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深圳中航集團股份有限公司 CATIC SHENZHEN HOLDINGS LIMITED

(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 00161)

CONNECTED TRANSACTION FINANCE LEASE ARRANGEMENT

FINANCE LEASE AGREEMENT

On 9 January 2012, Yunnan Hongfu, an indirect non-wholly owned subsidiary of the Company, entered into, among other things, the Finance Lease Agreement with AVIC International Leasing, pursuant to which Yunnan Hongfu has conditionally agreed to lease from AVIC International Leasing the Lease Assets, which were purchased by Yunnan Hongfu under the Purchase Agreements and to be transferred to AVIC International Leasing at a consideration of RMB44 million under the Transfer Agreement. Pursuant to the Finance Lease Agreement, the total lease amount payable by Yunnan Hongfu is RMB53,927,145 (equivalent to approximately HK\$66,233,290) which shall be paid by 60 monthly installments inclusive of interest determined based on the RMB Benchmark Lending Rate for 3-5 year term-loan promulgated by PBC plus 1.3%, but exclusive of management fees. However, the total lease amount will be adjusted due to the floating lending interest rate to be promulgated by PBC from time to time. The Lease Consideration (including the principal amount of RMB44 million, interests, management fees and the optional purchase price for vesting the title and all rights of the Lease Assets in Yunnan Hongfu) to be paid by Yunnan Hongfu to AVIC International Leasing shall be not more than RMB80 million (equivalent to approximately HK\$98,255,960).

GUARANTEE AND SHARE PLEDGE

On 9 January 2012, the Company entered into the Guarantee in favour of AVIC International Leasing to secure due performance of the payment obligations by Yunnan Hongfu to AVIC International Leasing in accordance with the Finance Lease Agreement and the Transfer Agreement. The maximum liability of the Company under the Guarantee is RMB80 million (equivalent to approximately HK\$98,255,960).

On the same date, Yunnan Hongyuan, the other shareholder holding 49% equity interest in Yunnan Hongfu, has entered into the Share Pledge Agreement in favour of the Company. Pursuant to the Share Pledge Agreement, Yunnan Hongyuan shall pledge its 49% equity interest, dividend and other interest in Yunnan Hongfu to the Company to (i) secure due performance of the payment obligations by Yunnan Hongfu to AVIC International Leasing in accordance with the Finance Lease Agreement and (ii) to indemnify the Company for all costs and expenses including but not limited to litigation and arbitration costs, insurance costs, expenses on announcement, valuation and certification, legal costs, enforcement expenses and other encumbrance expenses) if the Company is liable to any claims by AVIC International Leasing in the event of default by Yunnan Hongfu under the Finance Lease Agreement and, or the Transfer Agreement. Yunnan Hongyuan shall not require the Group to provide any counter guarantee or to indemnify Yunnan Hongyuan. The transaction contemplated under the Share Pledge Agreement constitutes a connection transaction of the Company, however is exempt from reporting, announcement and approval of the Independent Shareholders under Rule 14A.65(4) of the Listing Rules as the Share Pledge Agreement is for the benefit of the Group and on normal commercial terms (or better to the Group) where no security over the assets of the Group is granted by the Group in respect of the Share pledge Agreement.

The Guarantee and the Share Pledge Agreement will take effect upon the Finance Lease Agreement takes effect.

LISTING RULES IMPLICATIONS

AVIC International Leasing is owned as to 52.5%, 16.27 and 31.23% by AVIC Investment, AVIC International and other third parties respectively. AVIC Investment is wholly-owned by Aviation Industry. Aviation Industry owns as to 62.52% in AVIC International, which in turn owns 100% of Shenzhen Company, which is the controlling Shareholder. Accordingly, AVIC International Leasing is a connected person of the Company and the entering into the Finance Lease Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios for the Finance Lease Arrangement are more than 0.1% but less than 5%, the Finance Lease Arrangement is subject to the reporting and announcement requirements but exempted from independent Shareholders' approval according to Chapter 14A of the Listing Rules.

Furthermore, as the guarantee provided by the Company under the Guarantee is not in the ordinary and usual course of business of the Group but on normal commercial terms, and will be provided not in proportion to the Group's equity interest in Yunnan Hongfu, the guarantee constitutes a financial assistance to Yunnan Hongyuan. As at the date of this announcement, Yunnan Hongyuan held 49% equity interest in Yunnan Hongfu, hence a substantial shareholder of Yunnan Hongfu and a connected person of the Company. The financial assistance arising from the Guarantee constitutes a connected transaction of the Company under Rule 14A.13(3) of the Listing Rules. As the applicable percentage ratios of the financial assistance arising from the Guarantee are more than 0.1% but less than 5%, the Guarantee is subject to the reporting and announcement requirements but exempted from independent Shareholders' approval according to Chapter 14A of the Listing Rules.

1. FINANCE LEASE AGREEMENT

Date

9 January 2012

Parties

Lessor : AVIC Finance Leasing is principally engaged in, among other things finance leasing and related business, including leasing of aircrafts, engines, aircraft equipment and land equipment, repair and maintenance of leased assets and related consultancy services.

AVIC International Leasing is owned as to 52.5%, 16.27% and 31.23% by AVIC Investment, AVIC International and other third parties respectively. AVIC Investment is wholly-owned by Aviation Industry. Aviation Industry owns as to 62.52% in AVIC International, which in turn owns 100% of Shenzhen Company, which is the controlling Shareholder.

Lessee : Yunnan Hongfu, an indirect non-wholly owned subsidiary of the Company.

On 9 January 2012, Yunnan Hongfu, an indirect non-wholly owned subsidiary of the Company, entered into, among other things, the Finance Lease Agreement with AVIC International Leasing, pursuant to which Yunnan Hongfu has conditionally agreed to lease from AVIC International Leasing the Lease Assets, which were purchased by Yunnan Hongfu under the Purchase Agreements and to be transferred to AVIC International Leasing at a consideration of RMB44 million under the Transfer Agreement. Pursuant to the Finance Lease Agreement, the total lease amount payable by Yunnan Hongfu is RMB53,927,145 (equivalent to approximately HK\$66,233,290) which shall be paid by 60 monthly installments inclusive of interest determined based on the RMB Benchmark Lending Rate for 3-5 year term-loan promulgated by PBC plus 1.3%, but exclusive of management fees. However, the total lease amount will be adjusted due to the floating lending interest rate to be promulgated by PBC from time to time. The Lease Consideration (including the principal amount of RMB44 million, interests, management fees and the optional purchase price for vesting the title and all rights of the Lease Assets in Yunnan Hongfu) to be paid by Yunnan Hongfu to AVIC International Leasing shall be not more than RMB80 million (equivalent to approximately HK\$98,255,960).

The Lease Assets were purchased by Yunnan Hongfu at its sole discretion from various suppliers at its own choice for an aggregate consideration in the amount of RMB51,496,289.26 under the Purchase Agreements. The suppliers of the Lease Assets are Independent Third Parties.

Lease Assets

The Lease Assets comprise phosphate production equipment of 100,000 tons/annum production capacity and other ancillary facilities.

Lease Period

The lease period for the Lease Assets is five years (60 months) commencing from the payment date of the purchase price of the Lease Assets in the amount of RMB44 million to be paid by AVIC International Leasing subject to the fulfillment of the conditions precedent under the Transfer Agreement.

Lease Consideration

Under the Finance Lease Agreement, the parties has agreed that the Lease Consideration (including the principal amount of RMB44 million, interests, management fees and the optional purchase price for vesting the title and all rights of the Lease Assets in Yunnan Hongfu) to be paid by Yunnan Hongfu to AVIC International Leasing shall be not more than RMB80 million (equivalent to approximately HK\$98,255,960).

Lease Payments

The lease payments under the Finance Lease Agreement are to be settled by Yunnan Hongfu by 60 monthly installments calculated subject to initial interest rate at 8.2% per annum (i.e. 1.3% over the RMB Benchmark Lending Rate for 3-5 year term loan promulgated by PBC from time to time). As at the date of this announcement, the RMB Benchmark Lending Rate for 3-5 year term loan promulgated by PBC is 6.9% per annum. Based on the above interest rate, the approximate amount of each installment is RMB898,785.78. The Lease Consideration (including the principal amount of RMB44 million, interests, management fees and the optional purchase price for vesting the title and all rights of the Lease Assets in Yunnan Hongfu) to be paid by Yunnan Hongfu to AVIC International Leasing shall be not more than RMB80 million (equivalent to approximately HK\$98,255,960).

AVIC International Leasing shall have the right to adjust such interest rate unilaterally without consent of Yunnan Hongfu in the event that the RMB Benchmark Lending Rate has been adjusted (which adjustment will be equivalent to the RMB Benchmark Lending Rate).

Other payments

1. Management fees

AVIC International Leasing is entitled to receive from Yunnan Hongfu 5 installments of non-refundable management fees as follows:

- (i) the first year of the lease period – at a rate of 1% of the amount of the Finance Lease Facility before the payment of the total purchase price of the Lease Assets; and
- (ii) each of the second, third, fourth and fifth year of the lease period – at a rate of 1% of the outstanding principal amount under the Finance Lease Facility in advance on the first monthly installment payment of each of the second, third, fourth and fifth year of the lease period respectively.

2. *Warranty payment*

Yunnan Hongfu shall pay to AVIC International Leasing an amount of RMB4.4 million representing 10% of the amount of the Finance Lease Facility as the warranty payment which could be applied to offset the last few lease installments. No interest on the above warranty payment is payable by AVIC International Leasing to Yunnan Hongfu.

The lease payments, management fees and warranty payment were arrived at after arm's length negotiation between Yunnan Hongfu and AVIC International Leasing by reference to the prevailing market rate for comparable assets finance leases.

Conditions

The Finance Lease Agreement shall take effect upon fulfillment of the following conditions:

- (a) the signing and stamping of the Finance Lease Agreement by the respective authorised persons of Yunnan Hongfu and AVIC International Leasing;
- (b) the Company has complied with all relevant requirements under the Listing Rules;
- (c) AVIC International Leasing has received the original shareholders' resolutions and directors' resolutions of Yunnan Hongfu approving the Finance Lease Agreement in accordance with the company articles of Yunnan Hongfu; and
- (d) AVIC International Leasing has received the original directors' resolutions of the Company approving the Finance Lease Agreement in accordance with the Company's articles.

Ownership

The titles and all rights of the Lease Assets shall vest in AVIC International Leasing throughout the lease period. Subject to Yunnan Hongfu having duly and satisfactorily performed all its obligations under, and upon the expiry of the Finance Lease Agreement, Yunnan Hongfu has an option to purchase the Lease Assets from AVIC International Leasing for an amount of RMB44,000, upon which the titles and all rights of the Lease Assets shall vest in Yunnan Hongfu. The Company has intended to exercise the purchase option of the Lease Assets upon expiry of the Finance Lease Agreement.

2. TRANSFER AGREEMENT

On 9 January 2012, Yunnan Hongfu (as transferor) entered into, among other things, the Transfer Agreement with AVIC International Leasing (as transferee), pursuant to which AVIC International Leasing has conditionally agreed to acquire from Yunnan Hongfu the Lease Assets at a consideration of RMB44 million (approximately HK\$54,040,780) provided that Yunnan Hongfu shall enter into the Finance Lease Agreement.

Under the Transfer Agreement, completion of the transfer of the Lease Assets is subject to the following conditions:

- (a) AVIC International Leasing has endorsed on all the original invoices of the Lease Assets and received copies of such endorsed invoices with stamp certification by Yunnan Hongfu;
- (b) AVIC International Leasing has received copies of the business licence, certificate of organization bar-code, tax registration licence, company articles of Yunnan Hongfu with stamp certification by Yunnan Hongfu;
- (c) AVIC International Leasing has received the payment notice, equipment inspection certificate and certificate of title transfer;
- (d) AVIC International Leasing has received (i) the warranty money in the amount of RMB4.4 million, (ii) the insurance premium in the amount of RMB276,819.21, and (iii) the first payment of management fee in the amount of RMB440,000;
- (e) AVIC International Leasing has received the original directors' resolutions and shareholders' resolutions of Yunnan Hongfu approving the leaseback of the Lease Assets; and
- (f) AVIC International Leasing has received the original directors' resolution of the Company approving the Guarantee and the Guarantee has taken effect.

3. GUARANTEE AND SHARE PLEDGE

Guarantee

On 9 January 2012, the Company entered into the Guarantee in favour of AVIC International Leasing to secure due performance of the payment obligations by Yunnan Hongfu to AVIC International Leasing in accordance with the Finance Lease Agreement and the Transfer Agreement. The maximum liability of the Company under the Guarantee is RMB80 million (equivalent to approximately HK\$98,255,960).

Furthermore, as the guarantee provided by the Company under the Guarantee is not in the ordinary and usual course of business of the Group but on normal commercial terms, and will be provided not in proportion to the Group's equity interest in Yunnan Hongfu, the guarantee constitutes a financial assistance to Yunnan Hongyuan. As at the date of this announcement, Yunnan Hongyuan held 49% equity interest in Yunnan Hongfu, hence a substantial shareholder of Yunnan Hongfu and a connected person of the Company. The financial assistance arising from the Guarantee constitutes a connected transaction of the Company under Rule 14A.13(3) of the Listing Rules.

Share Pledge

On the same date, Yunnan Hongyuan, the other shareholder holding 49% equity interest in Yunnan Hongfu, has entered into the Share Pledge Agreement in favour of the Company. Pursuant to the Share Pledge Agreement, Yunnan Hongyuan shall pledge its 49% equity interest, dividend and other interest in Yunnan Hongfu to the Company to (i) secure due performance of the payment obligations by Yunnan Hongfu to AVIC International Leasing in accordance with the Finance Lease Agreement and (ii) to indemnify the Company for all costs and expenses including but not limited to litigation and arbitration costs, insurance costs, expenses on announcement, valuation and certification, legal costs, enforcement expenses and other encumbrance expenses) if the Company is liable to any claims by AVIC International Leasing in the event of default by Yunnan Hongfu under the Finance Lease Agreement and, or the Transfer Agreement. Yunnan Hongyuan shall not require the Group to provide any counter guarantee or to indemnify Yunnan Hongyuan. The transaction contemplated under the Share Pledge Agreement constitutes a connection transaction of the Company, however is exempt from reporting, announcement and approval of independent Shareholders under Rule 14A.65(4) of the Listing Rules as the Share Pledge Agreement is for the benefit of the Group and on normal commercial terms (or better to the Group) where no security over the assets of the Group is granted by the Group in respect of the Share pledge Agreement.

The Guarantee and the Share Pledge Agreement will take effect upon the Finance Lease Agreement takes effect.

4. REASONS FOR AND BENEFIT OF THE FINANCE LEASE ARRANGEMENT

Currently, the construction of a phosphate production plant by Yunnan Hongfu is at the final stage. As Yunnan Hongfu requires additional financial resources, the entering into of the Finance Lease Arrangement with AVIC International Leasing shall enable the Group to obtain additional financial resources for the general working capital of Yunnan Hongfu.

The Directors (including the independent non-executive Directors) consider the Finance Lease Arrangement was entered into on normal commercial terms after arm's length negotiation and the terms of each of the Finance Lease Agreement, the Transfer Agreement, the Guarantee and the Share Pledge Agreement are fair and reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

5. INFORMATION OF THE GROUP

The Company is a diversified strategic investment holding company. It is principally engaged in the manufacturing and sales of liquid crystal displays (LCD), printed circuit boards (PCB), in luxurious timepieces and mineral resources in the PRC, and is also engaged in the business of hotel and property operation.

6. INFORMATION OF YUNNAN HONGFU

Yunnan Hongfu, an indirect non-wholly owned subsidiary of the Company, is principally engaged in the production and sale of phosphate compound fertilizers and phosphorus products.

Yunnan Hongfu commenced the local phosphate extraction, deep processing and production of high-efficiency phosphate compound fertilizers and chemical products in Sifang Industrial Park, Tongdu Town, Dongchuan District, Kunming City in 2005.

7. INFORMATION OF AVIC INTERNATIONAL LEASING

AVIC Finance Leasing is principally engaged in, among other things finance leasing and related business, including leasing of aircrafts, engines, aircraft equipment and land equipment, repair and maintenance of leased assets and related consultancy services.

8. INFORMATION OF YUNNAN HONGYUAN

Yunnan Hongyuan is a company established in the PRC with limited liability and principally engaged in the investment in projects and the management of investment projects.

9. LISTING RULES IMPLICATIONS

AVIC International Leasing is owned as to 52.5%, 16.27 and 31.23% by AVIC Investment, AVIC International and other third parties respectively. AVIC Investment is wholly-owned by Aviation Industry. Aviation Industry owns as to 62.52% in AVIC International, which in turn owns 100% of Shenzhen Company, which is the controlling Shareholder. Accordingly, AVIC International Leasing is a connected person of the Company and the entering into of the Finance Lease Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios for the Finance Lease Arrangement are more than 0.1% but less than 5%, the Finance Lease Arrangement is subject to the reporting and announcement requirements but exempted from independent Shareholders' approval according to Chapter 14A of the Listing Rules.

Furthermore, as the guarantee provided by the Company under the Guarantee is not in the ordinary and usual course of business of the Group but on normal commercial terms, and will be provided not in proportion to the Group's equity interest in Yunnan Hongfu, the guarantee constitutes a financial assistance to Yunnan Hongyuan. As at the date of this announcement, Yunnan Hongyuan held 49% equity interest in Yunnan Hongfu, hence a substantial shareholder of Yunnan Hongfu and a connected person of the Company. The financial assistance arising from the Guarantee constitutes a connected transaction of the Company under Rule 14A.13(3) of the Listing Rules. As the applicable percentage ratios of the financial assistance arising from the Guarantee are more than 0.1 but less than 5%, the Guarantee is subject to the reporting and announcement requirements but exempted from independent Shareholders' approval according to Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the Finance Lease Arrangement. None of the Directors has abstained from voting at the meeting of the Board on the resolutions to approve the Finance Lease Arrangement.

DEFINITIONS

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

“associates”	has the same meaning as ascribed thereto in the Listing Rules
“Aviation Industry”	Aviation Industry Corporation of China (中國航空工業集團公司), an enterprise owned by the whole people (全民所有制企業) established in the PRC and holds 62.52% of the equity interest in AVIC International
“AVIC International”	AVIC International Holding Corporation (中國航空技術國際控股有限公司), a limited liability company established in the PRC which owns 100% of the equity interest in Shenzhen Company, and as at the date of this announcement, its equity interest is owned as to 62.52% by Aviation Industry, 14.31% by Zhong Jin Chuang Xin (Tianjin) Investment Company Limited (中津創新(天津)投資有限公司), 14.31% by National Council for Social Security Fund of the People’s Republic of China and 8.86% by AVIC CCB Aviation Industry Equity Investment (Tianjin) Company Limited (中航建銀航空產業股權投資(天津)有限公司)
“AVIC International Leasing”	AVIC International Leasing Company Limited (中航國際租賃有限公司), a limited liability company established in the PRC
“AVIC Investment”	AVIC Investment Company Limited (中航投資控股有限公司), a limited liability company established in the PRC and wholly owned by Aviation Industry
“Board”	the board of Directors
“Company”	CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司), a joint stock limited company established in the PRC whose H Shares are listed on the Stock Exchange
“connected persons”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	director(s) of the Company
“Finance Lease Agreement”	a conditional finance lease agreement entered into between Yunnan Hongfu and AVIC International Leasing on 9 January 2012 in respect of the lease of the Lease Assets

“Finance Lease Arrangement”	a finance lease arrangement and transactions contemplated under the Finance Lease Agreement, the Transfer Agreement, the Guarantee and the Share Pledge Agreement
“Finance Lease Facility”	a finance lease facility up to the maximum principal amount of RMB44 million to be provided by AVIC International Leasing to Yunnan Hongfu under the Finance Lease Agreement
“Group”	the Company and its subsidiaries
“Guarantee”	a guarantee dated 9 January 2012 entered into by the Company and Yunnan Hongfu in favour AVIC International Leasing
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	to the best knowledge and belief of the Directors having made all reasonable enquiry, third party(ies) independent of and not connected with the Company and its connected persons as defined under the Listing Rules
“Lease Assets”	the lease assets to be leased under the Finance Lease Arrangement
“Lease Consideration”	the total lease consideration including but not limited to the principal amount, interests, management fees and the optional purchase price for vesting the title and all rights of the Lease Assets in Yunnan Hongfu to be paid by Yunnan Hongfu to AVIC International Leasing under the Finance Lease Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PBC”	People’s Bank of China 中國人民銀行
“PRC”	the People’s Republic of China
“Purchase Agreements”	certain purchase agreements entered into between Yunnan Hongfu (as purchaser) and various suppliers (as vendor) respectively in relation to the purchase of the Lease Assets
“Share Pledge Agreement”	the share pledge agreement dated 9 January 2012 entered into between Yunnan Hongyuan in favour of the Company

“Shareholders”	shareholders of the Company
“Shenzhen Company”	AVIC International Shenzhen Company Limited (中國航空技術深圳有限公司), a limited liability company established in the PRC, a controlling shareholder of the Company, and as at the date of this announcement, its entire equity interest is owned by AVIC International
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“Transfer Agreement”	the conditional transfer agreement entered into between Yunnan Hongfu (as transferor) and AVIC International Leasing (as transferee) on 9 January 2012 in relation to the transfer of the Lease Assets
“Yunnan Hongfu”	雲南紅富化肥有限公司 (Yunnan Hongfu Chemical Fertilizer Co., Ltd.), a company established in the PRC with limited liability and indirectly owned as to 51% by the Company and directly owned as to 49% by Yunnan Hongyuan
“Yunnan Hongyuan”	雲南紅淵投資有限公司 (Yunnan Hongyuan Investment Co., Ltd.), a company established in the PRC with limited liability and one of the substantial shareholder of Yunnan Hongfu
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

For the purpose of this announcement, the exchange rate at HK\$1:RMB0.8142 has been used for illustrative purpose only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate.

By Order of the Board
CATIC Shenzhen Holdings Limited
Wu Guang Quan
Chairman

Shenzhen, the PRC, 9 January 2012

As at the date of this announcement, the Board comprises of a total of 13 Directors, Mr. Wu Guang Quan, Mr. You Lei, Mr. Lai Wei Xuan, Mr. Sui Yong, Mr. Liu Rui Lin and Mr. Xu Dong Sheng as executive Directors; Mr. Cheng Bao Zhong, Mr. Qiu Shen Qian, Mr. Li Cheng Ning and Mr. Wang Bin Bin as non-executive Directors; and Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Liu Xian Fa as independent non-executive Directors.