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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)

**CONTINUING CONNECTED TRANSACTIONS, DISCLOSEABLE
TRANSACTIONS AND MAJOR TRANSACTIONS**

**I. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
UNDER THE EXISTING AGREEMENTS**

**II. ENTERING INTO OF FINANCE LEASE AND FACTORING
FRAMEWORK AGREEMENT**

AND

III. PROPOSED REVISION OF ORIGINAL DEPOSIT SERVICES CAP

**I. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER
THE EXISTING AGREEMENTS**

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, 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 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.

**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.

III. PROPOSED REVISION OF ORIGINAL DEPOSIT SERVICES CAP

The Company considers that in light of the increase in the number of subsidiaries after the completion of the acquisition of Changhe Aircraft and Harbin Aircraft as part of the Acquisition by the end of 2020, 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.

IV. HONG KONG LISTING RULES IMPLICATIONS

Continuing connected transactions implications

As at the date of this announcement, AVIC is a controlling shareholder of the Company holding directly and indirectly 56.32% 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.

Fully exempt transactions

As long as (i) the Loan Services and (ii) the Guarantee Services under the Financial Services Framework Agreement will be entered into by the parties on normal commercial terms and no security over the assets of the Group or guarantee or counter-guarantee will be given by the Group in respect of the provision of financial assistance; and as (A) the Settlement Services and (B) the acquisition of right-of-use assets by the Group contemplated under the Land Use Rights and Properties Leasing Agreement will fall within the relevant *de minimis* threshold as stipulated under the Hong Kong Listing Rules, the Loan Services, the Guarantee Services, the Settlement Services and the acquisition of right-of-use assets by the Group contemplated under the Land Use Rights and Properties Leasing Agreement are exempted from reporting, announcement and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules. In the event that the Group is required to provide security over the assets of the Group or guarantee or counter-guarantee for the Loan Services and the Guarantee Services, the respective relevant member of AVIC Group and the Group shall enter into separate agreements, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the relevant stock exchanges.

Partly Exempt Transactions

As the highest applicable percentage ratios in respect of (i) the expenditure

transactions contemplated under the Mutual Service Supply Agreement; (ii) the transactions (other than the acquisition of right-of-use assets by the Group) contemplated under the Land Use Rights and Properties Leasing Agreement; (iii) the revenue transactions contemplated under the Mutual Product and Service Supply and Guarantee Agreement; and (iv) the Other Financial Services contemplated under the Financial Services Framework Agreement exceed 0.1% but are less than 5%, 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.

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.

Independent Financial Adviser'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 said 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.

Notifiable transactions implications

Discloseable transactions

As the highest applicable percentage ratios in respect of (i) the AVIC Lease Factoring Services 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 (ii) both direct lease and sale and leaseback transactions contemplated under the Finance Lease and Factoring Framework Agreement exceed 5% but is less

than 25%, the continuing connected transactions contemplated thereunder also constitute discloseable transactions under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

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.

V. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all of the independent non-executive Directors will be established 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 Deposit Services Revised Cap.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

VI. EGM

An EGM will be convened to obtain the approval of Independent Shareholders regarding, 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; and (ii) the Proposed Deposit Services Revised Cap.

AVIC and its associate(s), if any, will abstain from voting on these ordinary resolutions to be proposed at the EGM.

As more time is required to finalise the circular to the Shareholders, the Company expects to dispatch to the Shareholders the circular containing, among other things:

- (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; and (ii) the Proposed Deposit Services Revised Cap;
- (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,
on or before 31 October 2020.

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, 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 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. 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.

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	: 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

- principles** 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.
- Note: please refer to “Government-prescribed Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this announcement 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
- 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 favorable than those offered by the independent third parties under comparable conditions.

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 announcement 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 specific services agreement under each transaction.

2.3 ***Land Use Rights and Properties Leasing Agreement***

As the Existing Land Use Rights and Properties Leasing Agreement is due to expire on 31 December 2020, and the Group and AVIC Group need to use the land or properties of each other for their respective business operations, the Company entered into the Land Use Rights and Properties Leasing Agreement with AVIC.

Principal terms of the Land Use Rights and Properties Leasing 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

Lease of land use right and properties : AVIC Group will lease to the Group certain pieces of land of which it has legal land use rights and properties owned by it, and the Group will lease to AVIC Group certain pieces of land of which it has legal land use rights and properties owned by it.

Pricing principles : The annual rental is to be determined by the parties after fair negotiations with reference to: (i) the recent fair trading price of land and properties in the comparable local leasing market; (ii) the government-guidance price for land and properties leasing of the local government (if any); (iii) other relevant factors such as location, scale and utility facilities of the land and properties; and (iv) the appraised market price provided by the independent property valuer (if any).

Payment : Payment of rentals shall be made annually. Specific time of payment is to be agreed between the parties by entering into specific agreement.

2.4 *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.
- 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 announcement.

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.

2.5 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
- 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.

Please refer to paragraph 4 under Section I of this announcement 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 of the Continuing Connected Transactions under the Existing Agreements

Set out below are the historical amounts 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>	Actual amount for the year ended 31 December 2018	Actual amount for the year ended 31 December 2019	Actual amount for the six months ended 30 June 2020	Caps for the year ending 31 December 2020
Expenditure transactions of the Group				
Existing Mutual Product Supply Agreement	6,414	8,197	3,564	26,000
Existing Mutual Service Supply Agreement	202	353	114	3,800
Existing Land Use Rights and Properties Leasing Agreement	47	56	9	74
Existing Mutual Product and Service Supply and Guarantee Agreement	502	924	329	2,100
Revenue transactions of the Group				
Existing Mutual Product Supply Agreement	18,900	22,530	11,090	53,900
Existing Mutual Service Supply Agreement	2,362	2,610	1,038	12,000
Existing Land Use Rights and Properties Leasing Agreement	8	21	4	28

<i>(RMB' million)</i>	Actual amount for the year ended 31 December 2018	Actual amount for the year ended 31 December 2019	Actual amount for the six months ended 30 June 2020	Caps for the year ending 31 December 2020
Existing Mutual Product and Service Supply and Guarantee Agreement	772	1,079	450	3,200

Transactions under Existing Financial Services Framework Agreement

Maximum daily outstanding balances of deposits (including accrued interests) for deposit services	7,778	8,698	6,803	11,000*
Other financial services**	703	144	65	4,000

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

** *The historical amounts of other financial services under the Existing Financial Services Framework Agreement and the cap for the year 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 this announcement, the Directors have estimated the caps for each of the continuing connected transactions for each of the three years ending 31 December 2023, which are set out below:

(1) Non-exempt Transactions

<i>(RMB' million)</i>	Year ending 31 December 2021	Year ending 31 December 2022	Year ending 31 December 2023	Cross-reference to this announcement
Expenditure transactions of the Group				
Mutual Product Supply Agreement	17,880	18,850	20,600	Paragraph 2.1 under Section I
Mutual Product and Service Supply and Guarantee Agreement	1,230	1,490	1,810	Paragraph 2.4 under Section I

Revenue transactions of the Group

<i>(RMB' million)</i>	Year ending 31 December 2021	Year ending 31 December 2022	Year ending 31 December 2023	Cross-reference to this announcement
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

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 2.5 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 2.5 under Section I

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

(2) *Partly Exempt Transactions*

<i>(RMB' million)</i>	Year ending 31 December 2021	Year ending 31 December 2022	Year ending 31 December 2023	Cross-reference to this announcement
Expenditure transactions of the Group				
Mutual Service Supply Agreement	770	840	930	Paragraph 2.2 under Section I
Revenue transactions of the Group				
Mutual Product and Service Supply and Guarantee Agreement	280	340	420	Paragraph 2.4 under Section I

Transactions under the Land Use Rights and Properties Leasing Agreement

The Group as lessee ^{Note:}

<i>(RMB' million)</i>	Year ending 31 December 2021	Year ending 31 December 2022	Year ending 31 December 2023	Cross-reference to this announcement
Right-of-use assets (for those leases of which the lease term exceeds one year)	15	15	15	Paragraph 2.3 under Section I
Other payments (including rent for those leases of which the lease term is no more than one year and the property management fees of all leases)	30	30	30	Paragraph 2.3 under Section I
<i>The Group as lessor:</i>				
Lease payments	20	40	40	Paragraph 2.3 under Section I
Transactions under the Financial Services Framework Agreement				
Other Financial Services	1,200	1,200	1,200	Paragraph 2.5 under Section I

Note: Different accounting treatment apply to different components of payments by the Group under the Land Use Rights and Properties Leasing Agreement in accordance with the IFRSs applicable to the Group.

Under IFRS 16, the Group as the lessee shall recognize leases for a term of more than one year as right-of-use assets and lease liabilities. The right-of-use assets represent its rights to use the underlying leased asset over the lease term and the lease liabilities represent its obligations to make lease payments (i.e. the rental payment). The assets and the liabilities arising from the lease are initially measured on present value basis and calculated by discounting the non-cancellable lease payments under the Land Use Rights and Properties Leasing Agreement, using the incremental borrowing rate as the discount rate. Under IFRS 16 and in the consolidated statement of comprehensive income of the Group, the Group shall recognize (i) depreciation charge over the life of the right-of-use asset, and (ii) interest expenses amortized from the lease liability over the lease term. In accordance with the Hong Kong Listing Rules, the Company is required to set caps on the total value of right-of-use assets relating to the above leases.

Other amounts payable by the Group as lessee (including rent for those leases for a term of no more than one year and the property management fees of all leases) will be recorded as expenses by the Company over the remainder of term of the lease and separate caps will be set in accordance with the Hong Kong Listing Rules.

4.2 Basis of determination of the proposed caps

(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 Acquisition

Upon the completion of the acquisition of Harbin Aircraft and Changhe Aircraft as part of the Acquisition by the end of 2020, 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 (i) the historical transaction amount (after discounting the transactions between Harbin Aircraft and Changhe Aircraft on one hand and the Group on the other hand) was approximately RMB4.9 billion for the first half of 2020; and (ii) the expected 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 defense 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.

- (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 industry.

- (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 considering 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 of Harbin Aircraft and Changhe Aircraft as part of the Acquisition by the end of 2020, 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.

- (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. The proposed caps for the three years ending 31 December 2023 are determined after taking into account the 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 manufacturing 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. Along with the business development and increase of the Group's sales volume, the labour expenditures (such as outsourcing labour services) will also 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) *Land Use Rights and Properties Leasing Agreement*

The proposed caps for the transactions under the Land Use Rights and Properties Leasing Agreement are determined with reference to, among other things, the following factors: (i) the land use rights and properties to be leased between the relevant members of AVIC Group and the relevant members of the Group after the completion of the acquisition of Harbin Aircraft and Changhe Aircraft by the end of 2020 and the rental arrangements under the specific leasing contracts; and (ii) the potential expansion of the business of the parties and the consequential increase in demand for additional land use rights and properties, especially the completion of construction of certain production plants by AVIC Avionics in Shunyi District, Beijing, and the demand of AVIC Group for these production plants. The proposed caps on the right-of-use assets under the Land Use Rights and Properties Leasing Agreement are also determined with reference to the value of the Group's rights to use the leased assets during the term of the Land Use Rights and Properties Leasing Agreement which is initially measured on present value basis and calculated by discounting the expected lease payments, using the incremental borrowing rate as the discount rate.

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

(i) exclusion of transactions with AVICOPTER after Acquisition

Upon the completion of the acquisition of AVICOPTER as part of the Acquisition by the end of 2020, 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

The transactions 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 companies (i.e. AVICOPTER 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 growth rates of the revenue transactions of AVIC Avionics Group under the Mutual Product Supply Agreement.

(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.

(5) *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 of Harbin Aircraft and Changhe Aircraft as part of the Acquisition by the end of 2020; (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) the expected demand of the Group for accounts receivable financing services from AVIC Finance; (ii) the total accounts receivable of the Group in the latest financial statements; and (iii) the expected growth of the accounts receivable for 2021 to 2023.

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.

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 established under the support of the PRC's national government. 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 sole production platform of helicopters and main production platform of trainer aircrafts for AVIC Group. Upon completion of the Acquisition by the end of 2020, 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 barriers 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 quality, specifications and value in the PRC from other producers.

(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) *Land Use Rights and Properties Leasing Agreement*

The Group has been renting out certain land and properties to AVIC Group as production plants and offices, and leasing certain land and properties from AVIC Group as production plants, offices and dormitories in respect of the Group's different business segments. The Company considers that it is beneficial to continue to enter into the Land Use Rights and Properties Leasing Agreement as: (i) the Group can better utilise its unused assets to earn rental income by leasing land and properties to AVIC Group; and (ii) the Group can continue to occupy suitable premise, and occupy new suitable premise for its business operation.

(4) *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 new framework agreements as set out in Section I of this announcement:

- (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 and properties 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.

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 favorable 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 this announcement, 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 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; 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:

- 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 provide the Group with 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

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.

Please refer to paragraph 2.2 under Section II of this announcement 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 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.

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 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 will be capped at RMB3 billion. However, 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 this announcement, 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>	Propose 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 under Section II of this announcement, the Directors proposes 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 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; and (iv) the capability and flexibility of AVIC Lease in providing Finance Lease Services to the Group.

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) the expected demand of the Group for accounts receivable financing services from AVIC Lease; (ii) the total accounts receivable of the Group in the latest financial statements; and (iii) the expected growth of the accounts receivable for 2021 to 2023.

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

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.

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 of Changhe Aircraft and Harbin Aircraft as part of the Acquisition by the end of 2020, 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:

<i>RMB' million</i>	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 date of this announcement, the Original Deposit Services Cap has not been exceeded.

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 of Harbin Aircraft and Changhe Aircraft as part of the Acquisition by the end of 2020; (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 date of this announcement, AVIC is a controlling shareholder of the Company holding directly and indirectly 56.32% 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.

Fully exempt transactions

As long as (i) the Loan Services and (ii) the Guarantee Services under the Financial Services Framework Agreement will be entered into by the parties on normal commercial terms and no security over the assets of the Group or guarantee or counter-guarantee will be given by the Group in respect of the provision of financial assistance; and as (A) the Settlement Services and (B) the acquisition of right-of-use assets by the Group contemplated under the Land Use Rights and Properties Leasing Agreement will fall within the relevant *de minimis* threshold as stipulated under the Hong Kong Listing

Rules, the Loan Services, the Guarantee Services, the Settlement Services and the acquisition of right-of-use assets by the Group contemplated under the Land Use Rights and Properties Leasing Agreement are exempted from reporting, announcement and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules. In the event that the Group is required to provide security over the assets of the Group or guarantee or counter-guarantee for the Loan Services and the Guarantee Services, the respective relevant member of AVIC Group and the Group shall enter into separate agreements, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the relevant stock exchanges.

Partly Exempt Transactions

As the highest applicable percentage ratios in respect of (i) the expenditure transactions contemplated under the Mutual Service Supply Agreement; (ii) the transactions (other than the acquisition of right-of-use assets by the Group) contemplated under the Land Use Rights and Properties Leasing Agreement; (iii) the revenue transactions contemplated under the Mutual Product and Service Supply and Guarantee Agreement; and (iv) the Other Financial Services contemplated under the Financial Services Framework Agreement exceed 0.1% but are less than 5%, 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.

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.

Independent Financial Adviser'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 said 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.

Notifiable transactions implications

Discloseable transactions

As the highest applicable percentage ratios in respect of (i) the AVIC Lease Factoring Services 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 (ii) both direct lease and sale and leaseback transactions contemplated under the Finance Lease and Factoring Framework Agreement exceed 5% but is less than 25%, the continuing connected transactions contemplated thereunder also constitute discloseable transactions under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

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 had 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 for 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.

For the Partly Exempt Transactions, the Directors (including the independent non-executive Directors) consider that (i) the terms of the Partly Exempt Transactions and the proposed annual caps for those transactions are fair and reasonable; (ii) the Partly Exempt Transactions are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

For the Non-exempt Transactions, the Directors (excluding the independent non-executive Directors, who will give their opinion after considering the advice from Gram Capital) consider that (i) the terms of the Non-exempt Transactions and the proposed annual caps for those transactions and the Proposed Deposit Services Revised Cap are

fair and reasonable; (ii) the Non-exempt Transactions are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

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

V. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all of the independent non-executive Directors will be established 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 Deposit Services Revised Cap.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

VI. 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 is the controlling shareholder of the Company, holding, directly and indirectly, 56.32% equity interest in the Company as at the date of this announcement.

3. Information of AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. AVIC Avionics is a 43.21% owned subsidiary of the Company, which 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 a subsidiary of AVIC as at the date of this announcement. 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:

- (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 a subsidiary of AVIC as at the date of this announcement. 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.

VII. EGM

An EGM will be convened to obtain the approval of Independent Shareholders regarding, 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; and (ii) the Proposed Deposit Services Revised Cap.

AVIC and its associate(s), if any, will abstain from voting on these ordinary resolutions to be proposed at the EGM.

As more time is required to finalise the circular to the Shareholders, the Company expects to dispatch to the Shareholders the circular containing, among other things:

- (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; and (ii) the Proposed Deposit Services Revised Cap;
- (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,
on or before 31 October 2020.

VIII. DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“associates”	has the same meaning ascribed to it under the Hong Kong Listing Rules
“Acquisition”	the acquisition of AVIC Helicopter Co., Ltd.* (中航直升機有限責任公司), 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 56.32% of all issued Shares as at the date of this announcement
“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 A shares are listed on the Shanghai Stock Exchange and a connected subsidiary of the Company as at the date of this announcement
“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 date of this announcement
“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 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 date of this announcement
“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 date of this announcement
“AVICOPTER”	AVICOPTER PLC* (中航直升機股份有限公司), a joint stock limited liability company whose A shares are listed on the Shanghai Stock Exchange and a subsidiary of the Company as at the date of this announcement
“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 date of this announcement 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 a specified percentage of such costs, which is determined after taking into account the average profit margin 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 specified percentage 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
“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 for the purposes 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; and (ii) the proposed revision of the Original Deposit Services Cap
“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
“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 this announcement
“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 2.5 under Section I of this announcement
“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 central government, provincial 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”	in respect of the Mutual Product and Service Supply and Guarantee Agreement, the Company and its subsidiaries (other than the AVIC Avionics Group) from time to time in respect of all other New Agreements, the Company and its subsidiaries from time to time
“Guarantee Services”	the guarantee services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
"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 date of this announcement which will become a subsidiary of the Company upon the completion of the Acquisition
“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
“IFRS(s)”	International Financial Reporting Standard(s) issued by the International Accounting Standards Board from time to time

“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 Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), 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, details of which are set out in paragraph 2.3 under Section I of this announcement
“Loan Services”	the loan services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“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

	<p>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</p>
“Mutual Product Supply Agreement”	<p>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 this announcement</p>
“Mutual Product and Service Supply and Guarantee Agreement”	<p>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 2.4 under Section I of this announcement</p>
“Mutual Service Supply Agreement”	<p>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 this announcement</p>
“New Agreements”	<p>the Renewal Agreements and the Finance Lease and Factoring Framework Agreement</p>
“Non-exempt Transactions”	<p>(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</p>
“Original Deposit Services Cap”	<p>the original cap for the year ending 31 December 2020 for the deposit services under the Existing Financial Services Framework Agreement</p>

“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
“Partly Exempt Transactions”	(i) the expenditure transactions contemplated under the Mutual Service Supply Agreement; (ii) the transactions (other than the acquisition of right-of-use assets by the Group) contemplated under the Land Use Rights and Properties Leasing Agreement; (iii) the revenue transactions contemplated under the Mutual Product and Service Supply and Guarantee Agreement; and (iv) the Other Financial Services contemplated under the Financial Services Framework Agreement, which are subject to reporting and announcement requirements but are exempt from Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules
“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
“Settlement Services”	the settlement services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“Shares”	shares of RMB1.00 each in the capital of the Company
“Shareholders”	the holders of Shares

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

Beijing, 21 August 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 purpose only.*