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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)

CONNECTED TRANSACTION

DISPOSAL OF 17.36% EQUITY INTERESTS IN AVIC JOY HOLDINGS (HK) LIMITED

THE DISPOSAL

On 15 September 2020, the Company and Billirich, a wholly-owned subsidiary of the Company, entered into the Share Purchase and Loan Transfer Agreement with, among others, the Purchaser, pursuant to which the Purchaser agreed to acquire (i) from the Company and Billirich in aggregate 1,031,595,000 Target Shares (representing approximately 17.36% of the total issued capital of the Target); (ii) from AVIC HK Group 504,023,891 Target Shares (representing approximately 8.48% of the total issued capital of the Target); (iii) from AVIC Joy Air 60,810,000 Target Shares (representing approximately 1.02% of the total issued capital of the Target) and (iv) the Target Loans with an aggregate outstanding amount of RMB829,471,414.52 (principal and interests accrued) from AVIC HK Group, AVIC Joy Air and Joy Air Holdings. The total consideration payable by the Purchaser under the Share Purchase and Loan Transfer Agreement is approximately HK\$75,707,151 and the total consideration receivable by Billirich is HK\$26,821,470.

The Directors (including independent non-executive Directors) are of the view that the Share Purchase and Loan Transfer Agreement was entered into on normal commercial terms and in the ordinary and usual course of business of the Company, and that the terms of the Share Purchase and Loan Transfer Agreement are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, AVIC HK Group is interested in 46.40% of the shares of the Company and is therefore a controlling shareholder and a connected person of the Company; both AVIC Joy Air and Joy Air Holdings are subsidiaries of AVIC, the ultimate controlling shareholder of the Company and therefore connected persons of the Company. As the Disposal is inter-conditional with the (a) disposal of the Target Shares held by AVIC HK Group and AVIC Joy Air, and (b) the transfer of Target Loans by AVIC HK Group, AVIC Joy Air and Joy Air Holdings, each a connected person of the Company, pursuant to Rule 14A.20 of the Listing Rules, the Disposal constitute a connected transaction of the Company.

The applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Disposal exceed 0.1% but are below 5%. Therefore, the transaction is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

On 15 September 2020, the Company and Billirich, a wholly-owned subsidiary of the Company, entered into the Share Purchase and Loan Transfer Agreement with, among others, the Purchaser, pursuant to which the Purchaser agreed to acquire (i) from the Company and Billirich in aggregate 1,031,595,000 Target Shares (representing approximately 17.36% of the total issued capital of the Target); (ii) from AVIC HK Group 504,023,891 Target Shares (representing approximately 8.48% of the total issued capital of the Target); (iii) from AVIC Joy Air 60,810,000 Target Shares (representing approximately 1.02% of the total issued capital of the Target) and (iv) the Target Loans with an aggregate outstanding amount of RMB829,471,414.52 (principal and interests accrued) from AVIC HK Group, AVIC Joy Air and Joy Air Holdings. The total consideration payable by the Purchaser under the Share Purchase and Loan Transfer Agreement is approximately HK\$75,707,151 and the total consideration receivable by Billirich is HK\$26,821,470.

SHARE PURCHASE AND LOAN TRANSFER AGREEMENT

- Date : 15 September 2020
- Purchaser : Sincere View International Limited 信景國際有限公司
- Vendors : (1) AVIC HK Group;
- (2) AVIC Joy Air;
- (3) the Company;
- (4) Billirich, a wholly-owned subsidiary of the Company; and
- (5) Joy Air Holdings.

Sale Shares and consideration

Pursuant to the Share Purchase and Loan Transfer Agreement,

- (a) the Company and Billirich agreed to sell and the Purchaser agreed to acquire the 1,031,595,000 Target Shares (representing approximately 17.36% of the total issued capital of the Target) for a consideration of HK\$26,821,470, representing a price of HK\$0.026 per Target Share;
- (b) AVIC HK Group agreed to sell and the Purchaser agreed to acquire 504,023,891 Target Shares (representing approximately 8.48% of the total issued capital of the Target) for a consideration of HK\$13,104,621.17, representing a price of HK\$0.026 per Target Share; and
- (c) AVIC Joy Air agreed to sell and the Purchaser agreed to acquire 60,810,000 Target Shares (representing approximately 1.02% of the total issued capital of the Target) for a consideration of HK\$1,581,060, representing a price of HK\$0.026 per Target Share.

The consideration for the sale and purchase of the Sale Shares shall be payable by the Purchaser to the Vendors (as applicable) in cash on the Closing Date.

The consideration for the sale and purchase of the Sale Shares was determined after arm's length negotiations between the Vendors and the Purchaser with reference to the arithmetic average of the volume weighted average price per Share of approximately HK\$0.026 as quoted on the Stock Exchange for the 30 trading days ending on and including the trading day before the date of this announcement.

Target Loans and consideration

Pursuant to the Share Purchase and Loan Transfer Agreement, AVIC HK Group, Joy Air Holdings and AVIC Joy Air agreed to transfer by novation the Target Loans with an aggregate outstanding amount of RMB829,471,414.52 (principal and interests accrued) to the Purchaser for a consideration of RMB30,000,000 (approximately HK\$34,200,000).

As at the date of this announcement, a deposit of RMB10,000,000 (approximately HK\$11,400,000) has been paid by the Purchaser to AVIC HK Group which shall form part of the consideration to be paid by the Purchaser to AVIC HK Group for the transfer of Target Loans. The outstanding consideration (after deducting the amount of deposit paid by the Purchaser) for the transfer of the Target Loans shall be payable by the Purchaser to the AVIC HK Group, Joy Air Holdings and AVIC Joy Air (as applicable) in cash on the Closing Date.

The consideration for the transfer of the Target Loans was determined after arm's length negotiations between AVIC HK Group, Joy Air Holdings, AVIC Joy Air and the Purchaser with reference to the total amount of the Target Loans, the financial condition of the Target and the expected recovery of the Target Loans.

Conditions Precedent

Completion is conditional upon fulfilment (or, where applicable, waiver) of, among others, the following conditions:

- (a) the listing status of the Target has not been revoked and the trading of the Target Shares has not been suspended by the Stock Exchange;
- (b) the sale of the Sale Shares and the transfer of the Target Loans have been approved by AVIC and AVIC International;
- (c) separate novation agreements have been agreed and entered into between AVIC HK Group, Joy Air Holdings, AVIC Joy Air and the Purchaser in relation to the transfer of Target Loans;
- (d) no representations under the Share Purchase and Loan Transfer Agreement having been breached in any respect by the Vendors or the Purchaser (as applicable); and
- (e) the provision of counter-guarantees by the Purchaser, Mr. Hon Kwok Lung (the ultimate beneficial owner of the Purchaser) and Beijing Heshun Zhongxin Investment Co., Ltd. for the loans drawn down by the Target from independent financiers together with any interests and liabilities which may be payable by Joy Air Holdings and its wholly-owned subsidiary Fujian Air Co., Ltd under the guarantees provided by Joy Air Holdings and its wholly-owned subsidiary Fujian Air Co., Ltd to the independent financiers.

Completion

Subject to the satisfaction of the conditions precedent under the Share Purchase and Loan Transfer Agreement, Completion shall take place on the 10th Business Day after the date of the Share Purchase and Loan Transfer Agreement, unless otherwise agreed between the Vendors and the Purchaser. On the Closing Date, (a) the sale and purchase of the Sale Shares by the Vendors to the Purchaser and (b) the novation of the Target Loans from AVIC HK Group, AVIC Joy Air and Joy Air Holdings to the Purchaser shall complete concurrently.

Upon Completion, (i) the Vendors will no longer hold any equity interests in the Target and (ii) the Target will not owe any loans provided by AVIC HK Group, AVIC Joy Air and Joy Air Holdings.

INFORMATION OF THE COMPANY AND THE PARTIES

Information on the Vendors and their ultimate beneficial owners

The Company is incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (stock code: 232). It is principally engaged in general aviation aircraft piston engine business.

Billirich is a company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company. It principally engages in the business of investment holding. As at the date of this announcement, it is interested in 17.36% of the Target.

AVIC HK Group is a company incorporated in Hong Kong and engages in the business of investment holding. As at the date of this announcement, it is indirectly interested in 46.40% of the Company and a connected person of the Company. As at the date of this announcement, it is interested in 8.48% of the Target.

AVIC Joy Air is a company incorporated in Hong Kong and engages in the business of investment holding. As at the date of this announcement, it is indirectly owned by AVIC, the ultimate controlling shareholder of the Company and therefore a connected person of the Company. As at the date of this announcement, it is interested in 1.02% of the Target.

Joy Air Holdings is a company incorporated in the PRC and is principally engaged in the business of civil aviation. As at the date of this announcement, it is indirectly owned by AVIC, the ultimate controlling shareholder of the Company and therefore a connected person of the Company.

AVIC, the ultimate controlling shareholder of each Vendor, is a state-owned enterprise established in the PRC principally engaged in the aviation business covering defense, transport aircrafts, helicopters, avionics and systems, general aviation, research and development, flight testing, trade and logistics, assets management, financial services, engineering and construction and automobiles.

Information on the Purchaser and its ultimate beneficial owners

According to publicly available information, the Purchaser is a limited liability company incorporated in the British Virgin Islands. It engages in the business of investment holding and is a controlling shareholder of Citychamp Watch & Jewellery Group Limited, a limited liability company incorporated in the Cayman Islands whose shares are listed on the Main Board of the Stock Exchange (stock code: 256) and principally engaged in manufacturing and distribution of watches and timepieces, property investments and banking and financial businesses. The ultimate beneficial owners of the Purchaser are Mr. Hon Kwok Lung and his spouse, Ms. Lam Suk Ying.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Purchaser and the ultimate beneficial owners of the Purchaser are third parties independent of the Company and connected persons of the Company.

INFORMATION OF THE TARGET

The Target is a company incorporated in Hong Kong and is principally engaged in the management and operation of light-emitting diode energy management contracts; provision of finance lease and loan services and property investment; and provision of land development services.

Financial information of the Target

The Target's financial information for the two financial years ended 31 December 2018 and 31 December 2019 is set out below:

	Financial Year ended 31 December	
	2019 <i>HK\$('000)</i> audited	2018 <i>HK\$('000)</i> audited
Revenue	62,419	139,822
(Loss)/profit before taxation	(663,395)	(801,112)
(Loss)/profit after taxation	(584,965)	(696,483)
Net (liabilities)/assets	(346,521)	275,436

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

Upon completion of the Disposal, there will be no gain or loss recognised by the Group, as the investment has been designated as an equity investment at fair value through other comprehensive income and gains or losses on the investment are never recycled to the statement of profit or loss.

The Board intends to apply the net proceeds from the Disposal as general working capital of the Group.

The original acquisition costs of the Sale Shares to be sold by the Group is HK\$248,845,155.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The revenue of the Target has been deteriorating significantly over the recent years. It has recorded a net loss of approximately HK\$585 million for the year ended 31 December 2019. The management of the Group is not optimistic about the future operation of the Target and decided that it is in the interests of the Company to realise its entire investments in the Target and strengthen the Group's liquidity.

The Directors (including independent non-executive Directors) are of the view that the Share Purchase and Loan Transfer Agreement was entered into on normal commercial terms and in the ordinary and usual course of business of the Company. The Directors (including independent non-executive Directors) are of the view that the terms of the Share Purchase and Loan Transfer Agreement are fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

As (i) Mr. Lai Weixuan and Mr. Fu Fangxing are the directors of AVIC International, the controlling shareholder of AVIC HK Group, (ii) 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 in the relevant board resolutions.

LISTING RULES IMPLICATIONS

As at the date of this announcement, AVIC HK Group is interested in 46.40% of the shares of the Company and is therefore a controlling shareholder and a connected person of the Company; both AVIC Joy Air and Joy Air Holdings are subsidiaries of AVIC, the ultimate controlling shareholder of the Company and therefore connected persons of the Company. As the Disposal is inter-conditional with (a) the disposal of the Target Shares held by AVIC HK Group and AVIC Joy Air, and (b) the transfer of Target Loans by AVIC HK Group, AVIC Joy Air and Joy Air Holdings, each a connected person of the Company, pursuant to Rule 14A.20 of the Listing Rules, the Disposal constitutes a connected transaction of the Company.

The applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the Disposal exceed 0.1% but are below 5%. Therefore, the transaction is exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

The announcement uses the following definitions:

“AVIC”	Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), a state-owned enterprise established in the PRC and the ultimate controlling shareholder of the Company
“AVIC HK Group”	AVIC International (HK) Group Limited, a company incorporated in Hong Kong with limited liability, whose registered address is at 20/F., Tower II, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong
“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

“AVIC Joy Air”	AVIC Joy Air (HK) Group Limited, a company incorporated in Hong Kong with limited liability, whose registered address is at Room 151, 19th Floor, Cityplaza 3, 14 Taikoo Wan Road, Taikoo Shing, Quarry Bay, Hong Kong
“Billirich”	Billirich Investment Limited, a company incorporated in the British Virgin Islands with limited liability, whose registered address is at Pasea Estate, Road Town, Tortola, British Virgin Islands and a wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Business Day”	a day other than (a) a Saturday or Sunday; (b) a day defined as a gale warning day or a black rainstorm warning day under the Interpretation and General Clauses Ordinance (Cap. 1); and (c) a day where banks in Hong Kong or the PRC do not open for business
“Closing Date”	10 Business Days from the date of the Share Purchase and Loan Transfer Agreement or a date otherwise agreed by the Vendors and the Purchaser
“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)
“Completion”	completion of sale and purchase of the Sale Shares in accordance with the terms of the Share Purchase and Loan Transfer Agreement
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Disposal”	the proposed disposal of the Sale Shares with respect to the Company and Billirich pursuant to the terms of the Share Purchase and Loan Transfer Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China

“Joy Air Holdings”	AVIC Joy Air Holdings Limited* (幸福航空控股有限公司), a company incorporated in the PRC with limited liability, whose registered address is at No. 2228 (Collective Office Zone), 2nd floor, Building 33-D, No.99, Kechuang 14 Street, Beijing Economic Technological Development Area, Beijing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this announcement only, excludes Taiwan, Hong Kong and Macau Special Administrative Region of the People’s Republic of China
“Purchaser”	Sincere View International Limited 信景國際有限公司, a company incorporated in the British Virgin Islands with limited liability, whose registered address is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	all the Target Shares held by the Vendors, representing approximately 26.86% of the total issued capital of the Target held by the Vendors as at the date of this announcement, being the subject of the Share Purchase and Loan Transfer Agreement
“Share”	an ordinary issued share of the Company
“Shareholder”	a holder of any Share
“Share Purchase and Loan Transfer Agreement”	the share purchase and loan transfer agreement and side letters dated 15 September 2020 entered into between AVIC HK Group, AVIC Joy Air, the Company, Billirich, Joy Air Holdings and the Purchaser in relation to the sale and purchase of certain Target Shares and the transfer of the Target Loans to the Purchaser
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	AVIC Joy Holdings (HK) Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange (stock code: 260)

“Target Loans”	the loans owed by the Target and its subsidiaries to AVIC HK Group, AVIC Joy Air and Joy Air Holdings that are proposed to be transferred under the Share Purchase and Loan Transfer Agreement
“Target Shares”	the ordinary shares in the issued share capital of the Target
“Vendors”	(a) AVIC HK Group; (b) AVIC Joy Air; (c) the Company; (d) Billirich; and (e) Joy Air Holdings
“%”	per cent.

* *For identification purpose only*

For the purpose of this announcement, amounts denominated in RMB have been translated into HK\$ at an exchange rate of RMB1 = HK\$1.14.

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

Hong Kong, 15 September 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.