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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)

CONNECTED TRANSACTIONS

SUBSCRIPTION FOR A SHARES OF AVIC HEAVY MACHINERY TO BE ISSUED THROUGH NON-PUBLIC OFFERING

On 15 January 2021, the Company and AVIC Heavy Machinery entered into the Share Subscription Agreement, pursuant to which the Company agrees to subscribe for AVIC HM A shares to be issued by AVIC Heavy Machinery through non-public offering at the total subscription amount of RMB200 million by way of cash. Upon completion of the Subscription, AVIC Heavy Machinery will not become a subsidiary of the Company.

As at the date of this announcement, AVIC is the controlling Shareholder of the Company, and AVIC Heavy Machinery is a subsidiary of AVIC. Therefore, AVIC Heavy Machinery is a connected person of the Company under the Hong Kong Listing Rules. As such, the transaction contemplated under the Share Subscription Agreement constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules.

As the highest percentage ratio in respect of the transaction contemplated under the Share Subscription Agreement exceeds 0.1% but is less than 5%, the transaction is subject to reporting and announcement requirements but is exempt from independent Shareholder's approval requirement under Chapter 14A of the Hong Kong Listing Rules.

A. INTRODUCTION

On 15 January 2021, the Company and AVIC Heavy Machinery entered into the Share Subscription Agreement, pursuant to which the Company agrees to subscribe for AVIC HM A Shares to be issued by AVIC Heavy Machinery through non-public offering with the total subscription amount of RMB200 million by way of cash. Upon completion of the Subscription, AVIC Heavy Machinery will not become a subsidiary of the Company.

B. SHARE SUBSCRIPTION AGREEMENT

The principal terms of the Share Subscription Agreement are summarized as follows:

1. Date

15 January 2021

2. Parties

- (1) AVIC Heavy Machinery (as the issuer); and
- (2) the Company (as the subscriber)

3. Subscription Price and Subscription Amount

(1) Subscription price

The Issue Price shall be no less than 80% of the average trading price of AVIC HM A Shares in the 20 trading days prior to the pricing benchmark date (i.e., the first day of the issuance period of the Issuance). After AVIC Heavy Machinery obtains the issuance approval documents issued by the CSRC, the final Issue Price will be determined by the board of directors as authorized by the shareholders' meeting of AVIC Heavy Machinery or the authorized representative(s) of the board of directors with the sponsor (the lead underwriter) in accordance with the relevant regulations pursuant to the level and intended price of subscription indicated by the potential investors in respect of the AVIC HM Issuance.

The Company will not participate in the bidding process of the Issuance but has undertaken to accept the bidding results and subscribe for the Subscription Shares at the same price as other investors.

If the issuance price cannot be determined through the bidding process, the Company will take the minimum issue price as the subscription price in respect of the Subscription.

(2) Subscription amount

The Company agrees to subscribe for Subscription Shares at the total subscription amount of RMB200 million by way of cash.

(3) Number of Subscription Shares

The number of Subscription Shares is calculated by the total subscription amount payable by the Company divided by the final Issue Price and is to be rounded down to the nearest whole number. The total number of Subscription Shares shall not exceed 20% of the total number of issued shares of AVIC Heavy Machinery prior to the Issuance, i.e., 187,936,168 shares (inclusive).

(4) Adjustment to the Issue Price and the subscription amount

In the cases of occurrence of ex-right or ex-dividend events for AVIC Heavy Machinery (such as dividends distribution, bonus issue, conversion of capital reserve into share capital, issuance and allotment of new shares) during the period from the pricing benchmark date to the issue date, the minimum Issue Price of Subscription Shares will be adjusted accordingly pursuant to the Share Subscription Agreement. In the cases of occurrence of the above-mentioned ex-right or ex-dividend events for AVIC Heavy Machinery during the period from the date of the board meeting considering the Issuance to the issue date, the maximum number of Subscription Shares will also be adjusted accordingly pursuant to the Share Subscription Agreement.

4. Payment and Arrangement for the Undistributed Profits

The Company agrees to pay the subscription amount in cash. After all the conditions precedent of the Share Subscription Agreement are fulfilled and receiving the payment notice for the Subscription sent by AVIC Heavy Machinery, the Company shall transfer the total subscription amount to the designated account opened by the sponsor (the lead underwriter) for that purpose within twenty (20) business days from the date of receipt of the payment notice in accordance with the requirements (including the payment time and other matters) as specified in the payment notice. The total subscription amount will then be transferred into the special purpose deposit account of AVIC Heavy Machinery after the capital verification is completed and relevant expenses are deducted.

The undistributed profits of AVIC Heavy Machinery accumulated prior to the Issuance will be shared by all the new shareholders and the existing shareholders upon completion of the Issuance.

5. Registration and Lock-up Period

(1) Registration

Upon receipt of the subscription price paid by the Company and other investors for the AVIC HM Issuance, AVIC Heavy Machinery shall engage an accounting firm with securities-related business qualifications to verify the Company's payment, and to promptly process the corresponding procedures for the change of industrial and commercial registration and the change of share registration with China Securities Depository and Clearing Corporation Limited.

From the date of registration of the Subscription Shares, the Company shall legally own the Subscription Shares and be entitled to the shareholders' right attaching to the Subscription Shares.

(2) Lock-up Period

Pursuant to the Share Subscription Agreement, the Subscription Shares shall not be transferred within 18 months from the completion date of the Issuance. In the event that the shareholding of AVIC in AVIC Heavy Machinery is increased as a result of the Issuance, the lock-up period will be extended to 36 months from the completion date of the Issuance pursuant to the Administrative Measures for the Takeover of Listed Companies (上市公司收購管理辦法) of the PRC. If the CSRC or the Shanghai Stock Exchange has imposed any other requirements in relation to the lock-up, such other requirements shall prevail.

The Company shall give a lock-up undertaking pursuant to the relevant laws and regulations, the relevant requirements of CSRC and Shanghai Stock Exchange and the request of AVIC Heavy Machinery and process the lock-up.

6. Conditions precedent

Unless AVIC Heavy Machinery and the Company otherwise agree to waive expressly and the applicable laws and regulations permit, the Share Subscription Agreement will come into effect after all the following conditions precedent are fulfilled:

- (1) the Share Subscription Agreement having been signed and sealed by the legal representatives or the authorized representatives of AVIC Heavy Machinery and the Company;
- (2) the matters related to the Issuance having been approved by the board of directors and the shareholders' meeting of AVIC Heavy Machinery;
- (3) the matters related to the Issuance having been approved by the Company through its internal decision procedure;

- (4) the military-related matters involved in the Issuance having been approved by the competent authority of national defense technology and industry;
- (5) the matters related to the Issuance having been approved by the state-owned assets supervision and administration authority (or its authorized institutions) of the PRC; and
- (6) the matters related to the Issuance having been approved by the CSRC.

Unless any of the above-mentioned conditions precedent are waived, the effective date of the Share Subscription Agreement shall be the date on which all of the above conditions precedent are fulfilled.

C. REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Subscription is conducive to expanding the investment layout of the Company in the aviation industry chain and is in line with the development strategies and in the whole interests of the Company.

The Share Subscription Agreement is entered into by the parties on normal commercial terms. The Directors (including the independent non-executive Directors) are of the view that although the Share Subscription Agreement and the transaction contemplated thereunder are not in the ordinary and usual course of business of the Company, the terms of the Share Subscription Agreement are fair and reasonable, and the Subscription is in the interests of the Company and its Shareholders as a whole.

D. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC is the controlling Shareholder of the Company, and AVIC Heavy Machinery is a subsidiary of AVIC. Therefore, AVIC Heavy Machinery is a connected person of the Company under the Hong Kong Listing Rules. As such, the transaction contemplated under the Share Subscription Agreement constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules.

As the highest percentage ratio in respect of the transaction contemplated under the Share Subscription Agreement exceeds 0.1% but is less than 5%, the transaction is subject to reporting and announcement requirements but is exempt from independent Shareholder's approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Mr. Yan Lingxi, the Director, who is a department chief of AVIC, respectively, had abstained from voting on the relevant Board resolution approving the Share Subscription Agreement in accordance with the Company Law of the PRC and the Hong Kong Listing Rules. Save for disclosed above, none of the other Directors has or is deemed to have a material interest in the transaction contemplated under the Share Subscription Agreement.

E. GENERAL INFORMATION

Information on the Company

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

Information on 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, 61.60% equity interest in the Company as at the date of this announcement.

Information on AVIC Heavy Machinery

AVIC Heavy Machinery is a joint stock limited liability company incorporated in the PRC, the domestic shares of which are listed on the Shanghai Stock Exchange (Stock code: 600765.SH). AVIC Heavy Machinery is mainly engaged in the research and development, production and manufacture of forging parts and hydraulic products in the aviation manufacturing industry. As at the date of this announcement, AVIC Heavy Machinery is a subsidiary of AVIC and its ultimate beneficial owner is the State Council of the PRC.

According to the China Accounting Standards for Business Enterprises, the net profits (before and after taxation and extraordinary items) of AVIC Heavy Machinery for the financial year ended 31 December 2018 and 31 December 2019 are set out below:

	For the year ended 31 December 2018 (RMB)	For the year ended 31 December 2019 (RMB)
<i>Net profit before taxation and extraordinary items</i>	294,275,609.94	407,968,352.17
<i>Net profit after taxation and extraordinary items</i>	13,150,276.83	256,785,998.19

The book value of the total assets of AVIC Heavy Machinery as at 30 June 2020 prepared in accordance with the Chinese Accounting Standards for Business Enterprises was RMB15,375,886,902.19.

F. DEFINITIONS

“AVIC”	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), the controlling Shareholder of the Company, holding 61.60% equity interest in the Company directly and indirectly as at the date of this announcement
“AVIC Heavy Machinery”	AVIC Heavy Machinery Company Limited* (中航重機股份有限公司), a joint stock limited liability company incorporated in the PRC, whose domestic shares are listed on the Shanghai Stock Exchange, and a subsidiary of AVIC as at the date of this announcement
“AVIC HM A Shares”	the domestic shares of AVIC Heavy Machinery with nominal value of RMB1.00 each
“AVIC HM Issuance”	the proposed issuance of a maximum of 187,936,168 AVIC HM A Shares to up to 35 subscribers by AVIC Heavy Machinery through non-public offering
“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
“connected person(s)”	has the same meaning as defined in the Hong Kong Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“H Shares”	the overseas-foreign listed shares of the Company with nominal value of RMB1.00 each
“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
“Issuance”	the proposed issuance of the Subscription Shares by AVIC Heavy Machinery through non-public offering, which is a part of the AVIC HM Issuance

“Issue Price”	the issue price per Subscription Share
“PRC”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Share Subscription Agreement”	the share subscription agreement entered into between the Company and AVIC Heavy Machinery on 15 January 2021 in respect of the Subscription
“Subscription”	the Company’s subscription for Subscription Shares under the Share Subscription Agreement at the total subscription amount of RMB200 million
“Subscription Shares”	a maximum of 187,936,168 AVIC HM A Shares (inclusive) to be issued by AVIC Heavy Machinery to the Company under the Share Subscription Agreement, representing 20% of the total number of issued shares of AVIC Heavy Machinery prior to the Issuance
“subsidiary(ies)”	has the same meaning as defined in the Hong Kong Listing Rules
“%”	per cent.

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

Beijing, 15 January 2021

As at the date of this announcement, the Board comprises executive Directors Mr. Wang Xuejun and Mr. Zhao Hongwei, non-executive Directors Mr. Yan Lingxi, Mr. Lian Dawei, and Mr. Xu Gang as well as independent non-executive Directors Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin.

** For identification purposes only*