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**中國航空科技工業股份有限公司**

**AviChina Industry & Technology Company Limited\***

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

**(Stock Code: 2357)**

## **CONNECTED TRANSACTION**

### **CAPITAL REDUCTION IN AVIC ATM SYSTEM**

Reference is made to the announcement of the Company dated 15 March 2018 in relation to the formation of AVIC ATM System. As at the date of this announcement, the total capital contribution agreed by the Company is RMB198,000,000, representing 33% of the total capital contribution of AVIC ATM System.

On 18 December 2020, to optimise the capital structure of AVIC ATM System, the Company entered into the Capital Reduction Agreement with AVIC ATM System and Other Shareholders of AVIC ATM System. Pursuant to the Capital Reduction Agreement, the Shareholders of AVIC ATM System agreed to reduce their capital contribution in AVIC ATM System by 43.38% in proportion to their respective equity interests by way of cash. Upon the completion of the Capital Reduction, the total capital contribution agreed by the Company will be reduced from RMB198,000,000 to RMB112,115,400, and the equity interest in AVIC ATM System held by the Company will remain unchanged, representing 33% of the total capital contribution of AVIC ATM System.

As at the date of this announcement, AVIC is the controlling shareholder of the Company. AVIC ATM System is a subsidiary of Electronics Research Institute, which in turn is a subsidiary institute of AVIC. AVIC Airborne Systems, Aviclub Holding and CNAC Electronics Technology are subsidiaries of AVIC. Therefore, AVIC ATM System, Electronics Research Institute, AVIC Airborne Systems, Aviclub Holding and CNAC Electronics Technology are connected persons of the Company. The entering into of the Capital Reduction Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the transaction 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 under Chapter 14A of the Hong Kong Listing Rules.

## **A. INTRODUCTION**

Reference is made to the announcement of the Company dated 15 March 2018 in relation to the formation of AVIC ATM System. As at the date of this announcement, the total capital contribution agreed by the Company is RMB198,000,000, representing 33% of the total capital contribution of AVIC ATM System.

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## **B. THE CAPITAL REDUCTION AGREEMENT**

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

### **1. Date**

18 December 2020

### **2. Parties**

- (i) AVIC ATM System; and
- (ii) current shareholders of AVIC ATM System, namely Electronics Research Institute, the Company, AVIC Airborne Systems, Aviclub Holding, CNAC Electronics Technology and Hanggong Management

### **3. Capital Reduction**

The Shareholders of AVIC ATM System agreed to reduce their capital contribution in AVIC ATM System by 43.38% in proportion to their respective equity interests by way of cash. Upon completion of the Capital Reduction, the registered capital of AVIC ATM System will be 56.62% of its original registered capital.

The shareholding structure before the Capital Reduction is set out as follows:

<b>Shareholder</b>	<b>Capital subscription</b>	<b>Percentage of equity interest</b>	<b>Paid capital amount</b>
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	<b>amount</b> <i>(RMB'0,000)</i>	<b>held by the shareholder</b>	<i>(RMB'0,000)</i>
Electronics Research Institute	19,200	32%	19,200
CNAC Electronics Technology the Company	4,200	7%	4,200
AVIC Airborne Systems	19,800	33%	3,960
Aviclub Holding	9,000	15%	9,000
Hanggong Management	6,000	10%	0
	1,800	3%	360
<b>Total</b>	<b>60,000</b>	<b>100%</b>	<b>36,720</b>

The shareholding structure of AVIC ATM System after the Capital Reduction is set out as follows:

<b>Shareholder</b>	<b>Capital subscription amount</b> <i>(RMB'0,000)</i>	<b>Percentage of equity interest held by the shareholder</b>	<b>Unpaid/(Overpaid) capital amount</b> <i>(RMB'0,000)</i>
Electronics Research Institute	10,871.79	32%	(8,328.21)
CNAC Electronics Technology the Company	2,378.21	7%	(1,821.79)
AVIC Airborne Systems	11,211.54	33%	7,251.54
Aviclub Holding	5,096.15	15%	(3,903.85)
Hanggong Management	3,397.44	10%	3,397.44
	1,019.23	3%	659.23
<b>Total</b>	<b>33,974.36</b>	<b>100%</b>	<b>(2,745.64)</b>

The amount for the Capital Reduction under the Capital Reduction Agreement has been determined by the parties in arm's length negotiation after taking into account various factors such as the business nature of AVIC ATM System, its working capital requirement and future development plans.

#### **4. Terms of Payment and Refund**

- (i) At least 90% of the unpaid capital contribution shall be paid by the shareholder of AVIC ATM System (if applicable) to the bank account designated by AVIC ATM System within 15 business days upon the effectiveness of the Capital Reduction Agreement, and the remaining portion shall be paid to the bank account designated by AVIC ATM System within 6 months upon the effectiveness of the Capital Reduction Agreement; and
- (ii) Overpaid capital contribution shall be returned by AVIC ATM System to the bank account designated by the shareholder (if applicable) within 20 business days upon the effectiveness of the Capital Reduction Agreement.

## **5. Terms of Effectiveness**

The Capital Reduction Agreement shall become effective after being signed by all parties.

## **C. REASONS FOR AND BENEFITS OF THE CAPITAL REDUCTION**

AVIC ATM System is a growing company at its early stage, of which the Capital Reduction optimises its capital structure, promotes its profitability and is in line with its operation scale.

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

## **D. HONG KONG LISTING RULES IMPLICATIONS**

As at the date of this announcement, AVIC is the controlling shareholder of the Company. AVIC ATM System is a subsidiary of Electronics Research Institute, which in turn is a subsidiary institute of AVIC. AVIC Airborne Systems, Aviclub Holding and CNAC Electronics Technology are subsidiaries of AVIC. Therefore, AVIC ATM System, Electronics Research Institute, AVIC Airborne Systems, Aviclub Holding and CNAC Electronics Technology are connected persons of the Company. The entering into of the Capital Reduction Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the transaction 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 under Chapter 14A of the Hong Kong Listing Rules.

Mr. Yan Lingxi, the Director, who is the department chief of AVIC, had abstained from voting on the relevant Board resolution approving the transaction under 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 transaction under the Capital Reduction Agreement.

## **E. GENERAL INFORMATION**

### *Information on the Company*

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

### *Information on AVIC*

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

### *Information on AVIC ATM System*

AVIC ATM System is a limited liability company incorporated in the PRC and is mainly engaged in development, manufacture and sales of various types of aviation parts and components, avionics products and accessories, air traffic management system and ancillary equipment, communication and navigation system and equipment, microelectronics and other avionics products. As at the date of this announcement, AVIC ATM System is a subsidiary of Electronics Research Institute.

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

	<b>For the year ended 31 December 2019</b> (RMB)	<b>For the year ended 31 December 2018</b> (RMB)
<i>Net profit(loss) before taxation and extraordinary items</i>	(22,326,150.05)	249,422.84
<i>Net profit(loss) after taxation and extraordinary items</i>	(22,263,794.34)	187,067.13

The book value of the net assets of AVIC ATM System as at 30 June 2020 prepared in accordance with Chinese Accounting Standards for Business Enterprises was approximately RMB330,920,000.

### *Information on Electronics Research Institute*

Electronics Research Institute is incorporated in the PRC and is mainly engaged in research of avionics integrated technology, research and manufacture of avionic and aeronautical radio communication and navigation systems and products for military and civilian aircrafts; research and development as well as achievement transformation of relevant civilian electronic products. As at the date of this announcement, Electronics Research Institute is a subsidiary institute of AVIC.

### *Information on AVIC Airborne Systems*

AVIC Airborne Systems is a limited liability company incorporated in the PRC and is mainly engaged in research and development, production, sales, investment and management of various types of aircrafts and engine-supporting airborne electromechanical systems and equipment. As at the date of this announcement, AVIC Airborne Systems is a subsidiary of AVIC.

### *Information on Aviclub Holding*

Aviclub Holding is a limited liability company incorporated in the PRC and is mainly engaged in navigation town construction, fuel management, navigation operations, aviation clubs, pilot training, airport management, etc. As at the date of this announcement, Aviclub Holding is a subsidiary of AVIC.

### *Information on CNAC Electronics Technology*

CNAC Electronics Technology is a limited liability company incorporated in the PRC and is mainly engaged in development and manufacture of aeronautical radio electronics systems. As at the date of this announcement, Aviclub Holding is a subsidiary of AVIC.

### *Information on Hanggong Management*

Hanggong Management is a shareholding platform enterprise established in the PRC for the management and technical team of AVIC ATM System. The ultimate beneficial owner of Hanggong Management is Mr. Xi Zheng, who holds 18.89% equity interest in Hanggong Management as at the date of this announcement. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Hanggong Management and its ultimate beneficial owner are independent third parties of the Company and its connected persons.

## **F. DEFINITIONS**

“AVIC”	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), the controlling shareholder of the Company, holding 56.35% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC Airborne Systems”	AVIC Airborne Systems Company Limited* (中航機載系統有限公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of the announcement
“AVIC ATM System”	AVIC Air Traffic Management System Equipment Co., Ltd.* (中航空管系統裝備有限公司), a limited liability company incorporated in the PRC
“Aviclub Holding”	Aviclub Holding Co., Ltd.* (愛飛客控股有限責任公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of the announcement
“Board”	the board of directors of the Company
“Capital Reduction”	the Shareholders of AVIC ATM System agreed to reduced their capital contribution in AVIC ATM System by 43.38% in proportion to their respective equity interests by way of cash pursuant to the

## Capital Reduction Agreement

“Capital Reduction Agreement”	the capital reduction agreement entered into among AVIC ATM System, the Company and Other Shareholders of AVIC ATM System on 18 December 2020 in relation to the reduction of capital contribution in AVIC ATM System by the Company and Other Shareholders of AVIC ATM System
“CNAC Electronics Technology”	CNAC (Shanghai) Aeronautical Radio Electronics Technology Co., Ltd.* (中航(上海)航空無線電電子技術有限公司), a limited liability company incorporated in the PRC and a subsidiary of AVIC as at the date of the announcement
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Electronics Research Institute”	Chinese Aeronautical Radio Electronics Research Institute* (中國航空無線電電子研究所), a research institute incorporated in the PRC and a subsidiary institute of AVIC as at the date of the announcement
“Group”	the Company and its subsidiaries
“Hanggong Management”	Shanghai Hanggong Enterprise Management Centre (Limited Partnership)* (上海航恭企業管理中心(有限合夥)), a limited partnership incorporated in the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Other Shareholders of AVIC ATM System”	the Shareholders of AVIC ATM System other than the Company
“PRC”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders of AVIC ATM System”	Electronics Research Institute, the Company, AVIC Airborne Systems, Aviclub Holding, CNAC Electronics Technology and Hanggong Management
“%”	per cent.

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

Beijing, 18 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 purpose only*