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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)**

## **VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION: CAPITAL INCREASE AGREEMENT AND DEEMED DISPOSAL OF INTEREST IN AVIC VANKE**

On 27 December 2012, the Company, Vanke Enterprise, AVIC International and AVIC Vanke entered into the Capital Increase Agreement, pursuant to which AVIC International and Vanke Enterprise have respectively conditionally agreed to make a capital contribution of RMB600,000,000 (equivalent to approximately HK\$740,740,741) and RMB400,000,000 (equivalent to approximately HK\$493,827,160) in cash to the registered capital and the capital reserve of AVIC Vanke.

As at the date of this announcement, the Company holds 60% interest in AVIC Vanke. Upon Completion, the shareholding of the Company in AVIC Vanke will be diluted from 60% to 47.12% of the enlarged registered capital of AVIC Vanke. The dilution of the Company's interest in AVIC Vanke constitutes a deemed disposal of interest in AVIC Vanke under Rule 14.29 of the Listing Rules.

As the percentage ratios under the Listing Rules applicable to the Proposed Capital Increase are more than 75%, the Proposed Capital Increase constitutes a very substantial disposal of the Company under Rule 14.06 of the Listing Rules. Accordingly, the Proposed Capital Increase is subject to, among other things, the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As each of AVIC International and Vanke Enterprise is a connected person of the Company, the Proposed Capital Increase also constitutes a connected transaction of the Company. Accordingly, the Proposed Capital Increase is subject to, among other things, the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## THE CAPITAL INCREASE AGREEMENT

**Date:** 27 December 2012

**Parties:** the Company, Vanke Enterprise, AVIC International and AVIC Vanke

### Capital Injection:

Pursuant to the Capital Increase Agreement, AVIC International and Vanke Enterprise have respectively conditionally agreed to make a capital contribution of RMB600,000,000 (equivalent to approximately HK\$740,740,741) and RMB400,000,000 (equivalent to approximately HK\$493,827,160) in cash to the registered capital and the capital reserve of AVIC Vanke. The Company had waived its preferential rights to make the capital contribution to AVIC Vanke.

Among the total capital contribution of RMB600,000,000 to be made by AVIC International, RMB492,020,000 (equivalent to approximately HK\$607,432,099) will apply to the registered capital of AVIC Vanke and RMB107,980,000 (equivalent to approximately HK\$133,308,642) will apply to the capital reserve of AVIC Vanke. Among the total capital contribution of RMB400,000,000 to be made by Vanke Enterprise, RMB328,010,000 (equivalent to approximately HK\$404,950,617) will apply to the registered capital of AVIC Vanke and RMB71,990,000 (equivalent to approximately HK\$88,876,543) will apply to the capital reserve of AVIC Vanke.

Together with the existing registered capital of AVIC Vanke of RMB3,000,000,000, AVIC Vanke will have an enlarged registered capital of RMB3,820,030,000, and its equity interest will be owned as to 47.12% by the Company, as to 12.88% by AVIC International and as to 40% by Vanke Enterprise immediately following Completion.

The capital contribution amounts were arrived at after arm's length negotiation among parties to the Capital Increase Agreement by reference to the agreed fair value of the net assets of AVIC Vanke itself of RMB3,660,000,000 taking into account, among other things, (i) the audited net assets value of AVIC Vanke as at 30 September 2012 of RMB3,156,990,000; (ii) the valuation of the net assets of AVIC Vanke of RMB3,647,470,500 as at 30 September 2012 as evaluated by an independent valuer applying the asset-based approach; (iii) principles of market evaluation; and (iv) the development of the industry and market practice. The audited net assets value and the valuation of the net assets referred to above were different principally because in computing the audited net assets value of AVIC Vanke itself of RMB3,156,990,000, AVIC Vanke's long-term equity investments were included by reference to their initial investment costs when audited, while in computing the valuation of the net assets of AVIC Vanke of RMB3,647,470,500, the current market value of such long-term equity investments were included resulting a valuation appreciation.

Upon the Capital Increase Agreement becoming effective, AVIC International and Vanke Enterprise shall complete and make the capital contribution in cash within 20 working days after receipt of payment direction from AVIC Vanke, and shall make relevant filing to the administration of industry and commerce in the PRC.

Profit after tax of AVIC Vanke shall be distributed according to the shareholding of each of its shareholders after compensating loss and deducting statutory reserve and features surplus according to the relevant laws and regulations of the PRC. Upon Completion, the results and assets and liabilities of AVIC Vanke will be consolidated into the accounts of AVIC International.

### **Conditions:**

The Proposed Capital Increase is conditional upon, among other things, the relevant PRC governmental approvals and permits according to the PRC laws and regulations having been obtained and the Company, as a company listed on the Stock Exchange, having obtained all necessary or appropriate approvals, authorisations, consents and licences (including without limitation approval at the general meeting of independent shareholders).

Parties to the Capital Increase Agreement will also pass certain amendments to the articles of association of AVIC Vanke. Set out below are the key variations of the articles of association, in addition to those set out in the Capital Increase Agreement:

Composition of the board of directors of AVIC Vanke	AVIC Vanke shall have 7 directors, out of which the Company shall nominate 2 directors, Vanke Enterprise shall nominate 3 directors and AVIC International shall nominate 2 directors.
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Appointment of supervisors of AVIC Vanke	AVIC Vanke shall have 2 supervisors, out of which the Company shall nominate 1 supervisor, and AVIC International shall nominate 1 supervisor. Each supervisor shall serve for a term of 3 years.
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Prior to Completion and pursuant to the existing articles of association of AVIC Vanke, AVIC Vanke has 7 directors, out of which the Company is entitled to nominate 4 and Vanke Enterprise is entitled to nominate 3. Taking into account that Vanke Enterprise's equity interest in AVIC Vanke remains at 40% before and after Completion, parties to the Capital Increase Agreement, after arm's length negotiation, agreed that Vanke Enterprise's right to nominate 3 directors of AVIC Vanke shall remain unchanged. Taking into consideration that the Company is new to the business of real estate and AVIC International's extensive experience of over twenty years in such business with valuable resources, parties agreed that it will be beneficial to AVIC Vanke for providing AVIC International the right to nominate one more director, who has relevant professional experience and is familiar with the real estate business, so as to enhance the efficiency and effectiveness of AVIC Vanke in making strategic decision on matters in relation to its expansion, development and financing in the real estate business, and thus to enhance its sustainability and maximize its profit making. In light of the above factors, the Board considers that the proposed board composition of AVIC Vanke would be beneficial to the interest of AVIC Vanke and thereby the Group.

The Company will accrue a gain of approximately RMB64,579,700 on the Proposed Capital Increase taking into account the corresponding equity in the net assets value as at 30 September 2012 of AVIC Vanke attributable to the Company of RMB1,894,194,000 (based on the Company's 60% equity interest in AVIC Vanke itself prior to the Proposed Capital Increase) out of RMB3,156,990,000, and that of RMB1,958,773,700 (based on the Company's 47.12% equity interest in AVIC Vanke itself upon Completion) out of RMB4,156,990,000 on the assumption that Completion had taken place on 30 September 2012.

## INFORMATION OF AVIC VANKE

As at the date of this announcement and prior to Completion, AVIC Vanke has a registered capital of RMB3,000,000,000, and its equity interest is owned as to 60% by the Company (corresponding registered capital: RMB1,800,000,000), and as to 40% by Vanke Enterprise (corresponding registered capital: RMB1,200,000,000), respectively. AVIC Vanke is a subsidiary of the Company for the purpose of the Listing Rules as, among other things, the Company holds more than half of the equity interest of AVIC Vanke as at the date of this announcement and prior to Completion. AVIC Vanke is accounted for as a jointly controlled entity of the Company as it is under the joint control of the Company and Vanke Enterprise, while the Company has no control over the board of directors and shareholders' meetings of AVIC Vanke, and the financial results and assets and liabilities of AVIC Vanke are not consolidated in the accounts of the Company prior to Completion.

AVIC Vanke is principally engaged in real estate development and operation, land development, construction, hotel and property management, investment and consultation services etc..

Following Completion, AVIC Vanke will have an enlarged registered capital of RMB3,820,030,000, and its equity interest will be owned as to 47.12% by the Company, as to 12.88% by AVIC International and as to 40% by Vanke Enterprise, respectively. It will be accounted for as a joint venture of the Company and will cease to be a subsidiary of the Company for the purpose of the Listing Rules afterwards.

## FINANCIAL INFORMATION OF AVIC VANKE

Set out below are the key financial figures of AVIC Vanke and its subsidiaries on a consolidated basis for each of the two years ended 31 December 2011, and for the six months ended 30 June 2012, which were prepared according to the PRC accounting standards:

	<b>For the year ended 31 December</b>		<b>For the six months ended 30 June</b>
	<b>2010</b>	<b>2011</b>	<b>2012</b>
	(audited)	(audited)	(unaudited)
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Revenue	2,027,471,378	3,458,537,915	1,791,870,057
Net profit (before taxation and extraordinary items)	312,998,546	699,053,996	238,488,091
Net profit (after taxation and extraordinary items)	231,097,944	488,317,175	167,470,225
Total assets	13,199,300,346	16,976,983,674	18,415,452,463
Net assets	3,260,047,830	3,610,047,018	3,755,773,966

## **REASONS OF AND BENEFITS FOR THE PROPOSED CAPITAL INCREASE**

Pursuant to an acquisition agreement entered into between the Company and AVIC International on 30 November 2010, the Company acquired, among other things, 40% of the equity interest in AVIC Vanke from AVIC International (the “Acquisition”). Details of the Acquisition are set out in the circular of the Company dated 31 December 2010. The Acquisition was completed on 5 September 2012 as stated in the announcement of the Company on the same date. Following completion of the Acquisition and as at the date of this announcement, AVIC Vanke is owned as to 60% by the Company.

Since the entering into of the acquisition agreement on 30 November 2010, the PRC government has implemented stringent policies in relation to the property market and the costs and difficulties in obtaining further capital have been significantly increased. AVIC Vanke, being a real estate developer with its business expanding rapidly, has a comparatively huge demand for capital. However, its difficulties and relatively high cost in obtaining further capital from banks and other financial institutions have hampered its business development and its management has always been seeking for obtaining further capital with lower costs. It is intended that the Proposed Capital Increase would be beneficial to the further development of AVIC Vanke by deriving further capital to it.

Considering that the PSCS issued by the Company have not yet been converted into equities, and in view of the Company’s current gearing ratio, financing channels and cost as well as the significant capital requirement for the business development of AVIC Vanke, the Company has waived its preferential rights to make the capital contribution to AVIC Vanke. It is expected that AVIC Vanke, following the Proposed Capital Increase, will be able to reduce the finance cost for business development, improve its structure of assets and liabilities and further enhance its financing capability in the future, which will result in a higher level of revenue via facilitating a further business expansion and may benefit the Company with a relevant amount of revenue corresponding to its equity interest in AVIC Vanke.

The Directors (excluding the independent non-executive Directors, who shall provide their recommendation taking into account the advice of the independent financial adviser to be engaged) are of the view that the Capital Increase Agreement was entered into in the ordinary and usual course of business of the Company and on normal commercial terms, the Proposed Capital Increase and the transactions contemplated under the Capital Increase Agreement (including the Company’s non-participation in the capital contribution to AVIC Vanke) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **INFORMATION OF AVIC INTERNATIONAL**

AVIC International is a state-owned enterprise in the PRC. As the comprehensive platform under Aviation Industry, AVIC International’s core businesses consist of international aviation, trading and logistics, retail and luxurious goods, real estate and hotel, electronics technology, and resources investment and development. As at the date of this announcement, AVIC International is owned as to 76.83% by Aviation Industry, 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 is a controlling shareholder of the Company, thus a connected person of the Company under Chapter 14A of the Listing Rules. As at the date of this announcement, AVIC International holds approximately 39.37% of the issued share capital of the Company, and it owns 100% equity interest of CATIC Shenzhen, which in turns holds approximately 35.63% of the issued share capital of the Company. AVIC International and Aviation Industry hold, in aggregate, 64% interest in Beijing Raise. AVIC International, CATIC Shenzhen and Beijing Raise holds the PSCS which, in aggregate, may be converted into 801,634,795 Domestic Shares at the initial conversion price of RMB3.47 (subject to adjustment according to the terms of the PSCS).

## **INFORMATION OF VANKE ENTERPRISE**

Vanke Enterprise is currently the largest commercial and residential property developer in the PRC which provides residential units for nearly 300,000 families up to date. Its business covers the Pearl River Delta, the Yangtze River Delta and the Bohai-rim region, the three biggest economic zones in the PRC as well as more than 50 cities in the central and western regions. Its A shares and B shares are listed on the Shenzhen Stock Exchange.

Vanke Enterprise holds 40% of the equity interest of AVIC Vanke as at the date of this announcement. AVIC Vanke is a direct subsidiary of the Company for the purpose of the Listing Rules whose equity interest is owned as to 60% by the Company as at the date of this announcement. Hence, Vanke Enterprise is a connected person of the Company under Chapter 14A of the Listing Rules.

## **INFORMATION OF THE COMPANY**

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

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, the Company holds 60% interest in AVIC Vanke. Upon Completion, the shareholding of the Company in AVIC Vanke will be diluted from 60% to 47.12% of the enlarged registered capital of AVIC Vanke. The dilution of the Company's interest in AVIC Vanke constitutes a deemed disposal of interest in AVIC Vanke under Rule 14.29 of the Listing Rules.

As the percentage ratios under the Listing Rules applicable to the Proposed Capital Increase are more than 75%, the Proposed Capital Increase constitutes a very substantial disposal of the Company under Rule 14.06 of the Listing Rules. Accordingly, the Proposed Capital Increase is subject to, among other things, the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As each of AVIC International and Vanke Enterprise is a connected person of the Company, the Proposed Capital Increase also constitutes a connected transaction of the Company. Accordingly, the Proposed Capital Increase is subject to, among other things, the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## EGM

An EGM will be convened by the Company at which resolution will be proposed to consider and, if thought fit, approve the Proposed Capital Increase and the transactions contemplated under the Capital Increase Agreement.

AVIC International and its associates (including CATIC Shenzhen) are required to abstain from voting at the EGM regarding the approval of the Proposed Capital Increase and the transactions contemplated under the Capital Increase Agreement. To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, no Shareholder other than AVIC International and its associates are required to abstain from voting at the EGM.

## GENERAL

An Independent Board Committee comprising Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Zhang Ping, being all independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Proposed Capital Increase and the transactions contemplated under the Capital Increase Agreement. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders of the same.

A circular containing, among other things, further information on the Proposed Capital Increase, advice from the independent financial adviser and a recommendation from the Independent Board Committee, together with a notice of the EGM is expected to be sent to the Shareholders on or before 18 January 2013.

**As the Capital Increase Agreement is conditional and it may or may not complete, Shareholders and potential investors are reminded to exercise cautions when dealing in securities of the Company.**

## DEFINITIONS

“associate(s)”	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 76.83% of the equity interest in AVIC International and 60% of the equity interest in Beijing Raise
“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, and a controlling shareholder of the Company

“AVIC Vanke”	AVIC International Vanke Company Limited (中航萬科有限公司), a joint stock limited company established in the PRC, and as at the date of this announcement and prior to Completion, its equity interest is owned as to 60% by the Company and 40% by Vanke Enterprise, respectively
“Beijing Raise”	Beijing Raise Science Company Limited (北京瑞賽科技有限公司), a limited liability company established in the PRC
“Board”	the board of Directors
“Capital Increase Agreement”	a capital increase agreement dated 27 December 2012 entered into among the Company, Vanke Enterprise, AVIC International and AVIC Vanke
“CATIC Shenzhen”	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
“Company”	CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, whose H Shares are listed on the Stock Exchange
“Completion”	completion of the Proposed Capital Increase
“connected person(s)”	has the same meaning as ascribed thereto in the Listing Rules
“controlling shareholder(s)”	has the same meaning as ascribed thereto in the Listing Rules
“Director(s)”	the directors of the Company
“Domestic Share(s)”	ordinary domestic share(s) of nominal value of RMB1.00 each in the capital of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Proposed Capital Increase and the transactions contemplated under the Capital Increase Agreement
“Group”	the Company and its subsidiaries



“H Share(s)”	overseas listed foreign invested share(s) of the nominal value of RMB1.00 each in the capital of the Company, which are listed on the Stock Exchange and subscribed for and traded in HK\$
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Zhang Ping, to advise the Independent Shareholders in respect of the Proposed Capital Increase and the transactions contemplated under the Capital Increase Agreement
“Independent Shareholders”	Shareholders other than AVIC International, Vanke Enterprise and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China, and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Capital Increase”	the proposed capital contribution by AVIC International and Vanke Enterprise in the amount of RMB600,000,000 and RMB400,000,000, respectively, to the registered capital and the capital reserve of AVIC Vanke pursuant to the Capital Increase Agreement
“PSCS”	the perpetual subordinated convertible securities in an aggregate principal amount of RMB2,781,672,739 issued by the Company to AVIC International, CATIC Shenzhen and Beijing Raise on 5 September 2012, convertible into 801,634,795 Domestic Shares at an initial conversion price of RMB3.47 (subject to adjustment pursuant to its terms)
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) of the Company, including Domestic Share(s) and H Share(s)
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Vanke Enterprise”

Vanke Enterprise Company Limited (萬科企業股份有限公司), a joint stock limited company established in the PRC, the A shares and B shares of which are listed on the Shenzhen Stock Exchange

“%”

per cent.

*In this announcement, the English names of the PRC entities are translation of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*

*Unless otherwise specified in this announcement, amounts denominated in RMB have been converted into Hong Kong dollars at HK\$1.00 to RMB0.81 for illustration purpose only. No representation has been made by the Company that any amount has been, could have been or could be converted at the above rate or at any other rates or at all.*

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

Shenzhen, the PRC, 27 December 2012

*As at the date of this announcement, the Board comprises a total of 8 directors, Mr. Wu Guang Quan, Mr. You Lei, Mr. Pan Lin Wu, Mr. Chen Hong Liang and Mr. Liu Jun as executive Directors; and Ms. Wong Wai Ling, Mr. Wu Wei and Mr. Zhang Ping as independent non-executive Directors.*