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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)

POTENTIAL CONTINUING CONNECTED TRANSACTIONS

Financial Adviser to the Company

ANGLO CHINESE 英
CORPORATE FINANCE, LIMITED 高

SALE FRAMEWORK AGREEMENT

Reference is made to the Acquisition Announcement. On 24 October 2017, the Company entered into the Sale Framework Agreement with Aviation Industry, pursuant to which subsequent to Acquisition Completion, the Group will sell engines and engine parts to Aviation Industry and/or its associates (excluding the Group and the Target Group) for use in new aircraft manufacture and for the sale of parts into the aftermarket for maintenance, repair and overhaul.

LISTING RULES IMPLICATIONS

Aviation Industry and its associates are connected persons of the Company under Chapter 14A of the Listing Rules. As disclosed in the Acquisition Announcement, upon Acquisition Completion, as the Target Company will become a wholly-owned subsidiary of the Company, ongoing transactions between the Target Group and Aviation Industry and/or its associates that are expected to continue after the Acquisition Completion will constitute continuing connected transactions of the Company under the Listing Rules upon Acquisition Completion.

As the highest applicable percentage ratio for the transactions pursuant to the Sale Framework Agreement under Rule 14.07 of the Listing Rules is more than 25%, the Sale Framework Agreement constitutes a non-exempt continuing connected transaction for the Company under Chapter 14A of the Listing Rules and is therefore subject to reporting, announcement and independent shareholders' approval requirements.

THE SALE FRAMEWORK AGREEMENT

Background

On 24 October 2017, the Company entered into the Sale Framework Agreement with Aviation Industry, pursuant to which subsequent to Acquisition Completion, the Group will sell engines and engine parts to Aviation Industry and/or its associates (excluding the Group and the Target Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul.

Details of the Sale Framework Agreement

- Date: 24 October 2017
- Parties: Aviation Industry and the Company
- Subject: Subsequent to Acquisition Completion, the Group will sell engines and engine parts to Aviation Industry and/or its associates (excluding the Group and the Target Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul
- Term: From the Effective Date up to 31 December 2019
- Pricing: To be determined on a fair and reasonable basis based on the published price list and discounts provided based on factors including, but not limited to, volume levels
- Payment: Specific payment terms (including time and method of payment) are to be agreed between the parties by entering into specific agreement in each sale transaction
- Conditions precedent:
- (a) the due execution of the Sale Framework Agreement by the Company and Aviation Industry; and
 - (b) the Sale Framework Agreement and the transactions contemplated thereunder having been approved by the Board and having obtained all necessary authorisations and approvals (including, if necessary, approval from Independent Shareholders by way of poll at a general meeting) from the Stock Exchange and other relevant laws, regulations and rules (including the Listing Rules).

Historical figures, annual caps and basis of determination

The Target Group has been selling engines and engine parts for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul to Aviation Industry and/or its associates (excluding the Group and the Target Group). Historical transaction amounts for such sales to Aviation Industry and/or its associates for each of the three financial years ended 31 December 2016 are as follows:

	For the year ended 31 December			For the six months ended 30 June
	2014	2015	2016	2017
	<i>USD million</i>	<i>USD million</i>	<i>USD million</i>	<i>USD million</i>
Actual historical transaction amount	21.2	19.1	20.0	8.4

Pursuant to the Sale Framework Agreement, it is proposed that the annual cap amounts for the sale of engine and engine parts to Aviation Industry and its associates (excluding the Group and the Target Group) for each of the three financial years ending 31 December 2017, 2018 and 2019 does not to exceed the following:

	For the year ending 31 December		
	2017	2018	2019
	<i>USD million</i>	<i>USD million</i>	<i>USD million</i>
Annual cap	20.0 ^(Note 1)	22.0	24.0

Note 1: The proposed annual cap is for the full year ending 31 December 2017.

The above annual caps were determined mainly by reference to: (i) the actual historical transaction amount for each of the three financial years ended 31 December 2016; and (ii) an adequate buffer for a potential increase in demand by Aviation Industry and/or its associates (excluding the Group and the Target Group).

Reason for and benefits of the Sale Framework Agreement

There is a historical connection and long-term cooperation relationship between the Target Group and Aviation Industry and/or its associates. The Target Group has historically been selling engines and engine parts to Aviation Industry and/or its associates, such as Cirrus Design Corporation, for use in new aircraft manufacture and for the sale of parts into the aftermarket for maintenance, repair and overhaul and will continue to do so on an ongoing basis. Such transactions are and will be

conducted in the ordinary and usual course of business of the Target Company upon Acquisition Completion, and will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Company. Cirrus Design Corporation, which is indirectly owned as to 70% by Aviation Industry, is the world's largest producer of piston-powered aircraft located in the United States. Also, with the growth in the PRC general aviation industry in recent years and the intentions of the PRC government in encouraging the development of such industry, the Company, upon Acquisition Completion, will seize the potential business opportunities available in such industry and benefit from the industrial development in future years. The Company considers it is in its best interest to continue the business relationship between the Target Group and Aviation Industry and/or its associates upon Acquisition Completion, provided that such parties will purchase from the Target Group at prices comparable to market prices and are considered to be fair and reasonable to the Group. The Company therefore entered into the Sale Framework Agreement with Aviation Industry to govern such sales that are expected to continue upon Acquisition Completion.

The Directors (excluding the independent non-executive Directors whose view will be expressed after receiving advice from Somerley) consider that the Sale Framework Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the Sale Framework Agreement and its proposed annual caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Aviation Industry and its associates are connected persons of the Company under Chapter 14A of the Listing Rules. As disclosed in the Acquisition Announcement, upon Acquisition Completion, as the Target Company will become a wholly-owned subsidiary of the Company, ongoing transactions between the Target Group and Aviation Industry and/or its associates that are expected to continue after Acquisition Completion will constitute continuing connected transactions of the Company under the Listing Rules upon Acquisition Completion.

As the highest applicable percentage ratio for the transactions pursuant to the Sale Framework Agreement under Rule 14.07 of the Listing Rules is more than 25%, the Sale Framework Agreement constitutes a non-exempt continuing connected transaction for the Company under Chapter 14A of the Listing Rules and is therefore subject to reporting, announcement and independent shareholders' approval requirements.

As (i) Mr. Liu Hongde, Mr. Lai Weixuan and Ms. Zhou Chunhua are directors of AVIC International, (ii) Mr. Xu Hongge is a director of a subsidiary of AVIC International and (iii) Mr. Pan Linwu is a director of the Target Company, each of Mr. Liu Hongde, Mr. Lai Weixuan, Ms. Zhou Chunhua, Mr. Xu Hongge and Mr. Pan Linwu abstained from voting on the resolutions at the meeting of the Board for approving the Sale Framework Agreement.

INFORMATION OF THE GROUP

The Company is a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 232). The Group's current principal business activities include: (a) property development and investment business; and (b) trading business. During the year ended 31 December 2016, the Group disposed of a 51%-owned subsidiary to an independent third party and ceased its knitting and textile business because it had been loss-making in recent years.

INFORMATION OF AVIATION INDUSTRY

Aviation Industry is a state-owned enterprise (全民所有制企業) established in the PRC and is wholly-owned by SASAC. Aviation Industry's core businesses consist of defense, transport aircraft, helicopter, avionics and systems, general aviation, aviation research and development, flight testing, trade and logistics, assets management, finance services, engineering and construction, automobile etc.

GENERAL

In view of the interests of Aviation Industry in the Sale Framework Agreement, Aviation Industry and its associates will be required to abstain from voting in relation to the Sale Framework Agreement and the transactions contemplated thereunder at the SGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save and except Aviation Industry and its associates, no other Shareholder has a material interest in the Sale Framework Agreement, therefore, no other Shareholder will be required to abstain from voting at the SGM.

The LR IBC will consider and advise the LR Independent Shareholders, on the fairness and reasonableness of the terms and the annual caps of the Sale Framework Agreement. Somerley has been appointed as the independent financial adviser to advise the LR IBC and the LR Independent Shareholders in this regard.

A circular containing, among other things, details of the Sale Framework Agreement, together with the recommendation of the LR IBC to the LR Independent Shareholders, the letter of advice from Somerley to the LR IBC and the LR Independent Shareholders in relation to the terms of the Sale Framework Agreement, and the notice of the SGM will be despatched to the Shareholders as soon as practicable and in compliance with the requirements of the Listing Rules.

As mentioned in the Acquisition Announcement, the Company will need extra time to prepare the circular which will contain, among other things, enhanced disclosure for the Acquisition. The Company has applied to the Executive for a waiver from strict compliance with Rule 8.2 of the Takeovers Code for extending the despatch date of the circular to a date no later than 30 November 2017 and the Executive has granted its consent to such extension.

DEFINITIONS

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

“Acquisition”	the proposed acquisition contemplated under the Acquisition Agreement;
“Acquisition Agreement”	the agreement dated 19 September 2017 entered into between AVIC HK, AVIC International and the Company relating to the acquisition of the entire issued share capital of the Target Company and the shareholder’s loan note(s) owing by the Target Company to AVIC HK as at Acquisition Completion;
“Acquisition Announcement”	the announcement of the Company dated 19 September 2017 in relation to, among other things, the Acquisition;
“Acquisition Completion”	completion of the sale and purchase of the entire share capital of the Target Company and the Shareholder’s loan note(s) owing by the Target Company to AVIC HK in accordance with the provisions of the Acquisition Agreement;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;

“Aviation Industry”	Aviation Industry Corporation of China (中國航空工業集團公司), a state-owned enterprise (全民所有制企業) established in the PRC and holds 62.52% of the equity interest in AVIC International as at the date of this announcement, a controlling shareholder of the Company;
“AVIC HK”	AVIC International (HK) Group Limited (中航國際(香港)集團有限公司), a company incorporated in Hong Kong and a direct wholly owned subsidiary of AVIC International;
“AVIC International”	AVIC International Holding Corporation (中國航空技術國際控股有限公司), a company incorporated with limited liability in the PRC and owned as to 62.52% by Aviation Industry;
“Board”	the board of Directors;
“BVI”	the British Virgin Islands;
“Company”	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);
“Directors”	the directors of the Company;
“Effective Date”	the date on which all the conditions precedent under the Sale Framework Agreement have been satisfied (please refer to “Conditions precedent” under the section “Details of the Sale Framework Agreement” in this announcement for details);
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate for the time being of the Executive Director;
“Group”	the Company and its subsidiaries;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“LR Independent Shareholders”	the Shareholders other than Aviation Industry and its associates;
“LR IBC”	the independent board committee comprising all the independent non-executive Directors, namely Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Zhang Ping, which has been established to advise the LR Independent Shareholders on the Acquisition and the Sale Framework Agreement;
“PRC”	the People’s Republic of China;
“Sale Framework Agreement”	an agreement entered into between the Company and Aviation Industry on 24 October 2017, in relation to sale of engines and engine parts to Aviation Industry and/or its associates for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul;
“SASAC”	the PRC State-owned Assets Supervision and Administration Commission;
“SGM”	the special general meeting of the Company to be convened and held for the purposes of passing all necessary resolutions, among others, for the implementation of the Sale Framework Agreement and the transactions contemplated thereunder;
“Shares”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	registered holder(s) of the Share(s);
“Somerley”	Somerley 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 (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser to the LR IBC and the LR Independent Shareholders in respect of the transactions pursuant to the Sale Framework Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers;
“Target Company”	Motto Investment Limited, a company incorporated in BVI with limited liabilities and a direct wholly-owned subsidiary of AVIC International as at the date of this announcement;
“Target Group”	the Target Company and its subsidiaries.

By order of the Board
AVIC International Holding (HK) Limited
Liu Hongde
Chairman

Hong Kong, 24 October 2017

As at the date of this announcement, the Board comprises of Mr. Liu Hongde, Mr. Pan Linwu, Mr. Lai Weixuan, Ms. Zhou Chunhua and Mr. Xu Hongge as executive Directors; Mr. Chow Wai Kam as non-executive Director; Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Zhang Ping as independent non-executive Directors.