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中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

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

(Stock Code: 2357)

**CONNECTED TRANSACTION
SUBSCRIPTION OF INTERESTS IN A SEGREGATED
PORTFOLIO**

On 3 September 2021, AviChina Hong Kong (as subscriber) executed the Subscription Agreement to subscribe for the Investment Shares of the Segregated Portfolio for a total subscription amount of HK\$280 million on terms and conditions of the Subscription Documents. Upon completion of the Subscription, the financial results of the Segregated Portfolio will not be consolidated into the accounts of the Group, and the Investment Shares will be accounted for as investments in the Group's financial statements.

As at the date of this announcement, AviChina Hong Kong is a wholly-owned subsidiary of the Company and AVIC is the controlling Shareholder of the Company. The SPC and the Investment Manager are both non-wholly-owned subsidiaries of AVIC. Therefore, the SPC and the Investment Manager are connected persons of the Company under the Hong Kong Listing Rules. As such, the Subscription contemplated under the Subscription Documents constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the Subscription exceeds 0.1% but is less than 5%, the Subscription is subject to reporting and announcement requirements but is exempt from independent Shareholder's approval requirement under Chapter 14A of the Hong Kong Listing Rules.

I. THE SUBSCRIPTION

On 3 September 2021, AviChina Hong Kong (as subscriber) executed the Subscription Agreement to subscribe for the Investment Shares of the Segregated Portfolio for a total subscription amount of HK\$280 million on terms and conditions of the Subscription Documents. Upon completion of the Subscription, the financial results of the Segregated Portfolio will not be consolidated into the accounts of the Group, and the Investment Shares will be accounted for as investments in the Group's financial statements.

II. PRINCIPAL TERMS OF THE SUBSCRIPTION DOCUMENTS

The principal terms of the Subscription Documents are summarized as follows:

- Subscriber : AviChina Hong Kong, a wholly-owned subsidiary of the Company
- Name of the Segregated Portfolio : AVICT Investment SPC – Eagle I SP, a segregated portfolio of AVICT Investment SPC
- Subscription amount : HK\$280,000,000

The subscription amount was determined by the Directors taking into account various factors including the investment objective and potential of the Segregated Portfolio, the expected return to be generated from the Subscription and the available financial resources of AviChina Hong Kong. The subscription amount will be settled with the internal resources of the Company.

- Investment Shares : The Investment Shares are participating, redeemable, non-voting shares with a par value of US\$0.01 in the capital of the SPC attributable to the Segregated Portfolio and being offered for subscription under the terms of the Memorandum and the Supplement. The Investment Shares were initially offered for purchase at HK\$1,000 per share.

- Investment objective : The investment objective of the Segregated Portfolio is to seek long term capital growth by investing in fixed income securities including bonds, structured products, notes, loans, derivatives and other financial instruments.

There can be no assurance that the investment objective of the Segregated Portfolio will be achieved, and certain investment practices to be employed by the Segregated

Portfolio can, in some circumstances, substantially increase any adverse impact on the investment performance of the Segregated Portfolio.

Investment strategies : In seeking to achieve the investment objective of the Segregated Portfolio, the Investment Manager will invest in the asset classes across the world, including in both developed and emerging markets.

Investment restrictions : The Segregated Portfolio will only invest in fixed income securities including bonds, structured products, notes, loans, derivatives and other financial instruments. There will be no equity exposures.

The primary geographical focus of the Segregated Portfolio is the China region, including Hong Kong and Macau. No less than 50% of the net asset value of the Segregated Portfolio will be allocated to assets connected to Chinese companies or their affiliates. No more than 50% of the net asset value of the Segregated Portfolio can have country risk exposure to regions other than the China region.

Target return : The target return on the Investment Shares is 4% per annum of the subscription amount (the “**Investment Target Return**”) and is expected to be paid at least annually by means of one or more distributions, subject to applicable law.

Subscription fee : No subscription fee will be charged with respect to the Investment Shares.

Management fee : In respect of the Investment Shares, the SPC will pay the Investment Manager a management fee, out of the assets of the Segregated Portfolio, of one-twelfth of 0.5 per cent per month of the net asset value of the Investment Shares (before deduction of that month’s management fee and before making any deduction for any accrued profits share) as at the last valuation day in each month.

The management fee will be paid to the Investment Manager in US Dollars in arrears as soon as reasonably practicable after the end of each quarter.

Profit Sharing : Subject to the Investment Target Return having been achieved, the Investment Manager will be entitled to receive a profit share equating to 100% of the excess

above the Investment Target Return.

Redemption : The redemption price of the Investment Shares will be equal to the net asset value per Investment Share as at the valuation day immediately preceding the relevant redemption day.

No redemption fee will be charged with respect to the Investment Shares.

Completion : The Subscription is subject to the SPC's discretion to reject any application. As at the date of this announcement, the SPC has confirmed the subscription of AviChina Hong Kong.

III. REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Group has been exploring opportunities in achieving better return for its Shareholders. The Subscription presents a good opportunity for the Group to generate stable income for the Group. Given that the Subscription would enable the Group to earn an attractive return as compared with the deposit interest rate generally offered by commercial banks in Hong Kong, the expected investment return in connection with the Subscription would broaden the Group's revenue streams. Meanwhile, the Company will take appropriate measures to monitor the performance of the Segregated Portfolio so as to reduce the relevant risks.

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

IV. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AviChina Hong Kong is a wholly-owned subsidiary of the Company and AVIC is the controlling Shareholder of the Company. The SPC and the Investment Manager are both non-wholly-owned subsidiaries of AVIC. Therefore, the SPC and the Investment Manager are connected persons of the Company under the Hong Kong Listing Rules. As such, the Subscription contemplated under the Subscription Documents constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules. As the highest of the applicable size test percentage ratios in respect of the Subscription exceeds 0.1% but is less than 5%, the Subscription is subject to reporting and announcement requirements but is exempt from independent Shareholder's approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Mr. Li Xichuan, the Director, who is the deputy director of a department of AVIC, had abstained from voting on the relevant Board resolution approving the

Subscription 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 Subscription contemplated under the Subscription Documents.

V. GENERAL INFORMATION

Information on the Company

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

Information on 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, 61.60% equity interest in the Company as at the date of this announcement.

Information on AviChina Hong Kong

AviChina Hong Kong is a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company as at the date of this announcement. AviChina Hong Kong is mainly engaged in the development, design and sale of aviation products, import and export of aviation products and technologies, and financial and investment activities.

Information on the SPC

The SPC is an exempted company incorporated with limited liability and registered as a segregated portfolio company under the laws of the Cayman Islands on 18 February 2014. Its management shares are indirectly wholly-owned by AVIC Industry-Finance Holdings Co., Ltd.* (中航工業產融控股股份有限公司) (“**AVIC Industry-Finance**”). It is mainly engaged in investment funds.

Information on the Investment Manager

The Investment Manager is a limited liability company incorporated in Hong Kong and also an indirect wholly-owned subsidiary of AVIC Industry-Finance. The Investment Manager has been licensed to carry out Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) since 12 June 2019. The Investment Manager is one of the licensed entities under AVIC Industry-Finance, which is the business platform of AVIC in Hong Kong. It is mainly engaged in advisory and asset management services for security transactions. It has provided such services to various projects which include, but are not limited to, the aviation industry fund for investment in the aviation manufacturing industry chain and the technology innovation fund for investment in the innovation projects in Guangdong-Hong Kong-Macao Greater Bay Area

Information on AVIC Industry-Finance

AVIC Industry-Finance is a listed company on the Shanghai Stock Exchange (stock code: 600705) and ultimately controlled by AVIC as at the date of the announcement. It is mainly engaged in comprehensive financial services and industrial investment.

VI. DEFINITIONS

“AVIC”	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), the controlling Shareholder of the Company, holding 61.60% equity interest in the Company directly and indirectly as at the date of this announcement
“AviChina Hong Kong”	AviChina Hong Kong Limited, a limited liability company incorporated in Hong Kong and a wholly-owned subsidiary of the Company as at the date of the announcement
“Board”	the board of directors of the Company
“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company incorporated in the PRC, whose H Shares are listed on the Hong Kong Stock Exchange
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“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
“Investment Manager”	AVICT Global Asset Management Limited (中航資信環球資產管理有限公司), a limited liability company incorporated in Hong Kong and a non-wholly-owned subsidiary of AVIC as at the date of the announcement

“Investment Share(s)”	participating, redeemable, non-voting share(s) with a par value of US\$0.01 in the capital of the SPC attributable to the Segregated Portfolio and being offered for subscription by AviChina Hong Kong under the terms of the Memorandum and the Supplement
“Memorandum”	the private placement memorandum of the SPC, as amended from time to time
“PRC”	the People’s Republic of China
“Segregated Portfolio”	AVICT Investment SPC - Eagle I SP, a segregated portfolio of the SPC
“Shareholders”	the shareholders of the Company
“SPC”	AVICT Investment SPC, an exempted company incorporated with limited liability and registered as a segregated portfolio company under the laws of the Cayman Islands, and a non-wholly-owned subsidiary of AVIC as at the date of the announcement
“Subscription Agreement”	the subscription agreement dated 3 September 2021 executed by AviChina Hong Kong in respect of the Subscription
“Subscription Documents”	The Subscription Agreement, the Supplement and the Memorandum
“Subscription”	the subscription for the Investment Shares of the Segregated Portfolio for a total subscription amount of HK\$280 million on terms and conditions of the Subscription Documents by AviChina Hong Kong
“subsidiary(ies)”	has the same meaning as defined in the Hong Kong Listing Rules
“Supplement”	the document issued by the SPC on 3 September 2021 which relates to the offering of participating shares attributable to the Segregated Portfolio, as may be amended and supplemented by the SPC from time to time
“% ”	per cent.

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

Beijing, 3 September 2021

As at the date of this announcement, the Board comprises executive Directors Mr. Wang Xuejun and Mr. Zhao Hongwei, non-executive Directors Mr. Lian Dawei, Mr. Li Xichuan, Mr. Xu Gang and Mr. Wang Jun as well as independent non-executive Directors Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping.

** For identification purposes only*