and its subsidiaries, including Harbin Aircraft and Changhe Aircraft) had audited total assets of approximately RMB30.53 billion as at 30 September 2019, among which accounts and notes receivables, pledged deposits and cash and cash equivalents amounted to approximately RMB378.40 million, RMB230.75 million and RMB7.22 billion respectively. Having considered (i) the increase in the Group's scale after the completion of the Acquisition and (ii) the increase in the Group's revenue as aforementioned (i.e. approximately 17.80% and 11.11% respectively during FY2019, as compared to FY2018, and during HY2020, as compared to HY2019), we do not doubt the Group's demand for Deposit Services.

Having considered the above, in particular, (i) that the proposed annual caps for the each of three years ending 31 December 2023 are based on the estimated deposit demand of the Company's subsidiaries and (ii) the Group's demand for Deposit Services (in particular after the completion of the Acquisition), we do not doubt the fairness and reasonableness of the estimated transaction amounts for each of the four years ending 31 December 2023. Accordingly, we also consider that the proposed annual caps of the Deposit Services and the Deposit Cap Revision for each of the four years ending 31 December 2023 are fair and reasonable.

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(v) *The Factoring Transactions*

Set out below are the proposed annual caps for the three years ending 31 December 2023:

	For the year ending 31 December 2021 <i>RMB'million</i>	For the year ending 31 December 2022 <i>RMB'million</i>	For the year ending 31 December 2023 <i>RMB'million</i>
Maximum daily outstanding factoring financing balance (including factoring prepayment, factoring fee and factoring handling charges)			
Proposed annual caps under AVIC Finance Factoring Services	1,200	1,200	1,200
Proposed annual caps under AVIC Lease Factoring Services	1,500	1,500	1,500

In arriving at the proposed annual caps, the Management has considered, among other things, (i) the total accounts receivable of the Group in the latest financial statements; (ii) after taking into account of the current operation plan and manufacturing plan of the Group and the potential business development and expansion of the Group, the Group believes that the demand for the Group's products and services and thus the expected sales volume thereof will increase accordingly. The expected increase in the sales volume will also stimulate the increase in the Group's accounts and notes receivables for 2021 to 2023, which will in turn promote the expected demand of the Group for accounts receivable financing services from AVIC Finance and AVIC Lease; and (iii) in order to improve the efficiency of capital utilization and satisfy the funding requirement for potential business development and expansion, the Group will adhere to alleviate capital occupation by accounts receivable factoring.

To assess the Group's possible demand for factoring services, we noted from the 2020 Interim Report that the Group accounts and notes receivables of approximately RMB25.39 billion (unaudited) and RMB21.67 billion (audited) respectively as at 30 June 2020 and 31 December 2019 respectively. The Group's scale of receivables far exceeds the proposed annual caps for the Factoring Transactions. Taking also into account of the Acquisition, which is expected to be completed by the end of 2020, we do not doubt the Group's demand for the Factoring Transactions.

As mentioned above, the Financial Services Framework Agreement and the Finance Lease and Factoring Framework Agreement do not restrict the Group from entering into factoring transactions with other financial institutions. The Management consider that the Factoring Transactions could provide flexibility for the Group's financial management.

Having considered the above, we do not doubt the fairness and reasonableness of the estimated transaction amounts for each of the three years ending 31 December 2023. Accordingly, we also consider that the proposed annual caps of the Factoring Transactions for each of the three years ending 31 December 2023 are fair and reasonable.

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(vi) *The Finance Lease Services*

With reference to the Board Letter, it is estimated that the maximum outstanding balance payable by the Group to AVIC Lease (inclusive of the outstanding principal amount and interest and other expenses deducting the deposit) in relation to the Finance Lease Services under the Finance Lease and Factoring Framework Agreement for each of the three years ending 31 December 2023 may amount to as much as RMB3 billion. The proposed annual caps for each of the direct lease service and the sale and leaseback service under the Finance Lease Services for the three years ending 31 December 2023 are as follows:

	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
	<i>RMB' billion</i>	<i>RMB' billion</i>	<i>RMB' billion</i>
Direct Lease	2	2	2
Sale and leaseback	2	2	2

In arriving at the proposed annual caps, the Management has considered, among other things, (i) the total value of right-of-use assets under existing direct lease agreements and the amount of assets subject to the existing sale and leaseback arrangements during the three years ending 31 December 2023; (ii) the Group's future development plans and its demand for the Finance Lease Services by AVIC Lease arising from the Group's daily operation and development (in the case of direct lease, the total value of right-of-use assets expected to be acquired by the Company, and in the case of the sale and leaseback, the amounts of the assets subject to finance lease arrangement) during the period; (iii) the nature, value and expected use life of the assets leased to the Group (including but not limited to wind turbines, auxiliary equipment and other general-purpose equipment, the expected use life of which range from 5 years to 12 years); and (iv) the capability and flexibility of AVIC Lease in providing Finance Lease Services to the Group.

To assess the Group's possible demand for Finance Lease Services, we noted from the 2020 Interim Report that the Group unaudited total assets of approximately RMB92.61 billion as at 30 June 2020, among which property, plant and equipment amounted to approximately RMB12.97 billion. The Group's scale of assets and property, plant and equipment far exceed the proposed annual caps for the Finance Lease Services. As advised by the Management, taking into account the business growth of the Group during FY2019 and HY2020 and the Acquisition, which is expected to be completed by the end of 2020, the Group's demand for the Finance Lease Services would further increase.

Having considered the above, we do not doubt the fairness and reasonableness of the estimated transaction amounts for each of the three years ending 31 December 2023. Accordingly, we also consider that the proposed annual caps of the Finance Lease Services for each of the three years ending 31 December 2023 are fair and reasonable.

Hong Kong Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the values of the Non-exempt Transactions and the deposit services under the Deposit Cap Revision must be restricted by their respective proposed annual caps; (ii) the terms of the Non-exempt Transactions and the deposit services under the Deposit Cap

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Revision (including the proposed annual caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Non-exempt Transactions and the deposit services under the Deposit Cap Revision must be included in the Company's subsequent published annual reports. Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Non-exempt Transactions and the deposit services under the Deposit Cap Revision (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the proposed annual caps. In the event that the total amounts of the Non-exempt Transactions and the deposit services under the Deposit Cap Revision are anticipated to exceed the proposed annual caps, or that there is any proposed material amendment to the terms of the Non-exempt Transactions and the deposit services under the Deposit Cap Revision, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Non-exempt Transactions and the deposit services under the Deposit Cap Revision and thus the interest of the Independent Shareholders would be safeguarded.

Recommendation on the transactions

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap are on normal commercial terms and are fair and reasonable; and (ii) the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap are in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Non-exempt Transactions and the proposed revision of the Original Deposit Services Cap and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*

1. FINANCIAL INFORMATION OF THE GROUP

The unaudited consolidated financial statements of the Company for the six months ended 30 June 2020 and the audited consolidated financial statements of the Company for the three years ended 31 December 2019 together with the relevant notes to the financial statements of the Company can be found on pages 17 to 58 of the interim report of the Company for the six months ended 30 June 2020, pages 100 to 244 of the annual report of the Company for the year ended 31 December 2019, pages 97 to 244 of the annual report of the Company for the year ended 31 December 2018 and pages 97 to 218 of the annual report of the Company for the year ended 31 December 2017.

Please also see below the hyperlinks to the interim report for the six months ended 30 June 2020 and the annual reports for the three years ended 31 December 2019 (in reverse chronological order), respectively.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0918/2020091800348.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0420/2020042000329.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0409/ltm20190409401.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0410/ltm20180410325.pdf>

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at 30 September 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group and AVIC Helicopter and its subsidiaries (together with the Group hereafter referred to as the “**Enlarged Group**”) had outstanding borrowings of approximately RMB11,517,439,000, comprising secured borrowings of RMB486,642,000 and unsecured borrowings of approximately RMB11,030,797,000. Included in the outstanding secured borrowings, amount of approximately RMB18,674,000, RMB400,500,000 and RMB67,468,000 were secured by account receivables, a future receivable right and buildings of the Enlarged Group respectively. Unsecured borrowings of approximately RMB740,009,000 are guaranteed by the Enlarged Group and a third party.

Lease liabilities

As at 30 September 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding lease liabilities of approximately RMB791,676,000, including secured leases liabilities of approximately RMB692,991,000 and unsecured leases liabilities of approximately RMB98,685,000. The outstanding secured lease payment of approximately RMB267,716,000, RMB206,728,000 and RMB218,547,000 are secured by land use right, plant and equipments and a future receivable right of the Enlarged Group respectively and not covered by any guarantees.

Contingent liabilities and guarantee

As at 30 September 2020, the Enlarged Group had issued guarantee in respect of banking facilities amounting to approximately RMB25,792,320,000 granted to a fellow subsidiary of the Group.

Pledge of assets

As at 30 September 2020, the Enlarged Group's secured bank and other borrowings, lease liabilities and banking facilities were secured by the Enlarged Group's accounts receivables, other receivables, plant and equipments and land use right.

Save as aforesaid and apart from intra-group liabilities and normal accounts and notes payable in the ordinary course of business of the Enlarged Group, the Enlarged Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, lease commitments, guarantees or other material contingent liabilities as at the close of business on the Latest Practicable Date.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Enlarged Group since the Latest Practicable Date.

3. SUFFICIENCY OF WORKING CAPITAL

As at the Latest Practicable Date, after due enquiry and taking into account the Deposit Services, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirement, that is for at least the next 12 months from the date of publication of this circular.

4. MATERIAL ACQUISITION SINCE LAST AUDITED ACCOUNTS

Since 31 December 2019, being the date to which the latest published audited accounts of the Group were made up, the Group has completed or proposed the following acquisition whose profits or assets make or will make a material contribution to the figures in the next published financial statements of the Group for the year ending 31 December 2020. The aggregate of the remuneration payable to and benefits in kind received by the Directors will not be varied in consequence of the Acquisition.

On 28 November 2019, the Company entered into the equity acquisition and share issuance agreement with AVIC and Tianjin Free Trade Zone Investment Company Limited* (天津保稅區投資有限公司) (“**Tianjin Free Trade Zone Investment**”), pursuant to which, the Company conditionally agreed to acquire (i) 68.75% and 31.25% equity interests in AVIC Helicopter held by AVIC and Tianjin Free Trade Zone Investment, respectively; (ii) 10.21% equity interests in Harbin Aircraft held by AVIC; and (iii) 47.96% equity interests in Changhe Aircraft held by AVIC, at a total consideration of approximately RMB5,687,537,050.94. Upon completion of the Acquisition, each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft will become a wholly-owned subsidiary of the Company. As confirmed by relevant regulatory authorities in the PRC and each party to the equity acquisition and share issuance agreement, the consideration for the Acquisition is proposed to be settled by issuance of the domestic shares of the

Company to AVIC and Tianjin Free Trade Zone Investment. The above transactions have been approved on the extraordinary general meeting convened on 13 February 2020. For details, please refer to the announcements of the Company dated 12 October 2018, 13 October 2019, 28 November 2019 and 13 February 2020, and the circular dispatched to the Shareholders dated 6 January 2020.

Saved as disclosed in this circular, since 31 December 2019, being the date to which the latest published audited accounts of the Group were made up, no member of the Group has acquired or agreed to be acquired or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the next published financial statements of the Group for the year ending 31 December 2020.

5. FINANCIAL AND TRADING PROSPECTS

2020 marks the decisive year of fighting against poverty and building a moderately prosperous society in all respects. Under the impact of the novel coronavirus pneumonia epidemic, the complexity of domestic and international economic landscape is unprecedented. For the second half of 2020, AVIC will actively respond to the international situation changes to ensure the stability of the industrial chain and supply chain. Adhering to deepening reforms, AVIC will continuously promote in-depth reform, coordinate and strive for the perfect ending of the “13th Five-Year Plan” and the strategic start of the “14th Five-Year Plan” in order to build an aviation power in the new era. The Group will take initiatives to progress in all respects, with the ambition of becoming the flagship company to provide high-tech aviation products and services for military and civil purposes. The Group will complete the project in relation to the acquisition of the AVIC Helicopter, facilitate the integration of the helicopter business, and display synergies in helicopter business. The Group will further push forward business integration upon the assets swap of Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司) (“**Hongdu Aviation**”), accelerate the implementation of intelligent production lines, deeply promote the automation and informatization of production and manufacturing business, and steadily improve the core manufacturing capacity. The Group will actively focus on the expanding opportunities in high-tech industry, such as 5G in communication field and data centre construction. At the same time, the Group will continue to improve corporate governance, promote internal operation efficiency, strengthen risk control, and ensure the company’s stable and healthy operation.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required: (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, are set out below:

Interests in the Shares, underlying shares and debentures of the Company

Name of Director/ Supervisor	Class of Shares	Capacity	Number of Shares ^(Note 1)	Approximate percentage of all Shares in issue ^(Note 2)
<i>Directors</i>				
Chen Yuanxian	H Shares	Beneficial owner	255,687 (L)	0.0041%
Yan Lingxi	H Shares	Beneficial owner	267,740 (L)	0.0043%
<i>Supervisors</i>				
Zheng Qiang	H Shares	Beneficial owner	239,687 (L)	0.0039%
	H Shares	Interest of spouse	1,000 (L)	0.0000%
Shi Shiming	H Shares	Beneficial owner	35,984 (L)	0.0006%

Notes: 1. (L) denotes long position.

2. The percentage is calculated based on 6,210,662,836 H Shares as at the Latest Practicable Date.

Interests in the Shares, underlying shares and debentures of AVIC Capital ^(Note 1)

Name of Director/Supervisor	Class of Shares	Capacity	Number of shares <i>(Note 2)</i>	Approximate percentage of total issued share capital
<i>Supervisor</i>				
Zheng Qiang	A shares	Beneficial owner/ Interest of spouse	126,400 (L)	0.0014%

Notes: 1. AVIC Capital is a subsidiary of AVIC, and is therefore an associated corporation (within the meaning of Part XV of the SFO) of the Company.

2. (L) denotes long position.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interests or short positions of the Company and its associated corporations (within the meaning of Part XV of the SFO): (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange; or (ii) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Hong Kong Listing Rules, required to be notified to the Company and the Hong Kong Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as the Directors are aware, the following person(s) (other than a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Class of Shares	Capacity	Number of Shares ^(Note 1)	Approximate percentage of shareholding to the same class of Shares ^(Note 2)	Approximate percentage of shareholding to all Shares in issue ^(Note 3)
AVIC ^(Note 4)	H Shares	Beneficial owner	3,297,780,902 (L)	53.10%	53.10%
		Interest in controlled corporation	201,750,667 (L)	3.25%	3.25%
		Total:	3,499,531,569 (L)	56.35%	56.35%
	Domestic shares ^(Note 2)	Beneficial owner	1,250,899,906 (L)	83.36%	20.14%
Tianjin Free Trade Zone Investment	Domestic shares ^(Note 2)	Beneficial owner	249,769,500 (L)	16.64%	4.02%
Airbus Group	H Shares	Beneficial owner	312,255,827 (L)	5.03%	5.03%

Note: 1. (L) denotes long position.

2. Pursuant to the equity acquisition and share issuance agreement dated 28 November 2019 in relation to the Acquisition, the Company proposed to issue a number of 1,500,669,406 domestic shares as the consideration for the Acquisition, among which, a number of 1,250,899,906 and 249,769,500 domestic shares will be issued to AVIC and Tianjin Free Trade Zone Investment, respectively. As at the Latest Practicable Date, the transaction is undergoing. The percentages in the column in respect of the domestic shares to be issued to AVIC and Tianjin Free Trade Zone Investment are calculated as if the Company had completed the issuance of 1,500,669,406 domestic shares as at the Latest Practicable Date.
3. The percentage is calculated based on 6,210,662,836 H Shares as at the Latest Practicable Date.
4. Among 3,499,531,569 H Shares, 3,297,780,902 H Shares were directly held by it as beneficial owner, 183,404,667 H Shares were held through AVIC Airborne Systems Company Limited* (中航機載系統有限公司), its subsidiary, and 18,346,000 H Shares were held through China Aviation Industry (HK) Company Limited* (中國航空工業集團(香港)有限公司), its subsidiary.

Save and except that (i) Mr. Chen Yuanxian (an executive Director) was the vice general manager of AVIC; and (ii) Mr. Yang Lingxi (a non-executive Director) was a departmental director of AVIC, none of the Directors was also a director and/or employee of the above substantial shareholders.

4. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors or supervisors had any direct or indirect interest in any asset which had been, since 31 December 2019, being the date up to which the latest published audited accounts of the Company were made, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

None of the Directors or supervisors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

6. CONSENT AND QUALIFICATION OF EXPERT

The following are the qualifications of the expert who have given opinions or advice contained in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram Capital did not have shareholding interest in any member of the Group or any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any assets which has been, since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and references to its name included in this circular in the form and context in which it is included.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

8. NO MATERIAL ADVERSE CHANGE

The Directors are of the opinion that since 31 December 2019, being the date up to which the latest published audited accounts of the Group have been made, there have been no material adverse changes in the financial or trading position of the Group.

9. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

10. MISCELLANEOUS

- (a) Mr. Xu Bin, the company secretary of the Company, is a master degree holder and a senior economist. Mr. Xu graduated from Nanchang University in 2000 majoring in law, and then obtained an MBA degree in 2012 from Beijing University of Aeronautics and Astronautics. Mr. Xu served as a lawyer at Jiangxi Ganxing Law Firm since June 2000, and in-house legal counsel at Jiangxi Hongdu Aviation Industry Group Co., Ltd.* (江西洪都航空工業集團有限責任公司) (“**Hongdu Group**”) since October 2001. He also successively served as senior manager, head assistant, and deputy head of the Securities and Legal Department of the Company from February 2003 to June 2014. Mr. Xu has been serving as director of Chengdu CAIC Electronics Co., Ltd.* (成都凱天電子股份有限公司) (“**AVIC Kaitian**”) since 1 December 2013 and the head of the Compliance Department of the Company since June 2014. Mr. Xu has been serving as the Board Secretary of the Company since August 2020.
- (b) The registered address of the Company is situated at 2nd floor, Building 27, No. 26 Xihuan South Street, Beijing Economic-Technological Development Area, Beijing, PRC. The registrar of the Company is Computershare Hong Kong Investor Services Limited, whose address is at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (c) The principal place of business of the Company in Hong Kong is at Unit 2202A, 22th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

11. MATERIAL CONTRACTS

The particulars of material contracts (not being contracts entered into in the ordinary course of business) entered into by the member of the Group within the two years immediately preceding the issue of this circular are set out as follows:

- (a) The subscription agreement entered into between AviChina Hong Kong Limited* (中航科工香港有限公司) (“**AviChina Hong Kong**”), AVIC Cabin System Co., Limited* (中航客艙系統有限公司) (“**AVIC Cabin**”) and AVIC Capital International Holding Co., Limited* (中航資本國際控股有限公司) (“**AVIC Capital International**”) dated 6 November 2018, and the equity transfer agreement entered into between the Company, AVIC Aerospace Life-Support Industries, Ltd.* (航宇救生裝備有限公司) (“**AVIC Life-Support**”), AVIC International

Development Aero-Development Corporation* (中航國際航空發展有限公司) (“**AVIC International Development**”) and AVIC Cabin dated the same date. Pursuant to the subscription agreement, AVIC Cabin has conditionally agreed to allot and issue 276,281,994 shares and each of AviChina Hong Kong and AVIC Capital International has conditionally agreed to subscribe for 138,140,997 shares of AVIC Cabin for a consideration of RMB500 million in cash, respectively. Pursuant to the equity transfer agreement, the Company, AVIC Life-Support and AVIC International Development conditionally agreed to transfer all their equity interest in AVIC Hubei Ali-Jiatai Aircraft Equipment Co., Ltd.* (湖北航宇嘉泰飛機設備有限公司), representing 24.78%, 54.35% and 10.00% of equity interest, to AVIC Cabin for a consideration of 15,777,395, 34,604,577 and 6,366,987 new shares of AVIC Cabin, respectively. Details of the agreements are set out in the announcement of the Company dated 6 November 2018.

- (b) The placing agreement entered into between the Company and China International Capital Corporation Hong Kong Securities Limited (as the placing agent) dated 14 December 2018, in relation to the placing, on a fully underwritten basis, of an aggregate of 279,000,000 H shares at the placing price of HK\$4.90 per placing share. Details of the agreement are set out in the announcement of the Company dated 14 December 2018.
- (c) The asset swap agreement entered into between Hongdu Group dated 31 May 2019, pursuant to which Hongdu Aviation agreed to (i) acquire the defence business related assets (“**Acquisition Assets**”) from Hongdu Group; and (ii) dispose of the parts and components manufacturing business related assets (“**Disposal Assets**”) to Hongdu Group. The consideration for the acquisition of the Acquisition Assets is RMB1,362,424,500, and 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, and 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 Assets and the Disposal Assets (being RMB846,037,800) to Hongdu Aviation in cash. For details, please refer to the announcement of the Company dated 31 May 2019 and the circular dated 23 July 2019.
- (d) The equity acquisition and share issuance agreement entered into between the Company, AVIC and Tianjin Free Trade Zone Investment dated 28 November 2019, pursuant to which, the Company conditionally agreed to acquire (i) 68.75% and 31.25% equity interests in AVIC Helicopter held by AVIC and Tianjin Free Trade Zone Investment, respectively; (ii) 10.21% equity interests in Harbin Aircraft held by AVIC; and (iii) 47.96% equity interests in Changhe Aircraft held by AVIC, at a total consideration of approximately RMB5,687,537,050.94. Upon completion of the Acquisition, each of AVIC Helicopter, Harbin Aircraft and Changhe Aircraft will become a wholly-owned subsidiary of the Company. As confirmed by relevant regulatory authorities in the PRC and each party to the equity acquisition and share issuance agreement, the consideration for the Acquisition is proposed to be settled by issuance of the domestic shares of the Company to AVIC and Tianjin Free Trade Zone Investment. For details, please refer to the announcement of the Company dated 28 November 2019 and the circular dated 6 January 2020.

- (e) The equity transfer agreements entered into by AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd.* (中航科工智繪航空科技有限公司) (“**AviChina Intelligent**”) dated 18 February 2020 to dispose of its existing equity interest in AVIC Jincheng Unmanned System Co., Ltd.* (中航金城無人系統有限公司) (“**AVIC Jincheng Unmanned**”), namely, (1) the equity transfer agreement I with the Company in relation to the transfer of 19.19% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB43,763,072; (2) the equity transfer agreement II with Tianjin Aviation Mechanical and Electrical Co., Ltd.* (天津航空機電有限公司) (“**Tianjin Aviation**”) in relation to the transfer of 2.47% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB5,626,681; (3) the equity transfer agreement III with Shanghai Aviation Electronics Co. Ltd.* (上海航空電子有限責任公司) in relation to the transfer of 5.48% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB12,503,735; and (4) the equity transfer agreement IV with AVIC Jincheng Nanjing Mechanics-electronics-hydraulics Research Center* (中國航空工業集團公司金城南京機電液壓工程研究中心) in relation to the transfer of 2.06% of the equity interest in AVIC Jincheng Unmanned at the consideration of RMB4,688,901. For details, please refer to the announcement of the Company dated 18 February 2020.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong up to and including Friday, 11 December 2020:

- (a) the letter from the Board dated 10 November 2020, the text of which is set out on pages 9 to 50 of this circular;
- (b) the letter of recommendation dated 10 November 2020 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 51 of this circular;
- (c) the letter of advice dated 10 November 2020 from Gram Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 52 to 85 of this circular;
- (d) the agreements in connection with the Non-exempt Transactions and the Existing Financial Services (Supplemental) Framework Agreement referred to in this circular;
- (e) the written consent from the expert referred to in paragraph 6 of this appendix;
- (f) the material contracts of the Company referred to in paragraph 11 of this appendix;
- (g) the Articles of Association;
- (h) the annual reports of the Company for the three financial years ended 31 December 2019 and the interim report of the Company for the six months ended 30 June 2020;

- (i) the circular of the Company dated 23 July 2019 in relation to the asset swap comprising (1) acquisition of national defence related assets; and (2) disposal of parts and components manufacturing assets;
- (j) the circular of the Company dated 6 January 2020 in relation to the Acquisition; and
- (k) this circular.

NOTICE OF EGM



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)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (“EGM”) of AviChina Industry & Technology Company Limited (the “Company”) will be held at 9:00 a.m. on Friday, 11 December 2020, at Avic Hotel, No. 10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC to consider and approve the following resolutions. Unless otherwise indicated, capitalized terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 10 November 2020 (the “Circular”):

ORDINARY RESOLUTIONS

1. **“THAT** the terms of the Mutual Product Supply Agreement and the proposed annual caps in respect thereof for the three financial years ending 31 December 2023 be and are hereby approved, ratified and confirmed; and any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”
2. **“THAT** the terms of the Mutual Service Supply Agreement and the proposed annual caps in respect of the revenue transactions thereunder for the three financial years ending 31 December 2023 be and are hereby approved, ratified and confirmed; and any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”
3. **“THAT** the terms of the Mutual Product and Service Supply and Guarantee Agreement and the proposed annual caps in respect of the expenditure transactions thereunder for the three financial years ending 31 December 2023 be and are hereby approved, ratified and confirmed;

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and any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”

4. “**THAT** the terms of the Financial Services Framework Agreement and the proposed caps in respect of the Deposit Services and AVIC Finance Factoring Services thereunder for the three financial years ending 31 December 2023 be and are hereby approved, ratified and confirmed; and any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”
5. “**THAT** the terms of the Finance Lease and Factoring Framework Agreement and the proposed caps in respect of the Finance Lease Services (both direct lease and sale and leaseback transactions) and AVIC Lease Factoring Services thereunder for the three financial years ending 31 December 2023 be and are hereby approved, ratified and confirmed; and any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”
6. “**THAT** the revision of the maximum outstanding daily balance of Deposit Services for 2020 under the Existing Financial Services (Supplemental) Framework Agreement, be and are hereby approved, ratified and confirmed; and any Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deem fit.”
7. “**THAT** the appointment of Mr. Zhao Hongwei as an executive Director of the Company with a term of office commencing from the approval at the EGM until the date on which the term of the sixth session of the Board will expire, the grant of an authorization to the executive

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Director of the Company to sign the relevant service contract on behalf of the Company with him and the grant of an authorization to the remuneration committee of the Company to determine his remuneration.”

SPECIAL RESOLUTION

8. **“THAT:**

- (1) subject to the required approval or endorsement from or registration with the relevant regulatory authorities in the PRC, the proposed amendments to the Articles of Association (details of which are set out in the paragraph headed “Proposed Amendments to the Articles of Association” in the letter from the Board contained in the Circular) be and are hereby approved and confirmed; and
- (2) any one of the Directors or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect to the proposed amendments to the Articles of Association, including, without limitation, to obtain all necessary approvals from the relevant regulatory authorities in the PRC, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder, as such Director or authorized representative may in his absolute discretion deem fit.”

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

Beijing, 10 November 2020

As at the date of this notice, 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*

NOTICE OF EGM

Notes:

1. CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY TO ATTEND AND VOTE AT THE EGM

Pursuant to Article 41 of the Articles of Association, the H Share register of members of the Company will be closed from Saturday, 21 November 2020 to Friday, 11 December 2020 (both days inclusive), during which period no transfer of H shares will be registered. Shareholders whose names appear on the Company's Register of Members at the opening of business on Friday, 11 December 2020 are entitled to attend and vote at the EGM.

In order to be eligible to attend and vote at the EGM, Shareholders of the Company shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company's H shares Registrar, not later than 4:30 p.m. on Friday, 20 November 2020 at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong.

2. REGISTRATION PROCEDURES FOR ATTENDING THE EGM

- a. The Shareholder or its proxies shall produce its identification proof. If a corporation Shareholder's legal representative or any other person authorized by the board of directors or other governing body of such corporate Shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.
- b. Shareholders who wish to attend the EGM must complete the reply slip to confirm the attendance, and return the same to the correspondence address designated by the Company not later than 20 days before the date of the EGM, i.e. on or before Friday, 20 November 2020.
- c. Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.

3. PROXIES

- a. Any Shareholder who is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his behalf at the EGM. A proxy needs not be a Shareholder. Any Shareholder who wishes to appoint a proxy should first review the form of proxy for use in the EGM.
- b. Any Shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the board of the body corporate or by attorneys duly authorized. If the instrument is signed by an attorney of the appointer, the power of attorney authorizing the attorney to sign or other documents of authorization must be notarially certified. In order to be valid, for holders of H Shares, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered to Computershare Hong Kong Investor Services Limited, the Company's H Share registrar, at 17M Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM and return of a form of proxy will not preclude a Shareholder from attending EGM or any adjournment thereof (as the case may be) in person and voting at the EGM if he or she so wishes.

NOTICE OF EGM

- 4. THE EGM IS EXPECTED TO LAST FOR HALF A DAY. SHAREHOLDERS ATTENDING THE MEETING ARE RESPONSIBLE FOR THEIR OWN TRANSPORTATION AND ACCOMMODATION EXPENSES.**

Designated address of the Company:

Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the PRC (Postal code: 100029)

Telephone No: 86-10-58354335/4313 Facsimile No: 86-10-58354310

Attention: Mr. Liu Kai/Mr. Hao Weidi

- 5. Resolutions above will be voted by poll by the Independent Shareholders.**