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If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **AviChina Industry & Technology Company Limited**, you should at once hand this circular and the enclosed proxy form to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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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)

**CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS
REVISION OF ORIGINAL ANNUAL CAPS AND ENTERING INTO OF THE
SUPPLEMENTAL CONTINUING CONNECTED TRANSACTIONS
FRAMEWORK AGREEMENTS; AND
NOTICE OF EGM**

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



A letter from the Board is set out on pages 7 to 20 of this circular. A letter from the Independent Board Committee is set out on pages 21 to 22 of this circular. A letter from Maxa Capital to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 39 of this circular.

A notice convening the EGM of AviChina Industry & Technology Company Limited* to be held at 6/F, Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the People's Republic of China on Friday, 10 February 2023 at 9:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is enclosed and is also published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk). Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM or any adjournment thereof (as the case may be) and voting in person if you so wish.

16 January 2023

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Announcements”	the announcements of the Company dated 26 May 2022 and 10 June 2022 in relation to the Share Swap and Absorption and Subscription
“associate(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“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 Latest Practicable Date
“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 as at the Latest Practicable Date
“AVIC Avionics Group”	AVIC Avionics and its subsidiaries
“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 is owned as to 51.97% directly and indirectly by AVIC
“AVIC Electromechanical Group”	AVIC Electromechanical and its subsidiaries
“AVIC Finance”	AVIC Finance Co., Ltd.* (中航工業集團財務有限責任公司), a limited liability company established in the PRC and as at the Latest Practicable Date, a subsidiary of AVIC
“AVIC Finance Factoring Services”	the receivable factoring services to be provided by AVIC Finance to the Group under the Existing Financial Services Framework Agreement
“AVIC Group”	AVIC and its subsidiaries (excluding the Group)
“Board of Directors” or “Board”	the board of Directors of the Company
“CBIRC”	China Banking and Insurance Regulatory Commission
“China” or the “PRC”	the People’s Republic of China

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“Company”	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“Contractual Price”	the price to be agreed between the relevant parties for the supply of the aviation products, raw materials and related services (as the case may be), which shall be the reasonable costs incurred in supplying the same plus not more than 8% of such costs, which is determined after taking into account the average profit margin of approximately 7% among industrial enterprises, the average profit margin in the aviation industry and the profits previously received by the Group or AVIC Group for similar products, raw materials or services. The 8% margin used to determine the Contractual Price is the maximum profit margin under the relevant continuing connected transactions agreements and specific prices will be determined under separate agreements in each transaction
“Deposit Services”	the deposit services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for approving, among other things, the Transactions
“Enlarged Group”	the Group upon completion of the Share Swap and Absorption and completion of the Subscription
“Existing Continuing Connected Transactions Framework Agreements”	the Existing Mutual Product Supply Agreement, the Existing Mutual Product and Service Supply and Guarantee Agreement and the Existing Financial Services Framework Agreement
“Existing Financial Services Framework Agreement”	the financial services framework agreement entered into between AVIC Finance and the Company and dated 21 August 2020 for a term of three years commencing from 1 January 2021
“Existing Mutual Product and Service Supply and Guarantee Agreement”	the mutual product and service supply and guarantee agreement entered into between the Company and AVIC Avionics and dated 21 August 2020, for a term of three years commencing from 1 January 2021

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“Existing Mutual Product Supply Agreement”	the mutual product supply agreement entered into between AVIC and the Company and dated 21 August 2020, for a term of three years commencing from 1 January 2021
“Group”	the Company and its subsidiaries, in respect of the Existing Mutual Product and Service Supply and Guarantee Agreement and Supplemental Mutual Product and Service Supply and Guarantee Agreement, the Company and its subsidiaries (other than the AVIC Avionics Group) from time to time
“Government-guidance Price”	the price determined by the parties within the range as provided under the laws, regulations, decisions or orders or in respect of particular types of services promulgated by the central government, provincial government or other regulatory authorities in the PRC
“Government-prescribed Price”	the price jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in the particular transactions, which mainly comprise the relevant costs plus profit margin. The relevant costs will be proposed by the relevant manufacturing enterprises, and confirmed by the relevant price control authorities and the industry regulators in the PRC. The profit margin shall be determined according to the requirements of the relevant authorities. Considering the above, the Directors are of the view that the profit margin is on normal commercial terms
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. Liu Weiwu, Mr. Mao Fugen and Mr. Lin Guiping, to advise the Independent Shareholders on the Transactions
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions

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“Independent Shareholders”	Shareholders (other than AVIC and its associates) who are not required to abstain from voting on the resolution(s) regarding the Transactions to be proposed at the EGM
“Independent Third Parties”	independent third parties (to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry), including the ultimate beneficial owners of such party, not connected with the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholders or any of their respective associates (within the meaning of the Hong Kong Listing Rules)
“Latest Practicable Date”	10 January 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Market Price”	the price as determined in the following sequence: (i) where there are comparable market prices or charging rates standards determined by independent third parties under normal commercial terms for the transaction, the transaction price shall be determined at such price or standard (the Company will obtain at least two to three such price or standard from independent third parties); or (ii) if there are no such comparable market prices of independent third parties, the transaction price shall be fixed by the price of non-connected transactions between the Company and independent third parties: (a) where the Company is the buyer, through tender procedures in accordance with the relevant PRC laws and regulations relating to tender and bidding or by choosing the most favorable price among at least two to three selected suppliers after taking into account the suppliers’ manufacturing qualifications and delivery time, and business relationship between the Company and suppliers according to the Company’s internal procurement policy; or (b) where the Company is the supplier, agreeing with the clients within prescribed price range, which is determined according to the Company’s internal sales policy with reference to: (i) the transaction volume and business relationship between the Company and the purchaser; and (ii) the prices of similar products and services purchased from the Company by not less than two Independent Third Parties. The Market Price will be determined or approved by the authorised departments/persons of the specific entities within the Group in particular transactions
“Original Annual Caps”	the original annual caps for the year ending 31 December 2023 for the transactions under the Existing Continuing Connected Transactions Framework Agreements

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“Other Financial Services”	such financial services (including but not limited to bill acceptance and discount services) as approved by the CBIRC (other than the deposit services, the loan services, the settlement services, the guarantee services, the AVIC Finance Factoring Services) to be provided by AVIC Finance to the Group under the Existing Financial Services Framework Agreement
“PBOC”	the People’s Bank of China
“Proposed Annual Caps”	the proposed annual caps for the year ending 31 December 2023 for the transactions under the Existing Continuing Connected Transactions Framework Agreements and Supplemental Continuing Connected Transactions Framework Agreements
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended from time to time)
“Share(s)”	share(s) of the Company
“Shareholder(s)”	shareholder(s) 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, for details please refer to the circular of the Company dated 29 September 2022
“subsidiary(ies)”	has the meaning ascribed to it under Hong Kong Listing Rules
“Subscription”	the subscription of the A shares of AVIC Avionics by not more than 35 designated investors at a total consideration of not exceeding RMB5,000 million, details of which are disclosed in the circular of the Company dated 29 September 2022
“Supplemental Continuing Connected Transactions Framework Agreements”	the Supplemental Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Financial Services Framework Agreement
“Supplemental Financial Services Framework Agreement”	the supplemental financial services framework agreement entered into between AVIC Finance and the Company and dated 28 October 2022

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“Supplemental Mutual Product and Service Supply and Guarantee Agreement” the supplemental product and service supply and guarantee agreement entered into between the Company and AVIC Avionics and dated 28 October 2022

“Transactions” the entering into of the Supplemental Continuing Connected Transactions Framework Agreements and the Proposed Annual Caps (except the annual cap for the year ending 31 December 2023 of the revenue transactions contemplated under the Supplemental Mutual Product and Service Supply and Guarantee Agreement)

“%” per cent

* *For identification purpose only.*

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Zhang Minsheng
Mr. Yan Lingxi

Non-executive Directors:

Mr. Lian Dawei
Mr. Liu Bingjun
Mr. Xu Gang
Mr. Wang Jun

Independent non-executive Directors:

Mr. Liu Weiwu
Mr. Mao Fugen
Mr. Lin Guiping

Registered Office:

2nd floor, Building 27
No. 26 Xihuan South Street
Beijing Economic Technological
Development Area
Beijing, PRC

Place of business in Hong Kong

Unit 2202A, 22nd Floor
Fairmont House
8 Cotton Tree Drive
Central
Hong Kong

16 January 2023

To the Shareholders:

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS REVISION OF ORIGINAL ANNUAL CAPS AND ENTERING INTO OF THE SUPPLEMENTAL CONTINUING CONNECTED TRANSACTIONS FRAMEWORK AGREEMENTS; AND NOTICE OF EGM

A. INTRODUCTION

References are made to: (i) the announcement of the Company dated 21 August 2020 and the circular of the Company dated 10 November 2020 in relation to the renewal of the Existing Continuing Connected Transactions Framework Agreements; (ii) the announcement dated 10 June 2022 and the circular of the Company dated 29 September 2022 in relation to the acquisition and absorption of AVIC Electromechanical

* For identification purpose only

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by AVIC Avionics; and (iii) the announcement of the Company dated 28 October 2022 in relation to the entering into of the Supplemental Continuing Connected Transactions Framework Agreements and the Proposed Annual Caps.

In view of the acquisition and absorption of AVIC Electromechanical by AVIC Avionics, the Board envisages that the scope of businesses and scale of operation of the Group will increase and the scope of goods and services to be provided/obtained by the Group under the Existing Continuing Connected Transactions Framework Agreements will be insufficient. Therefore, on 28 October 2022 (after trading hours), the Company entered into the Supplemental Continuing Connected Transactions Framework Agreements to amend the scope of goods and services to be provided/obtained by the Group under the Existing Mutual Product and Service Supply and Guarantee Agreement, as well as the maximum daily deposit amount under the Existing Financial Service Framework Agreement. All other terms and conditions under the Existing Continuing Connected Transactions Framework Agreements remain the same. Furthermore, the Board also envisages that the Original Annual Caps under the Existing Continuing Connected Transactions Framework Agreements will be insufficient. Therefore, the Board also proposes to revise and increase the annual caps under the Existing Continuing Connected Transactions Framework Agreements. Please refer to the announcement of the Company dated 21 August 2020 for further details.

The purpose of this circular is to provide you with, among other things, (i) details relating to the Supplemental Continuing Connected Transactions Framework Agreements, the transactions contemplated thereunder and the Proposed Annual Caps; (ii) a letter of recommendation from the Independent Board Committee on the Supplemental Continuing Connected Transactions Framework Agreements and the transactions contemplated thereunder and the proposed annual caps for the year ending 31 December 2023 for the transactions contemplated under: (a) the Existing Mutual Product Supply Agreement; (b) the expenditure transactions contemplated under the Supplemental Mutual Product and Service Supply and Guarantee Agreement; and (c) the Deposit Services contemplated under the Supplemental Financial Services Framework Agreement to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Shareholders and the Independent Board Committee in respect of the aforementioned matters; (iv) the financial information of the Group; (viii) other information under the Hong Kong Listing Rules; and (ix) the notice of the EGM.

B. SUPPLEMENTAL CONTINUING CONNECTED TRANSACTIONS FRAMEWORK AGREEMENTS

Supplemental Mutual Product and Service Supply and Guarantee Agreement

Date:	28 October 2022
Parties:	The Company; and AVIC Avionics
Subject matter:	Pursuant to the Supplemental Mutual Product and Service Supply and Guarantee Agreement:

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1. the Group will supply to AVIC Avionics Group aviation parts and components, raw materials, related manufacturing, labour and guarantee services, and engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting and equipment main contracting services, etc.; and
2. AVIC Avionics Group will supply to the Group aviation electronic products, electromechanical products, parts and components, related manufacturing and labour services, and engineering and equipment subcontracting services.

If matters agreed in the Supplemental Mutual Product and Service Supply and Guarantee Agreement (i.e. the products and services to be supplied: (i) by the Group to AVIC Avionics Group; and (ii) by AVIC Avionics Group to the Group) are inconsistent with the Existing Mutual Product and Service Supply and Guarantee Agreement, the Supplemental Mutual Product and Service Supply and Guarantee Agreement prevails. Otherwise, the terms of the Existing Mutual Product and Service Supply and Guarantee Agreement (including the term of the Existing Mutual Product and Service Supply and Guarantee Agreement, pricing principles, payment and other major terms as disclosed in the circular of the Company dated 10 November 2020) shall prevail.

Other Terms:

The Supplemental Mutual Product and Service Supply and Guarantee Agreement shall become effective on, whichever is later:

1. completion of internal approval procedures by both parties to the agreement in accordance with the relevant laws and the articles of association of the parties to the agreement; or
2. completion date of Share Swap and Absorption,

and shall end on 31 December 2023.

Supplemental Financial Services Framework Agreement

Date: 28 October 2022

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Parties: The Company; and
AVIC Finance

Subject matter: AVIC Finance has agreed to provide the Group with the Deposit Services with a maximum daily deposit amount (including accrued interest) shall not exceed RMB45,000 million.

If matter agreed in the Supplemental Financial Services Framework Agreement (i.e. the proposed annual caps for the Deposit Services with effect from the effective date of the Supplemental Financial Services Framework Agreement to 31 December 2023) is inconsistent with the Existing Financial Services Framework Agreement, the Supplemental Financial Services Framework Agreement prevails. Otherwise, the terms of the Existing Financial Services Framework Agreement (including the term of the Existing Financial Services Framework Agreement, service scope, pricing principles and other major terms as disclosed in the circular of the Company dated 10 November 2020) shall prevail.

Other Terms: The Supplemental Financial Services Framework Agreement shall become effective on the date of completion of internal approval procedures by both parties to the agreement in accordance with relevant laws (including the applicable listing rules) and the articles of association of both parties to the agreement and shall end on 31 December 2023.

As there has been no change in the scope of services under the Existing Financial Services Framework Agreement as a result of the Share Swap and Absorption, the effective date of the Supplemental Financial Services Framework Agreement is not subject to the completion of the Share Swap and Absorption. Also, it is expected that the Share Swap and Absorption will be completed in the first quarter of 2023.

C. REVISION OF ORIGINAL ANNUAL CAPS

Furthermore, the Board also proposes to revise and increase the annual caps for the transactions under the Existing Continuing Connected Transactions Framework Agreements and Supplemental Continuing Connected Transactions Framework Agreements. Set out below are the: (i) historical transaction amount under the Existing Continuing Connected Transactions Framework Agreements for the two years ended 31 December 2021 and the six months ended 30 June 2022; and (ii) the Original Annual Caps and the Proposed

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Annual Caps for the transactions under the Existing Mutual Product Supply Agreement and the Supplemental Continuing Connected Transactions Framework Agreements for the year ending 31 December 2023:

Historical transaction amount

The transactions under:	For the financial year ended		For the six
	31 December		months ended
	2020	2021	30 June
	<i>(RMB' million)</i>	<i>(RMB' million)</i>	<i>(RMB' million)</i>
- the Existing Mutual Product Supply Agreement			
Expenditure transactions of the Group	9,414	10,567	5,843
Revenue transactions of the Group	27,783	15,674	6,819
- the Existing Mutual Product and Service Supply and Guarantee Agreement			
Expenditure transactions of the Group	766	671	301
Revenue transactions of the Group	807	184	80
- the Existing Financial Services Framework Agreement			
Maximum daily outstanding balances of deposits (including accrued interests) for Deposit Services	16,578	19,100	7,976

The Original Annual Caps and the Proposed Annual Caps

The transactions under:	For the financial year ending 31 December 2023	
	Original Annual Caps	Proposed Annual Caps
	<i>(RMB' million)</i>	<i>(RMB' million)</i>
- the Existing Mutual Product Supply Agreement		
Expenditure transactions of the Group	20,600	23,640
Revenue transactions of the Group	23,190	34,516
- the Supplemental Mutual Product and Service Supply and Guarantee Agreement		
Expenditure transactions of the Group	1,810	3,830
Revenue transactions of the Group	420	1,022
- the Supplemental Financial Services Framework Agreement		
Maximum daily outstanding balances of deposits (including accrued interests) for Deposit Services	35,000	45,000

D. PRICING PRINCIPLES AND BASIS OF THE PROPOSED ANNUAL CAPS

The Existing Mutual Product Supply Agreement

The pricing principles of the Existing Mutual Product Supply Agreement are summarised as follows:

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Key transaction principles:

If any independent third party can supply the same type of products on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use products supplied by the Group or AVIC Group (as the case may be). If any independent third party can supply the same type of products at a better price than AVIC Group or the Group (as the case may be) offers, the Group or AVIC Group (as the case may be) shall be entitled to procure products from that independent third party. The quality standard of the products and the terms and conditions of supply given by AVIC Group to the Group shall not be less favorable than those offered by the independent third parties under comparable conditions.

Pricing principles:

The price of the products and ancillary services will be determined as follows: (i) as most products under the Existing Mutual Product Supply Agreement are designated aviation products, the Government-prescribed Price shall apply; (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means (as the case may be) shall apply; and (iii) if there is no Market Price, the Contractual Price shall apply.

Note: please refer to “Government-prescribed Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular for the detailed definitions of the terms.

Payment:

Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into the specific product supply agreement under each transaction.

Basis of the proposed annual caps under the Existing Mutual Product Supply Agreement:

The proposed annual cap for the expenditure transaction for the year ending 31 December 2023 is derived based on the sum of the original annual cap for the year ending 31 December 2023 and the expected additional purchase costs for the production of electromechanical products as a result of the Share Swap and Absorption. The original annual cap for the year ending 31 December 2023 is used as the basis of the proposed annual cap as it is estimated that in consideration of the demand for ancillary purchases of components for some of the Group’s aviation entire aircraft products in the year of 2023, the estimated expenditure transaction amount under the Existing Mutual Product Supply Agreement (excluding the expected additional purchase costs for the production of electromechanical products as a result of the Share Swap and Absorption) may reach the original annual cap for the year ending 31 December 2023. The expected additional purchase costs for the production of electromechanical products as a result of the Share Swap and Absorption is approximately RMB3,040 million for the year ending 31 December 2023, which is determined with reference to the historical transaction amount of similar nature of approximately RMB1,848 million and RMB758 million between AVIC Electromechanical Group and AVIC Group in the financial year ended 31 December 2021 and the six months ended 30 June 2022, as well as the expected growth of relevant business in 2023.

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The proposed annual cap for the revenue transaction for the year ending 31 December 2023 is determined based on the sum of the original annual cap for the revenue transaction for the year ending 31 December 2023 and the expected additional sales volume of electromechanical products as a result of the Share Swap and Absorption. The original annual cap is used as the basis for the calculation of the proposed annual cap as it is expected that taking into account the cap utilisation rate in 2021 and the expected operating conditions in 2023, the revenue transaction amount under the Existing Mutual Product Supply Agreement will increase in the year of 2023 compared with the historical transaction amount disclosed above, resulting in the estimated revenue transaction amount under the Existing Mutual Product Supply Agreement (excluding the expected additional sales volume of electromechanical products as a result of the Share Swap and Absorption) reaching the original annual cap for the year ending 31 December 2023. The expected additional sales volume of electromechanical products as a result of the Share Swap and Absorption is approximately RMB11,326 million for the year ending 31 December 2023, which is determined with reference to the historical transaction amount of similar nature of approximately RMB6,799 million and RMB4,599 million between AVIC Electromechanical Group and AVIC Group in the financial year ended 31 December 2021 and the six months ended 30 June 2022, as well as the expected growth of relevant business in 2023.

The Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement

The pricing principles of the Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement are summarised as follows:

Pricing principles:

The price of products and/or services under the Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement will be determined as follows: (i) as most products (including electromechanical products) under the Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement are designated aviation products, the Government-prescribed Price shall apply; (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means (as the case may be) shall apply; (iii) if there is no Market Price, the Contractual Price shall apply; (iv) for power supply services such as the provision of electricity, water, steam, etc., if such power was originally procured at the Government-prescribed Price or the Government-guidance Price, the Government-prescribed Price or the Government-guidance Price shall apply; (v) for production, labour, leasing and guarantee services where Market Price is available, the Market Price as determined through tender procedures or other means (as the case may be) shall apply; if there is no Market Price, the Contractual Price shall apply; and (vi) for engineering technology services (including design, consultation and supervision services), project engineering main contracting and equipment main contracting services, and engineering and equipment subcontracting services, the Market Price or (if applicable) the Market Price as determined by tender procedures shall apply. Such

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tender procedures shall be in compliance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which require tender and bidding).

Note: please refer to detailed definitions of “Government-prescribed Price”, “Government-guidance Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this circular.

Payment:

The parties will make payment of the price according to the Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement and the specific contracts entered into by the relevant member of the Group and AVIC Avionics Group for the provision of products or services.

Basis of the proposed annual caps under the Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement:

The proposed annual cap for the expenditure transaction for the year ending 31 December 2023 is determined based on the sum of the original annual cap for the expenditure transactions for the year ending 31 December 2023 and the expected additional purchase costs of electromechanical products of as a result of the Share Swap and Absorption. The original annual cap is used as the basis for the calculation of the proposed annual cap as it is expected that in consideration of the demand for ancillary purchases of aviation electronic products from AVIC Avionics Group for some of the Group’s aviation entire aircraft products in the year of 2023, the estimated expenditure transaction amount under the Existing Mutual Product and Service Supply and Guarantee Agreement (excluding the expected additional purchase costs of electromechanical products as a result of the Share Swap and Absorption) may reach the original annual cap for the year ending 31 December 2023. The expected additional purchase costs of electromechanical products as a result of the Share Swap and Absorption is approximately RMB2,020 million for the year ending 31 December 2023, which is determined with reference to the historical transaction amount of similar nature of approximately RMB1,093 million and RMB609 million between AVIC Electromechanical Group and the Group in the financial year ended 31 December 2021 and the six months ended 30 June 2022, as well as the expected growth of relevant business in 2023.

The annual cap for the revenue transaction for the year ending 31 December 2023 is determined based on the sum of the original annual cap for the revenue transaction for the year ending 31 December 2023 and the expected increase in sales volume to AVIC Avionics Group as a result of the Share Swap and Absorption. The original annual cap is used as the basis for the calculation of the annual cap as it is expected that in consideration of AVIC Avionics Group’s demand for the procurement of raw materials and components for its aviation electronic products in 2023, the estimated revenue transaction amount under the Existing Mutual Product and Service Supply and Guarantee Agreement (excluding the expected increase in sales volume to AVIC Avionics Group as a result of the Share Swap and Absorption) may

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reach the original annual cap for the year ending 31 December 2023. The expected increase in sales volume to AVIC Avionics Group as a result of the Share Swap and Absorption is approximately RMB602 million for the year ending 31 December 2023, which is determined with reference to the historical transaction amount of similar nature of approximately RMB314 million and RMB130 million between AVIC Electromechanical Group and the Group in the financial year ended 31 December 2021 and the six months ended 30 June 2022, as well as the expected growth of relevant business in 2023.

The Existing Financial Services Framework Agreement and the Supplemental Financial Services Framework Agreement

The pricing principles of the Deposit Services under the Existing Financial Services Framework Agreement and the Supplemental Financial Services Framework Agreement are summarised as follows:

Pricing principles:

Deposit Services

Interest rates for the Group's deposits with AVIC Finance shall not be lower than (a) the minimum benchmark interest rates promulgated by the PBOC for the same type of deposit; (b) the interest rates for the same type of deposits offered by two to three major commercial banks of the PRC to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other member of AVIC Group.

AVIC Finance Factoring Services

The fees charged by AVIC Finance for the provision of the AVIC Finance Factoring Services shall not be higher than (a) the loan prime rate (LPR) announced by National Interbank Funding Center; and (b) the fees charged by major commercial banks in the PRC for the same type of factoring financial services.

Other Financial Services

The fees charged by AVIC Finance for the provision of the Other Financial Services shall not be higher than (a) the maximum fees determined by PBOC for the same type of financial services (if applicable); (b) the fees charged by major commercial banks in the PRC for the same type of services; and (c) the fees charged for the same type of financial services offered by AVIC Finance to any other member of AVIC Group with the same credit rating.

Basis of the proposed annual caps under the Existing Financial Services Framework Agreement and the Supplemental Financial Services Framework Agreement:

The proposed annual cap for the Deposit Services for the year ending 31 December 2023 is determined based on the sum of the original annual cap for the Deposit Services for the year ending 31 December 2023 and the expected increase in the deposit amount by AVIC

LETTER FROM THE BOARD

Avionics Group as a result of the Share Swap and Absorption. The original annual cap is used as the basis of calculation of the proposed annual cap as the prepayments from customers for bulk purchase contracts for some products are expected to be settled in 2023, resulting in an increased demand for Deposit Services and therefore the maximum daily outstanding balance of deposits (including the accrued interests) under the Existing Financial Services Framework Agreement (excluding the expected increase in the deposit amount as a result of the Share Swap and Absorption) is expected to reach the original annual cap for the financial year ending 31 December 2023. The expected increase in the deposit amount by AVIC Avionics Group as a result of the Share Swap and Absorption is approximately RMB10,000 million for the year ending 31 December 2023, such amount is determined with reference to the maximum daily outstanding balance of deposits (including the accrued interests) of AVIC Electromechanical Group in AVIC Finance of approximately RMB8,071 million and RMB5,816 million for the financial year ended 31 December 2021 and the six months ended 30 June 2022, as well as the expected growth of relevant business in 2023.

E. REASONS FOR ENTERING INTO SUPPLEMENTAL CONTINUING CONNECTED TRANSACTIONS FRAMEWORK AGREEMENTS AND REVISION OF THE ORIGINAL ANNUAL CAPS

On 10 June 2022, AVIC Avionics and AVIC Electromechanical entered into a share swap and absorption agreement, pursuant to which AVIC Avionics agreed to issue its shares to certain shareholders of AVIC Electromechanical in exchange for the entire shares of AVIC Electromechanical held by these shareholders. Upon completion of the Share Swap and Absorption, 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. For further details, please refer to the announcement of the Company dated 10 June 2022 and the circular of the Company dated 29 September 2022.

AVIC Electromechanical is a company principally engaged in development, production, sales and service of airborne electromechanical systems and equipment for all types of aircraft and engines. Therefore, it is expected that upon completion of the Share Swap and Absorption, there will be an increase in the scope of goods and services to be provided/obtained by the Group under the Existing Continuing Connected Transactions Framework Agreements. Furthermore, it is expected that there will be an increase in transaction amounts under the Existing Continuing Connected Transactions Framework Agreements as a result of the continued growth and increase in scale of operation of the Group. Therefore, the revision of annual caps will allow the Group to cope with its increasing operation and business demands as a result of the Share Swap and Absorption.

Taking into account the historical connection and long-term cooperation relationship among the parties, the Directors are of the view that the transactions contemplated under the Supplemental Continuing Connected Transactions Agreements will continue to facilitate the overall operations and growth of the Group's business upon completion of the Share Swap and Absorption. Also, the entering into of the Supplemental Continuing Connected Transactions Agreements and the revision of the Original Annual Caps serve to better manage the Group's continuing connected transactions upon the completion of the Share

LETTER FROM THE BOARD

Swap and Absorption and to cap the relevant transaction amounts. Due to the abovementioned reasons, the Company considers the entering into of the Supplemental Continuing Connected Transactions Framework Agreements and the revision of the Original Annual Caps will be beneficial to the Group.

Considering the above, the Directors (excluding the independent non-executive Directors who will form their view after considering the advice of the Independent Financial Adviser) consider that: (i) the Supplemental Continuing Connected Transactions Framework Agreements and the Proposed Annual Caps are fair and reasonable; and (ii) the terms under the Supplemental Continuing Connected Transactions Framework Agreements are negotiated on an arm's length basis and are on normal commercial terms or better, in the ordinary course of business of the Group and in the interests of the Company and the Shareholders as a whole.

F. HONG KONG LISTING RULES IMPLICATIONS

Continuing Connected Transactions Implications

As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company holding directly and indirectly 62.30% of all issued Shares. AVIC Finance is a subsidiary of AVIC and AVIC Avionics is a connected subsidiary of the Company by virtue of being directly and indirectly owned as to over 10% by AVIC. Accordingly, each of AVIC, AVIC Finance and AVIC Avionics is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. The transactions contemplated under the Existing Continuing Connected Transactions Framework Agreements and the Supplemental Continuing Connected Transactions Framework Agreements and the Proposed Annual Caps therefore constitute continuing connected transactions of the Company.

Partly Exempt Transactions

As the highest applicable percentage ratio in respect of the annual cap of the revenue transactions contemplated under the Supplemental Mutual Product and Service Supply and Guarantee Agreement exceeds 0.1% but is less than 5%, such continuing connected transactions are subject to reporting and announcement requirements but are exempt from Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Non-exempt Transactions

As the highest applicable percentage ratio in respect of each of the proposed annual caps of: (i) the transactions contemplated under the Existing Mutual Product Supply Agreement; (ii) the expenditure transactions contemplated under the Supplemental Mutual Product and Service Supply and Guarantee Agreement; and (iii) the Deposit Services contemplated under the Supplemental Financial Services Framework Agreement exceeds 5%, such continuing connected transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

Notifiable Transactions Implications

Major transactions

As the highest applicable percentage ratio in respect of the Deposit Services under the Supplemental Financial Services Framework Agreement exceeds 25%, the Deposit Services also constitute major transactions of the Company and are subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Hong Kong Listing Rules.

G. INFORMATION OF THE PARTIES

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 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 Latest Practicable Date.

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 Latest Practicable Date, the Company owns 39.50% 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.

Information of AVIC Finance

AVIC Finance is a limited liability company incorporated in the PRC on 8 April 2007 and a subsidiary of AVIC as at the Latest Practicable Date. It is licensed by the CBIRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrustment loans and entrustment investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory services, credit certification and other advisory agency services and security to member companies, and other financial services as may be approved by the CBIRC.

LETTER FROM THE BOARD

H. APPROVAL OF THE BOARD

Mr. Zhang Minsheng, an executive Director and chairman of the Board, who is a chief accountant of AVIC, and Mr. Liu Bingjun, a non-executive Director, who is a vice director of the Capital Operation Department of AVIC, had abstained from voting on the relevant Board resolution approving the entering into of the Supplemental Continuing Connected Transactions Framework Agreements and the Proposed Annual Caps in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save as disclosed above, none of other Directors has or is deemed to have a material interest in such transaction.

I. EGM

The Company will convene the EGM at 9:00 a.m. on Friday, 10 February 2023 at 6/F, Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the PRC. The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular.

A form of proxy for use at the EGM is also enclosed. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event no later than 24 hours before the time fixed for the holding of EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be).

As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company, holding directly and indirectly 62.30% equity interest in the Company, including 3,553,069,569 H Shares and 1,250,899,906 Domestic Shares. AVIC and its associate(s), if any, will abstain from voting for the relevant resolutions at the EGM.

To the best knowledge of the Directors after having made all reasonable enquiries, apart from AVIC and its associates, no other Shareholder has a material interest in the Transactions and therefore no other Shareholder will be required to abstain from voting at the EGM in respect of the relevant ordinary resolutions to be proposed.

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, all votes at the EGM will be taken by poll. The Company will announce the results of the poll in accordance with the Hong Kong Listing Rules following the EGM.

J. FINANCIAL EFFECT OF THE MAJOR TRANSACTION WITH RESPECT TO THE DEPOSIT SERVICES

The Company expects more cash will be available for deposit with AVIC Finance in 2023. Therefore, the Company expects that there will be an increase in interest income to be earned from AVIC Finance for the same period. However, given that the interest income earned from AVIC Finance in the past years only represent a small fraction of the Company's revenue and net assets, the Company anticipates that the interest income to be earned from the deposits under the Deposit Services will not have any material impact on its corresponding revenue and net assets.

LETTER FROM THE BOARD

K. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 21 to 22 of this circular which contains the recommendation of the Independent Board Committee on the Supplemental Continuing Connected Transactions Framework Agreements and the transactions contemplated thereunder and the proposed annual caps for the year ending 31 December 2023 for the transactions contemplated under: (a) the Existing Mutual Product Supply Agreement; (b) the expenditure transactions contemplated under the Supplemental Mutual Product and Service Supply and Guarantee Agreement; and (c) the Deposit Services contemplated under the Supplemental Financial Services Framework Agreement; (ii) the letter from Maxa Capital, the Independent Financial Adviser, set out on pages 23 to 39 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the aforementioned matters; and (iii) additional information set out in the appendices to this circular.

The Directors and the Independent Board Committee, having taken into account the advice of Maxa Capital, consider that the ordinary resolutions as set out in the notice of the EGM, in relation to the Supplemental Continuing Connected Transactions Framework Agreements and the transactions contemplated thereunder and the proposed annual caps for the year ending 31 December 2023 for the transactions under: (a) the Existing Mutual Product Supply Agreement; (b) the expenditure transactions contemplated under the Supplemental Mutual Product and Service Supply and Guarantee Agreement; and (c) the Deposit Services contemplated under the Supplemental Financial Services Framework Agreement, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,
By Order of the Board
AviChina Industry & Technology Company Limited*
Zhang Minsheng
Chairman

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

16 January 2023

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular (the “**Circular**”) of the Company dated 16 January 2023 despatched to the Shareholders of which this letter forms a part. Unless the context requires otherwise, capitalised terms and expressions used in this letter shall have the same meanings as those defined in the Circular.

We have been appointed to advise the Independent Shareholders on whether the Supplemental Continuing Connected Transactions Framework Agreements and the transactions contemplated thereunder and the proposed annual caps for the year ending 31 December 2023 for the transactions contemplated under: (a) the Existing Mutual Product Supply Agreement; (b) the expenditure transactions contemplated under the Supplemental Mutual Product and Service Supply and Guarantee Agreement; and (c) the Deposit Services contemplated under the Supplemental Financial Services Framework Agreement, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Maxa Capital has been appointed to advise the Independent Board Committee and Independent Shareholders in respect of the abovementioned matters.

We wish to draw your attention to the letter from the Board set out on pages 7 to 20 of the Circular and the letter from Maxa Capital set out on pages 23 to 39 of the Circular.

Having considered the advice given by Maxa Capital, we are of the opinion that the Supplemental Continuing Connected Transactions Framework Agreements and the transactions contemplated thereunder and the proposed annual caps for the year ending 31 December 2023 for the transactions contemplated under (a) the Existing Mutual Product Supply Agreement; (b) the expenditure transactions contemplated under the Supplemental Mutual Product and Service Supply and Guarantee Agreement; and (c) the Deposit Services contemplated under the Supplemental Financial Services Framework Agreement are on normal commercial

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

terms, are in the interests of the Company and the Shareholders as a whole and the terms of which are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee
AviChina Industry & Technology Company Limited*

Liu Weiwu

Mao Fugen

Lin Guiping

Independent Non-executive Directors

* *For identification purpose only*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Maxa Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Unit 1908, Harbour Center
25 Harbour Road
Wan Chai
Hong Kong

16 January 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS REVISION OF ORIGINAL ANNUAL CAPS AND ENTERING INTO OF THE SUPPLEMENTAL CONTINUING CONNECTED TRANSACTIONS FRAMEWORK AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 16 January 2023 issued by the Company (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

References are made to the announcement of the Company dated 21 August 2020 (the “**2020 Announcement**”) and the circular of the Company dated 10 November 2020 (the “**2020 Circular**”) in relation to the renewal of the Existing Continuing Connected Transactions Framework Agreements. References are also made to the announcement of the Company dated 10 June 2022 and the circular of the Company dated 29 September 2022 in relation to the acquisition and absorption of AVIC Electromechanical by AVIC Avionics.

In view of the acquisition and absorption of AVIC Electromechanical by AVIC Avionics, the Board envisages that the scope of businesses and scale of operation of the Group will increase and the scope of goods and services to be provided/obtained by the Group under the Existing Continuing Connected Transactions Framework Agreements will be insufficient. Therefore, on 28 October 2022 (after trading hours), the Company entered into the Supplemental Continuing Connected Transactions Framework Agreements to amend the scope of goods and services to be provided/obtained by the Group under the Existing Mutual Product and Service Supply and Guarantee Agreement as well as the maximum daily deposit amount under the Existing Financial Service Framework Agreement. All other terms and conditions under the Existing Continuing Connected Transactions Framework Agreements shall remain the same.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, the Board also envisages that the Original Annual Caps under the Existing Continuing Connected Transactions Framework Agreements will be insufficient. Therefore, the Board also proposes to revise and increase the annual caps under the Existing Continuing Connected Transactions Framework Agreements.

As at the Latest Practicable Date, AVIC is a controlling shareholder of the Company holding directly and indirectly 62.30% of all issued Shares. AVIC Finance is a subsidiary of AVIC and AVIC Avionics is a connected subsidiary of the Company by virtue of being directly and indirectly owned as to over 10% by AVIC. Accordingly, each of AVIC, AVIC Finance and AVIC Avionics is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. The transactions contemplated under the Existing Continuing Connected Transactions Framework Agreements and the Supplemental Continuing Connected Transactions Framework Agreements and the Proposed Annual Caps therefore constitute continuing connected transactions of the Company.

As the highest applicable percentage ratio in respect of each of the proposed annual caps (the “**Non-Exempt Annual Caps**”) of: (i) the transactions contemplated under the Existing Mutual Product Supply Agreement; (ii) the expenditure transactions contemplated under the Supplemental Mutual Product and Service Supply and Guarantee Agreement; and (iii) the Deposit Services contemplated under the Supplemental Financial Services Framework Agreement exceeds 5%, such continuing connected transactions are subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the Deposit Services under the Supplemental Financial Services Framework Agreement exceeds 25%, the Deposit Services also constitute major transactions of the Company and are subject to the reporting, announcement and Shareholders’ approval requirements under Chapter 14 of the Hong Kong Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise and provide recommendations to the Independent Shareholders in respect of the Transactions. We, Maxa Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from the Company in accordance with Rule 13.84 of the Hong Kong Listing Rules and, accordingly, are considered eligible to give independent advice on the Transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company. Save for this appointment as the Independent Financial Adviser in respect of the Transactions, we were appointed once as the independent financial adviser in the last two years in relation to the acquisition and absorption of AVIC Electromechanical by AVIC Avionics, details of which were set out in the circular of the Company dated 29 September 2022. The aforesaid previous appointment was limited to providing one-off independent advisory service, for which Maxa Capital received normal professional fees. Accordingly, we do not consider such previous appointment gives rise to any conflict of interest for Maxa Capital in acting as the Independent Financial Adviser in respect of the Transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company (the “**Management**”). We have reviewed, inter alia, the statements, the information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Hong Kong Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the EGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration.

The Company confirmed that they have, at our request, provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representation and opinions expressed by the Company, its advisers, the Directors and the Management. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Company, AVIC, AVIC Avionics, AVIC Finance and each of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

1. Background of the Transactions

1.1 Information of the Group

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the summarised financial information of the Group for (i) the year ended 31 December 2019 (“FY2019”), prepared in accordance with the International Financial Reporting Standards; and (ii) the two years ended 31 December 2021 respectively and six months ended 30 June 2022, prepared in accordance with the China Accounting Standards for Business Enterprises, as extracted from the 2022 interim report, 2021 annual report and 2020 annual report of the Company:

	For the year ended 31 December			For six months ended 30 June	
	2019	2020	2021	2021	2022
	(restated)	(restated)	(audited)	(unaudited)	(unaudited)
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>
Revenue	43,831.76	50,929.90	60,296.28	27,897.39	25,812.63
Net profit attributable to owners	1,347.17	1,932.99	2,369.28	1,199.15	1,153.51
	As at 31 December			As at 30 June	
	2019	2020	2021	2022	
	(restated)	(restated)	(audited)	(unaudited)	
	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	<i>RMB (million)</i>	
Total assets	107,816.13	115,648.59	133,889.14	134,498.20	
Total liabilities	67,975.36	69,498.58	79,122.63	78,286.31	
Total equity	39,840.77	46,150.00	54,766.50	56,211.88	

As shown in the table above, the Group recorded steady growth in the revenue during the three years ended 31 December 2021. For the year ended 31 December 2021 (“FY2021”), the Group’s revenue amounted to approximately RMB60,296.28 million, representing an increase of approximately 18.39% as compared to that for the year ended 31 December 2020 (“FY2020”), and it is mainly attributable to the increase in revenue of the Group’s aviation entire aircraft business of approximately 6.97% and the increase in revenue of the Group’s aviation ancillary system and related business of approximately 30.00%. For FY2020, the Group recorded a revenue of approximately RMB50,929.90 million, representing an increase of approximately 16.19% as compared to that for FY2019, and it is mainly attributable to the increase of sales volume of helicopter products and connector products. The Group recorded profit attributable to owners of approximately RMB2,369.28 million in FY2021, representing an increase of approximately 22.57% as compared to that for FY2020, and it is mainly attributable to the increase of revenue and the growth of gross profit. The Group’s profit attributable to owners for FY2020 amounted approximately RMB1,932.99 million, representing an increase of approximately 43.49% as compared to that for FY2019, and it is mainly attributable to the increase of operating profit and decrease in the finance cost. For six months ended 30 June 2022, the Group recorded decrease in revenue and net profit attributable to owners of approximately 7.47% and 3.81% respectively as compared to that for the same period of 2021, mainly due to the decrease in sales volume of certain helicopters affected by the adjustment of helicopter products structure.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group's net assets have been increasing stably during FY2019, FY2020 and FY2021. The Group's net asset as at 31 December 2021 increased by approximately 18.67% as compared to that as at 31 December 2020. The Group's net asset value as at 31 December 2020 increased by approximately 15.84% as compared to that as at 31 December 2019. As at 30 June 2022, the Group's net assets recorded a growth of approximately 2.64% as compared to that as at 31 December 2021.

1.2 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 Latest Practicable Date.

1.3 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 Latest Practicable Date, the Company owns 39.50% 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.

1.4 Information of AVIC Finance

AVIC Finance is a limited liability company incorporated in the PRC on 8 April 2007 and a subsidiary of AVIC as at the Latest Practicable Date. It is licensed by the CBIRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, as well as other financial services such as finance leasing, bills acceptance and discounting, entrustment loans and entrustment investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory services, credit certification and other advisory agency services and security to member companies, and other financial services as may be approved by the CBIRC.

2. Reasons for and benefits of the Transactions

On 10 June 2022, AVIC Avionics and AVIC Electromechanical entered into a share swap and absorption agreement, pursuant to which AVIC Avionics agreed to issue its shares to certain shareholders of AVIC Electromechanical in exchange for the entire shares of AVIC Electromechanical held by these shareholders. Upon completion of the Share Swap and Absorption, 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. For further details, please refer to the announcement of the Company dated 10 June 2022 and the circular of the Company dated 29 September 2022.

AVIC Electromechanical is a company principally engaged in development, production, sales and service of airborne electromechanical systems and equipment for all types of aircraft and engines. Therefore, it is expected that upon completion of the Share Swap and Absorption, there will be an increase in the scope

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of goods and services to be provided/obtained by the Group under the Existing Continuing Connected Transactions Framework Agreements. Furthermore, it is expected that there will be an increase in transaction amounts under the Existing Continuing Connected Transactions Framework Agreements as a result of the continued growth and increase in scale of operation of the Group. Therefore, the revision of annual caps will allow the Group to cope with its increasing operation and business demands as a result of the Share Swap and Absorption.

Taking into account the historical connection and long-term cooperation relationship among the parties, the Directors are of the view that the transactions contemplated under the Supplemental Continuing Connected Transactions Agreements will continue to facilitate the overall operations and growth of the Group's business upon completion of the Share Swap and Absorption. Also, the entering into of the Supplemental Continuing Connected Transactions Agreements and the revision of the Original Annual Caps serve to better manage the Group's continuing connected transactions upon the completion of the Share Swap and Absorption and to cap the relevant transaction amounts. Due to the abovementioned reasons, the Company considers the entering into of the Supplemental Continuing Connected Transactions Framework Agreements and the revision of the Original Annual Caps will be beneficial to the Group.

Having considered the above, we concur with the Directors' view that the transactions contemplated under the Supplemental Continuing Connected Transactions Framework Agreements are conducted in the ordinary and usual course of business of the Group, as enlarged by the Share Swap and Absorption, and the Non-Exempt Annual Caps are in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Supplemental Continuing Connected Transactions Framework Agreements

3.1 The Supplemental Mutual Product and Service Supply and Guarantee Agreement

- Date: 28 October 2022
- Parties: The Company; and
AVIC Avionics
- Subject matter: Pursuant to the Supplemental Mutual Product and Service Supply and Guarantee Agreement:
1. the Group will supply to AVIC Avionics Group aviation parts and components, raw materials, related manufacturing, labour and guarantee services, and engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting and equipment main contracting services, etc.; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. AVIC Avionics Group will supply to the Group aviation electronic products, electromechanical products, parts and components, related manufacturing and labour services, and engineering and equipment subcontracting services.

If matters agreed in the Supplemental Mutual Product and Service Supply and Guarantee Agreement (i.e. the products and services to be supplied: (i) by the Group to AVIC Avionics Group; and (ii) by AVIC Avionics Group to the Group) are inconsistent with the Existing Mutual Product and Service Supply and Guarantee Agreement, the Supplemental Mutual Product and Service Supply and Guarantee Agreement prevails. Otherwise, the terms of the Existing Mutual Product and Service Supply and Guarantee Agreement (including the term of the Existing Mutual Product and Service Supply and Guarantee Agreement, pricing principles, payment and other major terms as disclosed in the circular of the Company dated 10 November 2020) shall prevail.

Other Terms:

The Supplemental Mutual Product and Service Supply and Guarantee Agreement shall become effective on, whichever is later:

1. completion of internal approval procedures by both parties to the agreement in accordance with the relevant laws and the articles of association of the parties to the agreement; or
2. completion date of Share Swap and Absorption,

and shall end on 31 December 2023.

3.2 The Supplemental Financial Services Framework Agreement

Date: 28 October 2022

Parties: The Company; and

AVIC Finance

Subject matter: AVIC Finance has agreed to provide the Group with the Deposit Services with a maximum daily deposit amount (including accrued interest) shall not exceed RMB45,000 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

If matter agreed in the Supplemental Financial Services Framework Agreement (i.e. the proposed annual caps for the Deposit Services with effect from the effective date of the Supplemental Financial Services Framework Agreement to 31 December 2023) is inconsistent with the Existing Financial Services Framework Agreement, the Supplemental Financial Services Framework Agreement prevails. Otherwise, the terms of the Existing Financial Services Framework Agreement (including the term of the Existing Financial Services Framework Agreement, service scope, pricing principles and other major terms as disclosed in the circular of the Company dated 10 November 2020) shall prevail.

Other Terms:

The Supplemental Financial Services Framework Agreement shall become effective on the date of completion of internal approval procedures by both parties to the agreement in accordance with relevant laws (including the applicable listing rules) and the articles of association of both parties to the agreement and shall end on 31 December 2023.

As there has been no change in the scope of services under the Existing Financial Services Framework Agreement as a result of the Share Swap and Absorption, the effective date of the Supplemental Financial Services Framework Agreement is not subject to the completion of the Share Swap and Absorption. Also, it is expected that the Share Swap and Absorption will be completed in the first quarter of 2023.

3.3 Assessment of the terms of the Supplemental Continuing Connected Transactions Framework Agreements

According to our discussion with the Management and review of the Existing Mutual Product and Service Supply and Guarantee Agreement, the Existing Financial Services Framework Agreement and the Supplemental Continuing Connected Transactions Framework Agreements, we noted that saved for (i) the inclusion of electromechanical products for the scope of products to be supplied by AVIC Avionics under the Supplemental Mutual Product and Service Supply and Guarantee Agreement; (ii) the revision on the maximum daily deposit amount (including accrued interest) under the Supplemental Financial Services Framework Agreement; and (iii) the effective terms of the Supplemental Continuing Connected Transactions Framework Agreements, all other terms under the Existing Mutual Product and Service Supply and Guarantee Agreement and the Existing Financial Services Framework Agreement, as disclosed in 2020 Announcement and 2020 Circular and approved on the extraordinary general meeting of the Company held on 11 December 2020, remain unchanged.

Having considered (i) the principal business of AVIC Electromechanical; (ii) the background of the Share Swap and Absorption, which has been approved on the extraordinary general meeting of the Company held on 26 October 2022; (iii) our assessment on the pricing principles as disclosed in

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the section headed “4.4 Our assessment”; and (iv) the analysis performed on the Non-Exempt Annual Caps in the section headed “5.3 Assessment to the Non-Exempt Annual Caps” of this letter, we are of the view that the terms of Supplemental Continuing Connected Transactions Framework Agreements are fair and reasonable, on the normal commercial terms and in the interest of the Company.

4. Pricing Principles

4.1 The Existing Mutual Product Supply Agreement

The pricing principles of the Existing Mutual Product Supply Agreement are summarised as follows:

Key transaction principles:

If any independent third party can supply the same type of products on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use products supplied by the Group or AVIC Group (as the case may be). If any independent third party can supply the same type of products at a better price than AVIC Group or the Group (as the case may be) offers, the Group or AVIC Group (as the case may be) shall be entitled to procure products from that independent third party. The quality standard of the products and the terms and conditions of supply given by AVIC Group to the Group shall not be less favorable than those offered by the independent third parties under comparable conditions.

Pricing principles:

The price of the products and ancillary services will be determined as follows: (i) as most products under the Existing Mutual Product Supply Agreement are designated aviation products, the Government-prescribed Price shall apply; (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means (as the case may be) shall apply; and (iii) if there is no Market Price, the Contractual Price shall apply.

Payment:

Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into the specific product supply agreement under each transaction.

4.2 The Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement

The pricing principles of the Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement are summarised as follows:

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Pricing principles:

The price of products and/or services under the Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement will be determined as follows: (i) as most products (including electromechanical products) under the Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement are designated aviation products, the Government-prescribed Price shall apply; (ii) if there is no Government-prescribed Price, the Market Price as determined by tender procedures or other means (as the case may be) shall apply; (iii) if there is no Market Price, the Contractual Price shall apply; (iv) for power supply services such as the provision of electricity, water, steam, etc., if such power was originally procured at the Government-prescribed Price or the Government-guidance Price, the Government-prescribed Price or the Government-guidance Price shall apply; (v) for production, labour, leasing and guarantee services where Market Price is available, the Market Price as determined through tender procedures or other means (as the case may be) shall apply; if there is no Market Price, the Contractual Price shall apply; and (vi) for engineering technology services (including design, consultation and supervision services), project engineering main contracting and equipment main contracting services, and engineering and equipment subcontracting services, the Market Price or (if applicable) the Market Price as determined by tender procedures shall apply. Such tender procedures shall be in compliance with the relevant PRC laws and regulations relating to tender and bidding (which set out, among other things, specific requirements for the bidders and construction projects which require tender and bidding).

Payment:

The parties will make payment of the price according to the Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement and the specific contracts entered into by the relevant member of the Group and AVIC Avionics Group for the provision of products or services.

4.3 The Existing Financial Services Framework Agreement and the Supplemental Financial Services Framework Agreement

The pricing principles of the Deposit Services under the Existing Financial Services Framework Agreement and the Supplemental Financial Services Framework Agreement are summarised as follows:

Pricing principles:

Interest rates for the Group's deposits with AVIC Finance shall not be lower than (a) the minimum benchmark interest rates promulgated by the PBOC for the same type of deposit; (b) the interest rates for the same type of deposits offered by two to three major commercial banks of the PRC to the Group; and (c) the interest rates for the same type of deposits offered by AVIC Finance to any other member of AVIC Group.

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4.4 *Our assessment*

We noted that the pricing principles of the Non-Exempt Annual Caps are identical to those used under the Existing Mutual Product Supply Agreement, the Existing Mutual Product and Service Supply and Guarantee Agreement and the Existing Financial Services Framework Agreement, which were disclosed in 2020 Announcement and 2020 Circular and have been approved on the extraordinary general meeting of the Company held on 11 December 2020.

Government-prescribed Price

Government-prescribed Price is the price jointly determined by the relevant price control authorities, the industry regulators in the PRC and the relevant manufacturing enterprises involved in the particular transactions, which mainly comprise the relevant costs plus profit margin. The relevant costs will be proposed by the relevant manufacturing enterprises, and confirmed by the relevant price control authorities and the industry regulators in the PRC. The profit margin shall be determined according to the requirements of the relevant authorities. As advised by the Management, aviation products (including electromechanical products) of the Group are mainly prescribed by the PRC government and such Government-prescribed Price will not be published and is not publicly available.

Market Price

Market Price is the price as determined in the following sequence: (i) where there are comparable market prices or charging rates standards determined by independent third parties under normal commercial terms for the transaction, the transaction price shall be determined at such price or standard (the Company will obtain at least two to three such price or standard from independent third parties); or (ii) if there are no such comparable market prices of independent third parties, the transaction price shall be fixed by the price of non-connected transactions between the Company and independent third parties: (a) where the Company is the buyer, through tender procedures in accordance with the relevant PRC laws and regulations relating to tender and bidding or by choosing the most favorable price among at least two to three selected suppliers after taking into account the suppliers' manufacturing qualifications and delivery time, and business relationship between the Company and suppliers according to the Company's internal procurement policy; or (b) where the Company is the supplier, agreeing with the clients within prescribed price range, which is determined according to the Company's internal sales policy with reference to: (i) the transaction volume and business relationship between the Company the purchaser; and (ii) the prices of similar products and services purchased from the Company by not less than two Independent Third Parties. The Market Price will be determined or approved by the authorised departments/persons of the specific entities within the Group in particular transactions.

As advised by the Management, for the Market Price to be determined by tender procedures, the Group strictly follows the relevant PRC laws and regulations in relation to tender procedures, in particular the Law of the People's Republic of China on Tenders and Bids (中華人民共和國招標投標法). In addition, we noted that the Company's internal procurement and sales policies apply to both connected parties and independent third parties.

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In view of the above, we consider that there are adequate procedures in place to ensure the fairness and reasonableness of the transactions conducted under the reference of the Market Price.

Contractual Price

Contractual Price is the price to be agreed between the relevant parties for the supply of the aviation products, raw materials and related services (as the case may be), which shall be the reasonable costs incurred in supplying the same plus not more than 8% of such costs, which is determined after taking into account the average profit margin of approximately 7% among industrial enterprises, the average profit margin in the aviation industry and the profits previously received by the Group or AVIC Group for similar products, raw materials or services. The 8% margin used to determine the Contractual Price is the maximum profit margin under the relevant continuing connected transactions agreements and specific prices will be determined under separate agreements in each transaction.

We have reviewed the industry data released by the National Bureau of Statistics in the PRC (http://www.stats.gov.cn/tjsj/zxfb/202201/t20220127_1827067.html) and noted that the enterprise above designated size (i.e., with an annual revenue of RMB20 million or above) of the industrial industry recorded an average profit margin of approximately 6.8% for FY2021. We have also reviewed the 2021 annual report of the Company and noted that the Group recorded a net profit margin of approximately 7.5% and 8.0% for FY2020 and FY2021, respectively. In view of the above and given parties of the Existing Mutual Supply of Products Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement can charge to counter parties on the same basis, we consider the margin of not more than 8.0% is fair and reasonable.

Based on the above, given that (i) the Government-prescribed Price is determined, or subject to approval, by the relevant price control authorities and the industry regulators in the PRC; (ii) the Market Price is determined with reference to the terms of comparable transactions with independent third parties or by tender procedures in accordance with the relevant PRC laws and regulations or other means; (iii) the Contractual Price is determined with reference to the historical profit margin of the Group and the average profit margin of industrial enterprises; and (iv) the Deposit Services are conducted on a non-exclusive basis and the interest rates offered by AVIC Finance will be not lower than those offered by major commercial banks in the PRC for the same type of deposits and those offered by AVIC Finance to any other group member of AVIC Group for the same type of deposits, we are of the view that the pricing principles are fair and reasonable, on normal commercial terms and in the interest of the Company.

5. Non-Exempt Annual Caps

5.1 Original Annual Caps and Non-Exempt Annual Caps

The following table sets forth the Original Annual Caps and the Non-Exempt Annual Caps for the year ending 31 December 2023 (“FY2023”).

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<i>RMB million</i>	Original Annual Caps for FY2023	Non-Exempt Annual Caps for FY2023
<i>Existing Mutual Product Supply Agreement</i>		
- Expenditure transactions of the Group	20,600	23,640
- Revenue transactions of the Group	23,190	34,516
<i>Supplemental Mutual Product and Service Supply and Guarantee Agreement</i>		
- Expenditure transactions of the Group	1,810	3,830
<i>Supplemental Financial Services Framework Agreement</i>		
- Maximum daily outstanding balances of deposits (including accrued interests) for Deposit Services	35,000	45,000

5.2 Basis of determining the Non-Exempt Annual Caps

5.2.1 The Existing Mutual Product Supply Agreement

The proposed annual cap for the expenditure transaction for the year ending 31 December 2023 is derived based on the sum of the original annual cap for the year ending 31 December 2023 and the expected additional purchase costs for the production of electromechanical products as a result of the Share Swap and Absorption. The original annual cap for the year ending 31 December 2023 is used as the basis of the proposed annual cap as it is estimated that in consideration of the demand for ancillary purchases of components for some of the Group's aviation entire aircraft products in the year of 2023, the estimated expenditure transaction amount under the Existing Mutual Product Supply Agreement (excluding the expected additional purchase costs for the production of electromechanical products as a result of the Share Swap and Absorption) may reach the original annual cap for the year ending 31 December 2023. The expected additional purchase costs for the production of electromechanical products as a result of the Share Swap and Absorption is approximately RMB3,040 million for the year ending 31 December 2023, which is determined with reference to the historical transaction amount of similar nature of approximately RMB1,848 million and RMB758 million between AVIC Electromechanical Group and AVIC Group in the financial year ended 31 December 2021 and the six months ended 30 June 2022, as well as the expected growth of relevant business in 2023.

The proposed annual cap for the revenue transaction for the year ending 31 December 2023 is determined based on the sum of the original annual cap for the revenue transaction for the year ending 31 December 2023 and the expected additional sales volume of electromechanical products as a result of the Share Swap and Absorption. The original annual cap is used as the basis for the calculation of the proposed annual cap as it is expected

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that taking into account the cap utilisation rate in 2021 and the expected operating conditions in 2023, the revenue transaction amount under the Existing Mutual Product Supply Agreement will increase in the year of 2023 compared with the historical transaction amount disclosed above, resulting in the estimated revenue transaction amount under the Existing Mutual Product Supply Agreement (excluding the expected additional sales volume of electromechanical products as a result of the Share Swap and Absorption) reaching the original annual cap for the year ending 31 December 2023. The expected additional sales volume of electromechanical products as a result of the Share Swap and Absorption is approximately RMB11,326 million for the year ending 31 December 2023, which is determined with reference to the historical transaction amount of similar nature of approximately RMB6,799 million and RMB4,599 million between AVIC Electromechanical Group and AVIC Group in the financial year ended 31 December 2021 and the six months ended 30 June 2022, as well as the expected growth of relevant business in 2023.

5.2.2 The Existing Mutual Product and Service Supply and Guarantee Agreement and the Supplemental Mutual Product and Service Supply and Guarantee Agreement

The proposed annual cap for the expenditure transaction for the year ending 31 December 2023 is determined based on the sum of the original annual cap for the expenditure transactions for the year ending 31 December 2023 and the expected additional purchase costs of electromechanical products of as a result of the Share Swap and Absorption. The original annual cap is used as the basis for the calculation of the proposed annual cap as it is expected that in consideration of the demand for ancillary purchases of aviation electronic products from AVIC Avionics Group for some of the Group's aviation entire aircraft products in the year of 2023, the estimated expenditure transaction amount under the Existing Mutual Product and Service Supply and Guarantee Agreement (excluding the expected additional purchase costs of electromechanical products as a result of the Share Swap and Absorption) may reach the original annual cap for the year ending 31 December 2023. The expected additional purchase costs of electromechanical products as a result of the Share Swap and Absorption is approximately RMB2,020 million for the year ending 31 December 2023, which is determined with reference to the historical transaction amount of similar nature of approximately RMB1,093 million and RMB609 million between AVIC Electromechanical Group and the Group in the financial year ended 31 December 2021 and the six months ended 30 June 2022, as well as the expected growth of relevant business in 2023.

5.2.3 The Existing Financial Services Framework Agreement and the Supplemental Financial Services Framework Agreement

The proposed annual cap for the Deposit Services for the year ending 31 December 2023 is determined based on the sum of the original annual cap for the Deposit Services for the year ending 31 December 2023 and the expected increase in the deposit amount by AVIC Avionics Group as a result of the Share Swap and Absorption. The original annual cap is used as the basis of calculation of the proposed annual cap as the prepayments from customers for bulk purchase contracts for some products are expected to be settled in 2023, resulting in an increased demand for Deposit Services and therefore the maximum daily outstanding balance of deposits (including the accrued interests) under the Existing Financial Services Framework

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Agreement (excluding the expected increase in the deposit amount as a result of the Share Swap and Absorption) is expected to reach the original annual cap for the financial year ending 31 December 2023. The expected increase in the deposit amount by AVIC Avionics Group as a result of the Share Swap and Absorption is approximately RMB10,000 million for the year ending 31 December 2023, such amount is determined with reference to the maximum daily outstanding balance of deposits (including the accrued interests) of AVIC Electromechanical Group in AVIC Finance of approximately RMB8,071 million and RMB5,816 million for the financial year ended 31 December 2021 and the six months ended 30 June 2022, as well as the expected growth of relevant business in 2023.

5.3 Assessment to the Non-Exempt Annual Caps

In assessing the fairness and reasonableness of the Non-Exempt Annual Caps, we have reviewed the calculation of the Non-Exempt Annual Caps and noted that (i) the Non-Exempt Annual Caps is calculated as the sum of the Original Annual Caps and the expected increase on the respective annual caps as a result of the Share Swap and Absorption; and (ii) such increase on the respective annual caps is determined with reference to the historical transaction amount of similar nature between AVIC Electromechanical Group and the respective counter connected parties or the maximum daily outstanding balance of deposits (including the accrued interests) of AVIC Electromechanical Group in AVIC Finance as well as the expected growth of relevant business in 2023. In this regard, we have obtained and reviewed the relevant historical transaction amounts of AVIC Electromechanical Group for the two years ended 31 December 2021 and the forecast model for the two years ending 31 December 2022 (“**FY2022**”) and 2023 (collectively known as the “**Documents**”).

5.3.1 The Existing Mutual Product Supply Agreement

In respect of the proposed annual cap for the expenditure transaction for FY2023, we noted that there is an increase of RMB3,040 million as compared with the corresponding original annual cap for FY2023. As advised by the Management, such increase is the expected additional purchase cost for the production of electromechanical products as a result of the Share Swap and Absorption. We further noted that (i) the aforementioned difference between the proposed annual cap and the original annual cap for FY2023 is in line with the expected transaction amount as stated in the Documents; (ii) the relevant historical transaction amount for FY2021 has increased by approximately 43.1% as compared with that for FY2020, which is higher than the expected annual growth rate of approximately 37.1% and approximately 20.0% for FY2022 and FY2023, respectively.

In respect of the proposed annual cap for the revenue transaction for FY2023, we noted that there is an increase of RMB11,326 million as compared with the corresponding original annual cap for FY2023. As advised by the Management, such increase is the expected addition sales volume of electromechanical products as a result of the Share Swap and Absorption. We further noted that (i) the aforementioned difference between the proposed annual cap and the original annual cap for FY2023 is in line with the expected transaction amount as stated in the

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Documents; and (ii) the relevant historical transaction amount for FY2021 has increased by 49.0% as compared with that for FY2020, which is higher than the expected annual growth rate of 38.8% and 20.0% for FY2022 and FY2023, respectively.

In view of the above, we consider the proposed annual caps under the Existing Mutual Product Supply Agreement are fair and reasonable.

5.3.2 The Supplemental Mutual Product and Service Supply and Guarantee Agreement

In respect of the proposed annual cap for the expenditure transaction for FY2023, we noted that there is an increase of RMB2,020 million as compared with the corresponding original annual cap for FY2023. As advised by the Management, such increase is the expected addition purchase costs of electromechanical products as a result of the Share Swap and Absorption. We further noted from the Documents that the relevant historical transaction amount for FY2021 has increased by 25.6% as compared with that for FY2020, which is lower than the expected annual growth rate of 36.9% and 35.0% for FY2022 and FY2023, respectively. We have discussed with the Management and understood such increase in the annual growth rate of the transaction amounts is mainly due to the expected increase in demand for ancillary purchases of electromechanical products from AVIC Electromechanical Group for some of the Group's aviation entire aircraft products in the year of 2022 and 2023. We also noted that the revenue of the Group's aviation ancillary system and related business increased by approximately 30.0% for FY2021 as compared with that for FY2020. In view of the above, we consider the proposed annual cap for the expenditure transaction for FY2023 under the Supplemental Mutual Product and Service Supply and Guarantee Agreement is fair and reasonable.

5.3.3 The Supplemental Financial Services Framework Agreement

In respect of the proposed annual cap for the Deposit Services for FY2023, we noted that there is an increase of RMB10,000 million as compared with the corresponding original annual cap for FY2023. As advised by the Management, such increase is the expected increase in deposit amount by AVIC Avionics Group as a result of the Share Swap and Absorption. We further noted that (i) the aforementioned difference between the proposed annual cap and the original annual cap for FY2023 is in line with the expected transaction amount as stated in the Documents; and (ii) the relevant historical transaction amount for FY2021 has increased by 87.4% as compared with that for FY2020, which is higher than the expected annual growth rate of 11.5% and 11.1% for FY2022 and FY2023, respectively. In view of the above, we consider the proposed annual cap for the Deposit Services for FY2023 under the Supplemental Financial Services Framework Agreement is fair and reasonable.

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6. Internal control

As advised by the Management, the Company will apply the same set of internal control mechanism under the Existing Continuing Connected Transactions Framework Agreements, details of which are included in the sections headed “VI. INTERNAL CONTROL MECHANISM” in the letter form the board as disclosed in the 2020 Circular, to the Supplemental Continuing Connected Transactions Framework Agreements.

Pursuant to Rules 14A.55 and 14A.56 of the Hong Kong Listing Rules, the independent non-executive Directors and auditor of the Company will conduct annual review and provide confirmation letter regarding the continuing connected transactions of the Company each year. We have reviewed the annual report of the Company for FY2021 and noted that the independent non-executive Directors and the auditor of the Company have reviewed the continuing connected transactions during such years and provided the relevant confirmation letter. As confirmed with the Company, the Company will continue to comply with the relevant annual review requirement under the Hong Kong Listing Rules on an on-going basis.

Based on the above, we are of the view that the Group has effective internal policies in place to continue to monitor the continuing connected transactions under the Supplemental Continuing Connected Transactions Framework Agreements and the Non-Exempt Annual Caps, therefore the interests of the Company and its Shareholders would be safeguarded.

RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that (i) the continuing connected transactions under the Supplemental Continuing Connected Transactions Framework Agreements are conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) the terms of the Supplemental Continuing Connected Transactions Framework Agreements and the Non-Exempt Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Transactions to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Maxa Capital Limited
Dian Deng
Managing Director

Ms. Dian Deng is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 14 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE COMPANY

The unaudited consolidated financial statements of the Company for the six months ended 30 June 2022 and the audited consolidated financial statements of the Company for the three years ended 31 December 2021 together with the relevant notes to the financial statements of the Company can be found on pages 17 to 90 of the interim report of the Company for the six months ended 30 June 2022, pages 125 to 340 of the annual report of the Company for the year ended 31 December 2021, pages 109 to 256 of the annual report of the Company for the year ended 31 December 2020 and pages 100 to 244 of the annual report of the Company for the year ended 31 December 2019.

Please also see below the hyperlinks to the interim report for the six months ended 30 June 2022 and the annual reports for the three years ended 31 December 2021, respectively.

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0922/2022092200389.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042500665.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042701542.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0420/2020042000329.pdf>

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at 30 November 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group's outstanding borrowings after expansion are approximately RMB20,321,087,535, including secured and guaranteed borrowings of approximately RMB1,239,856,187 and unsecured and unguaranteed borrowings of approximately RMB19,081,231,348. Among the outstanding secured and guaranteed borrowings, the borrowings of approximately RMB206,187,471 are guaranteed by credit guarantee, RMB371,513,252, RMB613,531,466 and RMB48,623,998 are respectively secured by accounts receivable, future collection rights, building and machinery equipment of subsidiaries of the Enlarged Group.

Lease liabilities

As at 30 November 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding lease liabilities of approximately RMB890,935,035. All of the lease liabilities are unsecured and unguaranteed.

Contingent liabilities and guarantee

As at 30 November 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group has no contingent liabilities.

As at 30 November 2022, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group has an external guarantee of RMB38,743,000.

Pledge of assets

As at 30 November 2022, the guaranteed bank loans and other borrowings, lease liabilities and bank credit of the Enlarged Group were secured by the pledge of accounts receivable, collection rights, buildings and equity of the Enlarged Group.

Save as aforesaid and apart from intra-group liabilities and normal accounts and notes payable in the ordinary course of business of the Enlarged Group, the Enlarged Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, bank loans and overdrafts, loans, debt securities or other similar indebtedness, or hire purchase commitments, lease commitments, guarantees or other material contingent liabilities as at the close of business on the Latest Practicable Date.

The Directors have confirmed that there has not been any material change in the indebtedness or the contingent liabilities of the Enlarged Group since the Latest Practicable Date.

3. SUFFICIENCY OF WORKING CAPITAL

As at the Latest Practicable Date, after due enquiry and taking into account the Share Swap and Absorption and Subscription, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirement; that is for at least the next 12 months from the date of publication of this circular.

4. FINANCIAL AND BUSINESS PROSPECTS

With the recovery from the Epidemic and the steady progress of resumption of work and production, the domestic economy bottomed out and stabilized. In the second half of 2022, AVIC will face new opportunities and challenges courageously, adhere to stable development and seek progress; strengthen independent innovation, focus on risk management and control and resolutely keep the bottom line of safety development; deepen reform and innovation and promote the long term overall solidification and institutionalization of reform achievements. The Group will adhere to the goal of building a flagship company of aviation high-tech civil-military general-purpose products and services, accelerate the reorganization and integration of the aviation industry chain, and be devoted to building a modern aviation high-tech new industrial group. The Group will promote scientific and technological innovation, give full play to the advantages of aviation high-tech industry, explore the future development direction of new power helicopter industry in accordance with the requirements of green development and explore the future development direction of helicopter industry; grasp the opportunity of the demand for emergency rescue equipment, optimize the industrial layout and promote the industrialization of civil helicopters; optimize the allocation of resources, bring into play the synergy effect and realize the systematic, integrated and intelligent development of aviation airborne industry; accelerate the transformation and upgrading, speed up the international development and enhance the core process capability of aviation ancillary system products; expand market areas, enhance market position, and improve the whole value chain services of

aviation engineering; improve governance capability, perfect institutional mechanism construction, and improve capital control system; enhance investor contact, improve market image, and continue to promote high-quality development.

5. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2021 (being the date to which the latest published accounts of the Company were made up) up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required: (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, are set out below:

Name of Director/ Supervisor	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to share capital in issue	Nature of Shares held
Director					
Yan Lingxi	H Shares	Beneficial owner	267,740	0.003%	Long position
Supervisor					
Zheng Qiang	H Shares	Beneficial owner	239,687	0.003%	Long position
		Interest of spouse	966	0.000%	Long position
Zhao Zhuo	H Shares	Beneficial owner	69,110	0.001%	Long position

Note: As at the Latest Practicable Date, Mr. Zheng Qiang held 33,500 A shares in AVIC Industry-Finance Holdings Co., Ltd.* (中航工業產融控股股份有限公司) (“**AVIC Industry-Finance**”), representing approximately 0.0003% of the total issued share capital of AVIC Industry-Finance. AVIC Industry-Finance is a subsidiary of AVIC, and therefore is an associated corporation (within the meaning of Part XV of the SFO) of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interests or short positions of the Company and its associated corporations (within the meaning of Part XV of the SFO): (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which they were taken or deemed to have under such provisions of the SFO) which were required to be notified to the Company and the Hong Kong Stock

Exchange; or (ii) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Hong Kong Listing Rules, required to be notified to the Company and the Hong Kong Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as the Directors are aware, the following person(s) (other than a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Class of Shares	Capacity	Number of Shares	Approximate percentage of shareholdings to the same class of Shares in issue	Nature of Shares held
AVIC ^(Note 1)	H Shares	Beneficial owner; Interest in controlled corporation	3,553,069,569	57.21%	Long Position
	Domestic Shares ^(Note 2)	Beneficial owner	1,250,899,906	83.36%	Long Position
Tianjin Free Trade Zone Investment	Domestic Shares ^(Note 2)	Beneficial owner	249,769,500	16.64%	Long Position
Airbus ^(Note 3)	H Shares	Beneficial owner	312,255,827	5.03%	Long Position

Notes:

- Out of the 3,553,069,569 H Shares held by AVIC, 3,297,780,902 H Shares are held as beneficial owner and 183,404,667 H Shares are held through AVIC Airborne Systems Co., Ltd.* (中航機載系統有限公司), its wholly-owned subsidiary, 18,346,000 H Shares are held by AVIC through China Aviation Industry (Hong Kong) Company Limited* (中國航空工業集團(香港)有限公司), its wholly-owned subsidiary, and 53,538,000 H Shares are held through AVIC Industry-Finance, its non-wholly-owned subsidiary.
- Pursuant to the equity acquisition and share issuance agreement dated 28 November 2019, the Company proposed to issue a number of 1,500,669,406 Domestic Shares as the consideration for the acquisition, among which, a number of 1,250,899,906 and 249,769,500 Domestic Shares were be issued to AVIC and Tianjin Free Trade Zone Investment, respectively. The issuance of Domestic Shares was completed on 24 December 2020.
- European Aeronautic Defence and Space Company – EADS N.V. officially changed its name to Airbus on 1 January 2014.

Save and except that (i) Mr. Zhang Minsheng (an executive director of the Company) is the chief accountant of AVIC; and (ii) Mr. Liu Bingjun (a non-executive director of the Company) is the vice director of the Capital Operation Department of AVIC, none of the Directors was also a director and/or employee of the above substantial shareholders.

4. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' AND SUPERVISORS' INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any direct or indirect interest in any asset which had been, since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

6. CONSENT AND QUALIFICATION OF EXPERT

The following is the qualifications of the expert who has given opinions or advice contained in this circular:

Name	Qualification
Maxa Capital	A corporation licensed under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities

As at the Latest Practicable Date, the above expert did not have any shareholding interest in any member of the Group or any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which have been, since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, the above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and references to its name included in this circular in the form and context in which it is included.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Group.

9. MISCELLANEOUS

- a) Mr. Xu Bin, the company secretary of the Company, is a master degree holder and a senior economist. Mr. Xu graduated from Nanchang University in 2000 majoring in law, and then obtained an MBA degree in 2012 from Beijing University of Aeronautics and Astronautics. Mr. Xu served as a lawyer at Jiangxi Ganxing Law Firm since June 2000, and in-house legal counsel at Hongdu Group since October 2001. He also successively served as senior manager, head assistant, and deputy head of the Securities and Legal Department of the Company from February 2003 to June 2014. Mr. Xu has been serving as director of Chengdu CAIC Electronics Co., Ltd.* (成都凱天電子股份有限公司) from December 2013 to 2020 and the head of the Compliance Department of the Company from June 2014 to February 2021. He has been serving as the head of the Planning and Investment Department of the Company since February 2021, a supervisor of Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司) from October 2019 and a director of AVIC Avionics from December 2020, a director of AVIC Avionics from December 2020. Mr. Xu has been serving as the Board Secretary of the Company since August 2020.
- b) The registered address of the Company is situated at 2nd floor, Building 27, No. 26 Xihuan South Street, Beijing Economic-Technological Development Area, Beijing, PRC. The H share registrar of the Company is Computershare Hong Kong Investor Services Limited, whose address is at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- c) The principal place of business of the Company in Hong Kong is at Unit 2202A, 22th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
- d) This circular is in both English and Chinese. In the event of inconsistency, the English version of this circular shall prevail over the Chinese version.

10. MATERIAL CONTRACTS

The particulars of material contracts (not being contracts entered into in the ordinary course of business) entered into by the member of the Group within the two years immediately preceding the issue of this circular are set out as follows:

- a) the share subscription agreement dated 15 January 2021 entered into between the Company and AVIC Heavy Machinery Company Limited* (中航重機股份有限公司) (“**AVIC Heavy Machinery**”) in relation to the subscription of A shares of AVIC Heavy Machinery through non-public offering with the total subscription amount of RMB200 million. For details of this agreement, please refer to the announcement of the Company dated 15 January 2021.
- b) the equity transfer agreement dated 10 May 2021 entered into between China Aviation Planning and Design Institute (Group) Co., Ltd.* (中國航空規劃設計研究總院有限公司) (“**AVIC CAPDI**”) and AVIC Construction and Development (Beijing) Technology Co., Ltd.* (中航建發(北京)科技有限公司) (“**AVIC Construction and Development Technology**”) for the acquisition of 100% equity interest in Beijing Yinyan Enterprise Co., Ltd.* (北京銀燕實業有限公司) at the consideration of RMB68,361,300. For details of this agreement, please refer to the announcement of the Company dated 10 May 2021.
- c) the conditional share subscription agreement dated 9 July 2021 entered into between the Company and AVIC JONHON Optronics Technology Co., Ltd. (中航光電科技股份有限公司) (“**JONHON Optronics**”) for the allotment and issue of A shares of JONHON Optronics, pursuant to which the Company has conditionally agreed to subscribe for A Shares of JONHON Optronics with RMB200 million in cash. For details of this agreement, please refer to the announcement of the Company dated 9 July 2021.
- d) the equity transfer agreement dated 21 April 2022 entered into between AVIC, AVIC CAPDI and (i) Beijing Xuneng Development Technology Co., Ltd.* (北京旭能發展科技有限責任公司); (ii) Jilin Zhongkai New Energy Development and Utilization Co., Ltd.* (吉林省中愷新能源開發利用有限責任公司); and (iii) Anhui Zhongcheng Dadi Energy Development Co., Ltd.* (安徽中城大地能源發展有限公司) for the transfer of equity interests in AVIC Renewable Energy Investment Co., Ltd.* (中國航空工業新能源投資有限公司) (“**AVIC Renewable Energy**”), pursuant to which AVIC agreed to transfer its 30.70% equity interest in AVIC Renewable Energy at a consideration of approximately RMB226.64 million, and AVIC CAPDI agreed to transfer its 21.30% equity interest in AVIC Renewable Energy at a consideration of approximately RMB157.25 million. For details of this agreement, please refer to the announcements of the Company dated 21 March 2022 and 22 April 2022.
- e) the share swap and absorption agreement dated 10 June 2022 entered into between AVIC Avionics and AVIC Electromechanical, pursuant to which AVIC Avionics agreed to issue A shares to the shareholders of AVIC Electromechanical in exchange for the entire AVIC Electromechanical’s A shares held by them. For details of this agreement, please refer to the announcement of the Company dated 10 June 2022.

- f) the subscription agreements dated 10 June 2022 entered into between the AVIC Avionics and the Company, AVIC Aviation Industry Investment Co., Ltd. (中航航空產業投資有限公司) (“**AVIC Aviation Industry Investment**”), AVIC Shenfei Aircraft Company Limited (中航沈飛股份有限公司) (“**AVIC Shenfei**”) and AVIC Chengdu Aircraft Industrial (Group) Co., Ltd. (成都飛機工業(集團)有限責任公司) (“**Chengdu Aircraft Industry**”), pursuant to which, (i) the Company 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 agreed to subscribe for AVIC Avionics’ A shares at a total consideration of RMB180 million in cash; and (iv) Chengdu Aircraft Industry agreed to subscribe for AVIC Avionics’ A shares at a total consideration of RMB180 million in cash. For details of this agreement, please refer to the announcement of the Company dated 10 June 2022.
- g) the Supplemental Continuing Connected Transactions Framework Agreements.

11. DOCUMENTS ON DISPLAY

Electronic copies of the following documents are published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Company (<https://www.avichina.com/>) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the letter of advice dated 16 January 2023 from Maxa Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 23 to 39 of this circular;
- (b) the written consent from the expert referred to in paragraph 6 of this Appendix; and
- (c) the Supplemental Continuing Connected Transactions Framework Agreements.

NOTICE OF EGM



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)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (“EGM”) of AviChina Industry & Technology Company Limited (the “Company”) will be held at 6/F, Building A, No. 14 Xiaoguan Dongli, Andingmenwai, Chaoyang District, Beijing, the People’s Republic of China on Friday, 10 February 2023, at 9:00 a.m. to consider and approve the following resolutions. Unless otherwise indicated, capitalised terms used in this notice and the following resolutions shall have the same meanings as those defined in the circular of the Company dated 16 January 2023 (the “Circular”):

ORDINARY RESOLUTIONS

1. “THAT:

the Supplemental Financial Services Framework Agreement, the transactions contemplated thereunder, and the revised annual cap for the year ending 31 December 2023 in relation to the maximum daily outstanding balances of deposits (including accrued interests) for deposit services of RMB45,000 million under the Supplemental Financial Services Framework Agreement be and are hereby approved, ratified and confirmed; and any Director or authorised representative of the chairman of the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorised representative may in his absolute discretion deem fit.”

2. “THAT:

the Supplemental Mutual Product and Service Supply and Guarantee Agreement, the transactions contemplated thereunder, and the revised annual cap for the year ending 31 December 2023 in relation to the expenditure transactions contemplated under the Supplemental Mutual Product and Service Supply and Guarantee Agreement of RMB3,830 million, be and are hereby approved, ratified and confirmed; and any Director or authorised representative of the chairman of the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters

NOTICE OF EGM

ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorised representative may in his absolute discretion deem fit.”

3. “THAT:

the revised annual cap of RMB23,640 million for the expenditure transaction for the year ending 31 December 2023 and the revised annual cap of RMB34,516 million for the revenue transaction for the year ending 31 December 2023 under the Existing Mutual Product Supply Agreement, be and is hereby approved, ratified and confirmed; and any Director or authorised representative of the chairman of the Board be and is hereby authorised to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the continuing connected transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorised representative may in his absolute discretion deem fit.”

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

Beijing, 16 January 2023

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. Liu Bingjun, 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*

Notes:

(1) CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY TO ATTEND AND VOTE AT THE EGM

Pursuant to Article 41 of the Articles of Association of the Company, the H Share register of members of the Company will be closed from Saturday, 21 January 2023 to Friday, 10 February 2023 (both days inclusive), during which period no transfer of H Shares will be registered. Shareholders of the Company whose names appear on the Company’s Register of Members at the opening of business on Saturday, 21 January 2023 are entitled to attend and vote at the EGM.

In order to be eligible to attend and vote at the EGM, Shareholders of the Company shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company’s H Shares Registrar, not later than 4:30 p.m. on Friday, 20 January 2023 at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens’ Road East, Wanchai, Hong Kong.

NOTICE OF EGM

(2) REGISTRATION PROCEDURES FOR ATTENDING THE EGM

The Shareholder or its proxies shall produce his identification proof. If a corporation Shareholder's legal representative or any other person authorized by the board of directors or other governing body of such corporate Shareholder attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.

(3) PROXIES

- a. Any Shareholder who is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his behalf at the EGM. A proxy needs not be a Shareholder. Any Shareholder who wishes to appoint a proxy should first review the form of proxy for use in the EGM.
- b. Any Shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors of the board of the body corporate or by attorneys duly authorized. If the instrument is signed by an attorney of the appointer, the power of attorney authorizing the attorney to sign or other documents of authorization must be notarially certified. In order to be valid, for H Shareholders, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered to Computershare Hong Kong Investor Services Limited, the Company's H shares registrar, at 17M Hopewell Centre, 183 Queens' Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM and return of a form of proxy will not preclude a Shareholder from attending EGM or any adjournment thereof (as the case may be) in person and voting at the EGM if he or she so wishes.

(4) THE EGM IS EXPECTED TO LAST FOR HALF A DAY. SHAREHOLDERS ATTENDING THE MEETING ARE RESPONSIBLE FOR THEIR OWN TRANSPORTATION AND ACCOMMODATION EXPENSES.

Designated address of the Company:
Building A, No. 14 Xiaoguan Dongli,
Andingmenwai, Chaoyang District,
Beijing, the PRC (Postal code: 100029)
Telephone No: 86-10-58354335/4313 Facsimile No: 86-10-58354310
Attention: Mr. Liu Kai

- (5)** Resolutions above will be voted by poll by the Independent Shareholders.