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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

THE SALE FRAMEWORK AGREEMENT

On 17 January 2020, the Company entered into the Sale Framework Agreement with Aviation Industry, pursuant to which the Group will sell engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) for use in new aircraft manufacture and for the sale of parts into the aftermarket for maintenance, repair and overhaul for a term from 17 January 2020 to 31 March 2020.

LISTING RULES IMPLICATIONS

As Aviation Industry and its associates are connected persons of the Company under Chapter 14A of the Listing Rules, the Sale Framework Agreement constitutes continuing connected transactions on the part of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios (as defined under the Listing Rules) in relation to the proposed annual cap in respect of the Sale Framework Agreement for the three months ending 31 March 2020 are less than 5%, the transactions contemplated under the Sale Framework Agreement and the proposed annual cap for the three months ending 31 March 2020 is subject to reporting and announcement requirements but is exempted from circular and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

THE SALE FRAMEWORK AGREEMENT

Background

On 17 January 2020, the Company entered into the Sale Framework Agreement with Aviation Industry, pursuant to which the Group will sell engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul.

Principal terms of the Sale Framework Agreement

Date:	17 January 2020
Parties:	Aviation Industry and the Company
Subject:	The Group will sell engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul
Term:	From 17 January 2020 up to 31 March 2020
Pricing:	To be determined on a fair and reasonable basis based on the negotiated price, product specifications, configurations, competitiveness and general market conditions with the pricing provided based on factors including, but not limited to, volume levels, strategic relationship and new product introduction strategies
Payment:	Specific payment terms are to be agreed between the parties by entering into specific agreements periodically consistent with general terms and conditions of payment in US dollars and terms not to exceed 45 days from invoice date
Conditions precedent:	<p>The Sale Framework Agreement is conditional upon:</p> <ul style="list-style-type: none">(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 complied with the requirements of the Stock Exchange and other relevant laws, regulations and rules (including the Listing Rules).

Annual caps and basis of determination

The Group has been selling engines, engine parts and related services 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). The actual historical transaction amounts for such sales to Aviation Industry and/or its associates for each of the three financial years ended 31 December 2019 are as follows:

	For the year ended 31 December		
	2017	2018	2019
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Actual historical transaction amount	19.5	22.7	23.9

Pursuant to the Sale Framework Agreement, it is proposed that the annual cap amount for the sale of engine, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) for the three months ending 31 March 2020 shall not exceed the following:

	For the three months ending 31 March 2020
	<i>US\$ million</i>
Annual cap	8.5

The above annual cap was determined mainly by reference to: (i) the actual historical transaction amount for the three financial years ended 31 December 2019; (ii) the estimated amount of engines, engine parts and related services to be purchased by Aviation Industry and/or its associates (excluding the Group) for the three months ending 31 March 2020; and (iii) an adequate buffer for a potential increase in demand by Aviation Industry and/or its associates (excluding the Group).

Pricing of products and control mechanism of the Company

The products to be sold by the Group to Aviation Industry and/or its associates are mainly engines and related parts and services to be produced as an OEM. Therefore, the products are usually unique in nature and involve different specifications and configurations. When determining the selling prices of the products, the same policy is adopted for the products to be sold by the Group to Aviation Industry and/or its associates and similar OEM independent third party customers. The prices of the products will be determined with reference to a number of factors, including a negotiated price for different products, the specifications and configurations of the products to be sold, the competitiveness of the Group in producing such products and the then market conditions. In addition, the level of pricing is also determined after taking into account, among other things, purchase volume, strategic relationship and new product introduction strategies.

When determining the selling prices of the OEM products, the Group will first understand from the customer the nature, type of the products and any incumbent competitors. An initial price list or individual prices by part number will be set. The price lists of the products will be reviewed and set based on several factors such as, but not limited to, the specifications and configurations of the products, the complexity of producing the products and the estimated cost differences to produce such products with the required specifications and configurations. The Group will also consider the then market conditions and the Group's competitiveness (such as experience, capabilities and efficiency). Further pricing considerations may also be given to individual customers with reference to the factors mentioned above, including, among other things, purchase volume, strategic relationship and new product introduction strategies.

The Group has formulated internal control measures and procedures in order to ensure the pricing mechanism and the terms of the transactions under the Sale Framework Agreement are fair and reasonable and no less favourable to the Company than the terms available to or from independent third parties, and in the interest of the Company and its Shareholders as a whole. A control mechanism to segregate duties to notify and review connected transactions has been set up within the Group. Connected transaction report is required to be submitted to the company secretary and financial department of the Company monthly. All selling prices and price lists of the products are analysed and reviewed annually and documented approval of all pricing is required by the relevant sales director and vice president of sales of the Group annually.

Further, the Company will comply with all relevant requirements under the Listing Rules which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the transactions contemplated under the Sale Framework Agreement.

Reasons for and benefits of the Sale Framework Agreement

The Group has been selling engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group), 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 conducted in the ordinary and usual course of business of the Group and 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 of America. 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 shall continue to 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 Group and Aviation Industry and/or its associates, provided that such parties shall purchase from the 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.

The Directors 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 cap are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

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 is principally engaged in the general aviation aircraft piston engine business.

INFORMATION OF AVIATION INDUSTRY

Aviation Industry is 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.

LISTING RULES IMPLICATIONS

As Aviation Industry and its associates are connected persons of the Company under Chapter 14A of the Listing Rules, the Sale Framework Agreement constitutes continuing connected transactions on the part of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios (as defined under the Listing Rules) in relation to the proposed annual cap in respect of the Sale Framework Agreement for the three months ending 31 March 2020 are less than 5%, the transactions contemplated under the Sale Framework Agreement and the proposed annual cap for the three months ending 31 March 2020 is subject to reporting and announcement requirements but is exempted from circular and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As (i) Mr. Lai Weixuan is the director of AVIC International, (ii) Mr. Fu Fangxing, Mr. Zhang Zhibiao, Mr. Yu Xiaodong and Mr. Zhao Yang are directors of subsidiaries of AVIC International, each of Mr. Lai Weixuan, Mr. Fu Fangxing, Mr. Zhang Zhibiao, Mr. Yu Xiaodong and Mr. Zhao Yang had abstained from voting on the resolutions at the meeting of the Board for approving the Sale Framework Agreement.

DEFINITIONS

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

“Aviation Industry”	Aviation Industry Corporation of China, Ltd. (中國航空工業集團有限公司) established in the PRC and holds 91.14% of the equity interest in AVIC International as at the date of this announcement, a controlling shareholder of the Company
“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 indirectly owns as to 46.40% of the entire issued share capital of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	AVIC International Holding (HK) Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 232)

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the Sale Framework Agreement
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“OEM”	original equipment manufacturer
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Sale Framework Agreement”	the agreement dated 17 January 2020 and entered into between the Company and Aviation Industry in relation to sale of engines and engine parts to Aviation Industry and/or its associates (excluding the Group) 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
“Shareholder(s)”	holder(s) of the ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong

“US\$” United States dollars, the lawful currency of the United States of America

“%” per cent.

By Order of the Board
AVIC International Holding (HK) Limited
Lai Weixuan
Chairman

Hong Kong, 17 January 2020

As at the date of this announcement, the Board comprises Mr. Lai Weixuan, Mr. Fu Fangxing, Mr. Zhang Zhibiao, Mr. Yu Xiaodong and Mr. Zhao Yang 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.