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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)

- (1) **CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN AVIC ELECTROMECHANICAL;**
- (2) **CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE DEEMED DISPOSAL OF THE EQUITY INTEREST IN AVIC AVIONICS;**
- (3) **CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION IN RELATION TO THE SUBSCRIPTION AND DEEMED DISPOSAL OF AVIC AVIONICS A SHARES BY THE COMPANY;**
- (4) **CONNECTED TRANSACTION IN RELATION TO THE SUBSCRIPTION OF AVIC AVIONICS A SHARES BY AVIC AVIATION INDUSTRY INVESTMENT, AVIC SHENFEI AND CHENGDU AIRCRAFT INDUSTRY;**  
**AND**
- (5) **INSIDE INFORMATION IN RESPECT OF ENTRUSTED VOTING ARRANGEMENT IN AVIC AVIONICS**

**Independent Financial Adviser to the Independent Board Committee and the Independent Shareholder**



Reference is made to the inside information announcement (the “**Announcement**”) dated 26 May, 2022 in relation to the Potential Absorption of AVIC Electromechanical by AVIC Avionics, an A-share subsidiary of the Company.

On 10 June, 2022 (after trading hours), the Board is pleased to announce that, (i) AVIC Avionics and AVIC Electromechanical have entered into the Share Swap and Absorption Agreement; (ii) AVIC Avionics and the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry have entered into the Subscription Agreement respectively; and (iii) the Company and AVIC Airborne Systems have entered into the Entrusted Voting Arrangement Agreement.

## **SHARE SWAP AND ABSORPTION OF AVIC ELECTROMECHANICAL AND DEEMED DISPOSAL**

AVIC Avionics has entered into the Share Swap and Absorption Agreement with AVIC Electromechanical, pursuant to which AVIC Avionics has agreed to issue AVIC Avionics A Shares to the Share Swap participating shareholders of AVIC Electromechanical as at the Share Swap Date in exchange for the AVIC Electromechanical A Shares held by them at an exchange ratio of 1 AVIC Electromechanical A Shares to 0.6605 AVIC Avionics A Share. As at the date of this announcement, the total issued share capital of AVIC Electromechanical is 3,884,824,789 shares. Based on the Exchange Ratio, it is estimated that approximately 2,565,926,773 AVIC Avionics A Shares will be issued to the shareholders of AVIC Electromechanical.

Shareholders of AVIC Avionics that oppose the Share Swap and Absorption are granted with the right to request the Company to purchase their AVIC Avionics A Shares at AVIC Avionics Appraisal Right Exercise Price in cash. Similarly, shareholders of AVIC Electromechanical that oppose the Share Swap and Absorption are granted with the right to request the Company to purchase their AVIC Electromechanical A Shares at AVIC Electromechanical Appraisal Right Exercise Price in cash. The Company estimates that the amount of capital required to purchase the AVIC Avionics A Shares from the Opposing AVIC Avionics Shareholders and the AVIC Electromechanical A Shares from the Opposing AVIC Electromechanical Shareholders will not exceed RMB4,008 million and RMB6,425 million, respectively.

Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration. The Exchange Shares will be listed and circulated on the main board of the Shanghai Stock Exchange.

## **SUBSCRIPTION OF AVIC AVIONICS A SHARES BY THE COMPANY, AVIC AVIATION INDUSTRY INVESTMENT, AVIC SHENFEI AND CHENGDU AIRCRAFT INDUSTRY**

Conditional upon the Share Swap and Absorption Agreement becoming effective, AVIC Avionics also intended to place AVIC Avionics A Shares to not more than 35 designated investors (including the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry) to raise fund at a total amount not exceeding RMB5, 000 million. AVIC Avionics has entered into the Subscription Agreements with the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, respectively. Pursuant to the Subscription Agreements, subject to the Completion, (i) the Company has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB500 million in cash; (ii) AVIC Aviation Industry Investment agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB300 million in cash; (iii) AVIC Shenfei has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash; and (iv) Chengdu Aircraft Industry has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash.

## **EFFECT OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION ON THE SHAREHOLDING STRUCTURE OF AVIC AVIONICS**

Before the Share Swap and Absorption and the Subscription, AVIC Avionics is owned as to 39.43% by the Company, 16.41% by AVIC Airborne Systems, 7.38% by AVIC, 3.15% by associates of AVIC and 33.63% by other shareholders.

Assuming: (i) no Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders have exercised their Appraisal Rights; (ii) the Subscription Price is RMB18.44 per share (being the Average Trading Price assuming the date of this announcement is the first day of the Subscription); and (iii) the proceeds from the Subscription is RMB5,000 million, of which the total subscription amount of the AVIC Subscribers (as defined below) is RMB 1.16 billion, AVIC Avionics will be owned as to:

- (i) 27.52% by AVIC Airborne Systems, 16.92% by the Company, 4.09% by AVIC, 1.70% by AVIC Aviation Industry Investment, 7.92% by associates of AVIC and 41.85% by other shareholders after the Share Swap and Absorption but before the Subscription; and
- (ii) 25.96% by AVIC Airborne Systems, 16.52% by the Company, 3.86% by AVIC, 1.96% by AVIC Aviation Industry Investment, 0.21% by AVIC Shenfei, 0.21% by Chengdu Aircraft Industry, 7.45% by associates of AVIC and 43.83% by other shareholders after the Share Swap and Absorption and the Subscription

### **ENTRUSTED VOTING ARRANGEMENT IN AVIC AVIONICS**

The Company has also entered into the Entrusted Voting Arrangement Agreement with AVIC Airborne Systems, a wholly-owned subsidiary of AVIC, which holds approximately 16.41% AVIC Avionics A Shares as at the date of this announcement. Pursuant to the Entrusted Voting Arrangement Agreement, AVIC Airborne Systems will entrust the Company to exercise the voting rights of the AVIC Avionics A Shares (including the original AVIC Avionics A Shares held by AVIC Airborne Systems, the AVIC Avionics A Shares obtained as a result of the Share Swap and Absorption from the original AVIC Electromechanical A Shares held by AVIC Airborne Systems and all new AVIC Avionics A Shares to be acquired by AVIC Airborne Systems subsequent to the signing of the Entrusted Voting Arrangement Agreement under any transfer, allotment or placing of AVIC Avionics A Shares by AVIC Avionics) held by AVIC Airborne Systems for an indefinite period until such arrangement is terminated by the Company and AVIC Airborne Systems by mutual agreement. AVIC Airborne Systems shall continue to be the legal and beneficial owner of the Entrusted AVIC Avionics A Shares, and except for the voting rights, AVIC Airborne Systems shall continue to be entitled to all rights attaching to the Entrusted AVIC Avionics A Shares (including but not limited to right to notice, right to dividend, right to share in profitability and right to dispose). The Entrusted Voting Arrangement Agreement shall be effective upon signing of the Entrusted Voting Arrangement Agreement by the Company and AVIC Airborne Systems and fulfillment of the condition precedents under the Entrusted Voting Arrangement Agreement. No consideration is payable under the Entrusted Voting Arrangement Agreement.

Based on the shareholding of AVIC Avionics after the Share Swap and Absorption and the Subscription as disclosed in the section headed “Effect of the Share Swap and Absorption and the Subscription on the Shareholding Structure of AVIC Avionics” above, after the Entrusted Voting Arrangement becoming effective, the Company will be able to exercise approximately 42.48% voting right in AVIC Avionics. AVIC Avionics will continue to be a subsidiary of the Company and consolidated in the consolidated financial statements of the Company.

### **LISTING RULES IMPLICATIONS**

#### **Acquisition of AVIC Electromechanical and Deemed Disposal**

As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the acquisition of AVIC Electromechanical under the Share Swap and Absorption exceeds

100%, the Share Swap and Absorption, if materialised, will constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules.

Furthermore, upon completion of the Share Swap and Absorption, the shareholding of the Company in AVIC Avionics will reduce from 39.43% to 16.92%. Therefore, the Share Swap and Absorption will also constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Deemed Disposal exceeds 75%, the Deemed Disposal of AVIC Avionics will constitute a very substantial disposal for the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, AVIC Electromechanical is a connected person of the Company by virtue of being owned as to 51.97% by AVIC (i.e. the controlling shareholder of the Company), directly and indirectly through several of its subsidiaries. The Company has no interest in AVIC Electromechanical as at the date of this announcement. Therefore, the Share Swap and Absorption constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the relevant reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

**Subscription of AVIC Avionics A Shares by the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry**

***Subscription of AVIC Avionics A Shares by the Company***

Upon completion of the Subscription, the shareholding of the Company in AVIC Avionics will reduce from 16.92% to 16.52%. Therefore, the Subscription of AVIC Avionics A Shares by the Company will constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Subscription of AVIC Avionics A Shares by the Company exceeds 5% but below 25%, the Subscription, if materialised, will constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, AVIC Avionics is a subsidiary of the Company. Furthermore, it is a connected subsidiary of the Company by virtue of being owned as to 16.41% by AVIC Airborne Systems, a wholly-owned subsidiary of AVIC. Therefore, the Subscription of AVIC Avionics A Shares by the Company, if materialised, will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratio (other than the profits ratio) in respect of the Subscription of AVIC Avionics A Shares by the Company exceeds 5%, the Subscription of AVIC Avionics A Shares by the Company is subject to the relevant reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

***Subscription of AVIC Avionics A Shares by AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry***

AVIC Aviation Industry Investment is an indirect non wholly-owned subsidiary of AVIC, AVIC Shenfei is a non wholly-owned subsidiary of AVIC and Chengdu Aircraft Industry is a wholly-owned subsidiary of AVIC. Therefore, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry are connected persons of the Company. Accordingly, the Subscription of AVIC Avionics A Shares by AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, if materialised, will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest of the applicable percentage ratio (other than the profits ratio) in respect of the Subscription of AVIC Avionics A Shares by AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu

Aircraft Industry is more than 0.1% but below 5%, the Subscription of AVIC Avionics A Shares by AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry is subject to the reporting and announcement requirements, but is exempt from the circular and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **GENERAL**

An Independent Board Committee has been formed to advise and provide recommendations to the Independent Shareholders in respect of the Share Swap and Absorption and the Subscription. Maxa Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Share Swap and Absorption and the Subscription.

At the EGM, resolutions will be proposed by the Company to seek the Independent Shareholders' approval on the Share Swap and Absorption and the Subscription. AVIC and its associates will abstain from voting for the resolutions regarding the Share Swap and Absorption and the Subscription at the EGM. The proposed resolutions will be passed by way of ordinary resolutions and voted on by way of poll in accordance with the requirement of the Listing Rules.

A circular containing, among others, further details about the Share Swap and Absorption and the Subscription, the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the recommendations of the Independent Board Committee, other information as required under the Listing Rules and a notice convening the EGM, is expected to be despatched to the Shareholders on or before 30 August 2022, which is more than 15 business days after the publication of this announcement, as more time is required for the preparation of certain information to be disclosed in the circular.

**Shareholders and potential investors of the Company should note that Completion is subject to the fulfilment of the conditions precedent of the Share Swap and Absorption Agreement and the Subscription Agreement as disclosed in this announcement (including the relevant shareholders' approvals and regulatory approvals). Accordingly, the Share Swap and Absorption and the Subscription may or may not proceed. Shareholders and potential investors of the Company are therefore urged to exercise caution when dealing in the Shares and other securities of the Company.**

## **INTRODUCTION**

Reference is made to the announcement dated 26 May 2022 in relation to the potential absorption of AVIC Electromechanical by AVIC Avionics, an A-share subsidiary of the Company.

The Board is pleased to announce that on 10 June 2022 (after trading hours), (i) AVIC Avionics and AVIC Electromechanical have entered into the Share Swap and Absorption Agreement; (ii) AVIC Avionics and the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry have entered into the Subscription Agreement respectively; and (iii) the Company and AVIC Airborne Systems have entered into the Entrusted Voting Arrangement Agreement.

## **ACQUISITION OF AVIC ELECTROMECHANICAL AND DEEMED DISPOSAL**

AVIC Avionics has entered into the Share Swap and Absorption Agreement with AVIC Electromechanical, the principal terms of which are summarised as follows:

**Date**

10 June 2022

**Parties to the Share Swap and Absorption Agreement**

1. AVIC Avionics; and
2. AVIC Electromechanical

**Subject Matter**

AVIC Avionics has agreed to issue AVIC Avionics A Shares to the Share Swap participating shareholders of AVIC Electromechanical in exchange for the entire AVIC Electromechanical A Shares held by them as at the Share Swap Date. Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration. Application will be made by AVIC Avionics to the Shanghai Stock Exchange for approval for the listing of, and permission to deal in, the Exchange Shares.

**The Exchange Price and the Exchange Ratio**

The Exchange Ratio is determined with reference to the exchange price of AVIC Avionics A Shares (the “**AVIC Avionics Exchange Price**”) divided by the exchange price of AVIC Electromechanical A Shares (the “**AVIC Electromechanical Exchange Price**”). Each of the AVIC Electromechanical Exchange Price and the AVIC Avionics Exchange Price is determined with reference to the average trading price of AVIC Electromechanical A Shares and AVIC Avionics A Shares, respectively, for the 120 trading days prior to the Price Determination Date. Based on the above formula, AVIC Electromechanical Exchange Price is RMB12.59 per share (as adjusted by its 2021 profit distribution plan) and AVIC Avionics Exchange Price is RMB19.06 per share. Therefore, the Exchange Ratio equals to 1: 0.6605, which means that one AVIC Electromechanical A Share can exchange for 0.6605 AVIC Avionics A Share.

The Exchange Ratio was arrived at with reference to, among other things, (i) the rules and regulations under the Material Asset Restructuring Measures and the Companies Law of the PRC; (ii) the valuation value of AVIC Electromechanical and AVIC Avionics in the past; and (iii) the usual practice and operation of share swap and absorption in other comparable cases in the market. Furthermore, the Company considers that the 120 day average trading price of AVIC Avionics A Shares and AVIC Electromechanical A Shares can better reflect the fair value of AVIC Avionics and AVIC Electromechanical given the recent huge short-term fluctuation of the A-shares stock market.

**Number of Exchange Shares to be issued**

As at the date of this announcement, the total issued share capital of AVIC Electromechanical is 3,884,824,789 AVIC Electromechanical A Shares, which will all participate in the Share Swap and Absorption. Based on the Exchange Ratio, it is estimated that a total of 2,565,926,773 AVIC Avionics A Shares (representing approximately 133.07% of the AVIC Avionics A Shares in issue as at the date of this announcement) will be issued as Exchange Shares to the shareholders of AVIC Electromechanical. Upon Completion, the total number of issued shares of AVIC Avionics will be 4,494.14 million.

If any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital, allotment of shares and cancellation of treasury shares occurs on AVIC

Avionics or AVIC Electromechanical between the Price Determination Date to the implementation date of Share Swap and Absorption, the number of Exchange Shares will be adjusted accordingly.

The number of AVIC Avionics A Shares to be acquired by the AVIC Electromechanical shareholders shall be an integer. If the number of AVIC Electromechanical A Shares held by them is not an integer after multiplying the Exchange Ratio, the AVIC Electromechanical shareholders shall be sorted according to the size of the mantissa after the decimal point and one AVIC Avionics A Share will be issued to these shareholders in turn until the actual number of swapped AVIC Avionics A Shares equals to the number of AVIC Avionics A Shares intended to be issued for the Share Swap and Absorption.

Upon completion of the Share Swap and Absorption, the shareholding of the Company in AVIC Avionics will reduce from 39.43% to 16.92%. Therefore, the Share Swap and Absorption will also constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. According to the Entrusted Voting Arrangement as disclosed below, AVIC Avionics will continue to be a subsidiary of the Company upon the completion of the Share Swap and Absorption.

### **Listing of the Exchange Shares**

The Exchange Shares will be listed and circulated on the main board of the Shanghai Stock Exchange.

### **Appraisal Right of the Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders**

#### ***AVIC Avionics Appraisal Right***

Pursuant to the Share Swap and Absorption Agreement, the Company has agreed to grant the AVIC Avionics Appraisal Right to the shareholders of AVIC Avionics (the “**Opposing AVIC Avionics Shareholders**”) that:

- (i) vote against the resolutions in relation to the Share Swap and Absorption and the Subscription and the signing of the Share Swap and Absorption Agreement at the shareholders’ meetings of AVIC Avionics;
- (ii) retain their AVIC Avionics A Shares in connection with the AVIC Avionics Appraisal Right from the record date of the shareholders’ meeting of AVIC Avionics approving the Share Swap and Absorption until the Appraisal Right Execution Date; and
- (iii) complete the relevant procedures within the period as stipulated in the Share Swap and Absorption Agreement.

The AVIC Avionics Appraisal Right is exercisable on the Appraisal Right Execution Date, pursuant to which the Opposing AVIC Avionics Shareholders can request the Company to purchase the AVIC Avionics A Shares at the AVIC Avionics Appraisal Right Exercise Price.

#### ***AVIC Avionics Appraisal Right Exercise Price***

The AVIC Avionics Appraisal Right Exercise Price equals to RMB18.44 per share, which is determined with reference to the its average trading price for the 20 trading days of AVIC Avionics prior to the Price Determination Date. The AVIC Avionic Appraisal Right Exercise Price was arrived at with reference to the usual practice and operation of share Swap and absorption in other comparable cases in the market,

which the appraisal right exercise price is set as the average trading price for the 20 trading days of the listed company prior to the announcement date of the board approval of the share swap and absorption.

#### *AVIC Avionics Appraisal Right Exercise Price Adjustment Mechanisms*

Pursuant to the Share Swap and Absorption Agreement, the AVIC Avionics Appraisal Right will be adjusted upon fulfillment of the following conditions:

1. **ex-rights and ex-dividend events adjustment:** if any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital and allotment of shares occurs between the date of the shareholders' meeting announcement approving the Share Swap and Absorption and the date of exercise of the AVIC Avionics Appraisal Right (including both days) (the "**First AVIC Avionics Appraisal Right Exercise Price Adjustment Period**"), the AVIC Avionics Appraisal Right Exercise Price will be adjusted accordingly. There is no limit on the number of price adjustments under the ex-rights and ex-dividend events adjustment mechanism, and the AVIC Avionics Appraisal Right Exercise Price will be adjusted upon occurrence of any of the ex-rights and ex-dividends events; or
2. **one-off stipulated events adjustment:** if the stipulated events in the Share Swap and Absorption Agreement occur between the date of the shareholders' meeting announcement approving the Share Swap and Absorption and the date of approval of the Share Swap and Absorption by CSRC (the "**Second AVIC Avionics Appraisal Right Exercise Price Adjustment Period**"), AVIC Avionics shall convene a board meeting within 10 trading days after the occurrence of the stipulated events to determine whether adjustment of AVIC Avionics Appraisal Right Exercise Price under the one-off stipulated events adjustment mechanism is required. The decision of the board of AVIC Avionics will be final and no future adjustment to the AVIC Avionics Appraisal Right Exercise Price will be triggered under the one-off stipulated events adjustment mechanism.

During the overlapping period of the First AVIC Avionics Appraisal Right Exercise Price Adjustment Period and the Second AVIC Avionics Appraisal Right Exercise Period, the AVIC Avionics Appraisal Right Exercise Price will be subject to both the ex-rights and ex-dividend events adjustment and one-off stipulated events adjustment mechanisms.

#### *Estimated capital requirement for AVIC Avionics Appraisal Right*

As at the date of this announcement, there are 652 million AVIC Avionics A Shares held by independent shareholders. Assuming the Share Swap and Absorption will be approved at the shareholders meeting of AVIC Avionics (with at most one-third of independent shareholders opposing the Share Swap and Absorption, which hold approximately 217 million AVIC Avionics A Shares) and all the Opposing AVIC Avionics Shareholders have chosen to exercise the AVIC Avionics Appraisal Right, the Company estimates that the maximum amount of capital required is approximately RMB4,008 million. However, considering: (i) not all Opposing AVIC Avionics Shareholders will attend the shareholders' meeting; (ii) not all Opposing AVIC Avionics Shareholders will choose to exercise the AVIC Avionics Appraisal Right and it is expected that the amount of capital required for the AVIC Avionics Appraisal Right will be lower than the maximum amount stated above; and (iii) based on the percentage of opposing shareholders of the purchaser company in similar acquisition and absorption transactions of other A shares companies, the Company estimates that approximately 5.17% independent shareholders of AVIC Avionics will oppose the Share Swap and Absorption and exercise the AVIC Avionics Appraisal Right, and the amount of capital required to purchase the AVIC Avionics A Shares from the Opposing AVIC Avionics Shareholders will not exceed RMB622 million.



### ***AVIC Electromechanical Appraisal Right***

Pursuant to the Share Swap and Absorption Agreement, the Company has agreed to grant the AVIC Electromechanical Appraisal Right to the shareholders of AVIC Electromechanical (the “**Opposing AVIC Electromechanical Shareholders**”) that:

- (i) vote against the resolutions in relation to the Share Swap and Absorption and the signing of the Share Swap and Absorption Agreement at the shareholders’ meetings of AVIC Electromechanical;
- (ii) retain their AVIC Electromechanical A Shares in connection with the AVIC Electromechanical Appraisal Right from the record date of the shareholders’ meeting of AVIC Electromechanical approving the Share Swap and Absorption until the Appraisal Right Execution Date; and
- (iii) complete the relevant procedures within the period as stipulated in the Share Swap and Absorption Agreement.

The AVIC Electromechanical Appraisal Right is exercisable on the Appraisal Right Execution Date, pursuant to which the Opposing AVIC Electromechanical Shareholders can request the Company to purchase the AVIC Electromechanical A Shares at the AVIC Electromechanical Appraisal Right Exercise Price.

### ***AVIC Electromechanical Appraisal Right Exercise Price***

The AVIC Electromechanical Appraisal Right Exercise Price equals to RMB10.33 per share (as adjusted by its 2021 profit distribution plan), which is determined with reference to the average trading price of AVIC Electromechanical for the 20 trading days prior to the Price Determination Date. The AVIC Electromechanical Appraisal Right Exercise Price was arrived at with reference to the usual practice and operation of share swap and absorption in other comparable cases in the market, which the appraisal right exercise price is set as the average trading price for the 20 trading days of the listed company prior to the announcement date of the board approval of the share swap and absorption.

### ***AVIC Electromechanical Appraisal Right Exercise Price Adjustment Mechanisms***

Pursuant to the Share Swap and Absorption Agreement, the AVIC Electromechanical Appraisal Right will be adjusted upon fulfillment of the following conditions:

1. **ex-rights and ex-dividend events adjustment:** if any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital and allotment of shares occurs between the date of the shareholders’ meeting announcement approving the Share Swap and Absorption and the date of exercise of the AVIC Electromechanical Appraisal Right (including both days) (the “**First AVIC Electromechanical Appraisal Right Exercise Price Adjustment Period**”), the AVIC Electromechanical Appraisal Right Exercise Price will be adjusted accordingly. There is no limit on the number of price adjustments under the ex-rights and ex-dividend events adjustment mechanism, and the AVIC Electromechanical Appraisal Right Exercise Price will be adjusted upon occurrence of any of the ex-rights and ex-dividends events; or
2. **one-off stipulated events adjustment:** if the stipulated events in the Share Swap and Absorption Agreement occur between the date of the shareholders’ meeting announcement approving the Share Swap and Absorption and the date of approval of the Share Swap and Absorption by CSRC (the “**Second AVIC Electromechanical Appraisal Right Exercise Price Adjustment Period**”), AVIC Electromechanical shall convene a board meeting within 10 trading days after the occurrence of the

stipulated events to determine whether adjustment of AVIC Electromechanical Appraisal Right Exercise Price under the one-off stipulated events adjustment mechanism is required. The decision of the board of AVIC Electromechanical will be final and no future adjustment to the AVIC Electromechanical Appraisal Right Exercise Price will be triggered under the one-off stipulated events adjustment mechanism.

During the overlapping period of the First AVIC Electromechanical Appraisal Right Exercise Price Adjustment Period and the Second AVIC Electromechanical Appraisal Right Exercise Period, the AVIC Electromechanical Appraisal Right Exercise Price will be subject to both the ex-rights and ex-dividend events adjustment and the one-off stipulated events adjustment mechanisms.

#### *Estimated capital requirement for AVIC Electromechanical Appraisal Right*

As at the date of this announcement, there are 1,866 million AVIC Electromechanical A Shares held by independent shareholders. Assuming the Share Swap and Absorption will be approved at the shareholders meeting of AVIC Electromechanical (with at most one-third of independent shareholders opposing the Share Swap and Absorption, which hold approximately 622 million AVIC Electromechanical A Shares) and all the Opposing AVIC Electromechanical Shareholders have chosen to exercise the AVIC Electromechanical Appraisal Right, the Company estimates that the maximum amount of capital required is approximately RMB6,425 million. However, considering: (i) not all Opposing AVIC Electromechanical Shareholders will attend the shareholders' meeting; (ii) not all Opposing AVIC Electromechanical Shareholders will choose to exercise the AVIC Electromechanical Appraisal Right and it is expected that the amount of capital required for the AVIC Electromechanical Appraisal Right will be lower than the maximum amount stated above ; and (iii) based on the percentage of opposing shareholders of the vendor company in similar acquisition and absorption transactions of other A shares companies, the Company estimates that approximately 4.22% independent AVIC Electromechanical shareholders will oppose the Share Swap and Absorption and exercise the AVIC Electromechanical Appraisal Right, and the amount of capital required to purchase the AVIC Electromechanical A Shares from the Opposing AVIC Electromechanical Shareholders will not exceed RMB813 million.

#### **Arrangement for the Rollover of the Undistributed Profits of AVIC Avionics and AVIC Electromechanical**

In addition to the profit distribution plan approved by the respective shareholders' meetings of AVIC Avionics and AVIC Electromechanical, the accumulated undistributed profits of AVIC Avionics and AVIC Electromechanical as at the Share Swap Date shall be shared by the old and new shareholders of AVIC Avionics in proportion to their shareholdings.

#### **Completion**

The date of Completion shall be the date of completion of the transfer of all business operation, assets and liabilities of AVIC Electromechanical to AVIC Avionics. Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration.

#### **Conditions precedent**

The Share Swap and Absorption Agreement shall take effect upon the satisfaction of the following conditions:

1. the Share Swap and Absorption Agreement having been duly signed by AVIC Avionics and AVIC Electromechanical;
2. AVIC Avionics, AVIC Electromechanical and the Company having obtained all effective approvals in respect of the Share Swap and Absorption from its board of directors and shareholders pursuant to their respective articles and associations;
3. the Share Swap and Absorption having completed all the regulatory procedures of the Stock Exchange; and
4. the Share Swap and Absorption having obtained approvals from SASTIND, SASAC and CSRC.

### **SUBSCRIPTION OF AVIC AVIONICS A SHARES BY THE COMPANY, AVIC AVIATION INDUSTRY INVESTMENT, AVIC SHENFEI AND CHENGDU AIRCRAFT INDUSTRY**

Conditional upon the Share Swap and Absorption Agreement becoming effective, AVIC Avionics also intended to place AVIC Avionics A Shares to not more than 35 designated investors (including the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, the “**Subscribers**”) to raise fund at a total amount not exceeding RMB5,000 million. AVIC Avionics has also entered into the Subscription Agreements with the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, the principal terms of which are summarised as follows:

#### **Date**

10 June 2022

#### **Parties to the Subscription Agreements**

1. AVIC Avionics;
2. the Company;
3. AVIC Aviation Industry Investment;
4. AVIC Shenfei; and
5. Chengdu Aircraft Industry

(the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, collectively the “**AVIC Subscribers**”)

#### **Subject Matter**

Conditional upon the approval of the Share Swap and Absorption, (i) the Company has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB500 million in cash; (ii) AVIC Aviation Industry Investment agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB300 million in cash; (iii) AVIC Shenfei has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash; and (iv) Chengdu Aircraft Industry has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash. If the number of issued shares of AVIC Avionics is less than one share, the AVIC Subscribers agree to round off the non-integer part. If

the balance of the subscription amount is insufficient to convert into one share, such balance shall be converted into the capital reserve of AVIC Avionics.

The final subscription amount and the number of subscribed AVIC Avionics A Shares shall be in accordance with the payment notice as issued to the AVIC Subscribers by the underwriter of AVIC Avionics.

### **Use of Proceeds**

Upon completion of the Subscription, it is estimated that the maximum amount of fund raised by AVIC Avionics will be RMB5,000 million. The proceeds from the Subscription will be used to supplement the working capital of AVIC Avionics, repay the debt of AVIC Avionics, to pay the fee for professional parties and tax expenses incurred in the Subscription and provide funds for the construction of projects of AVIC Avionics for the enhancement of key technology in relation to the productivity and quality of airborne systems products after the Absorption of AVIC Electromechanical. The portion of proceeds from the Subscription for repayment of debt and as working capital of AVIC Avionics shall not be more than 25% of the transaction amount of the Share Swap and Absorption, or 50% of the total proceeds from the Subscription. Details of the use of proceeds from the Subscription and the corresponding amount will be disclosed in the circular of the Company in relation to the Share Swap and Absorption and the Subscription.

### **Subscription Price**

The Subscription Price will be determined by the underwriters for the Subscription and the board of directors of AVIC Avionics after:

1. CSRC has approved the Subscription;
2. the board of directors of AVIC Avionics have obtained the authorisation from the shareholders' meeting of AVIC Avionics in accordance to the relevant laws and regulations; and
3. considering the price quotation provided by the Subscribers during the price consultation process.

In any event, the Subscription Price shall not be lower than 80% of the average trading price (the “**Average Trading Price**”) of AVIC Avionics A Shares 20 trading days prior to the price determination date of the Subscription (being the first day of the Subscription). The Average Trading Price was determined based on the regulations under the Administrative Measures, pursuant to which the issue price of any non-public issued shares shall not be lower than 80% of the average trading price of the shares 20 trading days prior to the price determination date.

Considering:

1. the Subscription Price determination mechanism as mentioned above, in particular the Subscription Price will be determined based on the price quotation provided by the Subscribers during the price consultation process;
2. the Subscription Price determination mechanism complies with the relevant laws and regulations in the PRC, such as the Administrative Measures, the Detailed Implementation Rules for the Non-Public Offering of Stocks of Listed Companies (2020 Revision)\* (上市公司非公开发行股票实施细则) and the Material Asset Restructuring Measures; and

3. assuming the date of this announcement is the first day of the Subscription, the low-end of the Subscription Price, being 80% of the Average Trading Price, is RMB14.75 per share and it is higher than the net asset value per AVIC Avionics A Shares of RMB5.83 per share as at 31 December 2021,

the Board considers that the Subscription Price is fair and reasonable.

The Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry will not participate in the price consultation process of the Subscription. However, they will accept the results of the price consultation process and subscribe for AVIC Avionics A Shares with the Subscription Price. If the Subscription Price is not determined by the price consultation process, the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry will subscribe AVIC Avionics A Shares at the Average Trading Price.

If any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital and allotment of shares, occurs on any of the 20 trading days (including both the starting and the end date) prior to the first day of the Subscription, the trading price on the date prior to the occurrence of such ex-rights and ex-dividend event shall be adjusted as the trading price after the ex-rights and ex-dividend event. If any of the abovementioned ex-rights and ex-dividend events occur between the first date of the Subscription and the last date of the Subscription (including both days), the Subscription Price will be adjusted according to the relevant regulations of CSRC and the Shanghai Stock Exchange.

The AVIC Subscribers will use their own capital to finance the Subscription. They shall pay the total Subscription amount to the designated bank account for Subscription opened by the underwriter after the effective date of the Subscription Agreement and receipt of the payment notice issued by the underwriter.

### **Lock-up Period**

The AVIC Subscribers undertake not to transfer any of their subscribed AVIC Avionics A Shares within 18 months after the Subscription. For Subscribers other than the AVIC Subscribers, they will undertake not to transfer any of their subscriber AVIC Avionics A Shares within 6 months after the Subscription.

The lock-up period is determined with reference to the regulations under the Administrative Measures, pursuant to which the lock-up period for any non-public issued shares of a listed company subscribed by: (i) independent subscribers shall be 6 months, and (ii) controlling shareholder, actual controller or a corporation controlled by the controlling shareholder or actual controller of a listed company shall be 18 months. As AVIC is the actual controller of AVIC Avionics and AVIC Subscribers are companies controlled by AVIC, the lock-up period for AVIC Subscribers is therefore 18 months.

### **Conditions precedent**

The Subscription Agreement shall take effect upon the satisfaction of the following conditions:

1. the Subscription Agreements having been duly signed by AVIC Avionics, the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry;
2. the Subscription having obtained all effective approvals from the board of directors and shareholders pursuant to the articles and associations of AVIC Avionics and AVIC Electromechanical;
3. the Share Swap and Absorption Agreement having become effective;

4. the Subscription having obtained all effective approvals from (i) the Board and Shareholders pursuant to the articles and associations of the Company; (ii) the internal investment decision making body of AVIC Aviation Industry Investment; (iii) the board of directors and shareholders pursuant to the articles and associations of AVIC Shenfei; and (iv) the internal investment decision making body of Chengdu Aircraft Industry;
5. the Subscription having completed all the regulatory procedures of the Stock Exchange; and
6. the Subscription having obtained approvals from SASTIND, SASAC and CSRC.

### Other fundraising alternatives

The Company has considered other alternative fundraising methods such as debt financing. The Board considered that debt financing may incur interest burden on the Group and will increase the ongoing interest expenses of the Group which may in turn affect the gearing ratio and profitability of the Company. Besides, debt financing may also be subject to lengthy due diligence and negotiations with the banks, which may be relatively uncertain and time-consuming. On the other hand, the Board considers that the Subscription would allow the Company to strengthen its balance sheet by raising fund without the need for payment of interest and repayment. Furthermore, the time required for Subscription is relatively shorter compared to that of debt financing. Therefore, the Company considers that the Subscription is currently the most feasible fundraising method to the Company.

### EFFECT OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION ON THE SHAREHOLDING STRUCTURE OF AVIC AVIONICS

Assuming: (i) no Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders have exercised their Appraisal Rights; (ii) the Subscription Price is RMB18.44 per share (being the Average Trading Price assuming the date of this announcement is the first day of the Subscription); and (iii) the proceeds from the Subscription is RMB5,000 million, of which the total subscription amount of the AVIC Subscribers (as defined below) is RMB 1.16 billion, the shareholding of AVIC Avionics after the Share Swap and Absorption and the Subscription will be as follows:

Name of shareholders	Before the Share Swap and Absorption and the Subscription		After the Share Swap and Absorption but before the Subscription		After the Share Swap and Absorption and the Subscription	
	Number of shares ('million)	Percentage of shareholding (%)	Number of shares ('million)	Percentage of shareholding (%)	Number of shares ('million)	Percentage of shareholding (%)
the Company	760.32	39.43	760.32	16.92	787.44	16.52
AVIC Airborne Systems	316.51	16.41	1,236.92	27.52	1,236.92	25.96
AVIC	142.29	7.38	183.74	4.09	183.74	3.86
Hanzhong Aviation Industry (Group) Co., Ltd.* (漢中航空工業(集團)有限公司) <sup>1</sup>	59.63	3.09	59.63	1.33	59.63	1.25

China Aviation Industry Supply and Marketing Co., Ltd.* (中國航空工業供銷有限公司) <sup>2</sup>	1.19	0.06	1.19	0.03	1.19	0.02
China Aviation Life Saving Research Institute* (中國航空救生研究所) (“Life Saving Research Institute”)	-	-	266.11	5.92	266.11	5.58
AVIC Aviation Industry Investment	-	-	76.97	1.70	93.24	1.96
AVIC Investment Holdings Co., Ltd.* (中航投資控股有限公司)	-	-	22.53	0.50	22.53	0.47
Guizhou Gaike Aviation Electromechanical Co., Ltd.* (貴州蓋克航空機電有限公司)	-	-	6.11	0.14	6.11	0.13
AVIC Shenfei	-	-	-	-	9.76	0.21
Chengdu Aircraft Industry	-	-	-	-	9.76	0.21
Other independent shareholders	648.27	33.63	1,880.61	41.85	1,880.61	43.83
<b>Total:</b>	<b>1,928.21</b>	<b>100</b>	<b>4,494.14</b>	<b>100</b>	<b>4,765.29</b>	<b>100</b>

Notes:

1. Hanzhong Aviation Industry (Group) Co., Ltd. is an indirect wholly-owned subsidiary of AVIC.
2. China Aviation Industry Supply and Marketing Co., Ltd. is an indirect wholly-owned subsidiary of AVIC.
3. Life Saving Research Institute is a national defence science and technology institute initiated by AVIC.
4. AVIC Investment Holdings Co., Ltd. is an indirect non wholly-owned subsidiary of AVIC.
5. Guizhou Gaike Aviation Electromechanical Co., Ltd. is an indirect non wholly-owned subsidiary of AVIC.

## ENTRUSTED VOTING ARRANGEMENT IN AVIC AVIONICS

The Company has also entered into the Entrusted Voting Arrangement Agreement with AVIC Airborne Systems and the principal terms are summarised as follows:

### Date

10 June 2022

## **Parties to the Entrusted Voting Arrangement Agreement**

1. the Company; and
2. AVIC Airborne Systems

## **Subject Matter**

AVIC Airborne Systems will entrust the Company to exercise the voting rights of the Entrusted AVIC Avionics A Shares (including the original AVIC Avionics A Shares held by AVIC Airborne Systems, the AVIC Avionics A Shares obtained as a result of the Share Swap and Absorption from the original AVIC Electromechanical A Shares held by AVIC Airborne Systems and all new AVIC Avionics A Shares to be acquired by AVIC Airborne Systems subsequent to the signing of the Entrusted Voting Arrangement Agreement under any transfer, allotment or placing of AVIC Avionics A Shares by AVIC Avionics) held by AVIC Airborne Systems for an indefinite period until such arrangement is terminated by the Company and AVIC Airborne Systems by mutual agreement.

Pursuant to the Entrusted Voting Arrangement Agreement, the Company shall have the right to exercise voting rights over the Entrusted AVIC Avionics A Shares at its own will without prior notice to AVIC Airborne Systems, including:

1. request for, convene, attend or appoint a proxy to attend general meetings of AVIC Avionics, and handle all matters relating to the general meetings of AVIC Avionics;
2. exercise shareholders' proposal rights, right to propose appointment or removal of directors or supervisors of AVIC Avionics and propose other resolutions;
3. exercise voting rights on all matters that needed to be approved by voting at the general meetings of AVIC Avionics pursuant to the relevant laws and regulations and articles of association of AVIC Avionics, as well as signing all the relevant documents; and
4. exercise other rights relating to shareholders/ shares of AVIC Avionics as stipulated by the laws and regulations and articles of association of AVIC Avionics, as well as other rights relating to the exercise of voting rights by shareholders at the general meetings of AVIC Avionics.

AVIC Airborne Systems shall continue to be the legal and beneficial owner of the Entrusted AVIC Avionics A Shares, and except for the voting rights, AVIC Airborne Systems shall continue to be entitled to all rights attaching to the Entrusted AVIC Avionics A Shares (including but not limited to right to notice, right to dividend, right to share in profitability and right to dispose)..

## **Duration and Consideration**

The Entrusted Voting Arrangement Agreement has become binding on the parties upon signing and the Entrusted Voting Arrangement contemplated thereunder shall be effective upon fulfillment of the condition precedents under the Entrusted Voting Arrangement Agreement. No consideration is payable under the Entrusted Voting Arrangement Agreement.

## **Conditions Precedent**



The Entrusted Voting Arrangement Agreement shall take effect upon the satisfaction of the following conditions:

1. the Entrusted Voting Arrangement Agreement having been duly signed by the Company and AVIC Airborne Systems;
2. AVIC Airborne Systems having completed all the internal approval procedures in relation to the Entrusted Voting Arrangement;
3. the Company having obtained all effective approvals in respect of the Entrusted Voting Arrangement from its board of directors and shareholders pursuant to their respective articles and associations;
4. the Entrusted Voting Arrangement having completed all the regulatory procedures of the Stock Exchange.

The Entrusted Voting Arrangement shall take effect after AVIC Avionics has issued the swapped AVIC Avionics A Shares to AVIC Airborne Systems and such AVIC Avionics A Shares have registered under the name of AVIC Airborne Systems in the securities registration and clearing institution.

Based on the shareholding of AVIC Avionics after the Share Swap and Absorption and the Subscription as disclosed in the section headed “Shareholding of AVIC Avionics after the Share Swap and Absorption and the Subscription” above, after the Entrusted Voting Arrangement becoming effective, the Company will be able to exercise approximately 42.48% voting right in AVIC Avionics which is higher than the original voting rights of AVIC Avionics held by the Company. AVIC Avionics will continue to be for a subsidiary of the Company and consolidated in the consolidated financial statements of the Company.

#### **INFORMATION OF THE COMPANY, AVIC, AVIC AVIATION INDUSTRY INVESTMENT, AVIC SHENFEI, CHENGDU AIRCRAFT INDUSTRY AND AVIC AIRBORNE SYSTEMS**

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

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 61.60% equity interest in the Company directly and indirectly as at the date of this announcement.

AVIC Aviation Industry Investment is a limited liability company established in the PRC. It is an indirectly non wholly-owned subsidiary of AVIC. It is primarily engaged in strategic investments and merger and acquisitions in aviation-related and science and technology innovation-related businesses.

AVIC Shenfei is a joint stock limited company established in the PRC with its shares listed on the Shanghai Stock Exchange. As at the date of this announcement, AVIC Shenfei is a non wholly-owned subsidiary of AVIC which owns 66.10% equity interest directly and 3.07% equity interest indirectly in AVIC Shenfei. AVIC Shenfei is principally engaged in aviation products manufacturing, including products such as aviation defence equipment and civil aviation products.

Chengdu Aircraft Industry is a limited liability company established in the PRC. It is a wholly-owned subsidiary of AVIC. It is primarily engaged in development, production and export of aviation weapons and equipment and manufacture of civil aircraft components.

AVIC Airborne Systems is a limited liability company established in the PRC and a wholly-owned subsidiary of AVIC. AVIC Airborne Systems is mainly engaged in investment and management of the development, production and sales of airborne electromechanical systems and equipment supporting various types of aircraft and engines.

## INFORMATION OF AVIC AVIONICS

AVIC Avionics is a joint stock limited liability company established in the PRC, whose A shares are listed on the Shanghai Stock Exchange. As at the date of this announcement, the Company owns 39.43% equity interest in AVIC Avionics and it is a non-wholly-owned subsidiary of the Company. It is mainly engaged in the manufacture of avionics products and related accessories.

### Financial information of AVIC Avionics

Set out below is a summary of the consolidated financial information of AVIC Avionics for the years ended 31 December 2021 and 31 December 2020 respectively, prepared in accordance with the China Accounting Standards for Business Enterprises:

	<b>For the year ended 31 December</b>	
	<b>2020</b>	<b>2021</b>
	<i>RMB (million)</i>	<i>RMB (million)</i>
Revenue	8,746.61	9,839.30
Net Profit before tax	719.48	881.09
Net Profit after tax	655.34	817.72
	<b>As at 31 December</b>	
	<b>2020</b>	<b>2021</b>
	<i>RMB (million)</i>	<i>RMB (million)</i>
Net assets attributable to owners	10,626.33	11,236.85

## INFORMATION OF AVIC ELECTROMECHANICAL

AVIC Electromechanical is a joint stock limited liability company established in the PRC with its shares listed on the Shenzhen Stock Exchange. AVIC Electromechanical is mainly engaged in development, production, sales and service of airborne electromechanical systems and equipment for all types of aircraft and engines. As at the date of this announcement, AVIC Electromechanical is a connected person of the Company by virtue of being owned as to 51.97% by AVIC (i.e. the controlling shareholder of the Company), directly and indirectly through several of its subsidiaries. The Company has no interest in AVIC Electromechanical as at the date of this announcement. The original acquisition cost of AVIC Electromechanical was RMB25.3 million, which was the subscription price paid by Life Saving Institute (an institute initiated by AVIC) at the time of establishment of AVIC Electromechanical.

### Financial information of AVIC Electromechanical

Set out below is a summary of the consolidated financial information of AVIC Electromechanical for the year ended 31 December 2021 and 31 December 2020 respectively, prepared in accordance with the China Accounting Standards for Business Enterprises:

	<b>For the year ended 31 December</b>	
	<b>2020</b>	<b>2021</b>
	<i>RMB (million)</i>	<i>RMB (million)</i>
Revenue	12,224.10	14,992.20
Net Profit before tax	1,348.02	1,527.78
Net Profit after tax	1,145.25	1,350.27

  

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2021</b>
	<i>RMB (million)</i>	<i>RMB (million)</i>
Net assets attributable to owners	12,914.36	13,991.54

## **FINANCIAL EFFECTS OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION**

Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration. Furthermore, upon completion of the Subscription and the Entrusted Voting Arrangement becomes effective, the Company will hold approximately 42.48% voting right in AVIC Avionics and AVIC Avionics will continue to be a subsidiary of the Company. It is expected that the total revenue, assets and liabilities of the Group will increase. Based on the current information available, it is also expected that upon Completion and the completion of the Subscription, the earnings attributable to owners of the Company contributed by AVIC Avionics will remain stable.

Shareholders should note that the financial effects are shown for reference only and the actual amount of gain or loss as a result of the Share Swap and Absorption and the Subscription will be assessed based on the financial position of the Company as at Completion and completion of the Subscription, which will be audited, and eventually be recognised in the consolidated financial statements of the Company.

## **REASONS FOR AND BENEFITS OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION**

The Share Swap and Absorption and the Subscription will help the Company to expand the scale, optimise the aviation industry chain and enhance the market value of the Company and its subsidiaries in accordance with the established strategy of optimising the industrial structure, promote the investment and integration of aviation ancillary systems. Pursuant to the Outline of the Fourteenth Five-Year Plan for the National Economic and Social Development and the Long-Range Objectives Through the Year 2035" (國民經濟和社會發展第十四個五年規劃和 2035 年遠景目標綱要), the new generation of aviation equipment has

become a key development direction of the PRC, which also drives the development of aviation equipment industry chain. As an important part of the aviation equipment industry and the core area of aviation equipment upgrading, airborne systems have ushered in a good opportunity for development. As the main supplier and leading enterprise in the avionics system and aviation electromechanical market, the integration of AVIC Avionics and AVIC Electromechanical will realise the professional integration of avionics systems and electromechanical systems, which is conducive to improving the efficiency of resource allocation, exerting synergistic effects, and laying a good foundation for the systemisation, integration and intelligentisation development of the aviation and airborne industry, thereby further improve the professional level and core competitiveness of the Group to build an aviation and airborne industry with international competitiveness. Furthermore, the Subscription would allow AVIC Avionics to improve its capital structure and financial situation, and for the enhancement of key technology in relation to the productivity and quality of airborne systems products after the absorption of AVIC Electromechanical.

The Directors (excluding the independent non-executive Directors who will form their view after considering the advice of the Independent Financial Adviser) consider that the terms under the Share Swap and Absorption Agreement and the Subscription Agreements which are negotiated on an arm's length basis are on normal commercial terms or better, and the Share Swap and Absorption and the Subscription by the Company are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Furthermore, the Directors (including the independent non-executive Directors) consider that the Subscription by AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

### **Acquisition of AVIC Electromechanical and Deemed Disposal**

As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the acquisition of AVIC Electromechanical under the Share Swap and Absorption exceeds 100%, the Share Swap and Absorption, if materialised, will constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules.

Furthermore, upon completion of the Share Swap and Absorption, the shareholding of the Company in AVIC Avionics will reduce from 39.43% to 16.92%. Therefore, the Share Swap and Absorption will also constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Deemed Disposal exceeds 75%, the Deemed Disposal of AVIC Avionics will constitute a very substantial disposal for the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, AVIC Electromechanical is a connected person of the Company by virtue of being owned as to 51.97% by AVIC (i.e. the controlling shareholder of the Company), directly and indirectly through its subsidiaries. The Company has no interest in AVIC Electromechanical as at the date of this announcement. Therefore, the Share Swap and Absorption constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the relevant reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **Subscription of AVIC Avionics A Shares by the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry**

#### ***Subscription of AVIC Avionics A Shares by the Company***

Upon completion of the Subscription, the shareholding the Company in AVIC Avionics will reduce from 16.92% to 16.52%. Therefore, the Subscription by the Company will constitute a Deemed Disposal of AVIC Avionics under Chapter 14 of the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Subscription by the Company exceeds 5% but below 25%, the Subscription, if materialised, will constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As at the date of this announcement, AVIC Avionics is a subsidiary of the Company. Furthermore, it is also a connected subsidiary of the Company by virtue of being owned as to 16.41% by AVIC Airborne Systems, a wholly-owned subsidiary of AVIC. Therefore, the Subscription of AVIC Avionics A Shares by the Company, if materialised, will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratio (other than the profits ratio) in respect of the Subscription of AVIC Avionics A Shares by the Company exceeds 5%, the Subscription of AVIC Avionics A Shares by the Company is subject to the relevant reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

***Subscription of AVIC Avionics A Shares by AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry***

AVIC Aviation Industry Investment is an indirect non wholly-owned subsidiary of AVIC, AVIC Shenfei is a non wholly-owned subsidiary of AVIC and Chengdu Aircraft Industry is a wholly-owned subsidiary of AVIC. Therefore, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry are connected persons of the Company. Therefore, the Subscription of AVIC Avionics A Shares by AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, if materialised, will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest of the applicable percentage ratio (other than the profits ratio) in respect of the Subscription of AVIC Avionics A Shares by AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry is more than 0.1% but below 5%, the Subscription of AVIC Avionics A Shares by AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry is subject to the reporting and announcement requirements, but is exempt from the circular and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

**GENERAL**

An Independent Board Committee has been formed to advise and provide recommendations to the Independent Shareholders in respect of the Share Swap and Absorption and the Subscription. Maxa Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Share Swap and Absorption and the Subscription.

At the EGM, resolutions will be proposed by the Company to seek the Independent Shareholders' approval on the Share Swap and Absorption and the Subscription. AVIC and its associates will abstain from voting for the resolutions regarding the Share Swap and Absorption and the Subscription at the EGM. The proposed resolutions will be passed by way of ordinary resolutions and voted on by way of poll in accordance with the requirement of the Listing Rules.

A circular containing, among others, further details about the Share Swap and Absorption and the Subscription, the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the recommendations of the Independent Board Committee, other information as required under the Listing Rules and a notice convening the EGM, is expected to be despatched to the Shareholders on or before 30 August 2022, which is more than 15 business days after the publication of

this announcement, as more time is required for the preparation of certain information to be disclosed in the circular.

**Shareholders and potential investors of the Company should note that Completion is subject to the fulfilment of the conditions precedent of the Share Swap and Absorption Agreement and the Subscription Agreement as disclosed in this announcement (including the relevant shareholders' approvals and regulatory approvals). Accordingly, the Share Swap and Absorption and the Subscription may or may not proceed. Shareholders and potential investors of the Company are therefore urged to exercise caution when dealing in the Shares and other securities of the Company.**

## **DEFINITIONS**

“Appraisal Rights”	the AVIC Avionics Appraisal Right and the AVIC Electromechanical Appraisal Right
“Appraisal Right Execution Date”	the date when the Appraisal Rights first become exercisable, which will be further determined and announced by AVIC Avionics and AVIC Electromechanical
“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 the announcement
“AVIC Airborne Systems”	AVIC Airborne Systems Co., Ltd.* (中航機載系統有限公司), a wholly-owned subsidiary of AVIC
“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 (stock code: 600372) and a non-wholly-owned subsidiary of the Company which is owned as to 39.43% by the Company as at the date of the announcement
“AVIC Avionics A Shares”	the A shares of AVIC Avionics listed on the Shanghai Stock Exchange
“AVIC Avionics Appraisal Right”	the right to request the Company to purchase the AVIC Avionics A Shares held by the opposing AVIC Avionic shareholders in cash
“AVIC Avionics Appraisal Right Exercise Price”	RMB18.44 per share, being the exercise price of the AVIC Avionics Appraisal Right
“AVIC Electromechanical”	AVIC Electromechanical Systems Co., Ltd.* (中航工業機電系統股份有限公司), a joint stock limited liability company established in the PRC whose A shares are listed on the Shenzhen Stock Exchange (stock code: 002013) and a connected person of the Company by virtue of being owned as to 51.97% directly and indirectly by AVIC
“AVIC Electromechanical A Shares”	the A shares of AVIC Electromechanical listed on the Shenzhen Stock Exchange

“AVIC Electromechanical Appraisal Right”	the right to request the Company to purchase the AVIC Electromechanical A Shares held by the opposing AVIC Electromechanical shareholders in cash
“AVIC Electromechanical Appraisal Right Exercise Price”	RMB10.33 per share, being the exercise price of the AVIC Electromechanical Appraisal Right
“AVIC Aviation Industry Investment”	AVIC Aviation Industry Investment Co., Ltd. (中航航空產業投資有限公司), a limited liability company established in the PRC and an indirect non wholly-owned subsidiary of AVIC
“AVIC Shenfei”	AVIC Shenfei Aircraft Company Limited (中航沈飛股份有限公司), a joint stock limited company established in the PRC with its shares listed on the Shanghai Stock Exchange and a non wholly-owned subsidiary of AVIC
“Board”	the board of directors of the Company
“Chengdu Aircraft Industry”	AVIC Chengdu Aircraft Industrial (Group) Co., Ltd. (成都飛機工業(集團)有限責任公司), a limited liability company established in the PRC and a wholly-owned subsidiary of AVIC
“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 Stock Exchange
“Completion”	Completion of the Share Swap and Absorption
“connected person(s)”	has the same meaning as defined in the Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deemed Disposal”	the deemed disposal of the shareholding interest of the Company in AVIC Avionics as a result of the dilution of shareholding interest of the Company in AVIC Avionics upon: (i) the Completion; and (ii) the completion of the Subscription
“EGM”	the extraordinary general meeting of the Company to be convened for approving, among other things, the Share Swap and Absorption Agreement and the Subscription Agreements and the transactions contemplated thereunder
“Entrusted AVIC Avionics A Shares”	The AVIC Avionics A Shares held by AVIC Airborne Systems to be entrusted to the Company pursuant to the Entrusted Voting Arrangement Agreement
“Entrusted Voting Arrangement”	the arrangement that AVIC Airborne entrusts the Company to exercise the voting rights of the Entrusted AVIC Avionics A Shares

“Entrusted Voting Arrangement Agreement”	the agreement entered into between the Company and AVIC Airborne Systems in relation to the Entrusted Voting Arrangement
“Exchange Shares”	2,565,926,773 AVIC Avionics A Shares to be issued by AVIC Avionics to the AVIC Electromechanical shareholders under the Share Swap and Absorption
“Exchange Ratio”	the ratio determining the number of AVIC Electromechanical A Shares required in exchange for one AVIC Avionics A Share
“Group”	the Company and its subsidiaries as at the date of this announcement
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping established for the purpose of making recommendations to the Independent Shareholders in respect of the Share Swap and Absorption and the Subscription
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Share Swap and Absorption and the Subscription
“Independent Shareholders”	the Shareholders other than AVIC and its associates who are not required to abstain from voting on resolutions approving the Share Swap and Absorption and the Subscription
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“PRC”	the People's Republic of China
“Price Determination Date”	being the date on which AVIC Electromechanical and AVIC Avionics first publish the board resolutions relating to the Share Swap and Absorption and the Subscription on Shanghai Stock Exchange and Shenzhen Stock Exchange
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SASTIND”	The State Administration of Science, Technology and Industry for National Defense (國家國防科技工業局)
“SFC”	The Securities and Futures Commissions
“Shareholders”	the shareholders of the Company



“Share Swap and Absorption”	the swap of AVIC Avionics A Shares and AVIC Electromechanical A Shares and the absorption of AVIC Electromechanical by AVIC Avionics pursuant to the terms of the Share Swap and Absorption Agreement
“Share Swap and Absorption Agreement”	the agreement entered into between AVIC Avionics and AVIC Electromechanical in relation to the Share Swap and Absorption
“Share Swap Date”	the date on which the Exchange Shares are issued by AVIC Avionics to shareholders of AVIC Electromechanical and registered in the securities registration and clearing institution
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of AVIC Avionics A Shares by not more than 35 designated investors at a total consideration of not exceeding RMB5,000 million
“Subscription Price”	the subscription price for AVIC Avionics A Shares contemplated under the Subscription Agreements
“Subscription Agreements”	the subscription agreements entered into between AVIC Avionics and: (i) the Company; and (ii) AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry in relation to the Subscription
“subsidiary(ies)”	has the same meaning as defined in the Listing Rules
“The Administrative Measures”	The Administrative Measures for the Issuance of Securities by Listed Companies* (上市公司證券發行管理辦法)
“The Material Asset Restructurings Measures”	Measures for the Administration of the Material Asset Restructurings of Listed Companies (2020 Amendment)* (上市公司重大資產重組管理辦法(2020 修正))

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

Beijing, 10 June 2022

*As at the date of this notice, the Board comprises executive Directors Mr. Zhang Minsheng and Mr. Yan Lingxi, 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 purpose only*