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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)

**FURTHER ANNOUNCEMENT
CONNECTED TRANSACTIONS
CAPITAL INCREASE IN XINGHUA HUAYI**

Reference is made to the announcement of AviChina Industry & Technology Company Limited* (the “**Company**”) dated 29 October 2020 in relation to the capital increase in Xinghua Huayi (the “**Announcement**”). Capitalised terms used herein shall have the same meaning as they were defined in the Announcement unless the context otherwise specified.

COMPLIANCE WITH THE HONG KONG LISTING RULES

As disclosed in the Announcement, RMB69.69 million, being the capital contribution to be made by JONHON Optronics to Xinghua Huayi as set out in the Capital Increase Agreement, is determined by the parties after arm’s length negotiations with reference to, among other things, the appraised value of the Disposed Assets as set out in the valuation report prepared by Beijing Guorongxinhua Assets Appraisal Co., Ltd. *(北京國融興華資產評估有限責任公司) (“**Beijing Guorong**”), a professional independent PRC valuer, based on income approach as at the Valuation Benchmark Date.

Since the income approach is adopted by Beijing Guorong for preparing the valuation report mentioned above in respect of the valuation of the Disposed Assets, such valuation constitutes a profit forecast under Rule 14.61 of the Hong Kong Listing Rules. Accordingly, the Company discloses the following valuation details in compliance with Rule 14.62 of the Hong Kong Listing Rules.

PROFIT FORECAST IN RELATION TO THE VALUATION METHOD

Pursuant to the valuation report prepared by Beijing Guorong, details of the principal assumptions, including commercial assumptions upon which the profit forecast for Disposed Assets is based, are set out as follows:

(I) Basic Assumptions

1. Open market assumption assumes that the parties of the assets transaction or the proposed assets transaction in the market are in equal position and have opportunities and time to obtain sufficient market information, so as to make rational judgments on the functions, purposes and transaction prices of the assets.
2. Transaction assumption assumes that all the assets to be evaluated are already in the process of transaction and the valuer carries out the valuation based on a simulated market which involves the transaction conditions of the assets to be valued. Transaction assumption is the most fundamental assumption for the valuation of assets.
3. Going-concern assumption assumes that the property holder will not cease to operate for various reasons in the foreseeable future based on the conditions of existing assets and resources, but will operate legally and on a going-concern basis.

(II) General Assumptions

1. It is assumed that there is no material change in the current laws, regulations and policies, and the macroeconomic situation of the country, and there is no material change in the political, economic and social environment of the regions where the parties to this transaction are located;
2. In view of the actual condition of assets as of the Valuation Benchmark Date, it is assumed that the company operates on a going-concern basis;
3. It is assumed that there is no material change in the interest rate, exchange rate, tax base and tax rate, policy levy and other expenses relevant to the property holder after the Valuation Benchmark Date;
4. It is assumed that the management of the property holder after the Valuation Benchmark Date is responsible, stable, and capable of assuming its duties;
5. Unless otherwise stated, it is assumed that the company fully complies with all relevant laws and regulations;
6. It is assumed that all the parameters deriving from the valuation are determined in accordance with the current price system, without taking into account of the impact of inflation factors after the Valuation Benchmark Date;
7. It is assumed that there is no force majeure and unforeseen factors after the Valuation Benchmark Date, which will have a significant adverse effect on the property holder.

(III) Special Assumptions

1. It is assumed that the accounting policies adopted by the property holder after the Valuation Benchmark Date and the accounting policies adopted in preparing this asset valuation report are consistent in material aspects;

2. It is assumed that the operator of the property holder is responsible, fully abides by all relevant laws and regulations, and the management is capable of assuming its duties;

3. It is assumed that the accounting policies that the property holder will adopt in the future and the accounting policies adopted in preparing this report are consistent in material aspects;

4. It is assumed that the business scope and method of the property holder will not change significantly in the future business period, its main business structure, revenue cost composition, and future business sales strategy and cost control will continue to maintain its status in recent years without material changes. Future changes in operating capabilities, business scale, business structure, etc. that may be caused by changes in management, business strategy, additional investment and business environment are not taken into account despite of the fact that they are likely to occur. The valuation is based on the assumption that business capacity, business scale and business model operate on a going-concern basis, regardless of special changes caused by possible overrun or reduction in production;

5. It is assumed that the property holder only needs to update the amortization (depreciation) of the existing assets in each future year under the premise of maintaining the existing business scale. When the accumulated depreciation of the assets is close to the original value of the assets or when the net value of the assets is close to the estimated residual value of the assets, it is assumed that the depreciation of the assets has been completed and the assets shall be supplemented and updated according to the original value of the assets. When expenses are incurred in updating the assets, the original residual value of the assets is scrapped, and the depreciation is drawn according to the updated original value of the assets until the end of the operation period;

6. It is assumed that in the future operation period of the property holder, the fees incurred in the course of operation, management or others will not change significantly from the existing basis, and will maintain its trend in recent years, and will vary synchronously with the change of operation scale;

7. It is assumed that the property holder can continue to use the existing real estate and equipment, and will not bear any expenses incurred in changes in asset ownership and restructuring plans in the future;

8. It is assumed that the preferential tax policies currently enjoyed by the property holder could continue to be enjoyed on the same basis in 2019 and later.

ShineWing Certified Public Accountant LLP ("**ShineWing**"), the reporting accountant of the Company, has reviewed the arithmetical accuracy of the calculations of the relevant forecasts, which do not involve the adoption of accounting policies. The Board has confirmed that the profit forecast of Disposed Assets in the valuation report has been made after due and careful enquiry by the Board. Letters from ShineWing and the Board are set out respectively in Appendix I and Appendix II to this announcement.

The followings are the qualifications of each expert who has provided its conclusion or advice, which is contained in this announcement:

Name	Qualification	Date of conclusion or advice
ShineWing	Certified Public Accountants	19 November 2020
Beijing Guorong	Qualified PRC valuer	7 August 2020

As at the date of this announcement, as far as the Directors are aware, each of the experts was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group.

Each of the experts has given and has not withdrawn its written consent to the issue of this announcement with the inclusion herein of its letter and/or references to its name in the form and context in which they respectively appear.

REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE

The Company would like to further disclose that the transfer of Disposed Assets from JONHON Optronic to Xinghua Huayi, as an intragroup transaction, is conducive to the Company's revitalization of the assets in relation to rail transportation business of JONHON Optronic and utilization of Xinghua Huayi's business to achieve resource optimisation and integration and asset appreciation. It will facilitate the Company to expand its rail transportation business and improve its market share accordingly.

The Fund, as a strategic investor, will make a capital contribution to Xinghua Huayi in cash, which will increase the cash flow of Xinghua Huayi. The Company considers that it is common in the market for such a strategic investor to seek for a similar option to facilitate its exit in the future. As Xinghua Huayi will remain as a subsidiary of JONHON Optronic upon completion of the Capital Increase and JONHON Optronic holds a positive attitude towards the future development of Xinghua Huayi, the Company considers that the grant of option by JONHON Optronic to the Fund will not have any adverse effect on the Company.

The Directors (including the independent non-executive Directors) are of the view that the Capital Increase is not in the ordinary and usual course of business of the Company and its subsidiaries.

GENERAL INFORMATION

As disclosed in the Announcement, Employees' Shareholding Platform is proposed to be a limited partnership for the purpose of adopting the employee share incentive plan of Xinghua Huayi. The Company would like to further disclose that according to the plan, the target grantees, all being employees of Xinghua Huayi, will utilise their own capital to make capital contributions in cash to set up the Employees' Shareholding Platform. Upon establishment, the Employees' Shareholding Platform will make a capital contribution to Xinghua Huayi according to the Capital Increase Agreement, and will hold 5.00% of the equity interest in Xinghua Huayi upon completion of the Capital Increase. As to the general partner of the Employees' Shareholding Platform, it is tentatively proposed that a senior management personnel

of Xinghua Huayi will serve this role, who will also be an independent third party of the Company.

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

Beijing, 19 November 2020

As at the date of this announcement, the Board comprises executive Directors Mr. Chen Yuanxian and Mr. Wang Xuejun, non-executive Directors Mr. Yan Lingxi, Mr. Lian Dawei, and Mr. Xu Gang as well as independent non-executive Directors Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin.

** For identification purposes only*

APPENDIX I – LETTER FROM SHINEWING

The following is the text of the letter dated 19 November 2020 from ShineWing, Certified Public Accountants, which was prepared for inclusion in this announcement.

19 November 2020

Directors

AviChina Industry & Technology Company Limited

Tower A, No. 14 Xiaoguangdongli, Andingmenwai, Chaoyang District, Beijing, the PRC

REPORTING ACCOUNTANTS' REPORT ON DISCOUNTED CASH FLOWS FORECAST IN CONNECTION WITH THE VALUATION OF RAIL TRANSPORTATION BUSINESS ASSETS

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flows forecast (the “**Forecast**”) on which the valuation dated 7 August 2020 prepared by Beijing Guorongxinghua Assets Appraisal Co., Ltd. *(北京國融興華資產評估有限責任公司) in respect of rail transportation business assets as at 31 October 2019 is based. The valuation is set out in the announcement issued by AviChina Industry & Technology Company Limited (the “**Company**”) on 29 October 2020 in relation to the proposed capital contribution to Shenyang Xinghua Huayi Rail Transportation Electric Appliance Co., Ltd.* (瀋陽興華華億軌道交通電器有限公司) with rail transportation business assets (the “**Announcement**”). The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors' Responsibilities

The directors of the Company (the “**Directors**”) are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed “Valuation Assumptions” of the valuation report.

Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than those conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of rail transportation business assets. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

ShineWing Certified Public Accountants LLP

Beijing, the PRC

APPENDIX II – LETTER FROM THE BOARD

The following is the text of the letter dated 19 November 2020 from the Board which was prepared for inclusion in this announcement.

To: Listing Division of The Stock Exchange of Hong Kong Limited
12th Floor, Two Exchange Square,
8 Connaught Place, Central, Hong Kong

Dear Sir/Madam,

Company: AviChina Industry & Technology Company Limited* (the “**Company**”)

Re: Profit forecast – confirmation letter under the requirements of Rule 14.62(3) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”)

Reference is made to the announcement of the Company dated 29 October 2020 in relation to the valuation report (the “**Valuation Report**”) dated 7 August 2020 in respect of the valuation of the assets in relation to rail transportation business held and used by AVIC JONHON Optronic Technology Co., Ltd.* (中航光電科技股份有限公司) for capital contribution to Shenyang Xinghua Huayi Rail Transportation Electric Appliance Co., Ltd.* (瀋陽興華華億軌道交通電器有限公司) prepared by Beijing Guorongxinghua Assets Appraisal Co., Ltd.* (北京國融興華資產評估有限責任公司) (the “**Valuer**”) using the income approach.

The board of directors of the Company has reviewed the basis and assumptions of the aforesaid valuation and discussed the same with the Valuer and ShineWing Certified Public Accountant LLP, the reporting accountant of the Company (the “**Reporting Accountant**”). The board of directors of the Company has also considered the confirmation letter issued by the Reporting Accountant on 19 November 2020 in relation to the calculations of the profit forecast in the Valuation Report.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the board of directors of the Company confirmed that the profit forecast used in the aforesaid Valuation Report has been made after due and careful enquiry.

The Board of Directors
AviChina Industry & Technology Company Limited*

19 November 2020