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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)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION

Financial Adviser to the Company

ANGLO CHINESE 英
CORPORATE FINANCE, LIMITED 高

THE DISPOSAL

On 30 September 2018, the Company entered into the SPA, pursuant to which the Company agreed to sell, and Shengtong Holding Limited, the Purchaser, agreed to acquire, the entire issued share capital of Ease Triumph and the Shareholder's Loan at an aggregate consideration of RMB1,825 million (equivalent to HK\$2,237 million). Upon Completion, Ease Triumph will cease to be a subsidiary of the Company.

LISTING RULE IMPLICATIONS

As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal, if materialised, will constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules.

As such, the Disposal and the transactions contemplated thereunder are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. A circular containing, among other things, details of the Disposal and a notice convening the SGM will be despatched to the Shareholders once available. The circular is expected to be despatched to the Shareholders on or before 31 October 2018 in order to allow sufficient time for preparation.

Also, the Purchaser is an indirect wholly-owned subsidiary of Hengda Real Estate, which currently holds 80% of the issued share capital of Hangfa Investment and therefore is a substantial shareholder of Dalian Hanghua, a 52.08%-owned subsidiary of Ease Triumph. As a result, the Purchaser is a connected person of the Company at the subsidiary level under Rule 14A.06(9) of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Directors (including the independent non-executive Directors of the Company) have approved the Disposal and confirmed that the terms of the Disposal are fair and reasonable, and the Disposal is on normal commercial terms or better and in the interests of the Shareholders as a whole. Pursuant to Rule 14A.101 of the Listing Rules, the Disposal is subject to the reporting and announcement requirements but is exempted from the circular, independent financial advice and shareholders' approval requirements.

BACKGROUND OF THE DISPOSAL

Reference is made to the announcements of the Company dated 7 September 2016, 19 September 2017, 27 October 2017, 17 April 2018 and 3 September 2018 and the circulars of the Company dated 29 December 2017 and 31 May 2018.

As disclosed in the announcement dated 3 September 2018, on 17 April 2018, the Board resolved to dispose of the entire issued share capital of Ease Triumph and the Shareholder's Loan by way of a public tender through CBEE. A special general meeting was subsequently held on 15 June 2018 in which the resolution in respect of the granting of the Proposed Mandate to the Directors was duly passed.

The Public Tender process commenced on 25 June 2018 through CBEE. Through the process, the Company had identified two potential purchasers (one of them being the Purchaser) who indicated their interest in the Proposed Disposal but only the Purchaser paid the transaction deposit as required by CBEE in order to be eligible to participate in the Public Tender. After having conducted background checks on the Purchaser, the Company found that it is a connected person of the Company at subsidiary level and therefore could not satisfy the qualifications regarding the independence of participating bidders as specified under the subsection headed “The Proposed Disposal — V. Major terms of the Proposed Disposal” in the “Letter from the Board” of the Company’s circular dated 31 May 2018. The Company was therefore not able to use the Proposed Mandate to enter into any transaction regarding the Proposed Disposal with the Purchaser. Any transaction to be conducted with the Purchaser will also constitute a connected transaction of the Company which will be subject to the requirements under Chapter 14A of the Listing Rules.

On 30 September 2018, the Company reached an agreement and entered into the SPA with the Purchaser. The principal terms are as follows:

SPA

- Date: 30 September 2018
- Parties: (i) the Company, as vendor; and
(ii) Shengtong Holding Limited, as purchaser.
- Subject matter: (i) the entire issued share capital of Ease Triumph;
(ii) the Shareholder’s Loan; and
(iii) the interest of the Shareholder’s Loan accrued from the respective interest start date of each shareholder’s loan comprising the Shareholder’s Loan to the commencement date of the Public Tender (i.e. 25 June 2018) (the “**Original Interest**”).
- Consideration: RMB1,825 million (equivalent to HK\$2,237 million), which is an aggregate of:
(i) RMB680 million (equivalent to HK\$840 million), being the consideration for the entire share capital of Ease Triumph;
(ii) RMB1,099 million (equivalent to HK\$1,341 million), being the consideration for the Shareholder’s Loan; and

(iii) RMB46 million (equivalent to HK\$56 million), being the consideration for the Original Interest, (together the “**Consideration**”).

The Consideration shall be satisfied by the Purchaser in the following manner:

- (i) RMB548 million (equivalent to HK\$671 million), being 30% of the Consideration, shall be transferred by the Purchaser to a designated account of the Company within five (5) Business Days after the passing by the Shareholders at the SGM of an ordinary resolution approving the Disposal in accordance with the Listing Rules; and
- (ii) RMB1,277 million (equivalent to HK\$1,566 million), being 70% of the Consideration, shall be transferred by the Purchaser to a designated account of the Company within thirty (30) days after the passing by the Shareholders at the SGM of an ordinary resolution approving the Disposal in accordance with the Listing Rules.

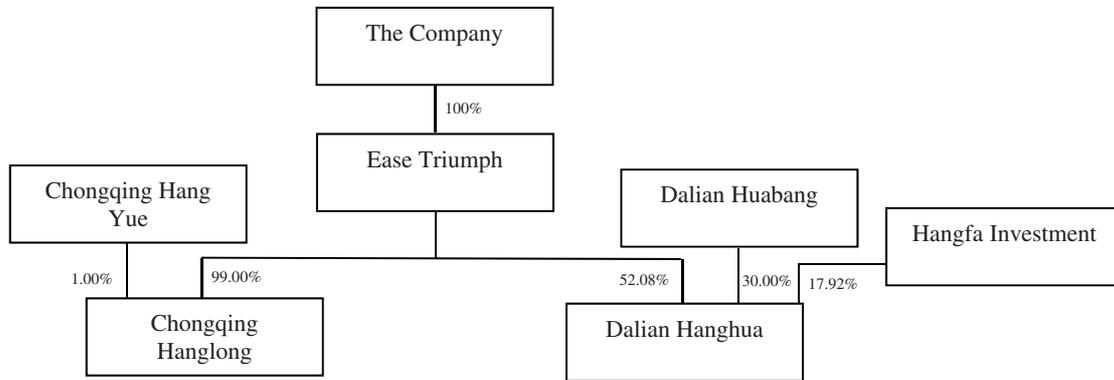
The Consideration was determined between the Company and the Purchaser based on arm’s length negotiation after taking into account, among other things, (i) the minimum bidding price determined by the Company for the Public Tender, (ii) the aggregate appraised value of the properties of the Ease Triumph Group as at 31 August 2018 of RMB2,810 million (equivalent to HK\$3,469 million) according to the appraisal report issued by an independent appraisal firm, (iii) the adjusted unaudited consolidated Net Assets of the Ease Triumph Group as at 30 June 2018 of HK\$86 million, being the Net Liabilities of the Ease Triumph Group as at 30 June 2018 of HK\$33 million plus the valuation adjustments on the properties arising from the business combination which took place in 2014 of HK\$329 million, and net of the corresponding tax impact of HK\$102 million and the part attributable to the non-controlling interest of the Ease Triumph Group of HK\$108 million, and (iv) the latest operational and financial performance of the project companies of the Ease Triumph Group.

- Other interest:** In addition to the Consideration, the Purchaser shall pay the interest (at an annual interest rate of 6%) on the Shareholder’s Loan and the Original Interest, both accrued from 26 June 2018 to the settlement date of the Shareholder’s Loan and the Original Interest (the “**Other Interest**”), within thirty (30) days after the passing by the Shareholders at the SGM of an ordinary resolution approving the Disposal in accordance with the Listing Rules.
- Additional loan and interest:** The Company may lend additional sums of not more than RMB1 billion in total to the Ease Triumph Group for its working capital needs after the commencement date of the Public Tender (i.e. 25 June 2018) and before the Completion (the “**Additional Loan**”). The Purchaser shall repay the Company the principal amount of the Additional Loan and interest (at an annual interest rate of 6%) of any of such loan (the “**Additional Loan & Interest**”) before the Completion.
- Conditions precedent:** Completion is conditional upon satisfaction of the following conditions precedent:
- (i) the passing by the Shareholders at the SGM of an ordinary resolution approving the Disposal in accordance with the Listing Rules; and
 - (ii) the obtaining of all required regulatory approvals in relation to the Disposal from relevant authorities (including but not limited to Hong Kong and the PRC) by the Company.
- Completion:** Completion shall only take place upon the fulfillment of all the conditions set out in the conditions precedent above and the Purchaser’s payment of the Consideration, the Other Interest and the Additional Loan & Interest.
- Completion shall take place within thirty (30) days after all the Consideration and the Other Interest have been paid by the Purchaser and the fulfilment of all the conditions set out in the conditions precedent above.

If Completion has not taken place on or before the Long Stop Date, the SPA shall terminate with immediate effect and no party to the SPA shall have any further obligations and liabilities towards each other save for any accrued rights and obligations as at the date of termination.

THE DISPOSAL

Ease Triumph holds equity interest in two project companies, namely, Dalian Hanghua and Chongqing Hanglong, which were set up for the development and sale of properties in Dalian and Chongqing respectively. The following diagram illustrates the shareholding structure of the Ease Triumph Group as at the date of this announcement:



I. Dalian Hanghua

Dalian Hanghua is principally engaged in the development and sale of properties in Dalian. As at the date of this announcement, it is held as to 52.08%, 30% and 17.92% by Ease Triumph, Dalian Huabang and Hangfa Investment, respectively.

The major assets of Dalian Hanghua include four parcels of land having a total site area of approximately 46,938 square meters (excluding communal site area). Dalian Hanghua is currently solely engaged in the development of a large-scale project, the International Square, comprising offices, retail shops and residential buildings, and all of the four parcels of land are used for the development of the International Square. The total saleable area of the International Square upon completion is approximately 350,488 square meters. The project is developed into four zones, three of which have been completed with an aggregate unsold gross floor area of approximately 71,927 square meters as at the date of this announcement, while the remaining zone is left for future development.

II. Chongqing Hanglong

Chongqing Hanglong is principally engaged in the development and sale of properties in Chongqing. As at the date of this announcement, it is held as to 99.00% and 1.00% by Ease Triumph and Chongqing Hang Yue respectively.

The major assets of Chongqing Hanglong include twelve parcels of land located at the Liangjiangxin District of Chongqing with a total site area of approximately 375,252 square meters and are currently in the early development phase.

III. Shareholder's Loan and Additional Loan

As at the date of this announcement, the Shareholder's Loan comprises:

- i) a principal amount of USD98 million (equivalent to HK\$760 million) at the interest rate of 6% per annum, for which the interest start date is 1 July 2017;
- ii) a principal amount of RMB38 million (equivalent to HK\$47 million) at the interest rate of 6% per annum, for which the interest start date is 1 July 2017; and
- iii) a principal amount of RMB433 million (equivalent to HK\$534 million) at the interest rate of 6% per annum, for which the interest start date is 27 March 2018.

As at the date of this announcement, the Additional Loan comprises a principal amount of RMB11 million (equivalent to HK\$14 million) at the interest rate of 6% per annum, for which the interest start date is 20 July 2018.

IV. Financial information of the Ease Triumph Group

Set out below is the unaudited consolidated financial information of the Ease Triumph Group for the two years ended 31 December 2017 and the six months ended 30 June 2017 and 2018 prepared in accordance with the accounting policies as those adopted by the Group in its annual reports and interim reports for the respective years and periods.

	For the year ended 31 December		For the six months ended 30 June	
	2017	2016	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(Loss) before tax	51,698	(44,346)	(131,808)	(44,322)
Loss after tax	(39,615)	(40,255)	(134,950)	(46,677)
Loss for the year attributable to owners of the company	(74,657)	(22,921)	(120,169)	(37,123)

The unaudited consolidated total assets and Net Liabilities of the Ease Triumph Group as at 30 June 2018 were HK\$3,372 million and HK\$33 million, respectively.

The appraised value of the properties of Dalian Hanghua and Chongqing Hanglong as at 31 August 2018 was RMB1,972 million (equivalent to HK\$2,435 million) and RMB838 million (equivalent to HK\$1,034 million) respectively, based on a valuation by a combination of comparison and income approaches performed by an independent qualified valuer, Jones Lang LaSalle Corporate Appraisal and Advising Limited. The full valuation report will be included in the circular to be despatched to the Shareholders.

After Completion, Ease Triumph will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the financial statements of the Group.

REASONS FOR AND BENEFITS OF THE DISPOSAL

As first disclosed in the Company's announcement dated 7 September 2016, the Company had been considering a series of business and asset reorganisation proposals which include the acquisition of certain assets and the disposal of the Group's real estate development business in the PRC. The proposed reorganisation is part of a wider restructuring campaign being implemented by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, according to which Aviation Industry was requested to dispose of all its real estate business.

After the completion of acquisition of Motto Investment Limited, details of which can be found in the circular of the Company dated 29 December 2017 and the announcement of the Company dated 7 February 2018, the Company has changed its business focus to the worldwide general aviation aircraft piston engines market. The Directors are confident that such a change is beneficial to the Group's business performance and is in line with its development strategy in the long run. Given the incompatible business nature of the PRC real estate market with the general aviation aircraft piston engines market, the Directors believe the Disposal would streamline the Group's operations and enhance its focus on the new core business. Further, the Disposal would bring a considerable sum of proceeds for the Group to settle part of the outstanding consideration for the abovementioned acquisition and to enhance the working capital position of the Group.

The Board was of the view that conducting the Public Tender could attract more potential bidders and maximise the consideration for the disposal of Ease Triumph and the Shareholder's Loan which would be in the interest of the Company and the

Shareholders as a whole. However, as mentioned above, the Purchaser, who was the only bidder that had paid the transaction deposit as required by CBEE, is a connected person of the Company at the subsidiary level, and was not able to satisfy the independence requirements of participating bidders. The Company therefore could not use the Proposed Mandate to enter into any transaction regarding the Proposed Disposal with the Purchaser.

Notwithstanding the unsuccessful attempt to conduct the Proposed Disposal under the Proposed Mandate, the Company and the Purchaser reached an agreement and entered into the SPA on 30 September 2018.

Under the SPA, the Purchaser will purchase the entire issued share capital of Ease Triumph at the minimum bidding price under the Proposed Mandate, namely, RMB680 million. The Board is of the view that the terms of the SPA are fair and reasonable, the Disposal is on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

USE OF PROCEEDS AND FINANCIAL IMPACT OF THE DISPOSAL

The gross proceeds from the Disposal are expected to be approximately RMB1,868 million (equivalent to HK\$2,289 million) and the net proceeds (after deducting related tax expenses, transaction costs and professional expenses) are expected to be approximately RMB1,704 million (equivalent to HK\$2,088 million). The Group intends to use: (i) HK\$800 million to settle part of the consideration of the acquisition of Motto Investment Limited; (ii) RMB433 million (equivalent to HK\$535 million) for the repayment of interest-bearing liabilities of the Group; and (iii) the remainder of the proceeds for general working capital.

The Disposal is expected to give rise to a gain of approximately HK\$744 million (before taxation, if any), calculated with reference to the difference between the consideration for the entire issued share capital of Ease Triumph and the adjusted unaudited consolidated Net Assets of the Ease Triumph Group as at 30 June 2018, the transaction costs and expenses of HK\$3 million and the release of debit exchange reserve of the Ease Triumph Group of HK\$7 million in relation to the Disposal. The actual gain or loss as a result of the Disposal to be recorded by the Company is subject to any changes to the carrying amount of the Ease Triumph Group on the date of the Completion.

ABOUT 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) general aviation aircraft piston engine business.

For the year ended 31 December 2017, the Group's property development and investment business recorded a revenue of HK\$1,520,710,000 and a gross loss of HK\$185,812,000. The main reason for the loss was due to the loss of HK\$296,848,000 arisen from writing down properties under development and completed properties held for sale to net realisable value and included in the cost of sales. As at 30 June 2018, the Group's properties under development and completed properties held for sale amounted to HK\$3,206,513,000 and investment properties amounted to HK\$384,568,000.

On 7 February 2018, the Company completed the acquisition of Motto Investment Limited's entire issue share capital and the shareholder's loan notes owed to AVIC International (HK) Group Limited. Please refer to the Company's 2017 annual report and 2018 interim results announcement for details of the latest development of the Group's existing business.

ABOUT SHENGTONG HOLDING LIMITED

The Purchaser is a company incorporated in Hong Kong with limited liability, and is an indirect wholly-owned subsidiary of Hengda Real Estate. It is an investment holding company primarily engaged in real estate investment.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Disposal exceeds 75%, the Disposal, if materialised, will constitute a very substantial disposal of the Company under Chapter 14 of the Listing Rules.

As such, the Disposal and the transactions contemplated thereunder are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules. A circular containing, among other things, details of the Disposal and a notice convening the SGM will be despatched to the Shareholders once available. The circular is expected to be despatched to the Shareholders on or before 31 October 2018 in order to allow sufficient time for preparation.

Also, the Purchaser is an indirect wholly-owned subsidiary of Hengda Real Estate, which currently holds 80% of the issued share capital of Hangfa Investment and therefore is a substantial shareholder of Dalian Hanghua, a 52.08%-owned subsidiary of Ease Triumph. As a result, the Purchaser is a connected person of the Company at the subsidiary level under Rule 14A.06(9) of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Directors (including the independent non-executive Directors of the Company) have approved the Disposal and confirmed that the terms of the

Disposal are fair and reasonable, and the Disposal is on normal commercial terms or better and in the interests of the Shareholders as a whole. Pursuant to Rule 14A.101 of the Listing Rules, the Disposal is subject to the reporting and announcement requirements but is exempted from the circular, independent financial advice and shareholders' approval requirements.

DEFINITIONS

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

- “Additional Loan” the loans offered by the Company to the Ease Triumph Group for its working capital needs after the commencement date of the Public Tender (i.e. 25 June 2018) and before Completion;
- “Additional Loan & Interest” the Additional Loan and the interest (at an annual interest rate of 6%) of the Additional Loan accrued from the respective interest start date of each loan comprising the Additional Loan to the settlement date of the Additional Loan and the interest;
- “Aviation Industry” Aviation Industry Corporation of China, Ltd (中國航空工業集團有限公司), a state-owned company (國有獨資公司) established in the PRC which holds 62.52% of the equity interest in AVIC International Holding Corporation (中國航空技術國際控股有限公司) as at the date of this announcement, a controlling shareholder of the Company;
- “Board” the board of Directors;
- “Business Day” a day (other than a Saturday or Sunday or public holiday in Hong Kong or any day on which a black rainstorm warning signal or a tropical cyclone warning no. 8 or above is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong for general commercial business;
- “CBEE” China Beijing Equity Exchange* (北京產權交易所), an equity trading institution approved by the People's Government of Beijing Municipality;

“Chongqing Hanglong”	Chongqing Hanglong Real Estate Company Limited* (重慶航龍置業有限公司), a limited liability company established in the PRC, and as at the date of this announcement, its equity interest is owned as to 99% and 1% by Ease Triumph and Chongqing Hang Yue respectively;
“Chongqing Hang Yue”	Chongqing Hang Yue Company Limited* (重慶航悅置業有限公司), a limited liability company incorporated in PRC and is wholly owned by Chongqing Jianghang Investment Company Limited* (重慶江航投資有限公司), a limited liability company established in the PRC which is indirect wholly owned by Hangfa Investment;
“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 the Disposal;
“Consideration”	the consideration of RMB1,825 million (equivalent to HK\$2,237 million) for the Disposal in accordance with the terms of the SPA;
“Dalian Hanghua”	Dalian Hanghua Real Estate Company Limited* (大連航華置業有限公司), a limited liability company established in the PRC, and as at the date of this announcement, its equity interest is owned as to 52.08%, 30% and 17.92% by Ease Triumph, Dalian Huabang and Hangfa Investment, respectively;
“Dalian Huabang”	Dalian Huabang Investment Development Company Limited* (大連華邦投資發展有限公司), a company incorporated in the PRC with limited liability and an independent third party;
“Disposal”	the disposal by the Company of the entire issued capital of Ease Triumph and the Shareholder’s Loan as contemplated under the SPA;
“Directors”	the directors of the Company;

“Ease Triumph”	Ease Triumph International Limited (拓業國際有限公司), a company incorporated in Hong Kong with limited liability and is a direct wholly-owned subsidiary of the Company;
“Ease Triumph Group”	Ease Triumph and its subsidiaries;
“Group”	the Company and its subsidiaries;
“Hangfa Investment”	Hangfa Investment Limited* (航發投資管理有限公司), a company incorporated in the PRC with limited liability;
“Hengda Real Estate”	Hengda Real Estate Group Company Limited* (恒大地產集團有限公司), a company incorporated in the PRC with limited liability, which is 63.46% owned by China Evergrande Group, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 3333);
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	31 December 2019, or such later date as the parties to the SPA may agree in writing;
“Net Assets”	net assets attributable to owners of the company;
“Net Liabilities”	net liabilities attributable to owners of the company;
“Original Interest”	the interest of the Shareholder’s Loan accrued from the respective interest start date of each shareholder’s loan comprising the Shareholder’s Loan to the commencement date of the Public Tender (i.e. 25 June 2018);
“Other Interest”	the interest (at an annual interest rate of 6%) on the Shareholder’s Loan and the Original Interest, both accrued from 26 June 2018 to the settlement date of the Shareholder’s Loan and the Original Interest;

“PRC”	the People’s Republic of China;
“Proposed Disposal”	the proposed disposal of the entire issued capital of Ease Triumph and the Shareholder’s Loan through the Public Tender;
“Proposed Mandate”	the general mandate granted in advance to the Directors to enter into and complete the Proposed Disposal by the Shareholders at the special general meeting held on 15 June 2018;
“Public Tender”	the public tender for the disposal of the entire issued capital of Ease Triumph and the Shareholder’s Loan through CBEE which took place between 25 June 2018 and 20 July 2018;
“Purchaser”	Shengtong Holding Limited, a company incorporated in Hong Kong with limited liability which is an indirect wholly-owned subsidiary of Hengda Real Estate;
“RMB”	Renminbi, the lawful currency of the PRC;
“SGM”	the special general meeting of the Company to be convened and held for the purpose of considering and, if appropriate, approving the SPA and the transactions contemplated thereunder;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	registered holder(s) of the Share(s);
“Shareholder’s Loan”	the outstanding shareholder’s loans owed by Ease Triumph to the Company as at the commencement date of the Public Tender;
“SPA”	the agreement dated 30 September 2018 entered into between the Company and the Purchaser relating to the disposal by the Company of the entire issued share capital of Ease Triumph and the Shareholder’s Loan;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“USD” United States dollar, the lawful currency of the United States of America; and

“%” per cent.

For the propose of this announcement, the exchange rates of USD1.00 = HK\$7.75 and HK\$1.00 = RMB0.81 have been used, where applicable. The translations of Renminbi should not be taken as a representation that the Renminbi could actually be converted into Hong Kong dollars at that rate or at all.

** English name of such entity is the translation of its Chinese name for reference only.*

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

Hong Kong, 1 October 2018

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