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CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

中國航天國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 31)

ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTION

PROVISION OF MORTGAGES TO AEROSPACE FINANCE PURSUANT TO THE FACILITY AGREEMENT

The Board of Directors announces that, on 30 August 2016, Shenzhen Aerospace, a 60% indirectly owned subsidiary of the Company, entered into a Facility Agreement with Aerospace Finance in respect of a RMB1,300 million facility for a period of 12 years and provided an undertaking to Aerospace Finance to (1) mortgage the land use right of the Shenzhen Aerospace Science & Technology Plaza in favour of Aerospace Finance within one month after Shenzhen Aerospace has repaid the outstanding amount of the Existing Facilities to the Finance Syndicate and obtained the release of the land use rights certificates of the Shenzhen Aerospace Science & Technology Plaza that currently mortgaged to the Finance Syndicate as security; and (2) subsequently replace the mortgage of the land use right of the Shenzhen Aerospace Science & Technology Plaza with a mortgage of the property ownership certificate(s) of a portion of the Shenzhen Aerospace Science & Technology Plaza with a valuation amount of approximately RMB1,900 million in favour of Aerospace Finance after Shenzhen Aerospace has obtained the relevant certificate.

Aerospace Finance, being a subsidiary of CASC, which in turn is the controlling shareholder of the Company, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Facility with the mortgage of the land use right (and the subsequent property ownership certificate) of the Shenzhen Aerospace Science & Technology Plaza in favour of Aerospace Finance as security constitutes a non-exempted continuing connected transaction of the Company. Accordingly, the Facility is subject to Independent Shareholders' approval and CASC and its associates shall abstain from voting on this resolution at the Extraordinary General Meeting. As three of the Directors, namely, Mr Zhang Jianheng, Mr Chen Xuechuan and Mr Shi Weiguo are officers of CASC, they had abstained from voting on the resolution approving the transaction contemplated under the Facility Agreement on the board meeting held on 23 August 2016.

An Independent Board Committee has been established to consider the terms of the Facility Agreement and to advise and recommend the Independent Shareholders to vote, and Somerley Capital Limited has been appointed by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Facility Agreement.

A circular setting out details of the Facility will be despatched to shareholders on or before 21 September 2016, together with the notice of the Extraordinary General Meeting.

THE FACILITY

The Board of Directors announces that, on 30 August 2016, Shenzhen Aerospace, a 60% indirectly owned subsidiary of the Company, entered into a Facility Agreement with Aerospace Finance in respect of a RMB1,300 million facility for a period of 12 years and provided an undertaking to Aerospace Finance to (1) mortgage the land use right of the Shenzhen Aerospace Science & Technology Plaza in favour of Aerospace Finance within one month after Shenzhen Aerospace has repaid the outstanding amount of the Existing Facilities to the Finance Syndicate and obtained the release of the land use rights certificates of the Shenzhen Aerospace Science & Technology Plaza that currently mortgaged to the Finance Syndicate as security; and (2) subsequently replace the mortgage of the land use right of the Shenzhen Aerospace Science & Technology Plaza with a mortgage of the property ownership certificate(s) of a portion of the Shenzhen Aerospace Science & Technology Plaza with a valuation amount of approximately RMB1,900 million in favour of Aerospace Finance after Shenzhen Aerospace has obtained the relevant certificate. Based on a valuation commissioned by an independent valuer, as at 30 June 2016, the Shenzhen Aerospace Science & Technology Plaza was valued at RMB7,168 million on completion basis. At present, the construction work of the Shenzhen Aerospace Science & Technology Plaza is completed.

The Facility is intended to repay the Existing Facilities and for general working capital for Shenzhen Aerospace. It is for a period of 12 years from the first drawdown date and the drawdown period shall be 12 years from the date of the first drawdown. No principal repayment in the first 5 years and only required to pay interest quarterly, repayment shall be made from the sixth year of the Facility Agreement by half yearly installments and the repayment amount will be determined by Shenzhen Aerospace in accordance with its operations until full repayment of the principal and the interests. Interest rate will be 10% below the base lending rate for mid to long term loans as announced by the People's Bank of China at the relevant date of advances and interest is payable on the twentieth day in the last month of each quarter. Assuming the Facility is drawn down on the date of this announcement, the interest rate will be 4.41%. Interest rate will be adjusted correspondingly on 1 January of the subsequent year if there is any change of base lending rate. Early repayment of partial or full portion of the loans is permitted. No charges will be levied provided prior notice is given to Aerospace Finance by Shenzhen Aerospace.

The terms of the Facility were negotiated after arm's length negotiation. The facility amount was determined with reference to the outstanding balance of Existing Facilities and the working capital requirement of Shenzhen Aerospace. The Directors (excluding the Independent Non-Executive Directors who will form their views after considering the advice of the Independent Financial Adviser) consider that the terms of the Facility (including the provision of the mortgages and the duration of the Facility) are on normal commercial terms and in the ordinary and usual course of business of the Company and the terms of the Facility are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Information on the Company, Shenzhen Aerospace and Aerospace Finance

The Company is an investment holding company and its subsidiaries are principally engaged in hi-tech manufacturing and aerospace services.

Shenzhen Aerospace is a 60% indirectly owned subsidiary of the Company. The other 40% interests of Shenzhen Aerospace is owned by Shenzhen Hua Jie Investments Company Limited*(深圳市華杰投資有限公司). The business scope of Shenzhen Aerospace are development and transfer of technologies, provision of technological advisory and services, the establishment of enterprises, the research and manufacturing of satellite related products, development of infrastructure and related businesses, the management and leasing of properties. It owns the entire interest in the Shenzhen Aerospace Science & Technology Plaza.

Aerospace Finance is a subsidiary of CASC and its subsidiaries whose approved business scope include (i) provision of finance and fund raising advisory, credit verification and related consultancy and agency services to members of the CASC group; (ii) provision of fund receiving and payment services for transactions conducted by members of the CASC group; (iii) approved insurance agency business; (iv) provision of

guarantees for members of the CASC group; (v) provision of entrusted loans and entrusted investment services to members of the CASC group; (vi) acceptance and discounting of bills for members of the CASC group; (vii) settlement of transfers of fund between members of the CASC group and design of plans for related settlements and clearances; (viii) accepting deposits from members of the CASC group; (ix) dealing with loans and financing lease for members of the CASC group; (x) interbank lending; (xi) issue of finance company bonds with approval; (xii) underwriting enterprise bonds of members of the CASC group; (xiii) equity investment in financial institutions; (xiv) investment in marketable securities; (xv) buyer credits and financing lease in respect of products of members of the CASC group.

Reasons for and benefit of the Facility

Given that the prosperous development of property market in Shenzhen in recent years, it is anticipated that the Company will benefit from the provision of steady cash flow by Shenzhen Aerospace from the recurring rental income of the Shenzhen Aerospace Science & Technology Plaza and would benefit from favourable return through the operations of the Shenzhen Aerospace Science & Technology Plaza. Hence, the Company has no intention to dispose any interest in Shenzhen Aerospace Science & Technology Plaza in the near future. In addition, there is a selling restriction in respect of 60% of the gross floor area for 10 years from the date of proof of completion, that is 3 June 2016, and the remaining 40% can only be sold to wholly-owned subsidiaries, subsidiaries or associates of CASC pursuant to the requirements of its land grant, therefore a longer term facility is more suitable and further re-financings in the next few years is not necessary.

The Facility is intended to repay the Existing Facilities and for general working capital for Shenzhen Aerospace, and the 12-year Facility will relieve the repayment pressure of the Existing Facilities at comparatively favourable terms, such as lower interest rate, longer loan period, no principal repayment in the first 5 years, no other fees and so on.

The Company is of the view that the terms of the Facility are extremely favourable and flexible and that fit the present needs of the Company and will benefit the Company's future development.

Connected Transaction

Aerospace Finance, being a subsidiary of CASC, which in turn is the controlling shareholder of the Company, is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Facility with mortgage of the land use right (and the subsequent property ownership certificate) of the Shenzhen Aerospace Science & Technology Plaza in favour of Aerospace Finance as security constitutes a non-exempted continuing connected transaction of the Company. Accordingly, the Facility Agreement is subject to Independent Shareholders' approval and CASC and its associates shall abstain from voting on this resolution at the Extraordinary General Meeting. As three of the Directors, namely, Mr Zhang Jianheng, Mr Chen Xuechuan and Mr Shi Weiguo are officers of CASC, they had abstained from voting on the resolution approving the transaction contemplated under the Facility Agreement on the board meeting held on 23 August 2016.

Facility Agreement exceeds Three Years

Pursuant to Rule 14A.52 of the Listing Rules, the period for the agreement of continuing connected transactions must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. The listed issuer must appoint an independent financial adviser to explain why the agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration. For reasons set out in the section "Reasons for and benefit of the Facility", it is proposed that the duration of the Facility will be 12 years from the date of drawdown. The Independent Financial Adviser appointed will provide their views on this matter in the letter to be incorporated in the circular to be despatched to the shareholders.

Independent Board Committee and Independent Financial Adviser

An Independent Board Committee comprising all the Independent Non-Executive Directors of the Company, who do not have any material interests in the Facility, has been established to consider the terms of the Facility Agreement and to advise the Independent Shareholders accordingly.

Somerley Capital Limited has been appointed by the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Facility Agreement.

General

A circular setting out, among others, details of the Facility Agreement, Letter from the Independent Board Committee and Letter to the Independent Board Committee and the Independent Shareholders from Independent Financial Adviser will be despatched to shareholders on or before 21 September 2016, together with the notice of Extraordinary General Meeting.

DEFINED TERMS USED IN THIS ANNOUNCEMENT

Capitalised terms used in this Announcement shall have the following meanings:–

“Aerospace Finance”	航天科技財務有限責任公司*(Aerospace Science & Technology Finance Company Limited); a subsidiary of CASC and its subsidiaries established in the PRC as a limited liability company and whose business activities are subject to the supervision of the China Banking Regulatory Commission;
“CASC”	China Aerospace Science & Technology Corporation, a state-owned enterprise established in the PRC holding approximately 38.37% shareholding in the Company and is a controlling shareholder of the Company as at the date of this Announcement;
“Company”	China Aerospace International Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the directors of the Company;
“Existing Facilities”	the RMB1,500 million facility for a period of 5 years from the date of drawdown, including a bank guarantee of up to RMB150 million to the main contractor(s) and advances of up to RMB1,350 million pursuant to the syndicate loan agreement dated 14 January 2011 between Shenzhen Aerospace and the Finance Syndicate. Further details of which were set out in the announcement of the Company dated 14 January 2011 and the circular dated 25 January 2011;
“Extraordinary General Meeting”	the extraordinary general meeting to be convened by the Company for the purpose of approving the Facility;

“Facility”	the RMB1,300 million facility for a period of 12 years to be provided by Aerospace Finance to Shenzhen Aerospace pursuant to the Facility Agreement;
“Facility Agreement”	a conditional fixed asset facility agreement dated 30 August 2016 entered into between Shenzhen Aerospace and Aerospace Finance in relation to the Facility and the provision of mortgages;
“Finance Syndicate”	Aerospace Finance, 中國工商銀行股份有限公司深圳深圳灣支行*(Industrial and Commercial Bank of China, Shenzhen Shenzhen Bay Sub-branch) and 中國銀行股份有限公司深圳南頭支行*(Bank of China, Shenzhen Nantou Sub-branch);
“Independent Board Committee”	an independent committee of the Board of Directors of the Company comprising Mr Luo Zhenbang, Ms Leung Sau Fan, Sylvia and Mr Wang Xiaojun, being all the Independent Non-Executive Directors;
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Facility Agreement;
“Independent Shareholders”	all shareholders of the Company excluding CASC and its associates;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"RMB"	Reminbi, the lawful currency of the PRC;
" Shenzhen Aerospace "	深圳市航天高科投資管理有限公司*(Shenzhen Aerospace Technology Investment Management Company Limited), a company incorporated in PRC as a limited liability company and is an indirect subsidiary of the Company; and
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.

By order of the Board
Li Hongjun
Executive Director & President

Hong Kong, 30 August 2016

At the date of this Announcement, the Board of Directors of the Company comprises:

<i>Executive Directors</i>	<i>Non-Executive Directors</i>	<i>Independent Non-Executive Directors</i>
Mr Li Hongjun (<i>President</i>)	Mr Zhang Jianheng (<i>Chairman</i>)	Mr Luo Zhenbang
Mr Jin Xuesheng	Mr Mao Yijin	Ms Leung Sau Fan, Sylvia
	Mr Xu Liangwei	Mr Wang Xiaojun

** This PRC entity does not have an English name, the English name sets out herein is for identification purpose only.*