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AVIC International Holding (HK) Limited **中國航空工業國際控股(香港)有限公司**

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)

CONTINUING CONNECTED TRANSACTIONS INVOLVING

PRE-HANDOVER REAL ESTATE MANAGEMENT SERVICES AND TENDER AGENCY SERVICES

PRE-HANDOVER REAL ESTATE MANAGEMENT SERVICES

AVIC and AVIC Real Estate Management entered into the Framework Agreement (Pre-Handover Real Estate Management Services) dated 31 May 2016 to provide for the engagement of AVIC Real Estate Management to provide Pre-Handover Real Estate Management Services for the relevant properties in real estate development projects of AVIC Group. AVIC Real Estate Management has professional qualifications in property management in the PRC. It is also an associate of a controlling shareholder of AVIC, namely, AVIC International, which is indirectly holding about 34.34% shareholdings in AVIC.

The Framework Agreement (Pre-Handover Real Estate Management Services) establishes the terms, including the terms as to the scope and types of services offered and the mechanism applicable to fix the management fees to AVIC Real Estate Management by reference to the services contracted for. The terms are framed along the applicable requirements of Chapter 14A of the Listing Rules so that the Pre-Handover Real Estate Management Services contracted throughout such term is conducted in compliance with the Listing Rules.

The Framework Agreement (Pre-Handover Real Estate Management Services) covers the management contracts subsisting in the present financial year ending 31 December 2016 and the next two succeeding financial years of AVIC ending 31 December 2017 and 2018. The annual cap amounts on the management fees to AVIC Real Estate Management for the three years ending 31 December 2018 are HK\$18 million, HK\$24 million and HK\$30 million respectively.

TENDER AGENCY SERVICES

AVIC and AVIC TED also entered into the Framework Agreement (Tender Agency Services) dated 31 May 2016 for the engagement of AVIC TED to provide Tender Agency Services for the construction projects of AVIC Group. AVIC TED is also an associate of a controlling shareholder of AVIC, namely, AVIC International.

The Framework Agreement (Tender Agency Services) establishes the terms, including the terms as to the scope and particulars of services and the mechanism to fix the service fees to AVIC TED in line with the statutory pricing guidelines applicable to the services contracted for. The terms are framed along the applicable requirements of Chapter 14A of the Listing Rules so that the Tender Agency Services contracted throughout such term is conducted in compliance with the Listing Rules.

The Framework Agreement (Tender Agency Services) covers the engagements for Tender Agency Services for the current full financial year ending 31 December 2016 and the next two succeeding financial years of AVIC ending 31 December 2017 and 2018. The annual cap amounts for the Tender Agency Services for the three financial years ending 31 December 2018 are HK\$3.5 million, HK\$5.8 million and HK\$9.5 million respectively.

AVIC Group engages for the Pre-Handover Real Estate Management Services and the Tender Agency Services on a recurring or continuing basis in its ordinary and usual course of business. AVIC Group's engagements for the Pre-Handover Real Estate Management Services and the Tender Agency Services constitute continuing connected transactions for AVIC. They are both subject to reporting, announcement and annual review requirements but exempt from the circular and the independent shareholders' approval requirement in Chapter 14A of the Listing Rules.

1. THE FRAMEWORK AGREEMENT (PRE-HANDOVER REAL ESTATE MANAGEMENT SERVICES)

AVIC and AVIC Real Estate Management entered into the Framework Agreement (Pre-Handover Real Estate Management Services), the principal terms of which are set out below:

Date

31 May 2016

Parties

- (1) AVIC; and
- (2) AVIC Real Estate Management as services provider.

AVIC Real Estate Management is a company incorporated in the PRC and engages in property management services as part of its principal business. It possesses qualifications in property management in the PRC and has been awarded first class property company under Administrative Measures on Qualification of Property Management Companies (《物業服務企業資質管理辦法》). AVIC Real Estate Management is an associate of a controlling shareholder of AVIC, namely, AVIC International which is indirectly holding about 34.34% shareholdings in AVIC.

Term

The term of the Framework Agreement (Pre-Handover Real Estate Management Services) is three years, covering the current management contracts during the existing financial year ending 31 December 2016 and the next two succeeding financial years of AVIC ending 31 December 2017 and 2018.

Scope of services

The Framework Agreement (Pre-Handover Real Estate Management Services) establishes the terms, including the terms as to the scope and types of services offered and the mechanism applicable to fix the management fees to AVIC Real Estate Management by reference to the services contracted for. The terms are framed along the applicable requirements of Chapter 14A of the Listing Rules so that the Pre-Handover Real Estate Management Services for specific real estate development projects as contracted by the parties throughout such 3-year term is conducted in compliance with the Listing Rules. The Framework Agreement (Pre-Handover Real Estate Management Services) does not, by itself, place any binding obligations on any parties to deliver or pay for any Pre-Handover Real Estate Management Services.

As required by the current laws of the PRC, the relevant members of AVIC Group as property developers are required to procure property management services to manage those properties in the development before the owners or general meetings of the owners' associations select and engage enterprises providing property management services. AVIC Group procures the Pre-Handover Real Estate Management Services for its current and real estate development projects developed from time to time during its term. The scope of the Pre-Handover Real Estate Management Services on each engagement will be agreed by the parties with reference to particular real estate development. The services generally cover the properties in the development projects before they are sold or handed over to the owners. In general, such services include:

- (a) General pre-handover real estate management services such as maintaining order and cleanliness of the estate and upkeep of common areas and communal facilities of the buildings in the estate; and
- (b) Property management services related to sales such as receptionist service to potential customers and maintenance of sales office and pre-sale display units.

Management fees and Caps

As a general principle, the Pre-Handover Real Estate Management Services should be on "normal commercial terms or better" within the meaning of Chapter 14A of the Listing Rules. For each development project, the management fee to AVIC Real Estate Management will comprise:

- (i) *Management costs* – The management costs represent costs in property up-keeping and management, comprising in a large part labour costs, materials, accessories and equipment costs, storage and utilities costs as incurred in the course of management.

For each year, AVIC Real Estate Management will receive annual budget proposed by the relevant developers in AVIC Group. The proposed budget should set out the scope of the estate under the service, staffing deployment estimates, corresponding salary levels, materials costs based on quotations of suppliers and proposed cap on management fee per square meter of the relevant development project. The budget cap will be assessed and evaluated with reference to location of the property development projects concerned, rates of management fees charged in comparable properties in the vicinity and the rates charged by other independent third party management companies for comparable property management services. After the budget is approved, AVIC Real Estate Management will carry out the property management services according to the budget.

For additional services rendered at the ad hoc requests by the developers in AVIC Group to facilitate and support sales and promotion campaign activities organized for the development projects, the developers in AVIC Group will reimburse the additional costs expended by AVIC Estate Management.

- (ii) *Management commission income* – The management commission income is ten per cent. (10%) of the total management costs incurred for each development project. In the experience of the management of AVIC Group, the percentages falling in the range from 10% to 15% are common in the industry.

For each management agreement contracted, the percentage will be agreed and fixed on an arm's length basis with reference to the prevailing PRC law and local governmental standards on property management and property service charges, the pricing guidelines for property management fees, and the prevailing market rates charged by independent third parties offering comparable management services for properties of comparable grade in the vicinity of the development projects.

AVIC Group will seek quotation from AVIC Real Estate Management prior to any engagement for its services. AVIC Group will assess the quotations by reference to the quotations from other management companies offering similar pre-handover property management services for similar comparable development projects concerned (in terms of scale and in vicinity geographical locations) in assessing and comparing the price and terms of services (including the standard and qualities of services) offered by AVIC Real Estate Management, if engaged, are no less favourable to AVIC Group than those offered by independent third party services providers.

The maximum annual consideration payable by AVIC Group to AVIC Real Estate Management for the Pre-Handover Real Estate Management Services are set out below (the “Caps”):

For the financial year ending 31 December 2016	For the year ending 31 December 2017	For the year ending 31 December 2018
HK\$18 million*	HK\$24 million	HK\$30 million

* The total management fees incurred by AVIC Group for the Pre-Handover Real Estate Management Services engaged from 1 January 2016 up to 30 April 2016 was about HK\$2.9 million.

The Caps for the Pre-Handover Real Estate Management Services are determined with reference to, among others, the following factors:

- (1) the historical amounts of management fees incurred or paid by AVIC Group in respect of the management services as set out above; and
- (2) the estimated demand of AVIC Group for Pre-Handover Real Estate Management Services for the remainder of the current financial year and the next following financial years ending 31 December 2018, arrived at after considering the progress of the existing development projects and the potential real estate development plans of the AVIC Group during such time periods.

2. THE FRAMEWORK AGREEMENT (TENDER AGENCY SERVICES)

AVIC and AVIC TED entered into the Framework Agreement (Tender Agency Services), the principal terms of which are set out below:

Date

31 May 2016

Parties

- (1) AVIC; and
- (2) AVIC TED as services provider

AVIC TED is a non-wholly owned subsidiary, and hence an associate, of a controlling shareholder of AVIC, namely, AVIC International. AVIC TED engages in tender agency services as part of its principal business activities.

Term

The term of the Framework Agreement (Tender Agency Services) is three years, covering engagements for Tender Agency Services during the current financial year and the next two financial years of AVIC ending 31 December 2017 and 2018.

Scope of services

The Framework Agreement (Tender Agency Services) establishes the terms, including the terms as to the scope and particulars of services and the mechanism to fix the service fees to AVIC TED in line with the statutory pricing guidelines applicable to the services contracted for. The terms are framed along the applicable requirements of Chapter 14A of the Listing Rules so that the Tender Agency Services contracted between the parties throughout such term will be conducted in compliance with the Listing Rules. The Framework Agreement (Tender Agency Services) does not, by itself, place any binding obligations on any parties to deliver or pay for the Tender Agency Services.

The Tender Agency Services are to assist AVIC Group in management of tenders for its property development projects, the scope of which includes:

- (a) Procurement of entities for the construction work (including the main contractor of projects, sub-contractors for specialists works and suppliers of materials and equipment) and provisions of service (including inspection, design and supervision services) whether by way of open tender or tender by invitation; and
- (b) Coordination with AVIC to implement the tender process which includes planning, organizing, initiating, execution, selection of successful tenders and completing the tender process, preparation of materials and equipment procurement workflow, budgeting and costs control, supervision, monitoring and compliance measures and procedures and documentation throughout the tender process.

Tender Agency Fees and Caps

As a general principle, the Tender Agency Services should be on “normal commercial terms or better” within the meaning of such term in Chapter 14A of the Listing Rules. The fees for Tender Agency Services shall be calculated by applying the marginal rates to the relevant actual sum of the tender awarded or contracted on a progressive scale as prescribed by the Tender Agency Fee Measures as shown below, with such further discounts as the parties agree to in each engagement:–

Actual tender sum (RMB)	Rates for Tender Services	
	Service tenders (%)	Construction tenders (%)
Below 1 million	1.5	1.0
Between 1 million – 5 million	0.8	0.7
Between 5 million – 10 million	0.45	0.55
Between 10 million – 50 million	0.25	0.35
Between 50 million – 100 million	0.1	0.2
Between 100 million – 1 billion	0.05	0.05
Above 1 billion	0.01	0.01

AVIC Group shall enter into separate agreements with AVIC TED for each engagement for the Tender Agency Service rendered. The actual service fees chargeable for the Tender Agency Services under each engagement shall be determined within the above parameters and specified in each of these engagement agreements.

The maximum annual amount of service fees (the “Caps”) payable to AVIC TED for the Tender Agency Services is set out below:

For the current financial year ending 31 December 2016	For the year ending 31 December 2017	For the year ending 31 December 2018
HK\$3.5 million*	HK\$5.8 million	HK\$9.5 million

* AVIC Group has not yet incurred service fees for Tender Agency Services up to this date.

The Caps for the Tender Agency Services are determined with reference to, among others, the following factors:

- (1) the charge standards under the Tender Agency Fee Measures; and
- (2) the estimated amounts of contract sums of construction projects and related services that requires engagement for Tender Agency Services. In arriving at such estimations, AVIC Group has considered the estimated tender sums of the relevant construction contracts or sub-contracts and related services for the existing development projects (now in progress in Dalian and Chongqing as mentioned in 2015 Annual Report of the Company) and the potential future real estate development plans of the AVIC Group falling within the above periods.

The shareholders of AVIC should note that for both Pre-Handover Real Estate Management Services and Tender Agency Services, the relevant Caps represent the best estimate by AVIC Directors of the amount of the relevant transactions based on the information currently available. The Caps bear no direct relationship to, nor should be taken to have any direct bearing to, AVIC Group’s financial or potential financial performance.

3. REASONS AND BENEFITS OF TRANSACTIONS

AVIC is incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange. As at the date of this announcement, one of the principal activities of AVIC Group is property development and investment business.

(a) Framework Agreement (Pre-Handover Real Estate Management Services)

AVIC Real Estate Management possesses qualifications in property management in the PRC and has been awarded first class property company under Administrative Measures on Qualification of Property Management Companies (《物業服務企業資質管理辦法》).

AVIC Real Estate Management has been providing Pre-Handover Real Estate Management Services to those members of AVIC Group now engaged in real estate development business in the PRC. AVIC believes that the continued engagement of AVIC Real Estate Management will avoid introducing disruptions to the business partnership already built up with the professional teams in AVIC Real Estate Management. As AVIC continues to develop its real estate development business, AVIC Board also sees that it is in the mutual commercial interests of the parties to further build on such partnership with AVIC Real Estate Management by bringing its quality management services and hence adding value to new real estate developments built by AVIC Group now and in the future.

AVIC Board believes that it is in the best interests of AVIC to enter into the Framework Agreement (Pre-Handover Real Estate Management Services).

(b) Framework Agreement (Tender Agency Services)

AVIC TED engages in tender agency services as part of its principal business activities.

The Framework Agreement (Tender Agency Services) is made to satisfy the relevant regulations in the PRC. They include the Provisions on the Standards of the Scope of Tenders and Scale of Engineering of the Construction Projects* (《工程建設項目招標範圍和規模標準規定》) published by the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會), under which construction projects including the inspection, design, constructions, supervision and the procurement of the significant equipment and materials should go through tender process.

Since AVIC TED engages in tender agency services as part of its principal business activities and, as a member in the same AVIC International Group as AVIC, it is positioned to ascertain the various business requirements and qualifications required by AVIC Group and participate at early stage of tender process. Through time and costs savings by working in collaboration with AVIC TED, AVIC Group aims to achieve greater value in tender procurements for construction projects engaged.

The engagement for the Pre-Handover Real Estate Management Services and Tender Agency Services fall within the ordinary and usual course of business of AVIC Group. AVIC Directors (including the independent non-executive AVIC Directors) are of the view that the Pre-Handover Real Estate Management Services and Tender Agency Services are, and will continue to be, conducted in the ordinary and usual course of business of AVIC Group, the terms of the Framework Agreements are negotiated on arm's length basis and are on normal commercial terms or better, and the terms of the Framework Agreements (together with the Caps) are fair and reasonable and in the interests of AVIC and its shareholders as a whole.

4. FURTHER INFORMATION AND LISTING RULES IMPLICATIONS

AVIC International, through its wholly-owned subsidiaries, is holding about 34.34% of the issued shares of AVIC as at the date of this announcement and hence is a controlling shareholder of AVIC. As such, AVIC International or any of its associates is a connected person of AVIC under Chapter 14A of the Listing Rules.

As at the date of this announcement, AVIC International is holding or controlling indirectly, through its wholly and non-wholly owned subsidiaries including AVIC IHL, an aggregate of about 50.21% of the shareholdings in AVIC Real Estate Management. AVIC TED is also a 100%-owned direct subsidiary of AVIC IHL. AVIC Real Estate Management and AVIC TED are both regarded as associates of AVIC International and therefore connected persons of AVIC. AVIC Group's engagements for Pre-Handover Real Estate Management Services and Tender Agency Services accordingly constitute continuing connected transactions for AVIC.

The Pre-Handover Real Estate Management Services and the Tender Agency Services will be conducted on normal commercial terms or better. The highest applicable percentage ratios in both case, calculated under Rule 14.07 of the Listing Rules based on the largest Caps for the three years ending 31 December 2018 are greater than 0.1% but less than 5% for AVIC. The Pre-Handover Real Estate Management Services and the Tender Agency Services are both subject to reporting, announcement and annual review requirements but exempt from the circular and the independent shareholders' approval requirement in Chapter 14A of the Listing Rules.

Mr. Wu Guangquan and Mr. Lai Weixuan are directors of AVIC, AVIC International and AVIC IHL. Mr. Pan Linwu is a director of both AVIC and AVIC IHL. Mr. Chow Wai Kam is a director of Cheung Kong Property Holdings Limited. CK Hutchison Holdings Limited is interested in about 8.15% of the issued shares of the Company and about 17.15% of the issued H Shares of AVIC IHL as at the date of this announcement. They abstained from voting on the relevant AVIC Board resolutions.

5. DEFINITIONS

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

“associate(s)”, “connected person(s)”, “controlling shareholder”, “percentage ratios”, “subsidiary(ies)”	each has the meaning ascribed to it in the Listing Rules;
“Caps”	in relation to each financial year ending 31 December 2016, 2017 and 2018, the annual maximum amount of management fees for Pre-Handover Real Estate Management Services or service fees for Tender Agency Services, as the case may be;
“AVIC”	AVIC International Holding (HK) Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 232);
“AVIC Board”	the board of directors of AVIC;
“AVIC Directors”	the directors of AVIC;
“AVIC Group”	AVIC and its subsidiaries from time to time;
“AVIC TED”	中航技國際經貿發展有限公司 (China National Aero-Technology Trade and Economic Development Company Limited*), a company incorporated in the PRC;
“AVIC IHL”	AVIC International Holdings Limited (中航國際控股股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange;
“AVIC International”	中國航空技術國際控股有限公司 (AVIC International Holding Corporation*), a company incorporated in the PRC and a controlling shareholder of AVIC;
“AVIC Real Estate Management”	中航物業管理有限公司 (CATIC Property Management Co., Ltd*), a company incorporated in the PRC and an associate of AVIC International;
“AVIC International Group”	AVIC International and its subsidiaries from time to time;
“Framework Agreements”	Framework Agreement (Pre-Handover Real Estate Management Services) and Framework Agreement (Tender Agency Services);

“Framework Agreement (Pre-Handover Real Estate Management Services)”	the Framework Agreement for Pre-Handover Real Estate Management Services (前期物業管理服務框架協議)* dated 31 May 2016 entered into between AVIC and AVIC Real Estate Management in respect of the Pre-Handover Real Estate Management Services;
“Framework Agreement (Tender Agency Services)”	the Framework Agreement (Tender Agency Services) dated 31 May 2016 entered into between AVIC and AVIC TED in respect of Tender Agency Services;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China, which for the purpose of this announcement excludes Hong Kong, Macau and Taiwan;
“Pre-Handover Real Estate Management Services”	the real estate management services (前期物業管理服務)* contemplated under the Framework Agreement (Pre-Handover Real Estate Management Services) which will be procured for properties before the owners’ association of the property developments is formed and will generally include: <ul style="list-style-type: none"> <li data-bbox="638 1129 1485 1278">(a) General pre-handover real estate management services such as maintaining order and cleanliness of the estate and upkeep of common areas and communal facilities of the buildings in the estate; and <li data-bbox="638 1321 1485 1427">(b) Property management services related to sales such as receptionist service to potential customers and maintenance of sales office and pre-sale display units;
“Tender Agency Fee Measures”	Provisional Measures on the Administration of Service Fees Charged for Tender Agency Services (招標代理服務收費管理暫行辦法)*;
“Tender Agency Services”	the agency services contemplated under the Framework Agreement (Tender Agency Services) which generally include: <ul style="list-style-type: none"> <li data-bbox="638 1768 1485 2023">(a) procurement of entities for the construction work (including the main contractor of projects, sub-contractors for specialists works and suppliers of materials and equipment) and provisions of service (including inspection, design and supervision services) whether by way of open tender or tender by invitation; and

- (b) coordination with AVIC to implement the tender process which includes planning, organizing, initiating, execution, selection of successful tenders and completing the tender process, preparation of materials and equipment procurement workflow, budgeting and costs control, supervision, monitoring and compliance measures and procedures and documentation throughout the tender process;

“RMB”	Renminbi, the lawful currency of the PRC;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

*Translations of amounts between Renminbi and Hong Kong dollars are made at RMB1 = HK\$1.184 for illustration purpose only. * English or Chinese translation, as the case may be, is for identification only.*

By order of the Board of
AVIC International Holding (HK) Limited
Wu Guangquan
Chairman

Hong Kong, 31 May 2016

As at the date of this announcement, the Board comprises Mr. Wu Guangquan, Mr. Pan Linwu, Mr. Lai Weixuan, Mr. Xu Hongge and Mr. Xiao Nan as executive Directors; Mr. Chow Wai Kam as non-executive Director; Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Li Zhaoxi as independent non-executive Directors.