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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, DISCLOSEABLE
TRANSACTIONS AND MAJOR TRANSACTIONS**

**I. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
UNDER THE EXISTING AGREEMENTS
AND**

II. PROPOSED REVISION OF ORIGINAL ANNUAL CAPS

**I. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER
THE EXISTING AGREEMENTS**

1. References are made to the announcements of the Company dated 21 August 2020, 30 August 2022, 5 September 2022 and 28 October 2022, and the circulars dated 10 November 2020 and 16 January 2023 in relation to, among other things, the continuing connected transactions of the Group with AVIC Group contemplated under each of the Existing Agreements.

As the term of the Existing Agreements will expire on 31 December 2023 and the Group intends to continue to enter into the transactions of similar nature after that date, the Company entered into the Renewal Agreements for a term of three years commencing from 1 January 2024. Most of the terms of the Renewal Agreements are substantially the same as those of the Existing Agreements.

2. On 22 January 2021, the Company entered into the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement with Shenyang Xinghua for the period from 1 January 2021 to 31 December 2023. As none of the applicable percentage ratios as at 22 January 2021 in respect of the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement exceeded 0.1%, the transactions contemplated under the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement constituted *de minimis* transactions under the Hong Kong Listing Rules and were exempt from reporting, annual review, announcement, circular and Independent Shareholders' approval requirements pursuant to the Hong Kong Listing Rules.

As the term of the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement will expire on 31 December 2023 and the Group from time to time needs to procure from or supply to Shenyang Xinghua Group various products and services for its businesses after that date, the Company and Shenyang Xinghua entered into the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement for a term of three years commencing from 1 January 2024. Most of the terms of the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement are substantially the same as those of the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement.

II. PROPOSED REVISION OF ORIGINAL ANNUAL CAPS

After the Share Swap and Absorption, the number of subsidiaries of the Company has increased, the Board expects that there will be an increase in the Group's demand for services related to manufacturing and business from AVIC Group as well as the AVIC Finance Factoring Services, and the Original Annual Caps in respect of the expenditure transactions under the Existing Mutual Service Supply Agreement and the AVIC Finance Factoring Services under the Existing Financial Services Framework Agreement will be insufficient to meet the Group's expected needs.

In view of the business expansion of Shenyang Xinghua Group and its new project engineering contracts entered into with AVIC CAPDI, the Board expects there will be an increase in sales volume to the Group as well as an increase in corresponding purchases, and the Original Annual Cap in respect of the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement will be insufficient to meet the Group's expected needs.

Therefore, the Board proposes to revise the Original Annual Caps to the Proposed Revised Caps. Furthermore, on 22 August 2023, the Company and AVIC Finance entered into the Supplemental Financial Services Framework Agreement to increase the Original AVIC Finance Factoring Services Cap to the relevant Proposed Revised Cap. Save as the Proposed Revised Cap of the AVIC Finance Factoring Services, all other terms and conditions under the Existing Financial Services Framework Agreement shall remain the same.

III. HONG KONG LISTING RULES IMPLICATIONS

Continuing connected transactions implications

As at the date of this announcement, AVIC is a controlling shareholder of the Company holding directly and indirectly 60.25% of all issued Shares. Each of AVIC Finance and AVIC Lease is a subsidiary of AVIC. AVIC Avionics and Shenyang Xinghua are connected subsidiaries of the Company by virtue of being directly and indirectly owned as to over 10% by AVIC. Accordingly, each of AVIC, AVIC Finance, AVIC Lease, AVIC Avionics and Shenyang Xinghua is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. The transactions contemplated under the New Agreements and the Proposed Revised Caps therefore constitute continuing connected transactions.

Fully exempt transactions

As long as (i) the Loan Services, and (ii) the Non-financing Guarantee Letter Services

under the Financial Services Framework Agreement will be entered into by the parties on normal commercial terms and no security over the assets of the Group or guarantee or counter-guarantee will be given by the Group in respect of the provision of financial assistance; and as the Settlement Services, will fall within the relevant *de minimis* threshold as stipulated under the Hong Kong Listing Rules, the Loan Services, the Non-financing Guarantee Letter Services and the Settlement Services are exempt from reporting, annual review, announcement, circular and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules. In the event that the Group is required to provide security over the assets of the Group or guarantee or counter-guarantee for the Loan Services and the Non-financing Guarantee Letter Services, the respective relevant member of the Group and the AVIC Finance shall enter into separate agreements, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the relevant stock exchanges.

Partly Exempt Transactions

As the highest applicable percentage ratios in respect of the proposed annual caps for the three years ending 31 December 2026 of (i) the transactions contemplated under the Land Use Rights and Properties Leasing Agreement; (ii) the revenue transactions contemplated under the AVIC Avionics Mutual Product and Service Supply Framework Agreement; (iii) each of the direct lease and sale and leaseback transactions contemplated under the Finance Lease and Factoring Framework Agreement; and (iv) the transactions contemplated under the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement exceed 0.1% but are less than 5%, such continuing connected transactions are subject to reporting, announcement and annual review requirements but are exempt from circular and Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratios in respect of the Proposed Revised Caps for the year ending 31 December 2023 of (i) the expenditure transactions contemplated under the Existing Mutual Service Supply Agreement; and (ii) the transactions contemplated under the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement exceed 0.1% but are less than 5%, such continuing connected transactions are subject to reporting, announcement and annual review requirements but are exempt from circular and Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Non-exempt Transactions

As the highest applicable percentage ratios in respect of the proposed annual caps for the three years ending 31 December 2026 of (i) the transactions contemplated under the Mutual Product Supply Agreement; (ii) the transactions contemplated under the Mutual Service Supply Agreement; (iii) the expenditure transactions contemplated under the AVIC Avionics Mutual Product and Service Supply Framework Agreement; (iv) the Deposit Services contemplated under the Financial Services Framework Agreement; (v) the Other Financial Services contemplated under the Financial Services Framework Agreement; and (vi) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement and the AVIC Finance Factoring Services contemplated under the Financial Services Framework Agreement on an aggregated basis exceed 5%, such continuing connected

transactions are subject to reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the Proposed Revised Cap for the year ending 31 December 2023 of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement exceeds 5%, such continuing connected transactions are subject to reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Independent Financial Adviser's opinion

As the term of the underlying specific contracts in relation to Finance Lease Services to be entered into pursuant to the Finance Lease and Factoring Framework Agreement may exceed three years, the Company has appointed Maxa Capital as the Independent Financial Adviser to explain why the said specific contracts in relation to Finance Lease Services require a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration pursuant to Rule 14A.52 of the Hong Kong Listing Rules.

Notifiable transactions implications

Discloseable transactions

As the highest applicable percentage ratios in respect of (i) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement and the AVIC Finance Factoring Services contemplated under the Financial Services Framework Agreement on an aggregated basis; and (ii) the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement exceed 5% but are less than 25%, the continuing connected transactions contemplated thereunder also constitute discloseable transactions under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

Major transactions

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

IV. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all of the independent non-executive Directors will be established to advise the Independent Shareholders on (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023.

Maxa Capital has been appointed as the Independent Financial Adviser to advise the

Independent Board Committee and the Independent Shareholders in this regard.

V. EGM

An EGM will be convened to obtain the approval of Independent Shareholders regarding, among other things, (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023.

AVIC and its associate(s), if any, will abstain from voting on these ordinary resolutions to be proposed at the EGM.

As more time is required to finalise the circular to the Shareholders, the Company expects to despatch to the Shareholders the circular containing, among other things:

- a. details relating to (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023.
- b. a letter of recommendation from the Independent Board Committee to the Independent Shareholders;
- c. a letter of advice from Maxa Capital to the Independent Board Committee and the Independent Shareholders; and
- d. a notice of the EGM,

on or before 31 October 2023.

I. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS UNDER THE EXISTING AGREEMENTS

1. Background

References are made to the announcements of the Company dated 21 August 2020, 30 August 2022, 5 September 2022 and 28 October 2022 and the circulars of the Company dated 10 November 2020 and 16 January 2023 in relation to, among other things, the continuing connected transactions of the Group with AVIC Group contemplated under each of the Existing Agreements.

As the term of the Existing Agreements will expire on 31 December 2023 and the Group intends to continue to enter into the transactions of similar nature after that date, the Company entered into the Renewal Agreements for a term of three years commencing from 1 January 2024. Most of the terms of the Renewal Agreements are substantially the same as those of the Existing Agreements.

2. The Renewal Agreements

2.1 Mutual Product Supply Agreement

As the Existing Mutual Product Supply Agreement is due to expire on 31 December 2023 and the Group from time to time needs to procure from or supply to AVIC Group various products for its businesses, the Company entered into the Mutual Product Supply Agreement with AVIC.

Principal terms of the Mutual Product Supply Agreement are summarised as follows:

Date	: 22 August 2023
Parties	: AVIC (for and on behalf of AVIC Group) The Company (for itself and on behalf of its subsidiaries)
Term	: Three years from 1 January 2024 to 31 December 2026
Mutual supply of products	: AVIC Group and the Group will supply the manufacturing raw materials, parts and components, finished and semi-finished aviation products involved in the production and operations of the respective aviation products of each other (including but not limited to aviation entire aircraft and aviation parts and components to the Group, and the helicopters, airplanes and aviation parts and component to AVIC Group) and the related sales and ancillary services.
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 favourable 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 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. <i>Note: please refer to “Government-prescribed Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this announcement for the detailed definitions of the terms.</i>

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.

2.2 Mutual Service Supply Agreement

As the Existing Mutual Service Supply Agreement is due to expire on 31 December 2023 and the Group from time to time needs to procure from or supply to AVIC Group various services for its businesses, the Company entered into the Mutual Service Supply Agreement with AVIC.

Principal terms of the Mutual Service Supply Agreement are summarised as follows:

Date : 22 August 2023

Parties : AVIC (for and on behalf of AVIC Group)
The Company (for itself and on behalf of its subsidiaries)

Term : Three years from 1 January 2024 to 31 December 2026

Mutual supply of services : AVIC Group will supply certain services relating to the production and business operations of the Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment purchase, maintenance, repair and leasing services; (v) construction and transportation; (vi) design, consultation and network related services; (vii) cultural, educational, hygienic, social security and logistic services; (viii) import and export agency services; (ix) test flight and technology and quality monitoring services; (x) engineering and equipment subcontracting services; and (xi) other related services.

The Group will supply certain services relating to the production and business operations of AVIC Group including, without limitation, (i) supply of power such as electricity, water and steam; (ii) property management and maintenance; (iii) labour services; (iv) equipment maintenance, repair and leasing services; (v) construction and transportation; (vi) design, consultation and network related services; (vii) enterprise entrustment services; (viii) engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting and equipment main contracting services; and (ix) other related services.

Key transaction principles

: If any independent third party can supply the same type of services on the same terms, AVIC Group or the Group (as the case may be) shall give preference to use the services supplied by the Group or AVIC Group (as the case may be).

If any independent third party can supply the same type of services 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 opt for the services supplied by that independent third party.

The quality standard of the services 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 services under the agreement will be determined as follows:

- (i) 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;
- (ii) for services such as construction, transportation, design, consultation and network design, equipment leasing and other services where the Market Price is available, the Market Price as determined by tender procedures or other means (as the case may be) shall apply;
- (iii) for the engineering technology services to be supplied by the Group to AVIC Group (including design, consultation and supervision services), and the engineering and equipment subcontracting services supplied by AVIC Group to the Group, the Market Price or (where applicable) 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); and
- (iv) if there is no Market Price (for the provision of property management and maintenance services; equipment maintenance, repair and leasing services; cultural, educational, hygienic, social security and logistic services; import and export agency services; test flight and technology and quality monitoring services; and entrustment services), the Contractual Price shall apply.

Note: please refer to “Government-prescribed Price”, “Government-guidance Price”, “Market Price” and “Contractual Price” as set out in the “Definitions” section of this announcement 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 specific services agreement under each transaction.

2.3 Land Use Rights and Properties Leasing Agreement

As the Existing Land Use Rights and Properties Leasing Agreement is due to expire on 31 December 2023, and the Group and AVIC Group need to use the land or properties of each other for their respective business operations, the Company entered into the Land Use Rights and Properties Leasing Agreement with AVIC.

Principal terms of the Land Use Rights and Properties Leasing Agreement are summarised as follows:

Date : 22 August 2023

Parties : AVIC (for and on behalf of AVIC Group)

The Company (for itself and on behalf of its subsidiaries)

Term : Three years from 1 January 2024 to 31 December 2026

Lease of land use right and properties : AVIC Group will lease to the Group certain pieces of land of which it has legal land use rights and properties owned by it, and the Group will lease to AVIC Group certain pieces of land of which it has legal land use rights and properties owned by it.

Pricing principles : The annual rent is to be determined by the parties after fair negotiations with reference to: (i) the recent fair trading price of land and properties in the comparable local leasing market; (ii) the government-guidance price for land and properties leasing of the local government (if any); and (iii) other relevant factors such as location, scale and utility facilities of the land and properties.

Payment : Payment of rents shall be made annually. Specific time of payment is to be agreed between the parties by entering into specific agreement.

2.4 AVIC Avionics Mutual Product and Service Supply Framework Agreement

The Existing Mutual Product and Service Supply and Guarantee Agreement entered into by the Company and AVIC Avionics is due to expire on 31 December 2023. As the Group continues to have the need to procure from and supply to AVIC Avionics Group various products and services in its business (but expects that the Group will not supply guarantee services), the Company entered into the AVIC Avionics Mutual Product and Service Supply Framework Agreement with AVIC Avionics, with the transaction scope no longer including guarantee services. In the event that AVIC Avionics Group requires the Group to provide guarantee due to business needs, the parties shall enter into separate contracts upon negotiation and subject to satisfaction of the applicable disclosure and

approval requirements in accordance with the rules of the relevant stock exchanges.

Principal terms of the AVIC Avionics Mutual Product and Service Supply Framework Agreement are summarised as follows:

- Date** : 22 August 2023
- Parties** : The Company (for itself and on behalf of its subsidiaries, excluding AVIC Avionics Group)
AVIC Avionics (for itself and on behalf of its subsidiaries)
- Term** : Three years from 1 January 2024 to 31 December 2026
- Mutual supply of products and services** : The Group will supply to AVIC Avionics Group aviation parts and components, raw materials, related manufacturing, labour services, and engineering technology (including but not limited to planning, consultation, design and supervision), project engineering main contracting and equipment main contracting services, etc.
AVIC Avionics Group will supply to the Group aviation electronic products, mechanical electronics, parts and components, related manufacturing and labour services, and engineering and equipment subcontracting services.
- Pricing principles** : The price of products and/or services under the agreement will be determined as follows:
- (i) as most products under the AVIC Avionics Mutual Product and Service Supply Framework 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; if such power was not originally procured at Government-prescribed Price or Government-guidance Price, the Market Price as determined by tender procedures or other means (as the case may be) shall apply; if there is no Market Price, the Contractual Price shall apply;

- (v) for production and labour 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. The tender procedures mentioned above 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 announcement.

Payment : The parties will charge fees according to the AVIC Avionics Mutual Product and Service Supply Framework 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.

Other major terms : If any independent third party can supply the same type of products or services at a better price than AVIC Avionics Group or the Group (as the case may be) offers, the Group or AVIC Avionics Group (as the case may be) shall be entitled to opt for the products or services supplied by that independent third party.

Subject to the terms of the AVIC Avionics Mutual Product and Service Supply Framework Agreement, if the product or service supplied by and the terms and conditions of supply given by AVIC Avionics Group or the Group (as the case may be) does not satisfy the needs of the Group or AVIC Avionics Group (as the case may be) in any aspect, the latter can procure identical or similar products or services from an independent third party.

2.5 Financial Services Framework Agreement

As the Existing Financial Services Framework Agreement is due to expire on 31 December 2023, and the Group continues to have the need of the financial services from AVIC Finance from time to time, the Company entered into the Financial Services

Framework Agreement with AVIC Finance.

Principal terms of the Financial Services Framework Agreement are summarised as follows:

Date : 22 August 2023

Parties : The Company (for itself and on behalf of its subsidiaries)
AVIC Finance

Term : Three years from 1 January 2024 to 31 December 2026

Financial services : Pursuant to the Financial Services Framework Agreement, AVIC Finance has agreed to provide the Group with the Deposit Services, the Loan Services, the Settlement Services, the Non-financing Guarantee Letter Services, the AVIC Finance Factoring Services and the Other Financial Services (i.e. such other financial services (including but not limited to bill acceptance, bill payable and discount services) as approved by the NAFR).

The Group is entitled to elect the financial institutions providing the financial services, the amount of deposit and borrowings and the time of withdrawal of deposit based on its business needs.

Pricing principles : The pricing principles of the Deposit Services, the AVIC Finance Factoring Services and the Other Financial Services are as follows:

(1) Deposit Services

Interest rates for the Group's deposits with AVIC Finance shall not be lower than the benchmark interest rates during the same period as promulgated by the PBOC for the same type of deposit. The interest rates for the Group's RMB deposits with AVIC Finance shall not be lower than the listed average interest rates for the same type of deposits offered by major commercial banks of the PRC.

(2) 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 average fees charged by AVIC Finance to any third party with the same price determination factors as the Group during the same period (including credit rating, term, business category, enterprise category); and (b) the average fees charged by the major commercial banks in the PRC for the same type of services.

(3) 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 the 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 during the same period; 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.

Please refer to paragraph 5 under Section I of this announcement for the proposed caps for the Deposit Services, the AVIC Finance Factoring Services and the Other Financial Services.

Other major terms : When AVIC Finance provides the Deposit Services and the Settlement Services to the Group, AVIC Finance is obliged to ensure the safety and normal use of the Group's deposits under the funds of the AVIC Finance. If AVIC Finance is unable to repay the Group's deposits due to various reasons, the Company is entitled to terminate the Financial Services Framework Agreement and to offset the same amount of the outstanding loan due to AVIC Finance against the deposit due to the Group from AVIC Finance. In the event that the Group suffers financial loss by reason of the default of AVIC Finance, AVIC Finance shall indemnify the Group the full amount of the loss suffered by the Group and the Group shall be entitled to terminate the Financial Services Framework Agreement. If AVIC Finance is unable to indemnify the Group the full amount of the loss suffered by the Group, upon the Group's request, the shortfall shall be offset by the loans provided by AVIC Finance to the Group.

2.6 Finance Lease and Factoring Framework Agreement

As the Existing Finance Lease and Factoring Framework Agreement is due to expire on 31 December 2023, and the Group continues to have the need of the Finance Lease Services from AVIC Lease and the AVIC Lease Factoring Services through the AVIC Lease Factoring Subsidiary from time to time, the Company entered into the Finance Lease and Factoring Framework Agreement with AVIC Lease.

Principal terms of the Finance Lease and Factoring Framework Agreement are summarised as follows:

- Date** : 22 August 2023
- Parties** : The Company (for itself and on behalf of its subsidiaries)
AVIC Lease (for itself and on behalf of its subsidiaries)
- Term** : Three years from 1 January 2024 to 31 December 2026
- Services** : Pursuant to the Finance Lease and Factoring Framework Agreement, AVIC Lease has agreed to provide the Group with the Finance Lease Services by itself and to provide the Group with the AVIC Lease Factoring Services through the AVIC Lease Factoring Subsidiary.
- (1) Finance Lease Services
 - (i) AVIC Lease will provide the Finance Lease Services to the Group by way of direct lease and sale and leaseback, etc. The leased assets include buildings, erections,

mechanical equipment and other assets.

- (ii) Under the direct lease service, AVIC Lease (as lessor) will purchase from suppliers the leased assets based on the demands and choice of the Company (as lessee) at a price negotiated between the Group and the supplier, and AVIC Lease will then lease the leased assets to the Company for its use in return for periodic lease payments.
- (iii) Under the sale and leaseback service, the Company (as lessee) will sell the leased assets to AVIC Lease (as lessor) at a negotiated purchase price with reference to the book value and/or original acquisition costs and/or appraised value of the leased assets, and AVIC Lease will then lease the leased assets back to the Company for its use in return for periodic lease payments.
- (iv) During the lease period, the leased assets will be solely owned by AVIC Lease. Subject to the relevant requirements of the Hong Kong Listing Rules, the Company may purchase the leased assets after or (upon the consent of AVIC Lease) prior to the expiry of the lease.

(2) AVIC Lease Factoring Services

Where the Group needs the AVIC Lease Factoring Services, the Group will transfer its outstanding principal amount of the accounts receivable which has not been due, the related interest and other rights as a creditor to the AVIC Lease Factoring Subsidiary, and receive the factoring proceeds.

Pricing principles

: The lease payment relating to the Finance Lease Services and the fees relating to the AVIC Lease Factoring Services will be determined as follows:

(1) Finance Lease Services

The lease payments of a finance lease comprise the principal amount of the finance lease and the lease interest. The principal amount shall be the gross price of the leased assets for the purchase by AVIC Lease. The lease interest shall be determined with reference to (a) the financing costs for Finance Lease Services provided by AVIC Lease (inclusive of interest, consulting services fees and other fees and expenses), which is no higher than the financing costs incurred by domestic independent finance lease companies for providing services of same or similar nature (as determined based on comprehensive internal rate of return after taxation); and (b) the interest rates charged or quoted by other major financial

institutions for providing services of same or similar nature.

(2) AVIC Lease Factoring Services

AVIC Lease Factoring Subsidiary shall pay the outstanding principal amount of accounts receivable which has not been due as the factoring amount. The factoring interest shall be determined by the parties with reference to factors including the average factoring interest rate charged by AVIC Lease to its customers and the funding costs. AVIC Lease Factoring Subsidiary will charge service fees with respect to AVIC Lease Factoring Services, which shall not be higher than the fees charged by similar financial factoring companies in the PRC for the same type of factoring services.

Please refer to paragraph 5 under Section I of this announcement for the proposed caps for the Finance Lease Services (comprising (i) the cap for right-of-use assets in direct lease transactions; and (ii) the cap for disposal of leased assets in sale and leaseback transactions) and AVIC Lease Factoring Services.

Payment : For the Finance Lease Services, the Company and AVIC Lease will agree on the manner of payment flexibly based on the actual cash flows, including not limited to the payment of principal by equal or unequal instalments on a quarterly basis, payment of principal and interest by equal instalments on a quarterly basis, payment of principal by equal instalments on a semi-annual basis or payment of principal and interest by equal instalments on an annual basis, etc.

For the AVIC Lease Factoring Services, the Company and AVIC Lease shall agree on the manner of payment flexibly based on the specific factoring project, including but not limited to payment by the Group or the debtor of the accounts receivable or both.

Separate Contracts : AVIC Lease and the Group shall enter into specific contracts to set out the specific terms and conditions (including the specific payment terms) for the provision of services according to the principles and scope provided for under the Finance Lease and Factoring Framework Agreement and the relevant legal requirements.

The contract period of the specific contracts with respect to Finance Lease Services may exceed three years, depending on the type of leased assets involved. Specific contracts with respect to Finance Lease Services and AVIC Lease Factoring Services duly executed shall remain to have full force and effect for their respective contract periods and shall be subject to the Finance Lease and Factoring Framework Agreement for the three years from 1 January 2024 to 31 December 2026.

3. *The Agreements entered into between the Company and Shenyang Xinghua*

On 22 January 2021, the Company entered into the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement with Shenyang Xinghua for the period from 1 January 2021 to 31 December 2023. As none of the applicable percentage ratios as at 22 January 2021 in respect of the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement exceeded 0.1%, the transactions contemplated under the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement constituted *de minimis* transactions under the Hong Kong Listing Rules and were exempt from reporting, annual review, announcement, circular and Independent Shareholders' approval requirements pursuant to the Hong Kong Listing Rules.

As the term of the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement will expire on 31 December 2023 and the Group from time to time needs to procure from or supply to Shenyang Xinghua Group various products and services for its businesses after that date, the Company and Shenyang Xinhua entered into the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement for a term of three years commencing from 1 January 2024. Most of the terms of the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement are substantially the same as those of the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement.

(1) *The Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement*

Principal terms of the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement are summarised as follows:

Date : 22 January 2021

Parties : The Company (for itself and on behalf of its subsidiaries)
Shenyang Xinghua (for itself and on behalf of its subsidiaries)

Term : from 1 January 2021 to 31 December 2023

Mutual supply of products and services : The Group supplies to Shenyang Xinghua Group aviation parts, raw materials, related manufacturing and labour services and the engineering technology (including but not limited to planning, consulting, design and supervision, etc.), project engineering main contracting and equipment main contracting services.

Shenyang Xinghua Group supplies to the Group aeroengine components, connectors, cables, power electronic components, aircraft blowers, fans, mounting frame control boxes, components, related manufacturing and labour services, etc.

The transactions under such agreement do not cover those transactions between Shenyang Xinghua Group and AVIC Avionics Group.

- Pricing principles** : The price of products and/or services under the agreement will be determined as follows:
- (i) as most products under the Existing Shenyang Xinghua Mutual Product and Service Supply Framework 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 and leasing 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).

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 announcement.

- Payment** : The parties charges fees according to the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement and the specific contracts entered into by the relevant member of the Group and Shenyang Xinghua Group for the provision of products or services.

- Other major terms** : If any independent third party can supply the same type of products or services at a better price than Shenyang Xinghua Group or the Group (as the case may be) offers, the Group or Shenyang Xinghua Group (as the case may be) shall be entitled to opt for the products or services supplied by that independent third party.

Subject to the terms of the Existing Shenyang Xinghua Mutual Product

and Service Supply Framework Agreement, if the product or service supplied by and the terms and conditions of supply given by Shenyang Xinghua Group or the Group (as the case may be) does not satisfy the needs of the Group or Shenyang Xinghua Group (as the case may be) in any aspect, the latter can procure identical or similar products or services from an independent third party.

(2) *Shenyang Xinghua Mutual Product and Service Supply Framework Agreement*

Principal terms of the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement are summarised as follows:

Date : 22 August 2023

Parties : The Company (for itself and on behalf of its subsidiaries)
Shenyang Xinghua (for itself and on behalf of its subsidiaries)

Term : Three years from 1 January 2024 to 31 December 2026

Mutual supply of products and services : The Group will supply to Shenyang Xinghua Group aviation parts, raw materials, related manufacturing and labour services and the engineering technology (including but not limited to planning, consulting, design and supervision, etc.), project engineering main contracting and equipment main contracting services.

Shenyang Xinghua Group will supply to the Group aeroengine components, connectors, cables, power electronic components, aircraft blowers, fans, mounting frame control boxes, components, related manufacturing and labour services, etc.

The transactions under such agreement do not cover those transactions between Shenyang Xinghua Group and AVIC Avionics Group.

Pricing principles : The price of products and/or services under the agreement will be determined as follows:

- (i) as most products under the Shenyang Xinghua Mutual Product and Service Supply Framework 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;

- (vii) for production, labour and leasing 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
- (viii) 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).

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 announcement.

Payment : The parties will charge fees according to the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement and the specific contracts entered into by the relevant member of the Group and Shenyang Xinghua Group for the provision of products or services.

Other major terms : If any independent third party can supply the same type of products or services at a better price than Shenyang Xinghua Group or the Group (as the case may be) offers, the Group or Shenyang Xinghua Group (as the case may be) shall be entitled to opt for the products or services supplied by that independent third party.

Subject to the terms of the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement, if the product or service supplied by and the terms and conditions of supply given by Shenyang Xinghua Group or the Group (as the case may be) does not satisfy the needs of the Group or Shenyang Xinghua Group (as the case may be) in any aspect, the latter can procure identical or similar products or services from an independent third party.

4. Historical Amounts of the Continuing Connected Transactions under the Existing Agreements and the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement

Set out below are the historical amounts of the continuing connected transactions under the Existing Agreements and the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement for the two years ended 31 December 2022 and the six months ended 30 June 2023.

<i>(RMB' million)</i>	Actual amount for the year ended 31 December 2021	Actual amount for the year ended 31 December 2022	Actual amount for the six months ended 30 June 2023	Caps for the year ending 31 December 2023
Expenditure transactions of the Group				
Existing Mutual Product Supply Agreement	10,567	11,471	7,149	23,640
Existing Mutual Service Supply Agreement	375	414	99	930
Existing Mutual Product and Service Supply and Guarantee Agreement	671	783	674	3,830
Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement	36	28	36	42
Revenue transactions of the Group				
Existing Mutual Product Supply Agreement	15,674	18,152	13,741	34,516
Existing Mutual Service Supply Agreement	2,605	2,644	1,180	6,780
Existing Mutual Product and Service Supply and Guarantee Agreement	184	262	360	1,022
Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement	2	1	1	42
Transactions under the Existing Land Use Rights and Properties Leasing Agreement				
<i>The Group as lessee</i> ^{Note:}				
Right-of-use assets	7	212	169	200
<i>The Group as lessor:</i>				
Lease payments received by the Group	16	25	19	40

Transactions under the Existing Financial Services Framework Agreement

Maximum daily outstanding balance of deposits (including accrued interests) for deposit services	19,100	24,432	16,220	45,000
Maximum daily outstanding factoring financing balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Finance Factoring Services	355	1,050	725	1,200
Other Financial Services	37	47	72	1,200

Transactions under the Existing Finance Lease and Factoring Framework Agreement

Direct Lease	0	-	1	2,000
Sale and leaseback	246	-	-	2,000
Maximum daily outstanding factoring financing balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Lease Factoring Services	30	25	5	1,500

Note: The historical figures for the leasing services under the Existing Land Use Rights and Properties Leasing Agreement and the proposed caps for the Land Use Rights and Properties Leasing Agreement are the estimated total value of right-of-use assets relating to the leasing agreements entered into or expected to be entered into during the corresponding period. With effective from the financial year commencing from 1 January 2021, the Company has adopted CASBE. Pursuant to CASBE No. 21 and Tenancy Guidelines Implementation Q&A (中國企業會計準則第21號—租賃及中國財政部租賃實施問答), all reasonable relevant facts and circumstances will be taken into account when determining the lease period of leases.*

If it is reasonably certain that an option to extend the lease will be exercised, such lease will be regarded as a long-term lease and the Company shall recognise the lease as right-of-use assets and adopt the cost model for subsequent measurement of right-of-use assets. As the lease period of the leases provided or to be provided by AVIC Group to the Group was or is expected to be one year and the Group expected or expects to renew these leases after expiration of the lease period, the Group has recognised or will recognise such leases as long-term leases and the right of the Group as lessee during the term of such leases has been

or shall be recognised as right-of-use assets, subject to adjustment for re-measurement of lease liabilities under CASBE.

5. Proposed Caps for the Continuing Connected Transactions under the Renewal Agreements and the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement

5.1 Proposed caps for the continuing connected transactions under the Renewal Agreements

Based on the factors set out in paragraph 5.2 under Section I of this announcement, the Directors have estimated the caps for each of the continuing connected transactions for each of the three years ending 31 December 2026, which are set out below:

(1) Non-exempt Transactions

<i>(RMB' million)</i>	Year ending 31 December 2024	Year ending 31 December 2025	Year ending 31 December 2026	Cross-reference to this announcement
Expenditure transactions of the Group				
Mutual Product Supply Agreement	20,980	24,320	26,000	Paragraph 2.1 under Section I
Mutual Service Supply Agreement	1,610	1,400	1,500	Paragraph 2.2 under Section I
AVIC Avionics Mutual Product and Service Supply Framework Agreement	2,800	3,000	3,100	Paragraph 2.4 under Section I
Revenue transactions of the Group				
Mutual Product Supply Agreement	43,350	45,220	51,760	Paragraph 2.1 under Section I
Mutual Service Supply Agreement	5,600	5,000	5,300	Paragraph 2.2 under Section I
Transactions under Financial Services Framework Agreement				
Maximum daily outstanding balance of deposits (including accrued interests) for Deposit Services	45,000	45,000	45,000	Paragraph 2.5 under Section I
Maximum daily outstanding factoring balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Finance Factoring Services	5,000	5,000	5,000	Paragraph 2.5 under Section I

Other Financial Services	3,000	3,000	3,000	Paragraph 2.5 under Section I
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Transactions under the Finance Lease and Factoring Framework Agreement

Maximum daily outstanding factoring balance of AVIC Lease Factoring Services**	1,000	1,000	1,000	Paragraph 2.6 under Section I
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**AVIC Lease Factoring Services are Non-exempt Transactions after being aggregated with AVIC Finance Factoring Services.

(2) Partly Exempt Transactions

<i>(RMB' million)</i>	Year ending 31 December 2024	Year ending 31 December 2025	Year ending 31 December 2026	Cross-reference to this announcement
Expenditure transactions of the Group				
Shenyang Xinghua Mutual Product and Service Supply Framework Agreement	150	180	200	Paragraph 2.7 under Section I
Revenue transactions of the Group				
AVIC Avionics Mutual Product and Service Supply Framework Agreement	1,100	1,100	1,200	Paragraph 2.4 under Section I
Shenyang Xinghua Mutual Product and Service Supply Framework Agreement	130	100	100	Paragraph 2.7 under Section I

Transactions under the Land Use Rights and Properties Leasing Agreement

The Group as lessee ^{Note:}

<i>(RMB' million)</i>	Year ending 31 December 2024	Year ending 31 December 2025	Year ending 31 December 2026	Cross-reference to this announcement
Right-of-use assets	400	400	400	Paragraph 2.3 under Section I

The Group as lessor:

Lease payments to be received by the Group	100	100	100	Paragraph 2.3 under Section I
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Transactions under the Finance Lease and Factoring Framework Agreement

Direct Lease ***	1,000	1,000	1,000	Paragraph 2.6 under Section I
Sale and leaseback ***	1,000	1,000	1,000	Paragraph 2.6 under Section I

*** *The maximum outstanding balance receivable by the Group from AVIC Lease (inclusive of the outstanding principal amount and interest and other expenses deducting the deposit) in relation to the Finance Lease Services under the Finance Lease and Factoring Framework Agreement for each of the three years ending 31 December 2026 shall be RMB2,000 million. For the purpose of the Hong Kong Listing Rules, the direct lease service under the Finance Lease Services involves “acquisition” of the right-of-use assets, while the sale and leaseback service under the Finance Lease Services involves “disposal”.*

5.2 Basis of determination of the proposed caps

(1) Mutual Product Supply Agreement

Under the Mutual Product Supply Agreement, the Group primarily provides the aviation entire aircraft, avionics products and electromechanical products to AVIC Group, and AVIC Group primarily provides the relevant parts and components to the Group which are necessary for the manufacturing of the aforesaid aviation entire aircraft, avionics products and electromechanical products.

The proposed caps for the revenue transactions for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

(i) historical transaction amount and expected growth

The proposed caps for the three years ending 31 December 2026 are determined after taking into account (i) the historical transaction amount of approximately RMB15,674 million and RMB18,152 million respectively for the year ended 31 December 2021 and 31 December 2022; (ii) the expected sales volume of products of the Group, in particular, the expected additional sales volume of electromechanical products as a result of the Share Swap and Absorption for the year ending 31 December 2023, and the Company has revised and increased the proposed annual cap for the revenue transactions under the Existing Mutual Product Supply Agreement for the year ending 31 December 2023 to RMB34,516 million (for details please refer to the Company’s circular dated 16 January 2023); and (iii) the expected growth of relevant business in 2024 based on the current operation plan which is expected to lead to significant increase of sales volume of aviation products, and after taking into account the orders from AVIC Group and the commercial negotiations ongoing with AVIC Group in relation to potential orders.

- (ii) adequate buffer for potential demands of AVIC Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential product demands of AVIC Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, the research, development and manufacturing of the Group's possible new products, and the potential business development and expansion of AVIC Group in the future.

The proposed caps for the expenditure transactions for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

- (i) expected growth in demand of the Group

The Group will purchase relevant parts and components from AVIC Group for the manufacturing of the aviation entire aircraft, related avionics products and electromechanical products. The proposed caps for the three years ending 31 December 2026 are determined after taking into account (i) the historical transaction amount of approximately RMB10,567 million and RMB11,471 million respectively for the year ended 31 December 2021 and 31 December 2022; (ii) the expected increase in procurement of parts and components according to the production plan and the expected additional purchase costs for the production of electromechanical products as a result of the Share Swap and Absorption for the year ending 31 December 2023, and the Company has revised and increased the proposed annual cap for the expenditure transactions under the Existing Mutual Product Supply Agreement for the year ending 31 December 2023 to RMB23,640 million (for details please refer to the Company's circular dated 16 January 2023).

As the procurement of products has become more stable, the expenditure transactions for 2024 is expected to be lower than in the annual cap for the year 2023. The annual growth rate of the expenditure transactions for each of 2025 to 2026 is expected to be 16% and 7%, respectively.

- (ii) adequate buffer for potential demands of the Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential product demands of the Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, the research, development and manufacturing of the Group's possible new products, and the potential business development and expansion of the Group in the future.

(2) *Mutual Service Supply Agreement*

The proposed caps for the revenue transactions for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

- (i) provision of aviation engineering services to AVIC Group

The Group mainly provides aviation engineering services to AVIC Group

through AVIC CAPDI. The proposed caps for the three years ending 31 December 2026 are determined after taking into account the steady annual growth of the aviation engineering industry. It is expected that the revenue of aviation engineering services will grow at an annual rate of around 6% from 2024 to 2026.

As the Group expects a decrease in provision of labour services to AVIC Group in 2025 and 2026 under the signed contracts, orders and the Group's manufacturing plan, hence there is a slight decrease in the proposed annual caps for the year ending 31 December 2025 and 31 December 2026 as compared to the proposed annual cap for the year ending 31 December 2024.

(ii) adequate buffer for potential demands of AVIC Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential services demands of AVIC Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry, and the potential business development and expansion of AVIC Group in the future.

The proposed caps for the three years ending 31 December 2026 for the expenditure transactions are determined with reference to, among other things, the following factors:

(i) provision of labour services by AVIC Group

AVIC Group mainly provides labour services such as corresponding outsourcing and comprehensive services to the Group. Along with the business development and increase of the Group's sales volume, the labour expenditures (such as outsourcing labour services) are expected to increase by around 25% in 2024 as compared to 2023. However, as the Group expects a decrease in its demand for certain types of labour services from AVIC Group in 2025 and 2026 based on the signed contracts, orders and the Group's manufacturing plan, hence the Group expects a decrease in the proposed annual caps for the year ending 31 December 2025 and 31 December 2026 as compared to the proposed annual cap for the year ending 31 December 2024.

(ii) adequate buffer for potential demands of the Group

The Company also sets a 5% to 10% buffer for the proposed caps to cover the potential services demands of the Group. The 5% to 10% buffer is added based on the development in national economy and aviation industry and the potential business development and expansion of the Group in the future.

(3) *Land Use Rights and Properties Leasing Agreement*

The proposed caps for the transactions under the Land Use Rights and Properties Leasing Agreement are determined with reference to, among other things, the following factors: (i) the land use rights and properties to be leased between the relevant members of AVIC Group and the relevant members of the Group the rental arrangements under the specific leasing contracts; and (ii) the potential expansion of the business of the parties and the consequential increase in demand for

additional land use rights and properties. The proposed caps on the right-of-use assets under the Land Use Rights and Properties Leasing Agreement are also determined with reference to the value of the Group's rights to use the leased assets during the term of the Land Use Rights and Properties Leasing Agreement which is initially measured on present value basis and calculated by discounting the expected lease payments, using the incremental borrowing rate as the discount rate.

(4) *AVIC Avionics Mutual Product and Service Supply Framework Agreement*

The proposed caps for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

(i) intragroup transactions of the Group

The transactions under the AVIC Avionics Mutual Product and Service Supply Framework Agreement are intragroup transactions of the Group, and are mostly product pairing transactions between the Group's avionics companies (i.e. AVIC Avionics Group which comprises, among others, AVIC Electromechanical Group after the Share Swap and Absorption) and the Group's entire aircraft companies (mainly the helicopters and trainers). Avionics products and electromechanical products are necessary aviation parts and components for the manufacturing of the aviation entire aircraft. AVIC Avionics Group is the major supplier for the related avionics products in the Group's helicopters and trainers.

Therefore, when determining the proposed caps for the transactions contemplated under the AVIC Avionics Mutual Product and Service Supply Framework Agreement, the Company has also taken into account the growth rates of the revenue transactions of AVIC Avionics Group under the Mutual Product Supply Agreement.

(ii) historical transaction amount and annual growth trend

Upon completion of the Share Swap and Absorption, it is expected that the Group will incur additional purchase costs for electromechanical products as well as an increase in sales volume to AVIC Avionics Group as a result. The Company has revised and increased the proposed annual caps for the revenue transactions and expenditure transactions under the Existing Mutual Product and Service Supply and Guarantee Agreement for the year ending 31 December 2023 (for details please refer to the Company's circular dated 16 January 2023).

(iii) adequate buffer for potential demands of the Group

The Company also sets a 10% buffer for the proposed caps to cover the potential demands of the Group and/or AVIC Avionics Group for relevant product and service. The 10% buffer is added based on the development in national economy and aviation industry and the potential business development and expansion of the Group and/or AVIC Avionics Group in the future.

(5) *Financial Services Framework Agreement*

Deposit Services

The proposed cap for the Deposit Services under the Financial Services Framework Agreement is the same as the annual cap under the Existing Financial Services Framework Agreement, which is determined with reference to, among other things, the following factors: (i) the maximum daily outstanding balance of deposits (including accrued interests) of approximately RMB19,100 million, RMB 24,432 million and RMB16,220 million placed by the Group in AVIC Finance in the year ended 31 December 2021 and 2022 and the six months ended 30 June 2023; (ii) the cash and bank balances of the Group of approximately RMB30,378 million as at 30 June 2023; (iii) the expected payments as may be made by major customers and the expected payment schedule for the products provided by the Group during the relevant period; (iv) the expected growth in the business of the Group and AVIC Group, leading to an increasing demand for the Deposit Services with higher level of funds; and (v) the fund management strategy of the Group of allocating a certain percentage of funds to AVIC Finance for more efficient use of funds available.

AVIC Finance Factoring Services

The proposed caps for the AVIC Finance Factoring Services are determined with reference to, among other things, the following factors: (i) the historical maximum daily outstanding factoring financing balance of the AVIC Finance Factoring Services for the year ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023 respectively; (ii) the expected demand of the Group for accounts receivable financing services from AVIC Finance; (iii) the total accounts receivable of the Group in the latest financial statements; and (iv) the expected growth of the accounts receivable for 2024 to 2026.

Other Financial Services

The proposed caps for the Other Financial Services under the Financial Services Framework Agreement are determined with reference to, among other things, the following factors: (i) the historical transaction amount of Other Financial Services received by the Group for the year ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023; (ii) the expected growth of bills receivable along with the Group's business, which would enable the Group to use more bill acceptance, bill payable and discount services for greater efficiency in the use of funds; and (iii) the expected growth for financing needs of the Group given its future development.

(6) *Finance Lease and Factoring Framework Agreement*

Direct Lease and Sale and Leaseback transactions under the Finance Lease and Factoring Framework Agreement

The proposed caps for the direct lease and sale and leaseback transactions under the Finance Lease and Factoring Framework Agreement are determined with reference to, among other things, the following factors: (i) the total value of right-of-use assets under existing direct lease agreements and the amount of assets subject to the existing sale and leaseback arrangements during the three years ending 31 December 2026; (ii) the Group's future development plans and its demand for the Finance Lease Services by AVIC Lease arising from the Group's daily operation and development (in the case of direct lease, the total value of right-of-use assets expected to be acquired by the Company, and in the case of the sale and leaseback, the amounts of the assets subject to finance lease arrangement) during the period;

(iii) the nature, value and expected use life of the assets leased to the Group; and (iv) the capability and flexibility of AVIC Lease in providing Finance Lease Services to the Group.

AVIC Lease Factoring Services under the Finance Lease and Factoring Framework Agreement

The proposed caps for the AVIC Lease Factoring Services under the Finance Lease and Factoring Framework Agreement are determined with reference to, among other things, the following factors: (i) the expected demand of the Group for accounts receivable financing services from AVIC Lease; (ii) the total accounts receivable of the Group in the latest financial statements; and (iii) the expected growth of the accounts receivable for 2024 to 2026.

(7) *Shenyang Xinghua Mutual Product and Service Supply Framework Agreement*

The proposed caps for the three years ending 31 December 2026 are determined with reference to, among other things, the following factors:

- (i) intragroup transactions of the Group and expected demands

The transactions under the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement are intragroup transactions of the Group, and are mostly product pairing transactions between Shenyang Xinghua Group and the Group. Shenyang Xinghua Group mainly supply aeroengine components, connectors and power electronic components to the Group for the Group's manufacture of aircrafts and aviation parts.

Taking into account the expansion of business of Shenyang Xinghua Group, it is expected there will be an increase in sales volume to the Group as well as an increase in corresponding purchases. Moreover, as Shenyang Xinghua has entered into new project engineering contracts with AVIC CAPDI, it is expected that there will be an increase in the Group's provision of project engineering main contracting services and technology to Shenyang Xinghua Group.

- (ii) adequate buffer for potential demands of the Group

The Company also sets a 10% buffer for the proposed caps to cover the potential demands of the Group and/or Shenyang Xinghua Group for relevant product and service. The 10% buffer is added based on the development in national economy and aviation industry and the potential business development and expansion of the Group and/or Shenyang Xinghua Group in the future.

6. Reasons for and Benefits of Continuing the Existing Continuing Connected Transactions

6.1 Continuing connected transactions (other than the transactions under the Financial Services Framework Agreement and the Finance Lease and Factoring Framework Agreement)

Aviation industry is complex and technology intensive. The manufacturing of an entire aircraft (including the Group's helicopters and trainers) requires different products, parts

and components from different enterprises.

The Group is an aviation manufacturing enterprise mainly engaged in the research, development, manufacture and sales of aviation entire aircraft (mainly helicopters and trainer aircraft) and aviation parts and components (mainly avionics products and electromechanical products), and the provision of aviation engineering services.

AVIC Group is the sole full-system aviation manufacturer established under the support of the PRC's national government. It has the research and development capacities to manufacture aviation products independently, and it is mainly engaged in the manufacturing of aircraft (other than helicopters and trainer aircraft), airborne equipment systems and other related pairing products and systems.

(1) *Mutual Product Supply Agreement*

The Group is the sole production platform of helicopters and main production platform of trainer aircrafts for AVIC Group and it primarily provides the aviation entire aircrafts (mainly trainers and general aircrafts) and aviation parts and components (mainly avionics products, electromechanical products and optronics products) to AVIC Group under the Mutual Product Supply Agreement to meet the orders received by AVIC Group from independent third parties and the production demands of AVIC Group.

The Group mainly procures from AVIC Group the necessary parts and components for manufacturing helicopters and trainers by the Group, such as control and navigation systems researched and developed by AVIC Group.

Due to the high technology barriers in aviation industry and the high quality requirements of customers, it is also difficult for the Group and AVIC Group to source substitute aviation products or aviation parts and components of comparable quality, specifications and value in the PRC from other producers.

(2) *Mutual Service Supply Agreement*

The Group primarily provides the aviation engineering services to AVIC Group through AVIC CAPDI, and AVIC Group primarily provides labour services and other composite services to the Group.

(3) *Land Use Rights and Properties Leasing Agreement*

The Group has been renting out certain land and properties to AVIC Group as production plants and offices, and leasing certain land and properties from AVIC Group as production plants, offices and dormitories in respect of the Group's different business segments. The Company considers that it is beneficial to continue to enter into the Land Use Rights and Properties Leasing Agreement as: (i) the Group can better utilise its unused assets to earn rental income by leasing land and properties to AVIC Group; and (ii) the Group can continue to occupy suitable premise, and occupy new suitable premise for its business operation.

(4) *AVIC Avionics Mutual Product and Service Supply Framework Agreement*

The transactions contemplated under the AVIC Avionics Mutual Product and Service Supply Framework Agreement are intragroup transactions of the Group, and are mostly product pairing transactions between the Group's avionics companies (i.e. AVIC Avionics Group) and the Group's entire aircraft business.

Avionics products and electromechanical products are necessary aviation parts and components for the manufacturing of the aviation entire aircraft. AVIC Avionics Group is the major supplier for the related avionics products and electromechanical products in the Group's helicopters and trainers.

(5) *Shenyang Xinghua Mutual Product and Service Supply Framework Agreement*

The transactions contemplated under the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement are intragroup transactions of the Group, and are mostly product pairing transactions between Shenyang Xinghua Group and the Group. Shenyang Xinghua Group mainly supply aeroengine components, connectors and power electronic components to the Group for the Group's manufacture of aircrafts and aviation parts.

The Company considers that the products and services provided by the relevant party are different from those provided by the counterparty, and are necessary for the business operation of the counterparty. Based on the following grounds, the Directors consider that it is beneficial to continue the relevant continuing connected transactions by way of entering into new framework agreements as set out in Section I of this announcement:

- (a) the historical connection and long-standing business cooperation relationship between the Group and AVIC Group, AVIC Avionics Group and Shenyang Xinghua Group;
- (b) AVIC, AVIC Avionics, Shenyang Xinghua and their respective associates generally have a better understanding of the Group's business and can better ensure the standards of technology, quality, delivery and technical support of the products to meet the Group's requirements;
- (c) the continuing connected transactions between AVIC, AVIC Avionics, Shenyang Xinghua and their respective associates and the Group in relation to mutual supply of products and services have facilitated and will continue to facilitate the overall operations and growth of the Group's business; and
- (d) the Directors (excluding the independent non-executive Directors, who will give their opinion after considering the advice from Maxa Capital in respect of the Non-exempt Transactions) consider that such continuing connected transactions are and will continue to be conducted on normal commercial terms or better to the Group and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole, and the terms and the proposed caps of such continuing connected transactions will continue to be fair and reasonable to the Company.

Taking into account the transaction model between the Group and AVIC Group as described above, the Company considers that the Group can develop independently in a steady and healthy way, and there is no major reliance risk in this regard.

6.2 *Continuing connected transactions under the Financial Services Framework Agreement*

The reasons for the Group to enter into the Financial Services Framework Agreement are as follows:

- (a) the terms (including the interest rates) on the Deposit Services, the Loan Services,

the AVIC Finance Factoring Services and the Other Financial Services offered by AVIC Finance to the Group will be equal to or more favourable than those offered to the Group by major commercial banks in the PRC;

- (b) AVIC Finance is regulated by the PBOC and the NAFR and provides its services in accordance with and in satisfaction of the rules and operational requirements of these regulatory authorities. In addition, so far as the Group is aware, AVIC Finance has internal control measures in place, the details of which are disclosed in paragraph 4 under Section V of this announcement, which ensure the safety of the Group's deposits with AVIC Finance;
- (c) AVIC Finance's understanding of the Group's operations will enable it to provide more expedient and efficient services than major commercial banks in the PRC;
- (d) pursuant to the relevant regulations of the PBOC and the NAFR, the customers of AVIC Finance are limited to the group members of AVIC Group, which will ensure more control by AVIC Finance of the risks that it may be exposed to as compared with other financial entities; and
- (e) the Group could satisfy its demands for financial services in daily business operations from the Financial Services Framework Agreement.

6.3 Continuing connected transactions under the Finance Lease and Factoring Framework Agreement

The reasons for the Group to enter into the Finance Lease and Factoring Framework Agreement are as follows:

- (a) the Finance Lease and Factoring Framework Agreement and the transactions contemplated thereunder will help to reduce capital occupation by accounts receivable; satisfy the funding requirement for business development and optimise its financial management and improve its capital usage efficiency and reduce financing costs and risks and thus will facilitate and smooth the business development and operations of the Company; and
- (b) as compared to other financial institutions such as commercial banks, AVIC Lease is able to offer greater flexibility on the financing terms and provide financing services more efficiently with streamlined procedures.

These advantages make AVIC Lease Factoring Services a suitable financing channel complementary to other channels available to the Group.

II. PROPOSED REVISION OF ORIGINAL ANNUAL CAPS

1. Background

After the Share Swap and Absorption, the number of subsidiaries of the Company has increased, the Board expects that there will be an increase in the Group's demand for services related to manufacturing and business from AVIC Group as well as the AVIC Finance Factoring Services, and the Original Annual Caps in respect of the expenditure transactions under the Existing Mutual Service Supply Agreement and the AVIC Finance Factoring Services under the Existing Financial Services

Framework Agreement will be insufficient to meet the Group's expected needs.

In view of the business expansion of Shenyang Xinghua Group and its new project engineering contracts entered into with AVIC CAPDI, the Board expects there will be an increase in sales volume to the Group as well as an increase in corresponding purchases, and the Original Annual Cap in respect of the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement will be insufficient to meet the Group's expected needs.

Therefore, the Board proposes to revise the Original Annual Caps to the Proposed Revised Caps. Furthermore, on 22 August 2023, the Company and AVIC Finance entered into the Supplemental Financial Services Framework Agreement to increase the Original AVIC Finance Factoring Services Cap to the relevant Proposed Revised Cap. Save as the Proposed Revised Cap of the AVIC Finance Factoring Services, all other terms and conditions under the Existing Financial Services Framework Agreement shall remain the same.

2. Supplemental Financial Services Framework Agreement

Date : 22 August 2023

Parties : The Company
AVIC Finance

Subject Matter : AVIC Finance has agreed to provide the Group with the AVIC Finance Factoring Services with a maximum daily outstanding factoring financing balance of AVIC Finance Factoring Services (including factoring prepayment, factoring fee and factoring handling charges) shall not exceed RMB2,500 million.

Save as the Proposed Revised Cap of the AVIC Finance Factoring Services, all other terms and conditions under the Existing Supplemental Financial Services Framework Agreement shall remain the same.

Major 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.

3. Proposed Revision of the Original Annual Caps

Details of the proposed revision to the caps are as follows:

*For the year ending 31
December 2023*

<i>RMB' million</i>	Actual transaction amount for	Original Annual	Proposed Annual
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	the six months ended 30 June 2023	Caps	Caps
Expenditure Transactions of the Group			
Existing Mutual Service Supply Agreement	99	930	1,200
Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement	36	42	120
Revenue Transactions of the Group			
Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement	1	42	180
The Supplemental Financial Services Framework Agreement			
Maximum daily outstanding factoring financing balance (including factoring prepayment, factoring fee and factoring handling charges) of AVIC Finance Factoring Services	725	1,200	2,500

4. Basis of Determination of the Proposed Revised Caps

The Existing Mutual Service Supply Agreement

The proposed revised cap for the expenditure transactions under the Existing Mutual Service Supply Agreement for the year ending 31 December 2023 is derived based on the historical transaction amount for the year ended 31 December 2021 and 31 December 2022, and the expected increase of the Group's purchase amount as a result of the Share Swap and Absorption. In light of the increase in the number of subsidiaries of the Company after the Share Swap and Absorption, the scope of businesses and scale of operation of the Group would increase. It is estimated that the demand for certain services relating to the production and business operations of the Group in the year of 2023 will increase.

The Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement

The proposed revised caps for the expenditure transactions and revenue transactions under the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement for the year ending 31 December 2023 is derived based on (i) the historical transaction amount for the year ended 31 December 2021 and 31 December 2022 and the six months ended 30 June 2023; (ii) the expansion of business of Shenyang Xinghua Group which led to an increase in its sales volume to our Group and the purchase costs by

the Group; and (iii) the new project engineering contracts entered into between Shenyang Xinghua and AVIC CAPDI which led to an increase in demand for the Group's provision of project engineering main contracting services and technology to Shenyang Xinghua Group.

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

The proposed annual cap for the AVIC Finance Factoring Services for the year ending 31 December 2023 is determined based on the historical maximum daily outstanding factoring balance for the year ended 31 December 2021 and 31 December 2022 and the expected increase in the demand for the AVIC Finance Factoring Services by AVIC Avionics Group after considering (i) the maximum daily outstanding factoring balance (including factoring prepayment, factoring fee and factoring handling charges) of the factoring services under the Existing Financial Services Framework Agreement for the year ended 31 December 2022 almost reached the original annual cap for the financial year ending 31 December 2023 (i.e. RMB1,200 million); and (ii) upon completion of the Share Swap and Absorption, the number of the Company's subsidiaries has increased, which would lead to an increase in demand for the AVIC Finance Factoring Services by AVIC Avionics Group, and it is expected that the original annual cap will be insufficient to satisfy the Group's demand for AVIC Finance Factoring Services for the year ending 31 December 2023 after taking into account the maximum daily outstanding factoring balance of approximately RMB725 million for the six months ended 30 June 2023.

Reasons and benefits for entering into the Supplemental Financial Services Framework Agreement and the Proposed Revised Caps

Reference is 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 Share Swap and Absorption. Upon completion of the Share Swap and Absorption, there was an increase in the scope and the amount of goods and services to be provided/ obtained by the Group under the Existing Mutual Service Supply Agreement and the Existing Financial Services Framework Agreement arising from an increase in subsidiaries of the Company. Furthermore, it is expected that there will be an increase in transaction amounts under the Existing Mutual Service Supply Agreement, the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement and the Existing Financial Services Framework Agreement for the year ending 31 December 2023 as a result of the continued growth and increase in scale of operation of the Group. Therefore, the entering of the Supplemental Financial Services Framework Agreement and the Proposed Revised Caps are beneficial to and necessary for the business operation of the Group.

III. HONG KONG LISTING RULES IMPLICATIONS

Continuing connected transactions implications

As at the date of this announcement, AVIC is a controlling shareholder of the Company holding directly and indirectly 60.25% of all issued Shares. Each of AVIC Finance and AVIC Lease is a subsidiary of AVIC. AVIC Avionics and Shenyang Xinghua are connected subsidiaries of the Company by virtue of being directly and indirectly owned as to over 10% by AVIC. Accordingly, each of AVIC, AVIC Finance, AVIC Lease, AVIC Avionics and Shenyang Xinghua is a connected person of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules. The transactions contemplated under the New Agreements and the Proposed Revised Caps therefore constitute continuing connected transactions.

Fully exempt transactions

As long as (i) the Loan Services, and (ii) the Non-financing Guarantee Letter Services under the Financial Services Framework Agreement will be entered into by the parties on normal commercial terms and no security over the assets of the Group or guarantee or counter-guarantee will be given by the Group in respect of the provision of financial assistance; and as the Settlement Services, will fall within the relevant *de minimis* threshold as stipulated under the Hong Kong Listing Rules, the Loan Services, the Non-financing Guarantee Letter Services and the Settlement Services are exempt from reporting, annual review, announcement, circular and the Independent Shareholders' approval requirements under the Hong Kong Listing Rules. In the event that the Group is required to provide security over the assets of the Group or guarantee or counter-guarantee for the Loan Services and the Non-financing Guarantee Letter Services, the respective relevant member of Group and the AVIC Finance Group shall enter into separate agreements, subject to satisfaction of the applicable disclosure and approval requirements by the Group in accordance with the rules of the relevant stock exchanges.

Partly Exempt Transactions

As the highest applicable percentage ratios in respect of the proposed annual caps for the three years ending 31 December 2026 of (i) the transactions contemplated under the Land Use Rights and Properties Leasing Agreement; (ii) the revenue transactions contemplated under the AVIC Avionics Mutual Product and Service Supply Framework Agreement; (iii) each of the direct lease and sale and leaseback transactions contemplated under the Finance Lease and Factoring Framework Agreement; and (iv) the transactions contemplated under the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement exceed 0.1% but are less than 5%, such continuing connected transactions are subject to reporting, announcement and annual review requirements but are exempt from circular and Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratios in respect of the Proposed Revised Caps for the year ending 31 December 2023 of the (i) expenditure transactions contemplated under the Existing Mutual Service Supply Agreement; (ii) and the transactions contemplated under the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement exceed 0.1% but are less than 5%, such continuing connected transactions are subject to reporting, announcement and annual review requirements but are exempt from circular and Independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Non-exempt Transactions

As the highest applicable percentage ratios in respect of the proposed annual caps for the three years ending 31 December 2026 of (i) the transactions contemplated under the Mutual Product Supply Agreement; (ii) the transactions contemplated under the Mutual Service Supply Agreement; (iii) the expenditure transactions contemplated under the AVIC Avionics Mutual Product and Service Supply Framework Agreement; (iv) the Deposit Services contemplated under the Financial Services Framework Agreement; (v) the Other Financial Services contemplated under the Financial Services Framework Agreement; and (vi) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement and the AVIC Finance Factoring Services contemplated

under the Financial Services Framework Agreement on an aggregated basis exceed 5%, such continuing connected transactions are subject to reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the Proposed Revised Cap for the year ending 31 December 2023 of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement exceeds 5%, such continuing connected transactions are subject to reporting, announcement, annual review, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Independent Financial Adviser's opinion

As the term of the underlying specific contracts in relation to Finance Lease Services to be entered into pursuant to the Finance Lease and Factoring Framework Agreement may exceed three years, the Company has appointed Maxa Capital as the Independent Financial Adviser to explain why the said specific contracts in relation to Finance Lease Services require a longer period and to confirm that it is a normal business practice for agreements of this type to be of such duration pursuant to Rule 14A.52 of the Hong Kong Listing Rules.

Notifiable transactions implications

Discloseable transactions

As the highest applicable percentage ratios in respect of (i) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement and the AVIC Finance Factoring Services contemplated under the Financial Services Framework Agreement on an aggregated basis; and (ii) the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement exceed 5% but are less than 25%, the continuing connected transactions contemplated thereunder also constitute discloseable transactions under Chapter 14 of the Hong Kong Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

Major transactions

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

General

Mr. Liu Bingjun, a non-executive Director, who is also a vice director of the Capital Operation Department of AVIC, had abstained from voting on the relevant Board resolution(s) approving (i) the transactions contemplated under the New Agreements and the proposed caps for such transactions; and (ii) the Proposed Revised Caps in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save as disclosed above, none of the other Directors has or is deemed to have a material interest in the above-mentioned continuing connected transactions and the proposed revision.

For the Partly Exempt Transactions, the Directors (including the independent non-executive Directors) consider that (i) the terms of the Partly Exempt Transactions and the proposed annual caps for those transactions are fair and reasonable; (ii) the Partly Exempt Transactions are on normal commercial terms or better, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

For the Non-exempt Transactions, the Directors (excluding the independent non-executive Directors, who will give their opinion after considering the advice from Maxa Capital) consider that (i)(A) the terms of the Non-exempt Transactions and the proposed annual caps for those transactions; and (B) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement, are fair and reasonable; (ii) the Non-exempt Transactions and the transactions contemplated under the Supplemental Financial Services Framework Agreement are on normal commercial terms or better, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

Shareholders should note that all the proposed caps as set out in this announcement should not be construed as an assurance or forecast by the Company of the future revenue of the Group.

IV. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all of the independent non-executive Directors will be established to advise the Independent Shareholders on (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and the (ii) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023.

Maxa Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

V. GENERAL INFORMATION

1. Information relating to 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, development, manufacture and sales of aviation products, and relevant engineering services.

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 directly and indirectly 60.25% equity interest in the Company as at the date of this announcement.

3. Information of AVIC Avionics

AVIC Avionics is a joint stock limited liability company incorporated in the PRC, whose A shares are listed on the Shanghai Stock Exchange. AVIC Avionics is a 16.50% owned subsidiary of the Company, which is mainly engaged in the manufacture of avionics products and related accessories.

4. Information of AVIC Finance

AVIC Finance is a limited liability company established in the PRC and a subsidiary of AVIC as at the date of this announcement. It is licensed by the CBIRC and is engaged in the provision of financial services which principally include absorption of deposits of member companies, handling loans of member companies, handling bills discounting of member companies, handling funds settlement and acceptance/payment of member companies, providing entrustment loans to member companies, underwriting of debentures, non-financing guarantee letters, financial advisory services, credit certification and advisory agency services, inter-bank lending, handling bills acceptance of member companies, handling buyer's credit and spending credit of member companies, fixed-income investments, and other businesses as may be approved by the NAFR.

So far as the Group is aware, AVIC Finance is subject to the following internal control measures, which ensure the safety of the Group's deposits with AVIC Finance:

- (a) As a licensed financial institution in the PRC, AVIC Finance is under the supervision of the PBOC and the NAFR, including the regular examination of the audited financial statements and other relevant materials required to be filed by AVIC Finance, as well as face-to-face review and interview with the senior management of AVIC Finance;
- (b) AVIC Finance has established strict internal control measures to ensure effective risk management and compliance with relevant laws and regulations, including the corporate governance structure, internal standards and policies and standard operating procedures, as well as intra-group check and balance mechanism; and
- (c) AVIC Finance will adopt the following additional internal control measures in respect of the Deposit Services provided by AVIC Finance under the Financial Services Framework Agreement: (i) the Group shall have the right to use the deposit funds to offset against any accounts payable by the Group to AVIC Finance in the event that the Group is not able to recover its deposits with AVIC Finance; and (ii) AVIC Finance shall submit monthly and annual reports to the Group in respect of the Group's deposits with AVIC Finance during the period of having deposits with AVIC Finance.

5. Information of AVIC Lease

AVIC Lease is a limited liability company established in the PRC and a subsidiary of AVIC as at the date of this announcement. It is mainly engaged in finance leasing, self-owned equipment leasing, residual value processing and maintenance of leased assets, contract energy management, and consulting services relevant to the above businesses, and non-bank financial services as approved by relevant departments such as factoring.

6. Information of Shenyang Xinghua

Shenyang Xinghua is a limited liability company established in the PRC and is a subsidiary of the Company as at the date of this announcement, which is mainly engaged in the research, manufacturing and sales of avionics, electrical connectors, micro motors, automatic protection switches and related products.

VI. EGM

An EGM will be convened to obtain the approval of Independent Shareholders regarding, among other things, (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023.

AVIC and its associate(s), if any, will abstain from voting on these ordinary resolutions to be proposed at the EGM.

As more time is required to finalise the circular to the Shareholders, the Company expects to despatch to the Shareholders the circular containing, among other things:

- (1) details relating to (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023;
- (2) a letter of recommendation from the Independent Board Committee to the Independent Shareholders;
- (3) a letter of advice from Maxa Capital to the Independent Board Committee and the Independent Shareholders; and
- (4) a notice of the EGM,

on or before 31 October 2023.

VII. DEFINITIONS

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

“associates”	has the same meaning ascribed to it under 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 directly and indirectly 60.25% of all issued Shares as at the date of this announcement

“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 and a connected subsidiary of the Company as at the date of this announcement
“AVIC Avionics Group”	AVIC Avionics and its subsidiaries
“AVIC Avionics Mutual Product and Service Supply Framework Agreement”	the AVIC Avionics mutual product and service supply framework agreement entered into between the Company and AVIC Avionics and dated 22 August 2023, details of which are set out in paragraph 2.4 under Section I of this announcement
“AVIC CAPDI”	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), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company as at the date of this announcement
“AVIC Electromechanical”	AVIC Electromechanical Systems Co., Ltd.*(中航工業機電系統股份有限公司)
“AVIC Electromechanical Group”	AVIC Electromechanical and its subsidiaries at the relevant time
“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 a subsidiary of AVIC as at the date of this announcement
“AVIC Finance Factoring Services”	the receivable factoring services to be provided by AVIC Finance to the Group under the Existing Financial Services Framework Agreement and the Financial Services Framework Agreement
“AVIC Group”	AVIC and its subsidiaries (excluding the Group)
“AVIC Lease”	AVIC International Financial Lease Co., Ltd.* (中航國際融資租賃有限公司), a limited liability company established in the PRC and a subsidiary of AVIC as at the date of this announcement
“AVIC Lease Factoring Services”	the factoring services to be provided by AVIC Lease Factoring Subsidiary to the Group under the Existing Finance Lease and Factoring Framework Agreement or the Finance Lease and Factoring Framework Agreement
“AVIC Lease Factoring Subsidiary”	any of AVIC Lease’s subsidiar(ies) legally established to carry out the factoring business

“Board”	the board of Directors
“CASBE”	China Accounting Standards for Business Enterprises
“CBIRC”	China Banking and Insurance Regulatory Commission
“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”	has the meaning ascribed thereto under 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 a specified percentage of such costs, which is determined after taking into account the average profit margin 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 specified percentage 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
“connected subsidiary(ies)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Deposit Services”	the deposit services to be provided by AVIC Finance to the Group under the Existing Financial Services Framework Agreement or the Financial Services Framework Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held for the purposes of considering and, if thought fit, approving, among other things, (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023
“Existing Agreements”	the Existing Mutual Product Supply Agreement, the Existing Mutual Service Supply Agreement, the Existing Land Use Rights and Properties Leasing Agreement, the Existing Mutual Product and Service Supply and Guarantee Agreement, the Existing Financial Services Framework Agreement, and the Existing Finance Lease and Factoring Framework Agreement

“Existing Finance Lease and Factoring Framework Agreement”	the finance lease and factoring framework agreement entered into between AVIC Lease and the Company and dated 21 August 2020, for a term of three years commencing from 1 January 2021
“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 (as supplemented by an agreement entered into between AVIC Finance and the Company dated 28 October 2022)
“Existing Land Use Rights and Properties Leasing Agreement”	the land use rights and properties leasing agreement entered into between AVIC and the Company and dated 21 August 2020, for a term of three years commencing from 1 January 2021
“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
“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 (as supplemented by an agreement entered into between the Company and AVIC Avionics dated 28 October 2022)
“Existing Mutual Service Supply Agreement”	the mutual service 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
“Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement”	the mutual product and service supply framework agreement entered into between the Company and Shenyang Xinghua dated 22 January 2021, for a term of three years commencing from 1 January 2021
“Finance Lease and Factoring Framework Agreement”	the finance lease and factoring framework agreement entered into between AVIC Lease and the Company and dated 22 August 2023, details of which are set out in paragraph 2.5 under Section I of this announcement
“Finance Lease Services”	the finance lease services to be provided by AVIC Lease to the Group under the Finance Lease and Factoring Framework Agreement
“Financial Services Framework Agreement”	the financial services framework agreement entered into between AVIC Finance and the Company and dated 22 August 2023, details of which are set out in paragraph 2.5 under Section I of this announcement

“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
“Group”	the Company and its subsidiaries from time to time (in particular, in respect of the AVIC Avionics Mutual Product and Service Supply Framework Agreement, the Company and its subsidiaries (other than the AVIC Avionics Group) from time to time; and in respect of the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement, the Company and its subsidiaries (other than the Shenyang Xinghua Group and the AVIC Avionics Group) from time to time)
“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 (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the AVIC Finance Factoring Services transactions contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023
“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), to advise the Independent Board Committee and the Independent Shareholders on (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for

	the year ending 31 December 2023
“Independent Shareholders”	Shareholders (other than AVIC and its associates) who are not required to abstain from voting on the resolution(s) to be proposed at the EGM to approve (i) the terms of the Non-exempt Transactions and the proposed caps for such transactions for the three years ending 31 December 2026; and (ii) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement for the year ending 31 December 2023
“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)
“Land Use Rights and Properties Leasing Agreement”	the land use rights and properties leasing agreement entered into between AVIC and the Company and dated 22 August 2023, details of which are set out in paragraph 2.3 under Section I of this announcement
“Loan Services”	the loan services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“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; 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 favourable 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 after taking into account the transaction volumes and business relationship between the Company and purchasers according to the Company’s internal sales policy. The Market Price will be determined or approved by the authorised departments/persons of the specific entities within the Group in particular transactions

“Mutual Product Supply Agreement”	the mutual product supply agreement entered into between AVIC and the Company and dated 22 August 2023, details of which are set out in paragraph 2.1 under Section I of this announcement
“Mutual Service Supply Agreement”	the mutual service supply agreement entered into between AVIC and the Company and dated 22 August 2023, details of which are set out in paragraph 2.2 under Section I of this announcement
“NAFR”	National Administration of Financial Regulation* (國家金融監督管理總局), the predecessor being CBIRC
“New Agreements”	the Renewal Agreements, the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement and the Supplemental Financial Services Framework Agreement
“Non-exempt Transactions”	(i) the transactions contemplated under the Mutual Product Supply Agreement; (ii) the transactions contemplated under the Mutual Service Supply Agreement; (iii) the expenditure transactions contemplated under the AVIC Avionics Mutual Product and Service Supply Framework Agreement; (iv) the Deposit Services contemplated under the Financial Services Framework Agreement; (v) the Other Financial Services contemplated under the Financial Services Framework Agreement; (vi) the AVIC Lease Factoring Services contemplated under the Finance Lease and Factoring Framework Agreement and the AVIC Finance Factoring Services under the Financial Services Framework Agreement on an aggregated basis; and (vii) the Proposed Revised Cap of the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement, which are subject to reporting, announcement, annual review, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules
“Non-financing Guarantee Letter Services”	the non-financing guarantee letter services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“Original Annual Caps”	the original annual caps for the year ending 31 December 2023 for (i) the expenditure transactions under the Existing Mutual Service Supply Agreement; (ii) the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement; and (iii) the Original AVIC Finance Factoring Services Cap
“Original AVIC Finance Factoring Services Cap”	the original cap for the year ending 31 December 2023 for the receivable factoring services under the Existing Financial Services Framework Agreement

“Other Financial Services”	<p>in respect of the Existing Financial Services Framework Agreement, such financial services (including but not limited to bill acceptance, bill payable and discount services) as approved by the CBIRC (other than the Deposit Services, the Loan Services, the Settlement Services, the guarantee services and the AVIC Finance Factoring Services) provided/to be provided by AVIC Finance to the Group</p> <p>in respect of the Financial Services Framework Agreement, such financial services (including but not limited to bill acceptance, bill payable and discount services) as approved by the NAFR (other than the Deposit Services, the Loan Services, the Settlement Services, the Non-financing Guarantee Letter Services and the AVIC Finance Factoring Services) to be provided by AVIC Finance to the Group</p>
“Partly Exempt Transactions”	<p>(i) the transactions contemplated under the Land Use Rights and Properties Leasing Agreement; (ii) the revenue transactions contemplated under the AVIC Avionics Mutual Product and Service Supply Framework Agreement; (iii) each of the direct lease and sale and leaseback transactions contemplated under the Finance Lease and Factoring Framework Agreement; (iv) the transactions contemplated under the Shenyang Xinghua Mutual Product and Service Supply Framework Agreement; and (v) the Proposed Revised Caps of the expenditure transactions contemplated under the Mutual Service Supply Agreement and the transactions contemplated under the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement which are subject to reporting, announcement and annual review requirements but are exempt from circular and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules</p>
“PBOC”	the People’s Bank of China
“percentage ratio(s)”	has the same meaning ascribed to it under the Hong Kong Listing Rules
“PRC”	the People’s Republic of China
“Proposed Revised Cap(s)”	the proposed revised cap for the year ending 31 December 2023 for (i) the expenditure transactions under the Existing Mutual Service Supply Agreement; (ii) the Existing Shenyang Xinghua Mutual Product and Service Supply Framework Agreement; and (iii) the AVIC Finance Factoring Services contemplated under the Supplemental Financial Services Framework Agreement
“Renewal Agreements”	the Mutual Product Supply Agreement, the Mutual Service Supply Agreement, the Land Use Rights and Properties Leasing Agreement, the AVIC Avionics Mutual Product and Service Supply Framework Agreement, the Financial Services Framework Agreement and the Finance Lease and Factoring

	Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Settlement Services”	the settlement services to be provided by AVIC Finance to the Group under the Financial Services Framework Agreement
“Shares”	shares of RMB1.00 each in the capital of the Company
“Shareholders”	the holders of Shares
“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 and the announcement of the Company dated 10 June 2023
“Shenyang Xinghua”	AVIC Shenyang Xinghua Aero-Electric Appliance Co., Ltd.* (沈陽興華航空電器有限責任公司), a limited liability company established in the PRC and a subsidiary of the Company as at the date of this announcement
“Shenyang Xinghua Group”	Shenyang Xinghua Group and its subsidiaries
“Shenyang Xinghua Mutual Product and Service Supply Framework Agreement”	the mutual product and service supply framework agreement entered into between the Company and Shenyang Xinghua dated 22 August 2023, details of which are set out in paragraph 3 under Section I of this announcement
“Supplemental Financial Services Framework Agreement”	the agreement entered into between the Company and AVIC Finance dated 22 August 2023, which is a supplemental agreement to the Existing Financial Services Framework Agreement

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

Beijing, 22 August 2023

As at the date of this announcement, the Board comprises executive Directors Mr. Yan Lingxi and Mr. Sun Jizhong, 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*