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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)

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

Reference is made to the announcement of AviChina Industry & Technology Company Limited* (the “**Company**”) dated 3 September 2021 (the “**Announcement**”) in relation to the subscription of interests in the Segregated Portfolio. Unless the context otherwise requires, capitalized terms in this announcement (the “**Supplemental Announcement**”) shall have the same meanings as defined in the Announcement.

The Board wishes to provide the Shareholders and potential investors of the Company with additional information in relation to the Subscription as follows:

INFORMATION ON SEGREGATED PORTFOLIO

The Separated Portfolio was established on 16 August 2021 and it has been duly registered with the Cayman Islands Monetary Authority on 23 August 2021. At current stage, the underlying investment of the Segregated Portfolio is the USD managed portfolio linked notes issued by CSI Financial Products Limited and guaranteed by CITIC Securities International Company Limited (中信証券國際有限公司) (ISIN: XS2273967179) (the “**Notes**”) subscribed and held by the Segregated Portfolio. The value of such underlying investment (being the size of the Segregated Portfolio) is approximately US\$59,193,574.95 (equivalently to approximately HK\$460,526,013) with reference to the quoted market value of the Notes as at 9 September 2021.

As at the date of the Subscription Documents, AviChina Hong Kong is the only investor of the Segregated Portfolio. As at the date of the Supplemental Announcement, there are two investors of the Segregated Portfolio in total. More investors may participate in the subscription of the Segregated Portfolio as the Investment Manager is still currently approaching and negotiating with potential investors.

INVESTMENT SELECTION PROCESS AND RISK PROFILE

The Investment Manager has discretion and authority to manage, invest and reinvest the assets of the Segregated Portfolio in pursuit of the investment objective and in accordance with the investment strategies and restriction as set out in the Subscription Documents. Choice of the investment of the Segregated Portfolio refers to fixed income securities, including bonds, structured products, notes, loans, derivatives and other financial instruments. A specific investment target will be selected by the management team of the Investment Manager from its investment pool, after several internal procedures including but not limited to (i) preparation of credit analysis reports by analysts, (ii) approval from internal decision-making meeting involving participants from the whole management team for the Segregated Portfolio and the executive director(s) of Investment Manager in charge of the fixed income securities business; (iii) approval from the risk management and internal control department of Investment Manager.

According to the Subscription Documents, the investment in the Segregated Portfolio involves certain risks including, but not limited to, those inherent in the nature of the underlying investments, credit risk, currency exposure, interest risk, risk of the emerging markets, governmental intervention, and global market exposure, etc., and the Investment Manager may utilise investment techniques which carry additional risks. Nevertheless, the Investment Manager has established a risk management and internal control system to oversee investment decision-making, due diligence, investment risk and financial risk in relation to the Segregated Portfolio. The management team of the Segregated Portfolio and the risk management and internal control department of Investment Manager will work closely to continuously monitor and enhance the performance of the specific investments within the Segregated Portfolio, so as to prevent risks in advance. Reasonable measures have been adopted to respond to potential risks related to the Segregated Portfolio in a timely manner. Strategy meetings will be held by the management team of the Segregated Portfolio on a regular basis to review the previous operations and the effectiveness of the risk management measures and will determine future risk management strategies.

RELEVANT EXPERIENCE OF INVESTMENT MANAGER

The Investment Manager has extensive experience in providing management services in fixed income securities portfolio and securities backed by fixed assets with stable cash income. It has been providing management services to a discretionary account of fixed-income securities with the latest market value of about US\$340 million and historical average rate of return of 6.55% per annum as of 10 September 2021, and has been entrusted to manage a real estate company with total assets value of RMB1 billion. It has also been providing management services to two ABS funds, including AVICT Global Flying Shark Ltd. (a corporate fund which is the first ship-leasing ABS deal in Asia and after 2008 global financial crisis) with the latest market value of about US\$220 million and historical average rate of return of 4.44% per annum as of 30 June 2021 and Flying Shark SPC-SP1 (a fixed income securities portfolio established in March 2021) with the latest market value of about US\$250 million. At current stage, the Investment Manager is negotiating with some potential partners in the investment fund(s) focusing the aviation manufacturing industry chain and the proposed establishment of technology innovation fund(s) for investment in the innovation projects in Guangdong-Hong Kong-Macao Greater Bay Area and it is expected that the Investment Manager will be further engaged to provide services to such new funds if materialised.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Board has made comprehensive assessment on the Subscription and have especially considered the followings:

- (1) The deposit interest rate offered by commercial banks in Hong Kong is generally less attractive compared with the Segregated Portfolio. For example, the 12-month deposit interest rate offered by HSBC is merely 0.05%. In addition, the Separated Portfolio, which can be redeemed every month, has relatively higher liquidity compared with bank deposits. Taking into account the recent market conditions of the Chinese-asset-backed U.S. Dollar debt market, and after making references to the historical performance of comparable fund projects in relation to fixed-income securities with similar terms or nature, it is believed that the 4% per annum target return is at the high level in the market, especially considering the higher liquidity as a result of the flexible redemption of the Separated Portfolio each month. As such the investment in the Separated Portfolio presents a good opportunity for the Group to generate stable income and attractive return;
- (2) The annual management fee charged by the Investment Manager is 0.5% of the net asset value of the Investment Shares (before deduction of management fee and before making any deduction for any accrued profits share) as aggregated on a monthly basis, which is at a low level in the prevailing market (management fee rate for public fund managers is generally 1.5%-2% per annum). And based on reasonable estimation by the Company, it is believed that the excess part of the target return that may be shared with the Investment Manager is expected to be limited and therefore the aggregated management fee (after being compensated by the profit sharing) to be obtained by the Investment Manager will be within a reasonable range.

As such, even though the Investment Manager will be entitled to receive a profit share equating to all excess above the target investment return, considering that such target return rate of 4% per annum is already at a high market level while the annual management fee rate is at a low market level, the profit sharing arrangement (including compensating the management fee of Investment Manager by profit sharing) taken as a whole is based on normal commercial terms. Based on the above assessment, the Board are of the view that the terms of the Subscription Documents (including the terms in respect of the profit sharing) are on normal commercial terms or better. As a comprehensive portfolio of underlying investments will be made by the Segregated Portfolio going forward, given the extensive experience of the Investment Manager in fund management, and the comparative sufficiency of time, manpower and professional management capabilities of the Investment Manager in respect of fixed-income investment, it is considered more efficient and beneficial for the Company to invest in the Segregated Portfolio, instead of investing in the underlying investments/projects directly. Therefore, the Subscription is in the interests of the Company and its Shareholders as a whole.

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

Beijing, 17 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*