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CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

ANNOUNCEMENT

MAJOR AND CONTINUING CONNECTED TRANSACTION PROVISION OF CERTAIN FINANCIAL SERVICES BY AEROSPACE FINANCE PURSUANT TO THE FINANCIAL SERVICES AGREEMENT

FINANCIAL SERVICES AGREEMENT

The Board of Directors announces that, on 10 June 2019, the Company entered into the Financial Services Agreement with Aerospace Finance in respect of provision of the following financial services to the PRC Subsidiaries for a period of three years:

- (1) an unsecured revolving credit facility of an amount up to RMB700 million for the funding of the PRC Subsidiaries' major business operations;
- (2) deposits of an aggregate maximum daily balance of RMB700 million;
- (3) settlement services as approved by China Banking and Insurance Regulatory Commission; and
- (4) other financial services as approved by China Banking and Insurance Regulatory Commission, including but not limited to intra-group entrusted loan services between the PRC Subsidiaries, foreign exchange services, financial leasing, bills discounting and bills acceptance.

LISTING RULES IMPLICATIONS

As the applicable consideration percentage ratio as defined under Rule 14.07 of the Listing Rules in respect of the daily maximum limit of all deposits exceeds 25% but is less than 75%, the deposits contemplated under the Financial Services Agreement constitute a major transaction under Chapter 14 of the Listing Rules.

Aerospace Finance, being a subsidiary of CASC, which in turn is the controlling shareholder of the Company, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the financial services contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company.

As the maximum daily balance under each of the credit facility and the deposit services is RMB700 million respectively, the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules exceed 5%. The deposits are subject to Independent Shareholders' approval and CASC and its associates shall abstain from voting on the relevant resolution at the Extraordinary General Meeting. However, since no collateral will be given to Aerospace Finance, the transaction contemplated under the credit facility is exempted from reporting, announcement, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of the other financial services under the Financial Services Agreement, based on the highest annual capped service fee of RMB500,000, no percentage ratios exceed 0.1% and is exempted from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee has been established to consider the terms of the deposits (including the maximum daily balance) under the Financial Services Agreement, and to advise and recommend the Independent Shareholders as to voting, and Somerley Capital Limited has been appointed by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular setting out, among others, details of the Financial Services Agreement, Letter from the Independent Board Committee, Letter from the Independent Financial Adviser, and the notice of Extraordinary General Meeting will be despatched to shareholders on or before 25 June 2019.

FINANCIAL SERVICES AGREEMENT

The Board of Directors announces that, on 10 June 2019, the Company entered into the Financial Services Agreement with Aerospace Finance in respect of provision of the following financial services to the PRC Subsidiaries for a period of three years:

- (1) an unsecured revolving credit facility of an amount up to RMB700 million for the funding of the PRC Subsidiaries' major business operations;
- (2) deposits of an aggregate maximum daily balance of RMB700 million;
- (3) settlement services as approved by China Banking and Insurance Regulatory Commission; and
- (4) other financial services as approved by China Banking and Insurance Regulatory Commission, including but not limited to intra-group entrusted loan services between the PRC Subsidiaries, foreign exchange services, financial leasing, bills discounting and bills acceptance.

Term

3 years commencing from the date of passing of the resolution at the Extraordinary General Meeting.

Pricing Policies

- (1) Provision of the credit facility: In determining the interest rates to be charged, Aerospace Finance undertook that it would make reference to the market interest rates and provide certain discounts, which shall be equal to or more favourable to the PRC Subsidiaries than that of the same type of loan offered by the Commercial Banks. In general, the lending rate will be more favourable to the PRC Subsidiaries than that of the same type of loan offered by the Commercial Banks.

- (2) Deposits: Aerospace Finance undertook that it would make reference to the market deposit rates and apply certain concessional terms, which shall be equal to or more favourable to the PRC Subsidiaries than that of the same type of deposit offered by the Commercial Banks when taking deposits from the PRC Subsidiaries. In general, the deposit rate will be more favourable to the PRC Subsidiaries than that of the same type of deposit offered by the Commercial Banks.
- (3) Settlement services: Aerospace Finance will provide settlement services to the PRC Subsidiaries on a free-of-charge basis. Aerospace Finance shall bear its own costs in relation to the provision of such services.
- (4) Other financial services: in addition to the above financial services, Aerospace Finance will make reference to the market rates and apply certain concessional terms when providing such financial services to the PRC Subsidiaries. The fees to be charged by Aerospace Finance shall not be higher than the fees prescribed by the relevant government authorities for the same type of service (if applicable).

Renewals

Subject to compliance with the relevant requirements under the Listing Rules and the approval by the Independent Shareholders, if applicable, the Financial Services Agreement may be extended for terms of no more than 3 years upon the mutual agreement by the parties.

Demand of Return of Deposits

The PRC Subsidiaries may demand returning of deposits with 3 business days' advance notice on occurrence of certain events, of which Aerospace Finance should notify the Company and the PRC Subsidiaries on the date of occurrence, including:

- (1) the occurrence of any material event(s) such as a bank run on Aerospace Finance, Aerospace Finance being unable to pay any debts due, Aerospace Finance being unable to collect any significant loans due, or director(s) or senior management of Aerospace Finance being involved in any criminal offence;
- (2) the occurrence of any event(s) such as significant organizational change or operational risks that may affect the normal operations of Aerospace Finance;
- (3) Aerospace Finance's asset-liability ratios being unable to fulfill the following requirements[#] under Article 34 of the Measures for the Administration of Finance Companies of Enterprise Groups:
 - (a) its capital adequacy ratio must not be lower than 10%;
 - (b) the balance of the money borrowed must not be more than the total amount of its capital;
 - (c) the guarantee balance must not be more than the total amount of its capital;
 - (d) the ratio of its short-term securities investments to the total amount of its capital must not be higher than 40%;
 - (e) the ratio of its long-term investments to the total amount of its capital must not be higher than 30%; or
 - (f) the ratio of its own fixed assets to the total amount of its capital must not be higher than 20%.

[#]*China Banking and Insurance Regulatory Commission may, in light of business development of finance companies or the needs of prudent supervision, make adjustments to the above-mentioned ratios.*

- (4) Aerospace Finance being subject to any material administrative penalty and/or ordered to make rectifications by the regulatory authorities such as China Banking and Insurance Regulatory Commission; or
- (5) the occurrence of any other event(s) that may pose material security risks to the funds deposited with Aerospace Finance.

Aerospace Finance undertook that it will compensate the PRC Subsidiaries in full for their direct losses, damages, third parties' claims or other liabilities incurred or suffered if it violates any term under the Financial Services Agreement.

Termination

The Financial Services Agreement may be amended (subject to compliance with the requirements under the Listing Rules and the approval by Independent Shareholders (if applicable)) or terminated upon the written agreement of both parties.

Proposed Annual Caps

The proposed annual caps for the three years from the date of passing of the relevant resolution at the Extraordinary General Meeting for the continuing connected transactions under the Financial Services Agreement are as follows:

	Five months ending December 2019 <i>(RMB '000)</i>	Twelve months ending December 2020 <i>(RMB '000)</i>	Twelve months ending December 2021 <i>(RMB '000)</i>	Seven months ending July 2022 <i>(RMB '000)</i>
Maximum daily balance of credit (including accrued interests and handling fees) granted by Aerospace Finance to the PRC Subsidiaries	700,000	700,000	700,000	700,000
Maximum interest payable under the credit facility	13,854	33,250	33,250	19,396
Maximum daily balance of deposits (including accrued interests) to be placed by the PRC Subsidiaries with Aerospace Finance	700,000	700,000	700,000	700,000
Minimum interest receivable under the deposits	8,021	19,250	19,250	11,229
Service fees in relation to the financial services other than the revolving credit facility, deposits and settlement services	125	342	441	292

The Company will not engage the above financial services as all current remittances have to comply with the relevant requirements related to foreign exchange of China, the procedures of which will take some time from time to time and hence reduce the turnover of liquidity of the Company.

The terms of the Financial Services Agreement were negotiated after arm's length negotiation. The amount of the credit facility was determined having regards to the outstanding balance of Existing Facilities and the working capital requirement of the Company and its subsidiaries. The amount of deposits was determined having regards to, amongst others, the cashflow of the Company and the PRC Subsidiaries. The amounts of interest payable and receivable by the PRC Subsidiaries were determined having regards to the prevailing rates provided by Commercial Banks assuming the maximum credit facility is drawdown and the maximum deposit amount is placed for a full three-year period. The amount of services fees payable for

other financial services were determined having regards to the services fees paid by the Company and the PRC Subsidiaries.

Guarantee

CASC, as guarantor, has provided an irrevocable and unconditional letter of guarantee to the Company and the PRC Subsidiaries, as beneficiaries, to protect all payment obligations of Aerospace Finance on a joint liabilities basis. The letter of guarantee stated that, *inter alia*, the PRC Subsidiaries are not required to go through the relevant legal procedures before demanding CASC to repay the PRC Subsidiaries the amounts owed by Aerospace Finance, and CASC will have the obligation to immediately repay the PRC Subsidiaries all payment obligations of Aerospace Finance when Aerospace Finance fails to repay the deposit balance, accrued interest, other balances receivable from Aerospace Finance, and losses and damages arising therefrom.

Internal control procedures

The Board has adopted a set of internal control procedures to monitor the transactions contemplated under the Financial Services Agreement, the major terms of which are:

- (1) The Company shall assign deposit limits to each of the PRC Subsidiaries, and their deposit balances with Aerospace Finance shall not exceed their respective limits so assigned.
- (2) Prior to placing deposits by the PRC Subsidiaries with Aerospace Finance, the respective company shall obtain at least three quotations from independent financial institutions for similar deposit service or other service in similar nature, to the extent commercially practicable. Such quotations shall be compared to those from Aerospace Finance for deciding whether to accept the deposit conditions of Aerospace Finance.
- (3) The PRC Subsidiaries shall withdraw the deposits from Aerospace Finance on an irregular basis to ensure the security and liquidity of the deposits.
- (4) In case if the relevant cap for the prevailing year for services provided by Aerospace Finance may be exceeded, the PRC subsidiaries shall suspend those services with Aerospace Finance for the remaining time of that year.
- (5) Without the approval from the Board of Directors (and the approval from Independent Shareholders, if necessary), the respective companies shall not offer unauthorized commitments, such as securities, guarantees and promises, to Aerospace Finance to obtain loans.
- (6) The Finance Department shall assign colleague(s) to be responsible for contacting the PRC Subsidiaries and Aerospace Finance and closely monitoring the transactions contemplated under the Financial Services Agreement, including keeping transaction evidences, drafting relevant reports and reporting at appropriate times. Any problems identified shall be immediately reported to the management and the Board of Directors.
- (7) The Finance Department shall report on the transactions under the Financial Services Agreement to the Board of Directors on a quarterly basis.
- (8) The Finance Department shall meet with the finance department of each of the PRC Subsidiaries so as to review the transactions, learn from experiences and rectify weaknesses on an annual basis.

Information on the Company, CASC and Aerospace Finance

The Company is an investment holding company and its subsidiaries are principally engaged in hi-tech manufacturing, the operations of Shenzhen Aerospace Science & Technology Plaza, internet of things applications and cross-border e-commerce logistics.

CASC is a state-owned enterprise established in the PRC. CASC and its subsidiaries are principally engaged in the investment and operation of state-owned assets; the research, manufacturing and sale of various kinds of launch vehicles, satellites, satellite related system products, satellite ground systems and equipments, radars, numerical control equipments; the development and technical consultation of aerospace technology; and franchised international satellite launching services etc..

Aerospace Finance is a subsidiary of CASC and its subsidiaries whose approved business scope include (i) provision of finance and fund raising advisory, credit verification and related consultancy and agency services to members of the CASC group; (ii) provision of fund receiving and payment services for transactions conducted by members of the CASC group; (iii) approved insurance agency business; (iv) provision of guarantees for members of the CASC group; (v) provision of entrusted loans and entrusted investment services to members of the CASC group; (vi) acceptance and discounting of bills for members of the CASC group; (vii) settlement of transfers of fund between members of the CASC group and design of plans for related settlements and clearances; (viii) accepting deposits from members of the CASC group; (ix) dealing with loans and financing lease for members of the CASC group; (x) interbank lending; (xi) issue of finance company bonds with approval; (xii) underwriting enterprise bonds of members of the CASC group; (xiii) equity investment in financial institutions; (xiv) investment in marketable securities; (xv) buyer credits and financing lease in respect of products of members of the CASC group.

Reasons for and benefit of entering into the Financial Services Agreement

The long-standing Sino-US trade dispute is expected to take some time to resolve. This makes the export companies, like those of the Company's subsidiaries, continue to face various difficulties in business. The Company's subsidiaries have tried to explore business in China, but the recovery of receivables usually takes longer than those in the other markets and that may affect the liquidity of the relevant subsidiaries in the long run.

The business development of the Company and its subsidiaries has to be supported by capital. Even if the Company obtains offshore financings, remittance of capital to the PRC Subsidiaries is subject to foreign exchange control in which compliance takes time and may not readily meet the funding requirements of the PRC Subsidiaries. Hence, it is an alternative for the Company to seek for financing by engaging with Aerospace Finance.

The Financial Services Agreement is non-exclusive and does not limit the choice of the PRC Subsidiaries to engage other banks or financial institutions to meet their needs in financial services. Therefore, the entering into the Financial Services Agreement will allow the PRC Subsidiaries a flexible choice of one more financial services provider and that encourages the other financial institutions to provide more competitive terms to the PRC Subsidiaries. The Financial Services Agreement offers the PRC Subsidiaries with terms and conditions (including interest) that are equal to or more favourable than other commercial banks in the PRC for the relevant financial services. A deposit account is required for each of the PRC Subsidiaries to operate under the Financial Services Agreement such as the placing of deposits, the transfer of funds under the entrusted loans arrangement and/or the drawdown of credit facility, if any. It is anticipated that the PRC Subsidiaries will benefit from the followings:

1. earning more deposit interest from the deposit service; and
2. the use of the PRC Subsidiaries' idle funds more effectively through the entrusted loans between the PRC Subsidiaries arranged by Aerospace Finance at a comparatively lower fee so as to reduce finance expenses.

According to the relevant regulations of the People's Bank of China and the China Banking and Insurance Regulatory Commission, the customers of Aerospace Finance are limited to CASC and its enterprise group entities (including the Company and its subsidiaries). Therefore, the potential risk level of Aerospace Finance is correspondingly low as compared with other financial institutions that have to deal with external customers.

Aerospace Finance has a better understanding of the operations of the Company and its subsidiaries and therefore offers more convenient and efficient services than other commercial banks in the PRC. The Company is expected to benefit from this. Over the years, Aerospace Finance has arranged or provided several loans to the Company and certain subsidiaries, the terms of which were more favourable than the then interest rates offered by those commercial banks in some loans and hence reduced the Company's interest expenses or without the requirement to provide collaterals in the other loans.

The Board (excluding the Independent Non-Executive Directors who will form their views after considering the advice of the Independent Financial Adviser) considers that the terms of the Financial Services Agreement are on normal commercial terms and in the ordinary and usual course of business of the Company and the terms of the Financial Services Agreement are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Interests of Directors

As Mr Liu Xudong, Mr Mao Yijin and Mr Xu Liangwei are officers of CASC and its subsidiaries, and Mr Liu Xudong is also a director of Aerospace Finance, they had abstained from voting on the resolutions approving the transactions contemplated under the Financial Services Agreement at the board meeting.

Listing Rules Implications

As the applicable consideration ratio as defined under Rule 14.07 of the Listing Rules in respect of the daily maximum limit of all deposits exceeds 25% but is less than 75%, the deposits contemplated under the Financial Services Agreement constitute a major transaction under Chapter 14 of the Listing Rules.

Aerospace Finance, being a subsidiary of CASC, which in turn is the controlling shareholder of the Company, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the financial services contemplated under the Financial Services Agreement constitute continuing connected transactions of the Company.

As the maximum daily balance of each of the credit facility and the deposits is RMB700 million respectively, the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules exceed 5%. The deposits are subject to Independent Shareholders' approval and CASC and its associates shall abstain from voting on the relevant resolution at the Extraordinary General Meeting. However, since no collateral will be given to Aerospace Finance, the transaction contemplated under the credit facility is exempted from reporting, announcement, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of the other financial services under the Financial Services Agreement, based on the highest annual capped service fee of RMB500,000, no percentage ratios exceed 0.1% and is exempted from reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Independent Board Committee and Independent Financial Adviser

An Independent Board Committee comprising all the Independent Non-Executive Directors of the Company, who do not have any material interests in the Financial Services Agreement, has been established to consider the terms of the deposits (including the maximum daily balance) contemplated under the Financial Services Agreement, and to advise the Independent Shareholders accordingly.

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

General

A circular setting out, among others, details of the Financial Services Agreement, Letter from the Independent Board Committee, Letter from the Independent Financial Adviser, and the notice of Extraordinary General Meeting will be despatched to shareholders on or before 25 June 2019.

DEFINED TERMS USED IN THIS ANNOUNCEMENT

Capitalised terms used in this Announcement shall have the following meanings:–

“Aerospace Finance”	航天科技財務有限責任公司*(Aerospace Science & Technology Finance Company Limited), a subsidiary of CASC and its subsidiaries established in the PRC as a limited liability company and whose business activities are subject to the supervision of the China Banking and Insurance Regulatory Commission;
“Board”	the Board of Directors;
“CASC”	中國航天科技集團有限公司*(China Aerospace Science & Technology Corporation), a state-owned enterprise established in the PRC holding approximately 38.37% shareholding in the Company and is a controlling shareholder of the Company as at the date of this Announcement;
“Commercial Banks”	being Bank of China Limited, China Construction Bank Corporation, Industrial and Commercial Bank of China Limited, Agricultural Bank of China Limited, Bank of Communications Co., Ltd., Bank of Beijing Co., Ltd, China Merchants Bank Co., Ltd. and China Everbright Bank Company Limited;
“Company”	China Aerospace International Holdings Limited (中國航天國際控股有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the directors of the Company;
“Existing Facilities”	the RMB1,300 million facility granted by Aerospace Finance to 深圳市航天高科投資管理有限公司*(Shenzhen Aerospace Technology Investment Management Company Limited, a company incorporated in PRC as a limited liability company and is an indirect subsidiary of the Company) for a period of 12 years from the first drawdown date and secured by a mortgage of the land use right of the Shenzhen Aerospace Science & Technology Plaza. For details of the Existing Facilities, please refer to the announcement and the circular of the Company dated 30 August 2016 and 14 September 2016, respectively;
“Extraordinary General Meeting”	the extraordinary general meeting to be convened by the Company for the purpose of approving the Financial Services Agreement;

“Finance Department”	the Finance Department of the Company;
“Financial Services Agreement”	a financial services agreement dated 10 June 2019 entered into between the Company (for itself and on behalf of the PRC Subsidiaries) and Aerospace Finance in relation to certain financial services provided by Aerospace Finance;
“Independent Board Committee”	an independent committee of the Board of Directors of the Company comprising Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun, being all the independent non-executive Directors;
“Independent Financial Adviser”	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 SFO, which has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the deposits (including the maximum daily balance) under the Financial Services Agreement;
“Independent Shareholders”	all shareholders of the Company excluding CASC and its associates;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC Subsidiaries”	the subsidiaries of the Company as of the date of the Financial Services Agreement that are established in the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

By order of the Board
Liu Meixuan
Executive Director & Chairman

Hong Kong, 10 June 2019

As at the date of this Announcement, the Board of Directors of the Company comprises:

Executive Directors

Mr Liu Meixuan (*Chairman*)
Mr Li Hongjun (*President*)

Non-Executive Directors

Mr Liu Xudong
Mr Mao Yijin
Mr Xu Liangwei

Independent Non-Executive Directors

Mr Luo Zhenbang
Ms Leung Sau Fan, Sylvia
Mr Wang Xiaojun

** This PRC entity does not have an English name, the English name sets out herein is for identification purpose only.*