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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)

**POSSIBLE CONNECTED TRANSACTION
CAPITAL CONTRIBUTION IN SHENYANG XINGHUA**

CAPITAL CONTRIBUTION AGREEMENT

The Board is pleased to announce that, in order to improve the core competitiveness of JONHON Optronic in the aviation engine and fan field, AVIC (a controlling shareholder of the Company), JONHON Optronic (a non-wholly owned subsidiary of the Company) and Shenyang Xinghua (a non-wholly owned subsidiary of the Company) are planning to enter into the Capital Contribution Agreement. Pursuant to the Capital Contribution Agreement, AVIC and JONHON Optronic agreed to make a capital contribution in Shenyang Xinghua on a pro-rata basis. AVIC will contribute an amount of RMB96,500,344.57 by way of capitalisation of capital reserve (exclusively state-owned), JONHON Optronic will contribute RMB163,415,393.63 in cash. As at the date of this announcement, the above matter has been approved by the Board, and AVIC, JONHON Optronic and Shenyang Xinghua have yet to finalise and sign the Capital Contribution Agreement.

Upon Completion, the registered capital of Shenyang Xinghua will increase from RMB80,856,400 to RMB110,925,200. The shareholdings of AVIC and JONHON Optronic will remain unchanged.

LISTING RULES IMPLICATIONS

As at the date of this announcement, JONHON Optronic is a non-wholly owned subsidiary of the Company. AVIC is a controlling shareholder of the Company holding directly and indirectly 62.30% of all issued Shares. Shenyang Xinghua is a non-wholly owned subsidiary of the Company and owned more than 10% by AVIC. AVIC is a connected person of the Company and Shenyang Xinghua is a connected subsidiary of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the Capital Contribution constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios (other than the profit ratios) for the Capital Contribution are higher than 0.1% but all applicable percentage ratios are less than 5%, , the Capital Contribution is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under the Listing Rules.

CAPITAL CONTRIBUTION AGREEMENT

The Board is pleased to announce that, in order to improve the core competitiveness of JONHON Optronic in the aviation engine and fan field, AVIC (a controlling shareholder of the Company), JONHON Optronic (a non-wholly owned subsidiary of the Company) and Shenyang Xinghua (a non-wholly owned subsidiary of the Company) are planning to enter into the Capital Contribution Agreement. Pursuant to the Capital Contribution Agreement, AVIC and JONHON Optronic agreed to make a capital contribution in Shenyang Xinghua on a pro-rata basis. AVIC will contribute an amount of RMB96,500,344.57 by way of capitalisation of capital reserve (exclusively state-owned), JONHON Optronic will contribute RMB163,415,393.63 in cash. As at the date of this announcement, the above matter has been approved by the Board, and AVIC, JONHON Optronic and Shenyang Xinghua have yet to finalise and sign the Capital Contribution Agreement.

The principal terms of the Capital Contribution Agreement as agreed by the parties as at the date of this announcement are summarised as follows:

Parties

1. AVIC and JONHON Optronic as the existing shareholders, holding approximately 37.13% and 62.87% equity interest in Shenyang Xinghua, respectively; and
2. Shenyang Xinghua as the target company.

Subject matter

AVIC and JONHON Optronic agreed to make a capital contribution in Shenyang Xinghua on a pro-rata basis. AVIC will contribute an amount of RMB96,500,344.57 by way of capitalisation of capital reserve (exclusively state-owned), JONHON Optronic will contribute RMB163,415,393.63 in cash. JONHON Optronic intends to fund the Capital Contribution from its internal resources.

The capital contribution amount of AVIC and the Capital Contribution amount were determined after arm's length negotiations between the parties with reference to the: (i) audited net assets and the book value of the capital reserve (exclusively state-owned) of Shenyang Xinghua as at 31 December 2021; and (ii) the respective shareholdings of AVIC and JONHON Optronic in Shenyang Xinghua. The audited net asset value of Shenyang Xinghua as at 31 December 2021 in accordance with the China Accounting Standards for Business Enterprises was RMB795,424,807.60, of which the book value of the capital reserve (exclusively state-owned) of Shenyang Xinghua was RMB96,500,344.57.

Payment Terms

The Capital Contribution amount shall be paid in a lump sum by JONHON Optronic to Shenyang Xinghua within one year after the signing of the Capital Contribution Agreement.

Effects of the Capital Contribution

Upon Completion, the registered capital of Shenyang Xinghua will increase from RMB80,856,400 to RMB110,925,200. The shareholdings of AVIC and JONHON Optronic will remain unchanged.

REASONS FOR AND BENEFITS OF THE CAPITAL CONTRIBUTION

The Capital Contribution will effectively increase Shenyang Xinghua's productivity of aero-engine connector and wind turbine products, improve its sustainability and the core competitiveness of JONHON Optronic in the aviation engine and fan field.

The Directors (including the independent non-executive Directors) consider that the Capital Contribution and the Capital Contribution Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In accordance with the Company Law of the PRC and the Listing Rules, Mr. Zhang Minsheng, an executive Director and Chairman of the Board, who is a chief accountant of AVIC and Mr. Li Xichuang, a non-executive Director, who is a deputy department chief of AVIC Industry-Finance Holdings 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 Capital Contribution and the Capital Contribution Agreement. Save as disclosed above, none of the other Directors has or is deemed to have a material interest in the transactions contemplated under the Capital Contribution Agreement.

GENERAL INFORMATION

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.

Information of the Company

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

Information of JONHON Optronic

JONHON Optronic is a joint stock limited liability company incorporated in the PRC whose shares are listed on the Shenzhen Stock Exchange (stock code: 002179), and is a non-wholly owned subsidiary held by the Company as to 37.68% as at the date of this announcement. It is mainly engaged in research and development, production, sales and provision of services of high-end optical, electrical, and fluid connectors and relevant equipment.

Information of Shenyang Xinghua

Shenyang Xinghua is a limited liability company established in the PRC. Upon its establishment in 2002, AVIC subscribed and paid-up for its 100% issued capital for RMB37,520,000.

As at the date of this announcement, it is owned as to approximately 62.87% by JONHON Optronic and 37.13% by AVIC. It mainly engages in research, manufacturing and sales of avionics, electrical connectors, micro motors, automatic protection switches and related products.

According to its audited financial statements in accordance with the China Accounting Standards for Business Enterprises, the net profits (both before and after taxation and extraordinary items) of Shenyang Xinghua for the two years ended 31 December 2020 and 2021 are set out below:

	For the year ended 31 December 2020 <i>(RMB million)</i>	For the year ended 31 December 2021 <i>(RMB million)</i>
Profit before tax	101.75	149.56
Profit after tax	80.06	123.32

The audited value of net assets of Shenyang Xinghua as at 31 December 2021 in accordance with the China Accounting Standards for Business Enterprises was RMB795,424,807.60.

LISTING RULES IMPLICATIONS

As at the date of this announcement, JONHON Optronic is a non-wholly owned subsidiary of the Company. 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. Shenyang Xinghua is a non-wholly owned subsidiary of the Company and owned more than 10% by AVIC. Shenyang Xinghua is a connected subsidiary of the Company pursuant to Chapter 14A of the Listing Rules. Therefore, the Capital Contribution constitutes connected transaction of the Company.

As one or more applicable percentage ratios (other than the profit ratios) for the Capital Contribution are higher than 0.1% but all applicable percentage ratios are less than 5%, the Capital Contribution is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under the Listing Rules.

WARNING

Shareholders and potential investors of the Company should be aware that the parties have yet to finalise and sign the Capital Contribution Agreement. Therefore, the Capital Contribution may or may not proceed. Further announcement(s) in relation to the Capital Contribution and the Capital Contribution Agreement will be made by the Company as and when appropriate.

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

“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
“Board”	the board of Directors of the Company

“Capital Contribution”	the proposed capital contribution by JONHON Optronic in Shenyang Xinghua on a pro-rata basis
“Capital Contribution Agreement”	the agreement in relation to the Capital Contribution to be entered in to by AVIC, JONHON Optronic and Shenyang Xinghua
“connected person(s)”	has the same meaning as defined in the Listing Rules
“controlling shareholder(s)”	has the same meaning as defined in the Listing Rules
“connected subsidiary”	has the same meaning as defined in the Listing Rules
“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
“Completion”	completion of the Capital Contribution and capital contribution by AVIC pursuant to the Capital Contribution Agreement
“Directors”	the directors of the Company
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“JONHON Optronic”	AVIC JONHON Optronic Technology Co., Ltd.* (中航光電科技股份有限公司), a joint stock limited liability company incorporated in the PRC, whose shares are listed on the Shenzhen Stock Exchange (stock code: 002179) as at the date of this announcement, it is owned as to 37.68% by the Company and a non-wholly owned subsidiary of the Company
“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
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Shenyang Xinghua”	Shenyang Xinghua Aero-Electric Appliance Corp. Ltd* (瀋陽興華航空電器有限責任公司), a limited liability company established in the PRC
“subsidiary(ies)”	has the same meaning as defined in the Listing Rules
“%”	per cent

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