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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)**

## **REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS**

### **REVISION OF ANNUAL CAP OF THE LAND USE RIGHTS AND PROPERTIES LEASING AGREEMENT**

Reference is made to the announcement of the Company dated 21 August 2020 in relation to (including) the renewal of the Land Use Rights and Properties Leasing Agreement entered into between the Company (for itself and on behalf of its subsidiaries) and AVIC (for and on behalf of AVIC Group), pursuant to which AVIC Group will lease to the Group certain pieces of land of which it has legal land use rights and properties owned by it, and the Group will lease to AVIC Group certain pieces of land of which it has legal land use rights and properties owned by it.

In order to satisfy the Group's relevant needs for property leasing (including but not limited to the entering into new leases and renewals of existing leases) and due to the change in the accounting treatment of the total value of right-of-use assets relating to the leases, the Board envisages that the original annual caps (in relation to the total value of the right-of-use assets relating to the leases) of the Land Use Rights and Properties Lease Agreement in respect of the financial years ending 31 December 2022 and 31 December 2023 will not be sufficient. The Board therefore proposes to revise and increase the annual caps (in relation to the total value of the right-of-use assets relating to the leases) of the Land Use Rights and Properties Lease Agreement for the financial years ending 31 December 2022 and 31 December 2023. The terms of the Land Use Rights and Properties Lease Agreement have not been changed or modified in any way.

### **LISTING RULES IMPLICATIONS**

As at the date of this announcement, AVIC is a controlling shareholder of the Company holding directly and indirectly 62.30% of all issued Shares. Therefore, pursuant to Chapter 14A of the Listing Rules, AVIC is a connected person of the Company and the proposed revision of annual cap (in relation to the total value of the right-of-use assets relating to the leases) constitutes continuing connected transactions of the Company.

As the highest applicable percentage ratios in respect of the revised caps (in relation to the total value of the right-of-use assets relating to the leases) for the transactions (other than the profit ratio) contemplated under the Land Use Rights and Properties Leasing Agreement exceed 0.1% but are less than 5%, such continuing connected transactions are subject to reporting and announcement requirements, but are exempt from the circular and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

## A. BACKGROUND

Reference is made to the announcement of the Company dated 21 August 2020 in relation to (including) the renewal of the Land Use Rights and Properties Leasing Agreement entered into between the Company (for itself and on behalf of its subsidiaries) and AVIC (for and on behalf of AVIC Group), pursuant to which AVIC Group will lease to the Group certain pieces of land of which it has legal land use rights and properties owned by it, and the Group will lease to AVIC Group certain pieces of land of which it has legal land use rights and properties owned by it.

In order to satisfy the Group's relevant needs for property leasing including but not limited to the entering into new leases, renewals of existing leases and due to the change in the accounting treatment of the total value of right-of-use assets relating to the leases, the Board envisages that the original annual caps (in relation to the total value of the right-of-use assets relating to the leases) of the Land Use Rights and Properties Lease Agreement in respect of the financial years ending 31 December 2022 and 31 December 2023 will not be sufficient. The Board therefore proposes to revise and increase the annual caps (in relation to the total value of the right-of-use assets relating to the leases) of the Land Use Rights and Properties Lease Agreement for the financial years ending 31 December 2022 and 31 December 2023. The terms of the Land Use Rights and Properties Lease Agreement have not been changed or modified in any way.

## B. HISTORICAL TRANSACTION AMOUNTS

Set out below are the historical transaction amounts (in relation to the total value of the right-of-use assets relating to the leases) under the Land Use Rights and Properties Leasing Agreement for the financial year ended 31 December 2021 and the six months ended 30 June 2022:

	<b>For the financial year ended 31 December 2021</b>	<b>For the six months ended 30 June 2022</b>
	<i>RMB (million)</i>	<i>RMB (million)</i>
<i>The Group as the lessee</i>		
- Right-of-use assets	7	0

## C. THE EXISTING AND REVISED ANNUAL CAP OF THE LAND USE RIGHTS AND PROPERTIES LEASING AGREEMENT

Set out below are the Existing Annual Caps and revised annual caps (in relation to the total value of the right-of-use assets relating to the leases) for the transactions conducted under the Land Use Rights and Properties Lease Agreement for the financial year ending 31 December 2022 and 31 December 2023:

	<b>For the financial year ending 31 December 2022</b>		<b>For the financial year ending 31 December 2023</b>	
	<b>Existing Annual</b>	<b>Revised</b>	<b>Existing</b>	<b>Revised</b>

	<b>Caps</b>	<b>annual cap</b>	<b>Annual Caps</b>	<b>annual cap</b>
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
<i>The Group as the lessee</i>				
- Right-of-use assets	15	300	15	200

#### **D. REASONS FOR AND BENEFITS OF THE REVISION OF ANNUAL CAPS**

At the time of entering into the Land Use Rights and Properties Lease Agreement, the Company adopted the International Standards on Auditing to prepare its financial statements and pursuant to IFRS16, the Group as the lessee shall recognise leases for a term of more than one year as right-of-use assets and lease liabilities. The right-of-use assets represent its rights to use the underlying leased asset over the lease term and the lease liabilities represent its obligations to make lease payments.

With effective from the financial year commencing from 1 January 2021, the Company has adopted China Accounting Standards for Business Enterprises (“CASBE”). Pursuant to CASBE No. 21 and Tenancy Guidelines Implementation Q&A\* (中國企業會計準則第21號—租賃及中國財政部租賃實施問答), all reasonable relevant facts and circumstances will be taken into account when determining the lease period of leases. If it is reasonably certain that an option to extend the lease will be exercised, such lease will be regarded as a long-term lease and the company shall recognise the lease as right-of-use assets and adopt the cost model for subsequent measurement of right-of-use assets.

As the Group has entered into several short-term leases (with lease period of 1 years) with AVIC Group and is expected to renew these leases in 2022 and 2023, the Group will recognise these leases as long-term leases and the right of the Group as lessee during the term of the leases shall be recognised as right-of-use assets, subject to adjustment for re-measurement of lease liabilities under CASBE. Besides, in order to satisfy the Group’s relevant needs for property leasing, the Group also expects that it will enter into new leases and renew existing leases with AVIC Group. Therefore, the total value of the right-of-use assets of property leasing will increase for the financial year ending 31 December 2022 and 31 December 2023.

Considering the above, the Directors expect that the Existing Annual Caps in relation to the total value of the right-of-use assets relating to the leases under the Land Use Rights and Properties Leasing Agreement may no longer be sufficient for the two years ending 31 December 2023 and therefore propose to revise and increase the Existing Annual Caps in relation to the total value of the right-of-use assets relating to the leases under the Land Use Rights and Properties Leasing Agreement.

The Directors (including the independent non-executive Directors) consider that the revised caps are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Each of Mr. Zhang Minsheng, an executive Director and Chairman of the Board, who is a chief accountant of AVIC, and Mr. Li Xichuan, a non-executive Director, who is a deputy general manager of AVIC Industry Finance Co., Ltd. (中航工業產融控股股份有限公司) (a non-wholly owned subsidiary of AVIC), had abstained from voting on the relevant Board resolution approving the revised caps pursuant to the requirement under the Companies Law of the PRC and the Listing Rules. Save as disclosed above, none of the other Directors has or is deemed to have a material interest in the transactions contemplated under the Land Use Rights and Properties Leasing Agreement or the revised caps.

## **E. LISTING RULES IMPLICATIONS**

As at the date of this announcement, AVIC is a controlling shareholder of the Company holding directly and indirectly 62.30% of all issued Shares. Therefore, pursuant to Chapter 14A of the Listing Rules, AVIC is a connected person of the Company and the proposed revision of annual cap (in relation to the total value of the right-of-use assets relating to the leases) constitutes continuing connected transactions of the Company.

As the highest applicable percentage ratios in respect of the revised caps (in relation to the total value of the right-of-use assets relating to the leases) for the transactions (other than the profit ratio) contemplated under the Land Use Rights and Properties Leasing Agreement exceed 0.1% but are less than 5%, such continuing connected transactions are subject to reporting and announcement requirements but are exempt from the circular and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **F. INFORMATION OF THE GROUP**

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.

## **G. INFORMATION OF AVIC**

AVIC is controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products. AVIC is the controlling Shareholder of the Company, holding 62.30% equity interest in the Company directly and indirectly as at the date of this announcement.

## **H. 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 62.30% equity interest in the Company directly and indirectly as at the date of the announcement
“AVIC Group”	AVIC and its subsidiaries
“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
“Directors”	the directors of the Company
“Existing Annual Caps”	the original cap in relation to the total value of the right-of-use assets relating to the leases for the three years ending 31 December 2023

“Group”	the Company and its subsidiaries
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Land Use Rights and Properties Leasing Agreement”	the land use rights and properties leasing agreement entered into between AVIC and the Company and dated 21 August 2020, for a term of three years commencing from 1 January 2021
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“RMB”	Reminbi, the lawful currency of the PRC

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

Beijing, 30 August 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