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中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2357)

CONNECTED TRANSACTIONS

CAPITAL REDUCTION OF AVICHINA INTELLIGENT AND EXIT OF SHAREHOLDERS

On 21 December 2020, the Company Shareholders (namely the Company and Tianjin Aviation), the Connected Shareholders (namely Shanghai Aviation Electronics, AVIC International Aero-Development, Jincheng Nanjing and AVIC Guizhou Aircraft), Dazhong Flight, the Natural Person Shareholders and AviChina Intelligent entered into the Capital Reduction Agreement, pursuant to which AviChina Intelligent will carry out the Capital Reduction and the Company Shareholders and the Connected Shareholders will withdraw their respective capital contribution at a total consideration of RMB146,419,600.

Upon completion of the Capital Reduction, the Company will cease to hold any equity interest in AviChina Intelligent, and Dazhong Flight together with the Natural Person Shareholders, collectively, will hold 100% equity interest in AviChina Intelligent, among which 99.9988% will be held by Dazhong Flight and the remaining 0.0012% will be evenly held by the Natural Person Shareholders.

As at the date of this announcement, AVIC is the controlling Shareholder of the Company. Each of Shanghai Aviation Electronics, AVIC International Aero-Development, Jincheng Nanjing and AVIC Guizhou Aircraft is a subsidiary of AVIC and is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. AviChina Intelligent is a subsidiary of the Company with over 10% equity interest held by the Connected Shareholders, thus is a connected subsidiary of the Company.

The exit of the Connected Shareholders from AviChina Intelligent as well as the disposal of AviChina Intelligent resulting from the exit of the Company Shareholders constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of each of the above transactions under the Capital Reduction Agreement is more than 0.1% but less than 5%, the entering into of the Capital Reduction Agreement is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement.

A. INTRODUCTION

On 21 December 2020, the Company Shareholders (namely the Company and Tianjin Aviation), the Connected Shareholders (namely Shanghai Aviation Electronics, AVIC International Aero-Development, Jincheng Nanjing and AVIC Guizhou Aircraft), Dazhong Flight, the Natural Person Shareholders and AviChina Intelligent entered into the Capital Reduction Agreement, pursuant to which AviChina Intelligent will carry out the Capital Reduction and the Company Shareholders and the Connected Shareholders will withdraw their respective capital contribution at a total consideration of RMB146,419,600.

Upon completion of the Capital Reduction, the Company will cease to hold any equity interest in AviChina Intelligent, and Dazhong Flight together with the Natural Person Shareholders, collectively, will hold 100% equity interest in AviChina Intelligent, among which 99.9988% will be held by Dazhong Flight and the remaining 0.0012% will be evenly held by the Natural Person Shareholders.

B. THE CAPITAL REDUCTION AGREEMENT

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

1. Date

21 December 2020

2. Parties

- (1) the Company, Tianjin Aviation, Shanghai Aviation Electronics, AVIC International Aero-Development, Jincheng Nanjing, AVIC Guizhou Aircraft (each as an exit shareholder);
- (2) Dazhong Flight (as the remaining shareholder); and
- (3) Natural Person Shareholders, namely Bian Lanjun, Hao Feng, Luo Shiwang, Xiong Feng, Zhang Qi and Zhang Xiaohan (as the remaining shareholders)
- (4) AviChina Intelligent (as the target company).

3. Capital Reduction

AviChina Intelligent will carry out the Capital Reduction and the Company Shareholders and the Connected Shareholders will withdraw their respective capital contribution.

The registered capital of AviChina Intelligent will be reduced from RMB220.50 million to RMB45.97 million, and Dazhong Flight together with the Natural Person Shareholders, collectively, will hold 100% equity interest in AviChina Intelligent, among which 99.9988% will be held by Dazhong Flight and the remaining 0.0012% will be evenly held by the Natural Person Shareholders.

4. Consideration

Below set out the paid-up capital contribution to AviChina Intelligent by each of its shareholder and the respective percentage as at the date of the announcement as well as respective consideration for the Capital Reduction to be paid by AviChina Intelligent to each exit shareholder under the Capital Reduction Agreement:

Name of shareholder	Paid-up capital contribution (RMB)	Percentage to the total paid-up capital contribution (%)	Consideration for the Capital Reduction (RMB)
the Company	70,000,000	32.61	60,765,196
Shanghai Aviation Electronics	20,000,000	9.32	17,361,485
Tianjin Aviation AVIC	9,000,000	4.19	7,812,668
International Aero-Development	8,000,000	3.73	6,944,594
Jincheng Nanjing	7,500,000	3.49	6,510,557
AVIC Guizhou Aircraft	54,171,750	25.24	47,025,100
Dazhong Flight	45,969,400	21.42	N/A
Bian Lanjun	100	0.0000466	N/A
Hao Feng	100	0.0000466	N/A
Luo Shiwang	100	0.0000466	N/A
Xiong Feng	100	0.0000466	N/A
Zhang Qi	100	0.0000466	N/A

Zhang Xiaohan	100	0.0000466	N/A
Total	214,641,750	100	146,419,600

The consideration for the Capital Reduction was determined after arm's length negotiations among the parties after taking into account the appraised value of AviChina Intelligent as of the Valuation Benchmark Date as set out in the valuation report which was prepared by a professional independent PRC valuer based on asset-based approach (after deducting expenses such as relevant taxation as agreed by each party), and the respective percentage of paid-up capital contribution made by the above exit shareholders of AviChina Intelligent.

5. Payment

The consideration for the Capital Reduction shall be paid by AviChina Intelligent in a lump sum by way of cash and/or transferring back the non-monetary assets as original capital contribution.

6. Change of Name

Dazhong Flight and the Natural Person Shareholders, the remaining shareholders upon completion of the Capital Reduction, agreed to procure AviChina Intelligent to change its name into Shanghai Intelligent Surveying & Mapping Science & Technology Co., Ltd.* (上海智繪航空科技有限公司) (subject to the final approval by the authorities for market regulation and administration) upon the next day when AviChina Intelligent fully pays the consideration for the Capital Reduction.

C. REASONS FOR AND BENEFITS OF THE ENTERING INTO OF THE CAPITAL REDUCTION AGREEMENT

Considering the change in the Group's strategic layout in the unmanned aerial vehicle industry, the Company has achieved direct investment and holding in AVIC Jincheng Unmanned System Co., Ltd.* (中航金城無人系統有限公司) and operation and management of the unmanned aerial vehicle business of the Group through such platform by means of acquisition at the beginning of this year. In order to lower the management hierarchy and improve management efficiency, the Group together with the Connected Shareholders decided to withdraw their capital contribution in AviChina Intelligent. Thus, the Group considers that withdrawal from AviChina Intelligent will not cause material adverse effect on the Group's operations.

D. FINANCIAL EFFECT OF THE CAPITAL REDUCTION

As at the date of the announcement, AviChina Intelligent is a non-wholly-owned subsidiary of the Company. Upon completion of the Capital Reduction, the Company will cease to hold any equity interest in AviChina Intelligent, and AviChina Intelligent will no longer be consolidated to the financial statements of the Company.

The Capital Reduction generated a book gain of approximately RMB26 million, being the difference between the book value of AviChina Intelligent as of 30 June

2020 and the consideration of the Capital Reduction to be paid to the Group in cash. The Group intends to use the proceeds to supplement its general working capital.

E. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC is the controlling Shareholder of the Company. Each of Shanghai Aviation Electronics, AVIC International Aero-Development, Jincheng Nanjing and AVIC Guizhou Aircraft is a subsidiary of AVIC and is therefore a connected person of the Company pursuant to the Hong Kong Listing Rules. AviChina Intelligent is a subsidiary of the Company with over 10% equity interest held by the Connected Shareholders, thus is a connected subsidiary of the Company.

The exit of the Connected Shareholders from AviChina Intelligent as well as the disposal of AviChina Intelligent resulting from the exit of the Company Shareholders constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of each of the above transactions under the Capital Reduction Agreement is more than 0.1% but less than 5%, the entering into of the Capital Reduction Agreement is subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement.

Mr. Yan Lingxi, the Director, who is a department chief of AVIC, respectively, had abstained from voting on the relevant Board resolution approving the Capital Reduction Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save for disclosed above, none of the other Directors has or is deemed to have a material interest in the transactions contemplated under the Capital Reduction Agreement.

The Capital Reduction Agreement is entered into by the parties on normal commercial terms after arm's length negotiations. The Directors (including the independent non-executive Directors) are of the view that although the Capital Reduction Agreement and the transactions contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms of the Capital Reduction Agreement are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

F. GENERAL INFORMATION

Information on the Company

The Company is a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange. The Company is mainly engaged in the research and development, manufacture and sales of aviation products, and relevant engineering services.

Information on Tianjin Aviation

Tianjin Aviation is a limited liability company incorporated in the PRC. As at the date of this announcement, Tianjin Aviation is a wholly-owned subsidiary of the Company. It is mainly engaged in the research and development, manufacture and sale of aviation secondary power distribution system and fireproofing system.

Information on AVIC and the Connected Shareholders

AVIC is controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products. AVIC is the controlling Shareholder of the Company, holding, directly and indirectly, 56.35% equity interest in the Company as at the date of this announcement.

Each of the Connected Shareholders is a limited liability company incorporated in the PRC, and is a subsidiary of AVIC as at the date of the announcement.

Shanghai Aviation Electronics is mainly engaged in the manufacturing of aviation and civil electronics and devices, and the importation and exportation of goods and technologies.

AVIC International Aero-Development is mainly engaged in the import and export business of transportation and mechanical equipment and joint investment and manufacture business.

Jincheng Nanjing is mainly engaged in the research on mechanical and electrical systems engineering.

AVIC Guizhou Aircraft is mainly engaged in the research and development, manufacturing of aircraft and parts and components.

Information on Dazhong Flight

Dazhong Flight is a partnership enterprise incorporated in the PRC on 30 April 2015, and is mainly engaged in investment in industrial projects. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Dazhong Flight and its ultimate beneficial owner, being Mr. Yang Shaowen, a Chinese citizen, are independent third parties of the Company and its connected persons.

Information on the Natural Person Shareholders

Bian Lanjun, Hao Feng, Luo Shiwang, Xiong Feng, Zhang Qi, and Zhang Xiaohan, all Chinese citizens, are current shareholders of AviChina Intelligent and each holds 0.000045% equity interest in AviChina Intelligent as at the date of this announcement. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Natural Person Shareholders are independent third parties of the Company and its connected persons.

Information on AviChina Intelligent

AviChina Intelligent is a limited liability company incorporated in the PRC. As at the date of this announcement, AviChina Intelligent is a subsidiary of the Company with over 10% equity interest held by the Connected Shareholders. AviChina Intelligent is mainly engaged in the technology development, technology transfer, technology consultancy, technology services in the aviation technology industry, data processing, and the research, development and sales of information products and aircraft products.

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

	For the year ended 31 December 2018 (RMB)	For the year ended 31 December 2019 (RMB)
<i>Net loss before taxation and extraordinary items</i>	(12,251,874.50)	(6,442,455.02)
<i>Net loss after taxation and extraordinary items</i>	(12,251,874.50)	(6,442,455.02)

The unaudited book value of the net assets of AviChina Intelligent as at 30 June 2020 prepared in accordance with Chinese Accounting Standards for Business Enterprises was approximately RMB185,530,850.84. As set out in the valuation report prepared by a professional independent PRC valuer based on asset-based approach, the appraised value of AviChina Intelligent as of the Valuation Benchmark Date was approximately RMB192,224,200.

The original costs of exit shareholders for the equity interest in AviChina Intelligent represent the capital contribution paid up by them, details of which are set out in the paragraph headed “Consideration”.

G. DEFINITIONS

“AVIC”	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), the controlling Shareholder of the Company, holding 56.35% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC Guizhou Aircraft”	AVIC Guizhou Aviation Aircraft Co., Ltd.* (中航貴州飛機有限責任公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of this announcement
“AVIC International Aero-Development”	AVIC International Aero-Development Corporation* (中航國際航空發展有限公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of this announcement
“AviChina Intelligent”	AviChina Intelligent Surveying & Mapping Science & Technology Co., Ltd.* (中航科工智繪航空科技有限公司), a subsidiary of the Company with over 10% equity interest held by the Connected Shareholders as at the date of this announcement
“Board”	the board of directors of the Company

“Capital Reduction”	the capital reduction of AviChina Intelligent pursuant to the Capital Reduction Agreement
“Capital Reduction Agreement”	the capital reduction agreement entered into by the Company Shareholders, the Connected Shareholders, Dazhong Flight, the Natural Person Shareholders and AviChina Intelligent on 21 December 2020, pursuant to which, AviChina Intelligent will carry out the Capital Reduction
“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
“Company Shareholders”	the Company and Tianjin Aviation
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Connected Shareholders”	Shanghai Aviation Electronics, AVIC International Aero-Development, Jincheng Nanjing and AVIC Guizhou Aircraft
“connected subsidiary”	has the same meaning as defined in the Hong Kong Listing Rules
“Dazhong Flight”	Shenzhen Dazhong Flight Entrepreneurship Investment LLP (Limited Partnership)* (深圳市大眾飛行創業投資合夥企業(有限合夥)), a limited partnership incorporated in the PRC
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“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
“Jincheng Nanjing”	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), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of the announcement
“Natural Person Shareholders”	the natural person shareholders of AviChina Intelligent, namely Bian Lanjun, Hao Feng, Luo Shiwang, Xiong Feng, Zhang Qi and Zhang Xiaohan

“PRC”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Aviation Electronics”	Shanghai Aviation Electronics Co. Ltd.* (上海航空電子有限責任公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of the announcement
“Shareholders”	the shareholders of the Company
“subsidiary(ies)”	has the same meaning as defined in the Hong Kong Listing Rules
“Tianjin Aviation”	Tianjin Aviation Mechanical and Electrical Co., Ltd.* (天津航空機電有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company as at the date of the announcement
“Valuation Benchmark Date”	29 February 2020
“%”	per cent.

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

Beijing, 21 December 2020

As at the date of this announcement, the Board comprises executive Directors Mr. Wang Xuejun and Mr. Zhao Hongwei, 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*