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)

POTENTIAL CONNECTED TRANSACTION
DISPOSAL OF TARGET ASSETS OF QIANSHAN AVIONICS

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To further optimize resource allocation and revitalize existing assets, on 21 May 2024, the Board of the Company and the board of directors of AVIC Airborne approved the entering into of the Asset Transaction Contract by Qianshan Avionics with Aeronautic Computing Institute, pursuant to which Qianshan Avionics will sell, and Aeronautics Computing Institute will acquire the Target Assets at the Consideration of RMB659,407,500.

LISTINGS RULES IMPLICATIONS

As at the date of this announcement, Qianshan Avionics is wholly owned by AVIC Airborne, which is a non-wholly owned subsidiary of the Company. AVIC is the controlling Shareholder of the Company, and controls Aeronautics Computing Institute. Accordingly, Aeronautics Computing Institute is a connected person of the Company and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (other than the profits ratio) in respect of the Disposal is more than 0.1% but less than 5%, the Disposal is subject to the reporting and announcement requirements but is exempt from the circular and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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The major terms of the Asset Transaction Contract are as follows:

1. Parties

(1) Transferor: Qianshan Avionics
(2) Transferee: Aeronautics Computing Institute

2. Assets to be disposed of

The Target Assets are buildings (including the land use rights), structures and certain equipment located in the premises of No.G16, South Third Ring Road, Gaoxin District, Xi'an City.

3. Consideration

The Consideration of RMB659,407,500 is determined after arm's length negotiations between the parties with reference to the appraised value of the Target Assets of RMB659,407,500 as at 30 June 2023 (the **"Valuation Benchmark Date"**) as set out in the valuation report prepared by DeveChina International Appraisals Co., Ltd.,* (中發國際資產評估有限公司) (the "**Valuer**"), a professional independent valuer in the PRC.

Qianshan Avionics continues its normal operation after the Valuation Benchmark Date, and there have been no events subsequent to the Valuation Benchmark Date and up to the date of this announcement which would materially affect the value of the Target Assets. Therefore, the Board is of the view that the valuation remains a fair and reasonable representation of the value of the Target Assets as at the date of this announcement, and the Disposal based on the valuation is fair and reasonable and in compliance with the relevant requirements.

4. Payment of the Consideration

The Consideration shall be paid by Aeronautics Computing Institute to Qianshan Avionics in three instalments:

(a) A deposit of RMB1,000,000 shall be paid within T0 plus three months;
(b) The parties shall jointly submit an application to the relevant property rights transaction center for the change of ownership no later than T0 plus 33 months, and RMB65,940,750 (i.e. 10% of the Consideration) shall be paid within 3 months after submitting the application; and
(c) The remaining RMB592,466,750 shall be paid within three months after the date when the change of ownership application is reviewed and approved.

5. Completion

The change of ownership shall be completed no later than T0 plus 42 months, namely when Aeronautics Computing Institute obtains the ownership certificates of the Target Assets.

6. Other

If the construction project of Changning Park (Phase II) of Qianshan Avionics fails to obtain approval from the higher authority, both parties may terminate the Asset Transaction Contract after mutual agreement and obtaining approval from the higher authority.

FINANCIAL EFFECT OF THE DISPOSAL

The Disposal is expected to result in a gain of approximately RMB65,947,400, representing the difference between (i) the Consideration, and (ii) the unaudited book value of the Target Assets as of 30 June 2023 of RMB463,460,100 and the taxes and fees of approximately RMB130,000,000 to be incurred by the Disposal. Such gain will be recorded to the Group's profit and loss account upon Completion of the Disposal. Shareholders should note that the financial effect shown above is for reference only and the actual amount of gain or loss resulting from the Disposal will eventually be recognised in the consolidated financial statements of the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Disposal will facilitate the Group's further optimization of resource allocation and revitalization of existing assets. The Board expects to apply the net proceeds from the Disposal for the construction of the Changning Park (Phase II) project of Qianshan Avionics. This can consolidate and enhance core research and development capabilities of Qianshan Avionics, while reducing operational costs and improving overall efficiency.

Having considered the above, the Directors (including the independent non-executive Directors) are of the view that although the Disposal is not conducted in the ordinary and usual course of business of the Group, the Disposal is on normal commercial terms or better, and is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

GENERAL INFORMATION

Information of AVIC

AVIC is controlled by the State Council of the PRC, and is mainly engaged in the development and manufacture of aviation products and non-aviation products. AVIC is the controlling Shareholder of the Company, holding approximately 60.25% equity interests in the Company directly and indirectly as at the date of this announcement.

Information of the Company

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

Information of the Qianshan Avionics

Qianshan Avionics is a limited liability company established in the PRC. As at the date of this announcement, Qianshan Avionics is wholly-owned by AVIC Airborne, which is a non-wholly owned subsidiary of the Company. Qianshan Avionics is mainly engaged in special equipment manufacturing (excluding licensed professional equipment manufacturing), electronic special equipment manufacturing, radar and ancillary equipment manufacturing, computer software, hardware and peripheral equipment manufacturing, instrument and meter manufacturing, etc.

Information of Aeronautics Computing Institute

Aeronautics Computing Institute is a public institution established in the PRC. As at the date of this announcement, Aeronautics Computing Institute is wholly-owned by the Ministry of Finance of the PRC, and is controlled by AVIC through an entrusted management arrangement. Aeronautics Computing Institute is mainly engaged in the development of software and hardware for airborne and ballistic computers, research on computer application technology, software testing research, development of multilayer printing plates and reinforced chassis, related postgraduate training and consulting services, and import and export related business.

Information of the Target Assets

The Target Assets are buildings (including the land use rights), structures and certain equipment located in the premises of No. G16, South Third Ring Road, Gaoxin District, Xi'an City. The unaudited book value of the Target Assets as of 30 June 2023 was RMB463,460,100, and the audited book value of the Target Assets as of 31 December 2023 was RMB448,252,100. Detailed information about the Target Assets is as follows:

Item	**Details**	**Book Value as of 30 June 2023**	**Appraised Value as of 30 June 2023**	**Appreciation Rate**
Four Buildings	Total area of 67,124.91 square meters, used for industrial purposes	RMB432,596,900	RMB647,882,800	49.77%
Land Use Rights	Total area of 27,323.60 square meters, used as industrial land	RMB11,576,900	RMB3,480,800	-69.93%
Structures and other ancillary facilities	Mainly comprises guardhouse, wastewater treatment station, walls, roads, car sheds, activity rooms, greenery, outdoor electrical drainage, etc.	RMB16,677,000	RMB3,825,800	-77.06%
Equipment Assets	Mainly comprises electronic equipment	RMB2,609,300	RMB4,218,100	61.66%
Total		**RMB 463,460,100**	**RMB 659,407,500**	**42.28%**

The first-floor west section and floors 2-5 of Building 1 are leased to Aeronautics Computing Institute, with a total leased area of 8,970 square meters. The annual rent for 2022 and 2023 (before taxes) was RMB6,243,100 and the annual rent for 2022 and 2023 (after taxes) was RMB5,700,100. Other assets of the Target Assets do not have identifiable income.

Please refer to Appendix to this announcement for further details in relation to the valuation of the Target Assets.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Qianshan Avionics is wholly owned by AVIC Airborne, which is a non-wholly owned subsidiary of the Company. AVIC is the controlling Shareholder of the Company, and controls Aeronautics Computing Institute. Accordingly, Aeronautics Computing Institute is a connected person of the Company and the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (other than the profits ratio) in respect of the Disposal is more than 0.1% but less than 5%, the Disposal is subject to the reporting and announcement requirements but is exempt from the circular and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Disposal has been approved by the Board. Mr. Liu Bingjun, a non-executive Director, who is a vice director of the Capital Operation Department of AVIC, had abstained from voting on the relevant Board resolution approving the Disposal in accordance with the Company Law of the PRC and the Listing Rules. Save as disclosed above, none of other Directors has or is deemed to have a material interest in such transaction.

DEFINITIONS

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

"Aeronautics Computing Institute"	AVIC Xi'an Aeronautics Computing Technique Research Institute* (中國航空工業集團公司西安航空計算技術研究所)
"Asset Transaction Contract"	the asset transaction contract to be entered into between Qianshan Avionics and Aeronautics Computing Institute, pursuant to which Qianshan Avionics will sell, and Aeronautics Computing Institute will acquire the Target Assets
"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
"AVIC Airborne	China Avionics Systems Co., Ltd.* (中航機載系統股份有限公司), a joint stock limited company whose A shares are listed on the Shanghai Stock Exchange and a non-wholly owned subsidiary of the Company as at the date of the announcement
"Board"	the board of directors of the Company
"Company"	AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company incorporated in the PRC, whose H shares are listed on the Hong Kong Stock Exchange

"Completion"	the completion of the Disposal
"connected person(s)"	has the same meaning as defined in the Listing Rules
"Consideration"	the total consideration of RMB659,407,500 payable by Aeronautics Computing Institute to Qianshan Avionics pursuant to the Asset Transaction Contract
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the Target Assets pursuant to the Asset Transaction Contract
"Group"	the Company and its subsidiaries
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
"PRC"	the People's Republic of China
"Qianshan Avionics"	AVIC Shaanxi Qianshan Avionics Co., Ltd.* (陝西千山航空電子有限責任公司), a limited liability company established in the PRC and a wholly-owned subsidiary of AVIC Airborne as at the date of this announcement
"RMB"	Renminbi, the lawful currency of the PRC
"Shareholders"	the shareholders of the Company
"subsidiary(ies)"	has the same meaning as ascribed to it under the Listing Rules
"Target Assets"	buildings (including the land use rights), structures and certain equipment located in the premises of No.G16, South Third Ring Road, Gaoxin District, Xi'an City
"T0"	the date when the construction project of Changning Park (Phase II) obtains relevant approvals from higher authority
"%"	percent

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

Beijing, 21 May 2024

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*

APPENDIX - FURTHER DETAILS ON THE VALUATION OF THE TARGET ASSETS

Valuation Assumptions

Basic Assumptions

(a) Open market assumption, assuming assets traded or intended to be traded in the market are transacted by equals who have sufficient opportunity and time to make rational judgments about the function, use, and transaction price of the assets.

(b) Transaction assumption, assuming all assets under valuation are in the process of being transacted, with the Valuer valuing them on a simulated market such as the trading conditions of the assets to be appraised.

(c) Continuous use assumption, assuming that the appraisal objects continue to be used in the current manner.

(d) For this valuation, the rental payment method under the income approach is one month's deposit followed by three months' payment, with the cash flow of the income approach being an average inflow.

(e) The equipment involved in this valuation is to be continued in use on site.

General Assumptions

(a) It is assumed that there are no significant changes in the political, economic, and social environment of the country and region where the unit under appraisal is located after the Valuation Benchmark Date.

(b) It is assumed that there are no significant changes in national macroeconomic policies, industry policies, and regional development policies after the Valuation Benchmark Date.

(c) It is assumed that there are no significant changes in the interest rates, exchange rates, tax bases, tax rates, and policy-based charges related to the unit under appraisal after the Valuation Benchmark Date.

(d) It is assumed that the unit under appraisal fully complies with all relevant laws and regulations.

(e) It is assumed that no force majeure events cause significant adverse effects on the unit under appraisal after the Valuation Benchmark Date.

Valuation Approaches

Buildings

Buildings 1 and 2

There are cases of office real estate transactions on similar industrial land in the same region, therefore, the market approach is preferred for this appraisal. The properties under appraisal are located in a region where office buildings are actively rented out and there are many cases of market leasing transactions, which are in line with the conditions for the application of the income approach, therefore, the income approach can also be adopted for the appraisal. Based on the analysis of the applicability of the appraisal methods, the market approach and the income approach were adopted for this appraisal.

Due to the low lease-to-sale ratio, the valuation results from the income approach deviate from the market transaction value of the appraisal object. In addition, the income approach is a forecast of income for future years, which is subject to greater uncertainty due to the influence of economic policies and market conditions, and the valuation results from the market approach are more reflective of the market value of the appraisal object. The appraisal conclusion was based on the appraisal value under the market approach after a comprehensive analysis and comparison.

The Valuer has selected three recent examples of office premises of the same grade in the same supply and demand circle in the neighboring areas as comparable examples. The formula for calculating the market approach is as follows:

market price of the property to be assessed = transaction price of the comparable examples × (normal trading condition index/comparable examples trading condition index) × (base day price index/ comparable examples trading day price index) × (subject area factor condition index/comparable examples area factor condition index) × (subject individual factor condition index/comparable examples individual factor condition index) × (subject equity factor condition index/comparable examples equity factor condition index)

In addition, Building 1 was partially rented out as at the Valuation Benchmark Date, and the impact of the rental matter on the valuation has not been considered in this valuation.

Headquarter restaurant, Building 5 Crafts Research Center

Due to the scarcity of transaction and lease cases with similar usage purposes in the surrounding area, the market approach and income approach are not suitable. The replacement cost approach was adopted for this valuation.

The formula for calculating the replacement cost approach is as follows:

(1) replacement full price = comprehensive construction and installation costs + preliminary and other costs + capital costs + development profit
(2) comprehensive newness rate = theoretical newness rate × 40% + on-site survey newness rate × 60%
(3) appraisal value = replacement full price × comprehensive newness rate

For large-scale, high-value and important buildings, the cost of civil engineering works, installation works and renovation works are calculated separately according to the fixed rate standards and relevant charging documents in force in the location where the buildings are located, which are summed up to calculate the comprehensive construction and installation costs.

For buildings (structures) of small value and simple structure, the unilateral cost method is adopted to determine their comprehensive construction and installation costs.

Preliminary and other costs are determined in accordance with industry standards and local regulations on administrative and utility fees.

Capital costs are determined based on the loan interest rate on the Valuation Benchmark Date and the normal construction period of such type of building.

Development profit is measured with reference to the average operating profit margin data of the real estate industry as set out in the “Corporate Performance Evaluation Standards” (2023).

Parking Spaces

There are few transaction cases for parking spaces with similar land use in the vicinity. While similar rental cases exist in nearby industrial parks, the income approach was used for the valuation.

The formula for income approach is as follows:

$$V = \sum_{i=1}^{t} \frac{A_i}{(1 + r)^{i-1}}$$

V: represents the value of the property
A_i: denotes the annual net income in year i
r: represents the discount rate
t: denotes the remaining years of income

As at the date of the valuation report, the appraisal object was self-used, and the valuation was conducted at the market rental level (rental of parking spaces in the neighbouring industrial parks). The income forecast period is from July 2023 to May 2055. The Valuer has determined the discount rate at 6.5% based on a one-year deposit interest rate of 1.5% and a risk-reward rate of 5.0%.

Land Use Rights

The cost approximation approach is generally applicable to the valuation of the price of newly developed land or land in areas or types where the land market is underdeveloped and there are few transactions, and is mainly based on the sum of the objective costs of acquiring and developing the land. Xi'an City has a complete system of benchmark land price, and the assessed land is within the scope of the benchmark land price area, therefore the benchmark land price approach can better reflect its market value. The appraisal value using the benchmark land price approach was selected as the final result of the land to be appraised.

The formula for benchmark land price approach is as follows:

$$V=(Vb\times Ky\times Kr\times Kq\times(1+Ks)\times Kg\times(1+\sum Kt)\times(1+\sum Kw)+Vc)\times Kz$$

V is the land value of the land to be appraised; Vb is the benchmark land value of the land to be appraised (i.e., the benchmark land value announced by Xi'an City); Ky is the correction factor for land use; Kr is the correction factor for the volume rate; Kq is the correction factor for the period; Ks is the correction factor for regional factors; Kg is the correction factor for individual factors; Kt is the correction factor for special factors; Kw is the correction factor for the development conditions outside of the land; Vc is the correction factor for the degree of development inside of the land; and Kz is the correction factor for the life span of the land use.

Structures

There are few transaction cases and leasing cases of similar uses in the vicinity, therefore the market approach and income approach are not suitable. The replacement cost approach was adopted for this valuation.

For details of how the replacement cost approach is assessed, please refer to the section headed "Headquarter restaurant, Building 5 Crafts Research Center*"* above.

Equipment Assets

According to the assessment objective, the replacement cost approach was adopted for the valuation of equipment assets.

The formula for calculating the replacement cost approach for equipment assets is as follows:

(1) replacement full price: For small equipment and electronic equipment that do not require installation (or installation is the responsibility of the seller) and have lower transportation costs, the replacement full price is determined by reference to the current market purchase price. For large machinery and equipment that require installation and transportation, the replacement full price consists of the equipment purchase cost, transportation cost and installation work cost.
(2) consolidated newness rate = (economic life span - years of use)/economic life span × 100%
(3) appraisal value of equipment = replacement full price of the equipment × consolidated newness rate

Reasons for the Change in Appraised Value Compared to Book Value

1. Fixed assets - Buildings:
   The properties under appraisal are self-constructed properties and the book values reflect only the self-construction costs. The valuation of some of the buildings was the market value of the buildings and corresponding land use rights, thus the appreciation in value was relatively large.

2. Fixed assets - Structures and other ancillary facilities:
   Part of the value is included in the valuation of the buildings.

3. Fixed assets - Equipment Assets:
   Some of the electronic equipment has been expensed as off-balance sheet asset. Therefore, the main reasons for the appreciation of the valuation are that the depreciable life is shorter than the economic useful life, and that part of the electronic equipment is off-balance sheet assets with no carrying value.

4. Intangible Assets - Land Use Rights:
   As part of the land value was included in the valuation of certain buildings, no further valuation was made for such land in the land use rights valuation.