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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)

MAJOR TRANSACTION AND POSSIBLE CONNECTED TRANSACTION

THE AGREEMENT

On 21 September 2011, the Purchaser entered into the Agreement with the Vendor pursuant to which the Purchaser conditionally agreed to acquire and the Vendor conditionally agreed to sell the Sale Shares, representing 51% equity interest in the Target Company at a consideration of RMB7.0 million (equivalent to approximately HK\$8.5 million). The Consideration shall be satisfied by the Purchaser in cash on the Acquisition Completion Date.

GENERAL

As the applicable percentage ratios of the Acquisition calculated in accordance with Rule 14.07 of the Listing Rules exceeds 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under the Listing Rules. The Agreement and the transactions contemplated thereunder are subject to the approval of the Shareholders by way of poll at the SGM. As the Vendor is a third party independent of the Company and its connected persons and no Shareholder has any material interest in the Acquisition which is different from other Shareholders, no Shareholder is required to abstain from voting in respect of the ordinary resolution to be proposed at the SGM for the approval of the Agreement and the transactions contemplated thereunder.

A circular containing, among other things, details of the Agreement, an accountants' report on the Target Company, the financial information of the Group and other information as required under the Listing Rules will be despatched to the Shareholders on or before 13 October 2011.

POSSIBLE CONNECTED TRANSACTION

Following Completion, the Target Company will become a subsidiary of the Company, the Financial Assistance will constitute a connected transaction of the Company under the Listing Rules upon Completion. The Company will comply in full with the requirements under Rule 14A.41 of the Listing Rules in respect of the Financial Assistance as and when appropriate.

THE AGREEMENT DATED 21 SEPTEMBER 2011

Parties

- (i) Vendor : 吳曉綱(Wu Xiaogang)
- (ii) Purchaser : 上海瑞爾通投資顧問有限公司(Shanghai RET Investment Consulting Company Limited*), an indirect wholly-owned subsidiary of the Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is the ultimate beneficial owner of the Target Company and a third party independent of the Company and its connected persons. The Group has not entered into any transaction with the Vendor or its associates in the last 12 months prior to the date of the Agreement which requires aggregation under Rule 14.22 of the Listing Rules.

Assets to be acquired

Pursuant to the Agreement, assets to be acquired by the Purchaser are the Sale Shares representing 51% equity interest in the Target Company.

The Consideration

The Consideration shall be RMB7.0 million (equivalent to approximately HK\$8.5 million) which shall be satisfied in cash on the Acquisition Completion Date.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor and was determined taking into consideration the unaudited net asset value of the Target Company as at 30 June 2011 as adjusted by (i) certain provision of the trade and other receivables of the Target Company as considered necessary by the management of the Company; and (ii) the valuation of the properties of the Target Company.

Conditions Precedent

The Completion shall be conditional upon the fulfillment or waiver of the following conditions (as the case may be):

- (1) the Purchaser having confirmed that it is satisfied with the due diligence result in relation to, including but not limited to, the assets and business operations, financial conditions, sales, growth prospects and other conditions of the Target Company including but not limited to the receipt of the following documents:
 - a. a due diligence report at the satisfaction of the Purchaser on matters, including but not limited to (i) the legality of the establishment and valid existence of the Target Company; (ii) the titles of the properties owned by the Target Company (including but not limited to land, properties and intellectual properties); (iii) the business operations of the Target Company; (iv) the approval relating to the historical changes in shareholding and increase in share capital of the Target Company; and (v) the legality, validity and enforceability of the material contracts of the Target Company as set out in the Agreement and the legality, validity and sustainability of the Acquisition; and

- b. the audited financial statements for the past three years or any other period as acceptable to the Purchaser issued by a certified public accountant firm recognized by the Purchaser on the financial conditions of the Target Company at the satisfaction of the Purchaser;
- (2) the Company having obtained the approval by the Shareholders at a duly convened shareholders' meeting of the Company approving the Agreement and the transactions contemplated thereunder;
- (3) all necessary authorization, approval, consent and filings from the PRC government authorities and any independent third parties who have interests in the Target Company in relation to the Acquisition, including but not limited to the updated registration with the State Administration of Industry and Commerce, the revised business license of the Target Company, the revised articles of the Target Company and the completion of the filing of the Target Company's members of the board of directors having been obtained;
- (4) the representations and warranties as stated in the Agreement remain true and accurate in all respects at all time;
- (5) the Purchaser not having discovered or being aware of any unusual matters in relation to the business, assets or operation of the Target Company, or material safety issue, material adverse change or material undisclosed risks of the Target Company since 30 June 2011; and
- (6) the Share Pledge provided by the Vendor and/or his spouse having become effective and the Vendor and his spouse have issued a commitment letter in respect of the Mortgage Undertaking.

Pursuant to the Agreement, the Purchaser may at its absolute discretion to waive any of the conditions (1), (5) and (6) above at any time. In the event that the above conditions precedent (except for condition (4)) cannot be fulfilled or waived by the Purchaser (as the case may be) or condition (4) fails to be fulfilled at the time when the last condition precedent has been fulfilled or waived on or before the Long Stop Date, the Purchaser has the right to extend the Long Stop Date to no later than 31 March 2012, or the Agreement shall be automatically terminated forthwith and cease to be of any effect and the parties of the Agreement shall have no claim against each other arising out of or in connection with the Agreement, save for the claims arising out of any antecedent breach of the Agreement.

Completion shall take place on the Acquisition Completion Date. Upon Completion, the Target Company will become a subsidiary of the Company, and the remaining 49% equity interest will continue to be held by the Vendor.

The Vendor undertakes to procure the completion of collection by the Target Company of the Other Receivables on a date falling within one year after the Acquisition Completion Date, or such other date as the parties shall agree (the "Latest Receivable Date"). In the event that the Other Receivables are not being received by the Target Company by the Latest Receivable Date, the Vendor undertakes to repay the entire outstanding amount of the Other Receivables to the Target Company within 10 days from the Latest Receivable Date.

The Vendor has, pursuant to the Agreement, agreed to provide the Share Pledge and the Mortgage Undertaking as securities to the Company in respect of the above obligation.

INFORMATION ON THE TARGET COMPANY

The Target Company, established in the PRC on 1 April 1998, is principally engaged in the production and distribution of knitting and textile products, knitted fabrics and clothing in Zhejiang Province, the PRC. The registered capital of the Target Company is RMB5,652,480.

Set out below is extracted from the PRC audited financial statement of the Target Company for the two years ended 31 December 2010:

	For the year ended 31 December 2009 audited RMB'000	For the year ended 31 December 2010 audited RMB'000
Turnover	66,569	96,130
Profit before taxation	696	1,200
Profit after taxation	562	906

As at 30 June 2011, the unaudited net assets value of the Target Company based on the management accounts of the Target Company was approximately RMB8.1 million (equivalent to approximately HK\$9.9 million).

REASONS FOR THE ACQUISITION

The Company is an investment holding company and its subsidiaries are principally engaged in the generation and sale of electric and steam power, and the aero-technology related business, including the share of profit from the development, manufacture and distribution of helicopters.

The Group has been exploring investment opportunities across various businesses and industries. The Directors consider that the Acquisition is a good opportunity for the Group to invest in other businesses with an aim to diversify the Group's source of revenue and to increase Shareholders' value.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Agreement are fair and reasonable and the Acquisition is in the interests of the Company and its Shareholders as a whole.

GENERAL

As the applicable percentage ratios of the Acquisition calculated in accordance with Rule 14.07 of the Listing Rules exceeds 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under the Listing Rules. The Agreement and the transactions contemplated thereunder are subject to the approval of the Shareholders by way of poll at the SGM. As the Vendor is a third party independent of the Company and its connected persons and no Shareholder has any material interest in the Acquisition which is different from other Shareholders, no Shareholder is required to abstain from voting in respect of the ordinary resolution to be proposed at the SGM for the approval of the Agreement and the transactions contemplated thereunder.

A circular containing, among other things, details of the Agreement, an accountants' report on the Target Company, the financial information of the Group and other information as required under the Listing Rules will be despatched to the Shareholders on or before 13 October 2011.

POSSIBLE CONNECTED TRANSACTION

Following Completion, the Target Company will become a subsidiary of the Company, the Financial Assistance will constitute a connected transaction of the Company under the Listing Rules upon Completion. The Company will comply in full with the requirements under Rule 14A.41 of the Listing Rules in respect of the Financial Assistance as and when appropriate.

DEFINITIONS

In this announcement, the following terms shall have the following meanings:

“Acquisition”	the proposed acquisition of the Sale Shares by the Purchaser from the Vendor at the Consideration pursuant to terms and conditions of the Agreement
“Acquisition Completion Date”	the third Business Day after the fulfilment or (as the case may be) waiver of the conditions precedent (or such other date as the parties shall agree in writing) pursuant to the Agreement
“Agreement”	the sale and purchase agreement dated 21 September 2011 entered into among the Purchaser and the Vendor in relation to the Acquisition
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any statutory business day in the PRC
“Company”	AVIC International Holding (HK) Limited, 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)
“Completion”	completion of the Acquisition pursuant to the terms and conditions of the Agreement
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Sale Shares of RMB7.0 million (equivalent to approximately HK\$8.5 million) payable by the Purchaser to the Vendor
“Director(s)”	director(s) of the Company
“Financial Assistance”	the amounts due from the spouse of the Vendor to the Target Company which amounted to approximately RMB14.0 million (equivalent to approximately HK\$17.1 million) as at 30 June 2011, which will constitute financial assistance to connected person of the Company incidental to the Completion under the Listing Rules

“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
“Long Stop Date”	30 November 2011, or such other date as the parties to the Agreement may agree in writing
“Mortgage Undertaking”	the mortgage undertaking in respect of the Mortgaged Properties which are created by the Vendor and his spouse in favour of the Purchaser
“Mortgaged Properties”	three real properties situated at Dongyang City, Zhejiang Province, the PRC jointly or separately owned by the Vendor and/or his spouse which have been pledged to certain banks for certain loans borrowed by the Target Company from the banks
“Other Receivables”	the other receivables of the Target Company (including the Financial Assistance) which amounted to approximately RMB37.3 million (equivalent to approximately HK\$45.5 million) as at 30 June 2011 according to the financial statements of the Target Company as at 30 June 2011
“PRC”	the People’s Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement
“Purchaser”	上海瑞爾通投資顧問有限公司(Shanghai RET Investment Consulting Company Limited*), an indirect wholly-owned subsidiary of the Company established under the laws of the PRC
“Sale Shares”	51% equity interest in the Target Company
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve, among other things, the Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Share Pledge”	the share pledge in respect of (1) the remaining 49% equity interest in the Target Company provided by the Vendor, and (2) the 30% equity interest in a company established under the laws of the PRC held by the spouse of the Vendor, in favour of the Purchaser
“Shareholder(s)”	holder(s) of the Share(s)

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	浙江東陽金牛針織製衣有限公司(Zhejiang Dongyang Jinniu Knitting and Garment Company Limited*), a company established under the laws of the PRC
“Vendor”	Mr. Wu Xiaogang (吳曉綱), holding the entire equity interest in the Target Company as at the date of this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

For illustration purposes, figures in RMB in this announcement have been translated into HK\$ at the exchange rate of RMB1 = HK\$1.221. Such conversion shall not be construed as a representation that amounts in RMB were or may have been converted into HK\$ using such exchange rate or any other exchange rate or at all.

By order of the Board
AVIC International Holding (HK) Limited
Wu Guangquan
Chairman

Hong Kong, 21 September 2011

As at the date of this announcement, the Board of the Company comprises Mr. Wu Guangquan, Mr. Jiang Wei, Mr. Ji Guirong, Mr. Liu Rongchun, Mr. Pan Linwu and Mr. Zhang Chuanjun as executive Directors; Mr. Ip Tak Chuen, Edmond as non-executive Director; Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Li Zhaoxi as independent non-executive Directors.

* *For identification purpose only*