

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



# **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 SECOND SALE FRAMEWORK AGREEMENT**

On 22 January 2020, the Company entered into the Second 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 1 April 2020 to 31 December 2021.

### **LISTING RULES IMPLICATIONS**

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

Pursuant to Rule 14A.81 of the Listing Rules, the transaction contemplated under the Second Sale Framework Agreement is required to be aggregated with the transactions under the First Sale Framework Agreement. As the Proposed Annual Caps exceed HK\$10,000,000 and one or more of the relevant applicable percentage ratios calculated under Rule 14.07 of the Listing Rules exceeds 5%, the Second Sale Framework Agreement constitutes non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and is therefore subject to reporting, announcement and independent shareholders' approval requirements.

# **THE SECOND SALE FRAMEWORK AGREEMENT**

## **Background**

Reference is made to the announcement of the Company dated 17 January 2020 in relation to, among others, the First Sale Framework Agreement.

On 17 January 2020, the Company entered into the First Sale Framework Agreement with Aviation Industry, pursuant to which the Group has agreed to 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 for a term from 17 January 2020 to 31 March 2020.

On 22 January 2020, the Company entered into the Second Sale Framework Agreement with Aviation Industry, pursuant to which the Group will continue to 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 for a term from 1 April 2020 to 31 December 2021. The terms of the Second Sale Framework Agreement are substantially the same as the First Sale Framework Agreement.

## **Principal terms of the Second Sale Framework Agreement**

Date:	22 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 1 April 2020 up to 31 December 2021
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: The Second Sale Framework Agreement is conditional upon:
- (a) the due execution of the Second Sale Framework Agreement by the Company and Aviation Industry; and
  - (b) the Second 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 at the SGM) from 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:

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

When assessing the Proposed Annual Caps, the Company has aggregated the estimated transaction amounts under the First Sale Framework Agreement and the Second 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 each of the two financial years ending 31 December 2020 and 2021 respectively shall not exceed the following:

	<b>For the year ending 31 December 2020</b>	<b>For the year ending 31 December 2021</b>
	<i>US\$ million</i>	<i>US\$ million</i>
	Proposed Annual Caps	28.0

*Note:* Amount for the year ending 31 December 2020 includes the transactions under the First Sale Framework Agreement.

The above Proposed Annual Caps were 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 two financial years ending 31 December 2021; 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 Second 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 Second Sale Framework Agreement.

## **Reasons for and benefits of the Second 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 extended the term and entered into the Second Sale Framework Agreement further to the First Sale Framework Agreement with Aviation Industry to govern such sales.

The Directors (excluding the independent non-executive Directors whose view will be expressed after receiving advice from the Independent Financial Adviser) consider that the Second 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 Second 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.

## **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 Second Sale Framework Agreement constitutes continuing connected transactions on the part of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the transaction contemplated under the Second Sale Framework Agreement is required to be aggregated with the transactions under the First Sale Framework Agreement. As the Proposed Annual Caps exceed HK\$10,000,000 and one or more of the relevant applicable percentage ratios calculated under Rule 14.07 of the Listing Rules exceeds 5%, the Second Sale Framework Agreement constitutes non-exempt continuing connected transactions 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. 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 Second Sale Framework Agreement.

## **GENERAL**

In view of the interests of Aviation Industry in the Second Sale Framework Agreement, Aviation Industry and its associates will be required to abstain from voting in relation to the Second 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 Second Sale Framework Agreement, therefore, no other Shareholder will be required to abstain from voting at the SGM.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders on, among others, the Second Sale Framework Agreement and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A SGM will be convened and held at which the Independent Shareholders will consider, and, if thought fit, approve the Second Sale Framework Agreement (including, but not limited to, the Proposed Annual Caps) and the transactions contemplated thereunder.

A circular containing, among other things, (i) further details of the Second Sale Framework Agreement and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Second Sale Framework Agreement and the transactions contemplated thereunder; and (iv) a notice convening the SGM will be despatched to the Shareholders on or before 14 February 2020 in compliance with the Listing Rules.

## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“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
“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
“Directors”	directors of the Company
“First 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 for a term from 17 January 2020 to 31 March 2020
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders on the Second Sale Framework Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Second Sale Framework Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) other than Aviation Industry, its respective associates and all other Shareholders who are interested in the Second Sale Framework Agreement and the transactions contemplated thereunder
“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
“Proposed Annual Cap(s)”	the annual cap amount in respect of the sale of engines, engine parts and related services to Aviation Industry and/or its associates by the Group for the years ending 31 December 2020 and 2021
“SASAC”	the PRC State-owned Assets Supervision and Administration Commission
“Second Sale Framework Agreement”	the agreement dated 22 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 for a term from 1 April 2020 to 31 December 2021

“SGM”	a special general meeting of the Company to be convened and held to consider and, if thought fit, approve, among other things, the Second Sale Framework Agreement and the transactions contemplated thereunder
“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, 22 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.*