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If you have sold or transferred all your shares in **AviChina Industry & Technology Company Limited***, you should at once hand this circular accompanying with the form of proxy and reply slip to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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中國航空科技工業股份有限公司

AviChina Industry & Technology Company Limited*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02357)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTIONS: ASSET SWAP
COMPRISING (A) ACQUISITION OF NATIONAL DEFENCE RELATED
ASSETS; AND (B) DISPOSAL OF PARTS AND COMPONENTS
MANUFACTURING ASSETS;**

**(2) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION;
AND**

(3) NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent financial adviser to the Independent Board Committee and the Independent Shareholders



Capitalized terms used in this cover page have the same meanings as those defined in this circular.

The Board Letter is set out on pages 6 to 21 in this circular. The IBC Letter is set out on pages 22 to 23 in this circular. The IFA Letter is set out on pages 24 to 45 in this circular.

A notice convening the EGM to be held at AVIC Hotel, No.10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC on Friday, 23 August 2019 at 9:00 a.m. is set out on pages 85 to 87 of this circular. A reply slip and a form of proxy for the purposes of the EGM are enclosed and are also published on the website of the HKEX (www.hkexnews.hk). Shareholders who intend to attend the EGM should complete and return the reply slip in accordance with the instructions printed thereon on or before Friday, 2 August 2019. Shareholders who intend to appoint a proxy to attend the EGM should complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited, the Company's H Shares registrar, at 17M Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person thereat if you so wish.

23 July 2019

* For identification purpose only

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DEFINITIONS

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

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|--|---|
| “Acquisition” | the acquisition of the Acquisition Assets by Hongdu Aviation pursuant to the ASA |
| “Acquisition Assets” | the assets to be acquired by Hongdu Aviation pursuant to the ASA |
| “Acquisition Consideration” | the consideration for the Acquisition to be satisfied by Hongdu Aviation |
| “Acquisition Properties” | the properties which formed part of the Acquisition Assets |
| “Appraisal Value” | the Appraisal Value (Acquisition Assets) or the Appraisal Value (Disposal Assets), as the case may be |
| “Appraisal Value (Acquisition Assets)” | the value of the Acquisition Assets determined by the Valuer and contained in the Valuation Report (Acquisition), being RMB1,362,424,500 |
| “Appraisal Value (Disposal Assets)” | the value of the Disposal Assets determined by the Valuer and contained in the Valuation Report (Disposal), being RMB2,208,462,300 |
| “Articles of Association” | the articles of association of the Company (as amended from time to time) |
| “ASA” | the asset swap agreement entered into between Hongdu Aviation and Hongdu Group and dated 31 May 2019 |
| “ASA Announcement” | the announcement of the Company dated 31 May 2019 whereby, among other things, the Company disclosed that the Parties had entered into the ASA |
| “Asset Swap Transactions” | the sale and purchase of the Acquisition Assets and the Disposal Assets contemplated in the ASA and other incidental transactions contemplated therein |
| “associate” | has the meaning given to it under the HKLR |
| “AVIC” | Aviation Industry Corporation of China, Ltd.* (中國航空工業集團有限公司), the controlling shareholder of the Company, holding 56.04% equity interest in the Company directly and indirectly as at the LPD |
| “Board” | the board of Directors |

DEFINITIONS

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| “Board Letter” | the section headed “Letter from the Board” of this circular |
| “Company” | AviChina Industry & Technology Company Limited* (中國航空科技工業股份有限公司), a joint stock limited liability company established in the PRC the shares of which are listed on HKSX |
| “Completion” | completion of the Asset Swap Transactions |
| “Completion Conditions” | the conditions precedent for Completion |
| “Completion Date” | the date on which Completion occurs |
| “connected person” | has the meaning given to it under the HKLR |
| “controlling shareholder” | has the meaning given to it under the HKLR |
| “Disposal” | the disposal of the Disposal Assets by Hongdu Aviation pursuant to the ASA |
| “Disposal Assets” | the assets to be disposed of by Hongdu Aviation pursuant to the ASA |
| “Disposal Consideration” | the consideration for the Disposal to be satisfied by Hongdu Group |
| “Disposal Properties” | the properties which formed part of the Disposal Assets |
| “Director” | a director of the Company |
| “Effectiveness Conditions” | the conditions precedent for the ASA to come into effect |
| “EGM” | the extraordinary general meeting of the Company as described in more details in section 15 of the Board Letter for the Independent Shareholders to consider and, if thought fit, to approve the Asset Swap Transactions and the proposed amendments to the Articles of Association described in section 13 of the Board Letter (including any adjournment thereof) |
| “Group” | the Company and its subsidiaries |
| “H Shares” | overseas listed foreign invested share(s) with a nominal value of RMB1.00 each in the ordinary share capital of the Company, which are traded in Hong Kong dollars and listed on the HKSX |
| “HKLR” | the Rules Governing the Listing of Securities on the HKSX |
| “HKSX” | The Stock Exchange of Hong Kong Limited |

DEFINITIONS

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| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hongdu Aviation” | Jiangxi Hongdu Aviation Industry Co., Ltd.* (江西洪都航空工業股份有限公司), a company established in the PRC |
| “Hongdu Group” | Jiangxi Hongdu Aviation Industry Group Co., Ltd.* (江西洪都航空工業集團有限責任公司), a company established in the PRC |
| “IBC” | the independent board committee of the Company established in accordance with the HKLR to advise the Independent Shareholders on the Asset Swap Transactions |
| “IBC Letter” | the letter from the IBC set out in the section headed “Letter from the IBC” of this circular |
| “IFA” | Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company for the purposes of advising the IBC and the Independent Shareholders in relation to the Asset Swap Transactions |
| “IFA Advice” | the advice given by the Independent Financial Adviser to the IBC and the Independent Shareholders in relation to the ASA as set out in the IFA Letter |
| “IFA Letter” | the letter from the IFA as set out in the section headed “Letter from the IFA” of this circular |
| “Independent Board Committee” | has the same meaning given to the expression “IBC” |
| “Independent Financial Adviser” | has the same meaning given to the expression “IFA” |
| “Independent Shareholders” | Shareholders other than those who (i) have a material interest in the Asset Swap Transactions and therefore are, together with their associates, required to abstain from voting on the resolution(s) to approve the Asset Swap Transactions under the HKLR; and (ii) are otherwise required to abstain from voting on (or voting in favour of) the resolution(s) to approve the Asset Swap Transactions under other applicable laws, rules or regulations |
| “INED” | an independent non-executive Director |
| “Latest Practicable Date” | 18 July 2019 being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular |

DEFINITIONS

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| “LPD” | has the same meaning given to the expression “Latest Practicable Date” |
| “Model Code” | Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the HKLR |
| “November Announcement” | the announcement of the Company dated 14 November 2018 wherein the Company disclosed the proposed asset swap between Hongdu Aviation and Hongdu Group |
| “Party” | a party to the ASA |
| “percentage ratios” | has the meaning given to it under Rule 14.07 of the HKLR |
| “PRC” | the People’s Republic of China |
| “PRC Accounting Standards” | Accounting Standards for Business Enterprises (中國企業會計準則) as promulgated by the Ministry of Finance of the PRC |
| “Reference Date” | the date on which the audit and valuation of the Acquisition Assets and the Disposal Assets was based, being 30 November 2018 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Shareholder” | a holder of any of the issued Shares |
| “Shares” | the ordinary shares of the Company, which are all H Shares as at the LPD |
| “sq. m” | square metres |
| “SSE” | the Shanghai Stock Exchange |
| “Supervisor” | a supervisor of the Company |
| “Transitional Period” | (i) the period commenced from the first day immediately after the Reference Date (inclusive) and ending on the date on which Completion occurs; or (ii) in relation to the calculation of profit, loss or other financial figures, the period commenced from the first day immediately after the Reference Date (inclusive) and ending on the last day of the month which the Completion Date falls |

DEFINITIONS

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|----------------------------------|---|
| “Valuation Report (Acquisition)” | the report on the valuation of the Acquisition Assets as at the Reference Date issued by the Valuer |
| “Valuation Report (Disposal)” | the report on the valuation of the Disposal Assets as at the Reference Date issued by the Valuer |
| “Valuation Reports” | collectively, the Valuation Report (Acquisition) and the Valuation Report (Disposal) |
| “Valuer” | China Enterprise Appraisals Consultation Co., Ltd.* (北京中企華資產評估有限責任公司), an independent appraisal valuer with securities and futures related business qualification |
| “%” | per cent. |

Notes:

- * For identification purpose only.
- # For ease of reference, the names of the PRC established companies or entities (if any) and the PRC laws and regulations (if any) have generally been included in this circular in both Chinese and English languages and in the event of inconsistency, the Chinese language shall prevail.
- ^ Where the context so permits or requires, words importing the singular number include the plural and vice versa and words importing the masculine gender include the feminine and neuter genders and vice versa.

LETTER FROM THE BOARD



中國航空科技工業股份有限公司 AviChina Industry & Technology Company Limited*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02357)

Executive Directors:

Mr. Chen Yuanxian

Mr. Wang Xuejun

Non-executive Directors:

Mr. Yan Lingxi

Mr. Lian Dawei

Mr. Xu Gang

Independent non-executive Directors:

Mr. Liu Renhuai

Mr. Liu Weiwu

Mr. Wang Jianxin

Registered Office:

8th Floor, Tower 2

No. 5A Rongchang East Street

Beijing Economic-Technological

Development Area

Beijing, PRC

Principal place of business

in Hong Kong:

Unit 2202A, 22th Floor

Fairmont House

8 Cotton Tree Drive

Central, Hong Kong

23 July 2019

To the Shareholders:

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTIONS: ASSET SWAP
COMPRISING (A) ACQUISITION OF NATIONAL DEFENCE RELATED
ASSETS; AND (B) DISPOSAL OF PARTS AND COMPONENTS
MANUFACTURING ASSETS;
(2) PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION;
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the ASA Announcement and the announcement of the Company dated 9 July 2019 in relation to the proposed amendments to the Articles of Association.

* For identification purpose only

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The purpose of this circular is to provide you with, among other things, (i) further details of the Asset Swap Transactions; (ii) details relating to the proposed amendments to the Articles of Association; (iii) the recommendation from the IBC relating to the Asset Swap Transactions; (iv) the advice given by the IFA relating to the Asset Swap Transactions; (v) other information as required under the HKLR; and (vi) a notice of the EGM.

2. ASA

On 31 May 2019, the Parties entered into the ASA whereby, among other things, Hongdu Aviation agreed to (i) acquire the Acquisition Assets from Hongdu Group and (ii) dispose of the Disposal Assets to Hongdu Group. Set out below is a summary of the principal terms of the ASA.

2.1 Date

31 May 2019 (after trading hours).

2.2 Parties

The parties to the ASA are Hongdu Aviation (a non-wholly-owned subsidiary of the Company) and Hongdu Group. Please refer to sections 8.1 and 8.2 below respectively for more information on Hongdu Aviation and Hongdu Group.

2.3 Assets to be acquired by the Group under the ASA

The Acquisition Assets are Hongdu Group's national defence business related assets, more information of which is set out in section 3 of the Board Letter.

2.4 Assets to be disposed of by the Group under the ASA

The Disposal Assets are Hongdu Aviation's parts and components manufacturing business related assets, more information of which is set out in section 4 of the Board Letter.

2.5 The consideration, basis for the determination and relevant information

The Acquisition Consideration is equivalent to the Appraisal Value (Acquisition Assets), being RMB1,362,424,500.

The Disposal Consideration is equivalent to the Appraisal Value (Disposal Assets), being RMB2,208,462,300.

Each of the Acquisition Consideration and the Disposal Consideration was determined after arm's length negotiations between the Parties with reference to the appraisal results as confirmed by AVIC, namely, the Appraisal Value. The Appraisal Value was determined by the Valuer who was

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appointed jointly by Hongdu Aviation and Hongdu Group to issue a valuation report in respect of the Acquisition Assets and the Disposal Assets, respectively. Set out below is the information on the Appraisal Value and the valuation approach:

| Assets | Appraisal Value (RMB) as at the Reference Date | Appraisal approach |
|--------------------|---|---------------------------|
| Acquisition Assets | 1,362,424,500 | Asset-based approach |
| Disposal Assets | 2,208,462,300 | Asset-based approach |

Please refer to (i) sections 5 and 6 below for more information on, among other things, the assumptions adopted in the Valuation Reports; and (ii) section 7 below for more information on the Directors' view on the valuation contained in the Valuation Reports.

The Acquisition Consideration shall be satisfied by Hongdu Aviation transferring the Disposal Assets to Hongdu Group. The Disposal Consideration shall be satisfied by Hongdu Group (i) transferring the Acquisition Assets to Hongdu Aviation; and (ii) paying the difference between the Acquisition Consideration and the Disposal Consideration, being RMB846,037,800, to Hongdu Aviation in cash within 12 months after the Completion Date. Each Party shall be deemed to have fully performed its obligation to pay consideration to another Party after it has delivered the relevant assets to the other Party and, where applicable, paid the difference between the Acquisition Consideration and the Disposal Consideration to the other Party.

There is no original acquisition cost of the Acquisition Assets and the Disposal Assets since none of these assets were acquired by Hongdu Group or Hongdu Aviation (as applicable) from third parties.

2.6 Effectiveness Conditions

The ASA shall come into effect upon satisfaction of the Effectiveness Conditions as summarised below:

- (a) the board of directors and the shareholders' meeting of Hongdu Aviation having approved the Asset Swap Transactions;
- (b) the Board and the Shareholders having approved the Asset Swap Transactions in accordance with the applicable laws and regulations (including but not limited to the HKLR);
- (c) Hongdu Group having approved the Asset Swap Transactions in accordance with its articles of association;
- (d) AVIC having filed the Valuation Reports and approved the Asset Swap Transactions;
and

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- (e) the Assets Swap Transactions having been approved by the competent authorities respectively responsible for supervising state-owned assets and the relevant industry.

None of the Effectiveness Conditions can be waived by any Party. Save and except for (i) the approval of the board of directors of Hongdu Aviation referred to in (a) above; (ii) the approval of the Board referred to in (b) above; (iii) the approval of Hongdu Group referred to in (c) above; (iv) the filing by AVIC referred to in (d) above; and (v) the approval of competent authority responsible for supervising relevant industry referred to in (e) above, none of the Effectiveness Conditions has been fulfilled as at the LPD.

2.7 Completion Conditions

Completion is conditional upon satisfaction of the Completion Conditions as summarised below:

- (a) the Effectiveness Conditions having been satisfied;
- (b) Hongdu Aviation having waived compliance by AVIC with its undertaking not to inject defence assets given in 2010 in accordance with the relevant requirements of the SSE;
- (c) no breach of the ASA which may have material adverse effect on the innocent Party having occurred or would occur;
- (d) the Asset Swap Transactions not being subject to any restraining or prohibition order under applicable laws or regulations; and
- (e) the representations and warranties given by each of Hongdu Aviation and Hongdu Group under the ASA remaining true, accurate and valid in all material respects.

None of the Completion Conditions can be waived by any Party and none of the Completion Conditions has been fulfilled as at the LPD.

2.8 Completion

Subject to the satisfaction of the Completion Conditions in accordance with the ASA, Completion shall take place on a date to be determined by the Parties jointly.

With effect from the Completion Date, all the assets and liabilities attaching to the Acquisition Assets and the relevant employees will be transferred to Hongdu Aviation. Similarly, with effect from the Completion Date, all the assets and liabilities attaching to the Disposal Assets and the relevant employees will be transferred to Hongdu Group.

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2.9 Other material terms

The respective transferors of the assets subject to the Asset Swap Transactions shall be entitled to the profits arising from, and be responsible for any loss incurred in respect of the transferred assets during the Transitional Period.

3. FURTHER INFORMATION ON THE ACQUISITION ASSETS

3.1 Basic information

The Acquisition Assets are Hongdu Group's national defence business related assets and all the rights and benefits attaching thereto together with all the debts and other obligations which such business and assets are subject to as at the Reference Date, more details of which are set out below:

| | |
|---|--|
| Production plants and facilities and related properties | a factory named Feilong Machinery Factory situated in the south of the Aviation City (航空城) of Nanchang City, Jiangxi Province which produced principally missiles and whose principal assets include the Feilong machinery complex production plant and related ancillary facilities and equipment and the relevant land use rights of 12 pieces of lands with an aggregate area of approximately 893,047.04 sq. m and 27 properties with an aggregate area of approximately 41,344.05 sq. m |
| Other assets and liabilities | current assets (pre-payments and inventory) and current liabilities (accounts payables and wages payables) |
| Total assets | RMB1,399,572,506.66 |
| Total liabilities | RMB101,638,645.86 |
| Net assets | RMB1,297,933,860.80 |

The book value of the Acquisition Properties as the Reference Date was RMB729,895,843.18. In accordance with Rule 14A.70(7) of the HKLR, a valuation report in respect of the Acquisition Properties is set out in Appendix I to this circular.

3.2 Profit or loss for the last two financial years

Set out below is the financial information on the Acquisition Assets for the two financial years ended 31 December 2017 and 2018 respectively and which was prepared in accordance with the PRC Accounting Standards:

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| | For the year ended 31 December 2017 (Audited) <i>RMB</i> | For the year ended 31 December 2018 (Unaudited) <i>RMB</i> |
|---|---|---|
| Profit before tax and extraordinary items | 9,533,441.82 | 7,484,017.96 |
| Profit after tax and extraordinary items | 8,103,425.55 | 6,361,415.27 |

4. FURTHER INFORMATION ON THE DISPOSAL ASSETS

4.1 Basic information

The Disposal Assets are Hongdu Aviation's certain parts and components manufacturing business related assets and all the rights and benefits attaching thereto together with all the debts and other obligations which such assets are subject to as at the Reference Date, more details of which are set out below:

| | |
|--|--|
| Production plants and facilities and related properties | Thermal surface treatment factory, sheet metal fabrication factory, clamp welding hydraulic accessories plant factory, composite materials factory, mechanical processing factory, parts possessing factory, numerical control machinery factory, machinery processing factory for accessories, machine tools manufacturing factory, equipment and energy centre and other production workshops for parts and components and the corresponding supporting facilities and equipment, the associated operating and financial liabilities, the relevant land use rights of nine pieces of lands with an aggregate area of approximately 1,444,526.67 sq. m and 16 properties with an aggregate area of approximately 227,068.46 sq. m |
| Other assets and liabilities | current assets (pre-payments, inventory and other receivables) and current liabilities (short-term borrowing, accounts payables and wages payables) and non-current liabilities (long term payables) |
| Total assets | RMB4,608,180,091.19 (of which RMB1,987,200,754.28 or 42.45% is attributable to properties) |

LETTER FROM THE BOARD

| | |
|-------------------|---------------------|
| Total liabilities | RMB2,471,323,922.02 |
| Net assets | RMB2,136,856,169.17 |

The book value of the Disposal Properties as the Reference Date was RMB1,987,200,754.28. In accordance with Rule 14A.70(7) of the HKLR, a valuation report in respect of the Disposal Properties is set out in Appendix II to this circular.

4.2 Profit or loss for the last two financial years

Set out below is the financial information on the Disposal Assets for the two financial years ended 31 December 2017 and 2018 respectively and which was prepared in accordance with the PRC Accounting Standards:

| | For the year ended 31 December 2017 (Audited) <i>RMB</i> | For the year ended 31 December 2018 (Unaudited) <i>RMB</i> |
|---|---|---|
| Loss before tax and extraordinary items | 40,169,878.58 | 57,264,247.52 |
| Loss after tax and extraordinary items | 40,169,878.58 | 57,264,247.52 |

5. SUMMARY OF VALUATION REPORT (ACQUISITION)

Set out below is a summary of certain information contained in the Valuation Report (Acquisition).

5.1 Basis of adopting the asset-based approach

Please refer to sections 7(b) to (d) of the Board Letter for the basis on which asset-based approach was adopted for the Valuation Report (Acquisition).

5.2 General assumptions

- (a) There is no material change to the current laws, regulations and policies, the macro-economic environment of PRC, and there is no material change to the political, economic and social environments in which the parties to the transactions are situated;
- (b) the relevant companies being a going concern in relation to the actual circumstances of the assets subject to the valuation as at the Reference Date;

LETTER FROM THE BOARD

- (c) there is no material change to, among other things, the interest rates, exchange rates, taxation basis, tax rates, fees levied by reasons of policies which are relevant to the subject under valuation after the Reference Date;
- (d) the management of the entity which holds the assets are accountable, stable and capable to discharge its duties after the Reference Date;
- (e) the assets subject to the valuation are being used on the same place where they are situated;
- (f) the entity which holds the assets complies with all the relevant laws and regulations; and
- (g) there is no force majeure which may result in a material adverse effect after the Reference Date on the entity which holds the assets.

5.3 Specific assumptions

- (a) The accounting policies of the entity which holds the assets after the Reference Date and as at this report is being compiled are consistent;
- (b) the current manner and level of management, the scope and mode of business of the entity which holds the assets are consistent with the same after the Reference Date; and
- (c) the cash flow of the entity which holds the assets after the Reference Date is flowing in and out averagely.

5.4 Breakdown of the valuation outcome

| Items | Value (RMB) |
|--|------------------------------------|
| CURRENT ASSETS | 506,640,000 |
| NON- CURRENT ASSETS | |
| Fixed assets | 262,237,400 |
| Work in progress | 557,544,800 |
| Intangible assets (inclusive of land use rights of RMB110,298,000) | 137,640,900 |
| Less: TOTAL LIABILITIES | <u>101,638,600</u> |
| | <u><u>1,362,424,500</u></u> |

The Directors noted the difference of approximately RMB65.79 million (“**AP Difference**”) between (i) the value attributable to the Acquisition Properties as at the Reference Date (being RMB800,643,728.38 comprising of land use rights of RMB110,298,000, work in progress of RMB557,544,800 and buildings of RMB132,800,981) and (ii) the market value of the Acquisition

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Properties as at 31 May 2019 as showed in Appendix I to this circular (being RMB866,433,045.10). The Directors understand that the difference is mainly due to the combined effect of the increase in the investment on the Acquisition Properties and the depreciation of the Acquisition Properties since the Reference Date. The Directors believe that whether the Acquisition Consideration is fair and reasonable should be determined by reference to the information available to them immediately prior to entering into the ASA. In this connection, more details on the Directors' view on the Valuation has been set out in section 7 of the Board Letter. On the foregoing basis, the Directors believe that the Acquisition Consideration is fair and reasonable notwithstanding that there is a difference between the value of the Acquisition Properties as at the Reference Date and as at 31 May 2019.

6. SUMMARY OF VALUATION REPORT (DISPOSAL)

Set out below is a summary of certain information contained in the Valuation Report (Disposal).

6.1 Basis of adopting the asset-based approach

Please refer to sections 7(b) to (d) of the Board Letter for the basis on which asset-based approach was adopted for the Valuation Report (Disposal).

6.2 Assumptions

The Valuation Report (Disposal) adopted the same general assumptions set out in section 5.2 above except for (e). There is no specific assumption under the Valuation Report (Disposal).

6.3 Breakdown of the valuation outcome

| Items | Value (RMB) |
|--|-----------------------------|
| CURRENT ASSETS | 1,406,381,300 |
| NON- CURRENT ASSETS | |
| Fixed assets | 1,702,139,500 |
| Work in progress | 1,320,452,800 |
| Intangible assets (inclusive of land use rights of RMB158,278,600) | 160,498,600 |
| Other non-current assets | 90,313,900 |
| Less: TOTAL LIABILITIES | <u>2,471,323,900</u> |
| | <u>2,208,462,300</u> |

The Directors noted the difference of approximately RMB30.95 million (“**DP Difference**”) between (i) the value attributable to the Disposal Properties as at the Reference Date (being RMB2,085,850,468 comprising of land use rights of RMB158,278,609, work in progress of RMB991,796,700 and buildings of RMB933,555,159) and (ii) the market value of the Disposal Properties as at 31 May 2019 as showed in Appendix II to this circular (being RMB2,116,807,200). The Directors understand that the difference is mainly due to the combined effect of the increase in the investment on the Disposal Properties and the

LETTER FROM THE BOARD

depreciation of the Disposal Properties since the Reference Date. The Directors believe that whether the Disposal Consideration is fair and reasonable should be determined by reference to the information available to them immediately prior to entering into the ASA. In this connection, more details on the Directors' view on the Valuation has been set out in section 7 of the Board Letter. On the foregoing basis, the Directors believe that the Disposal Consideration is fair and reasonable notwithstanding that there is a difference between the value of the Disposal Properties as at the Reference Date and as at 31 May 2019.

Moreover, the Directors noted the net gain of the AP Difference and the DP Difference of approximately RMB34.84 million as a result of the premium of the value attributable to the Acquisition Properties of approximately RMB65.79 million due to the higher market value of the Acquisition Properties as at 31 May 2019 as compared to the appraisal value of the Acquisition Properties as at the Reference Date, which was partially offset by the loss of the value attributable to the Disposal Properties of approximately RMB30.96 million due to the higher market value of the Disposal Properties as at 31 May 2019 as compared to the appraisal value of the Disposal Properties as at the Reference Date. Having taken into account, among other things, the disclosure in section 2.5 above, the last paragraph of section 5.4 above and the paragraph immediately above, the Directors are of the view each of the Acquisition Consideration and the Disposal Consideration is fair and reasonable.

7. FURTHER INFORMATION IN RELATION TO THE VALUATION

The Directors are of the view that the methodology, approach and assumptions adopted by the Valuer for the purposes of the Valuation Reports are fair and reasonable after taking into account those factors which are material in this regard, such as the nature of, and the financial information on, each of the Acquisition Assets and the Disposal Assets, historical performance, economic and industry conditions for the each of the Acquisition Assets and the Disposal Assets, the PRC and global economic conditions and, additionally, on the basis set out below:

- (a) the Company had discussed the methodology and the assumptions adopted by the Valuer and understand that there are three basic approaches for valuation, namely market approach, income approach and asset-based approach;
- (b) the Company was advised by the Valuer that the market approach is not applicable for both the valuation of the Acquisition Assets and the Disposal Assets due to the lack of similar market transaction comparable;
- (c) the Company was advised by the Valuer that income approach is not appropriate for both the Acquisition Assets and the Disposal Assets since the income approach is based on assessing the value of the target of evaluation by capitalising or discounting the anticipated income and, in this connection, the Valuer considered that (i) the financial performance of the Disposal Assets was loss-making in previous years and thus the profitability of the Disposal Assets is uncertain in future and therefore could not satisfy the premise of the income approach; and (ii) the projection on expected discounted future revenue and/or cash inflows from the Acquisition Assets require numerous assumptions and depends on the estimated purchase order of the relevant products which is impractical to forecast accurately;

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- (d) the Company was advised by the Valuer that the Acquisition Assets and the Disposal Assets are both asset-intensive in nature;
- (e) the Company had reviewed the assumptions adopted by the Valuer and is satisfied that those assumptions are reasonably justified;
- (f) the independent judgement of the Directors and members of the senior management with regard to the reasonableness of the methodology and assumptions adopted for the Valuation Reports;
- (g) the Valuer is suitably qualified on the basis of its qualification disclosed in section 8 of Appendix III to this circular; and
- (h) the Valuation Reports were prepared in accordance with the applicable requirements and standards, such as the Administrative Rules on the Valuation of State-owned Assets* (國有資產評估管理辦法) issued by the State Council of PRC* (中國國務院) and the valuation standards published by the China Appraisal Society# (中國資產評估協會).

8. INFORMATION ON THE PARTIES

8.1 The Group and Hongdu Aviation

The Company is a joint stock limited liability company established in the PRC and listed on the HKEX. The Company is mainly engaged in the research and development, manufacture and sales of civil aviation products, and relevant engineering services.

Hongdu Aviation is a company established in the PRC and a non-wholly-owned subsidiary of the Company. As at the LPD, the shares of Hongdu Aviation were listed on the SSE. The principal business of Hongdu Aviation is design, development, manufacture and sale of trainers, general-purpose aeroplanes and other aero products, including parts and components.

8.2 Hongdu Group

Hongdu Group is a company established in the PRC and a wholly-owned subsidiary of AVIC. Hongdu Group is principally engaged in research and development, production, sales and service of aviation aircraft, trainers and missiles. As at the LPD, Hongdu Group was interested in approximately 4.38% of the equity interests of Hongdu Aviation. By virtue of Hongdu Group being a wholly-owned subsidiary of a connected person of the Company, namely AVIC (the controlling shareholder of the Company), it is an associate of a connected person of the Company and therefore is also a connected person of the Company.

9. EXPECTED GAIN OR LOSS

As disclosed in section 6 of the ASA Announcement, it was expected that a gain of approximately RMB7,120,000 would be accrued. The said gain represents the difference between (i) RMB2,143,971,700, being the sum of (x) the book value of the Acquisition Assets as at the Reference Date (being

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RMB1,297,933,900 as extracted from the Valuation Report (Acquisition)) and the cash consideration that the Group will receive (being RMB846,037,800) as disclosed in section 2.5 of the Board Letter; and (ii) the book value of the Disposal Assets as at the Reference Date (being RMB2,136,856,200 as extracted from the Valuation Report (Disposal)). It is expected that the said gain will be recognized in the equity of the Company in proportion to the Company's shareholding in Hongdu Aviation.

The financial impact of the Asset Swap Transactions will be determined on the basis of the relevant figures as at the Completion Date and, accordingly, may be subject to change and different from the disclosure above.

10. INTENDED USE OF PROCEEDS

As disclosed in section 7 of the ASA Announcement, the Group will receive a cash consideration in the amount of RMB846,037,800 under the Asset Swap Transactions. As at the LPD, the Group intended to apply the said cash consideration for Hongdu Aviation as follows: (i) approximately 10% to enhance the research and development capability with regard to the principal business of Hongdu Aviation; (ii) approximately 20% to settle the payables in relation to the production of Hongdu Aviation; and (iii) approximately 70% to replenish cash flow.

11. REASONS AND BENEFITS OF THE ASSET SWAP TRANSACTIONS

As disclosed in the November Announcement, the Asset Swap Transactions could help Hongdu Aviation to optimize resource allocation, improve industrial structure, enrich product lines, increase revenue sources, improve income structure, and enhance the market competitiveness and profitability of Hongdu Aviation. In this connection and for the purpose of focusing on the core businesses of the Group, such as in the design and development of trainers aircrafts in order to optimize the assets and personnel structure of the Group, the Group entered into the Asset Swap Transactions under which (i) the parts and components manufacturing business, which involves more assets and employees, will be disposed of; and (ii) the defence products business will be acquired by the Group. The defence products business has certain level of profitability and it is expected that after Completion, the gearing ratio of the Group will fall, the revenue of the Group will increase, and both the Group's profitability and core competitiveness will be improved.

After taking into account the factors set out in the preceding paragraph, the Directors (including the INEDs after taking into account the IFA Advice) are of the view that (i) the terms of the Asset Swap Transactions are fair and reasonable; (ii) the Asset Swap Transactions are on normal commercial terms or better to the Group; and (iii) the Asset Swap Transactions are in the interests of the Company and the Shareholders as a whole. None of the current Directors has a material interest in the Asset Swap Transactions. However, by virtue of Mr. Tan Ruisong (a former executive Director), Mr. Chen Yuanxian (a current executive Director), Mr. Wang Xuejun (a current executive Director) and Mr. Li Yao (a former non-executive Director) being the chairman, vice general manager, departmental director and chief accountant of AVIC respectively when the relevant Board meeting was held, they had abstained from voting on the relevant Board resolution(s) approving the assets swap transactions contemplated in the ASA.

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12. IMPLICATIONS UNDER HKLR

12.1 Discloseable and connected transactions

The Asset Swap Transactions comprise both the Acquisition and the Disposal. Pursuant to the relevant requirements of the HKLR, the Company classifies the Asset Swap Transactions by reference to the larger of the Acquisition or the Disposal in terms of percentage ratios, and complies with the applicable requirements of the HKLR based on such classification. As the highest applicable percentage ratio in respect of the Asset Swap Transactions exceeds 5% but is less than 25%, the Asset Swap Transactions constitute a discloseable transaction of the Company under Chapter 14 of the HKLR.

In addition, as the highest percentage ratio (other than profits ratio) in respect of the Asset Swap Transactions being 5% or above, the Asset Swap Transactions also constitute a non-exempt connected transaction of the Company under Chapter 14A of the HKLR. Accordingly, the Asset Swap Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under the HKLR.

12.2 Shareholders required to abstain from voting on the resolution relating to the Asset Swap Transactions

As at the LPD, AVIC was a controlling shareholder of the Company interested in approximately 56.04% of the Shares in issue directly and indirectly. By virtue of the relationship between AVIC and Hongdu Group as disclosed in section 8.2 of the Board Letter, AVIC has a material interest in the Asset Swap Transactions and, therefore, AVIC and its associates will be required to abstain from voting on the resolution(s) at the EGM to approve the Asset Swap Transactions. To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, no Shareholder would be required to abstain from voting on the shareholders' resolution(s) approving the Asset Swap Transactions except for AVIC and its associates.

12.3 Formation of the IBC

The IBC comprising only of the INEDs has been formed to advise the Independent Shareholders on, among other things, (i) whether the terms of the ASA are fair and reasonable; (ii) whether the ASA is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the ASA is in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the ASA. The views of the IBC and its recommendations to the Independent Shareholders are set out in the IBC Letter.

13. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Board proposes to amend the Articles of Association as follows:

LETTER FROM THE BOARD

13.1 To amend the following original article in the Articles of Association based on the current situations of the Company:

Article 3 Domicile of the Company: 2nd floor, Building 27, No. 26 Xihuan South Street ~~8th floor, Tower 2, No. 5A Rongchang East Street~~, Beijing Economic Technological Development Area, Beijing.

Postal Code: 100176

13.2 To amend the following definition in the original Article 183 of the Articles of Association as follows:

“domicile of the Company” the registered address of the Company at 2nd floor, Building 27, No. 26 Xihuan South Street ~~8th Floor, Tower 2, No. 5A Rongchang East Street~~, Beijing Economic Technological Development Area, Beijing, the PRC;

The proposed amendments to the Articles of Association are subject to the Shareholders’ consideration and approval by way of a special resolution at the EGM, at which an authorization will also be sought to authorize any executive Director to make corresponding revision to the amendments to the Articles of Association according to the opinions of the relevant regulatory authorities. The proposed amendments to the Articles of Associations are also subject to the approval, registration and/or filing with the relevant regulatory authorities.

14. DISCLOSURE IN RELATION TO RULE 2.17 OF THE HKLR

AVIC is the controlling shareholder of the Company. As at the LPD, AVIC was directly and indirectly interested in approximately 56.04% of the Shares in issue. As disclosed in section 12.2 above, AVIC and its associate(s) are required to abstain from voting on the resolution(s) to be considered at the EGM in relation to the Asset Swap Transactions.

Further, to the best knowledge of the Directors after having made all reasonable enquiries, no Shareholder will be required to abstain from voting on the resolution relating to the proposed amendments to the Articles of Association at the EGM.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the LPD:

- (a) there was no voting trust or other agreement or arrangement or understanding entered into by or binding upon AVIC and its associate(s) whereby they had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their shares in the Company to a third party, whether generally or on a case-by-case basis;

LETTER FROM THE BOARD

- (b) none of AVIC and its associate(s) were subject to any obligation or entitlement whereby they had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their shares in the Company to a third party, whether generally or on a case-by-case basis; and
- (c) there would not be any discrepancy between AVIC and its associates' beneficial shareholding interest of the Company and the number of shares in the Company in respect of which they would control or would be entitled to exercise control over the voting right at the EGM.

15. EGM

The EGM will be held at AVIC Hotel, No.10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC at 9:00 a.m. on Friday, 23 August 2019.

A notice convening the EGM is set out on pages 85 to 87 of this circular. A reply slip and a form of proxy for the purposes of the EGM are enclosed and are also published on the website of the HKEX (www.hkexnews.hk). Shareholders who intend to attend the EGM should complete and return the reply slip in accordance with the instructions printed thereon on or before Friday, 2 August 2019. Shareholders who intend to appoint a proxy to attend the EGM should complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited, the Company's H Shares registrar, at 17M Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person thereat if you so wish.

The resolutions at the EGM will be taken by poll and an announcement on the results of the EGM will be made by the Company after the EGM.

16. RECOMMENDATION

In addition to the information contained in the sections immediately preceding this section headed "Recommendation", your attention is drawn to the IBC Letter set out on pages 22 to 23 of this circular which contains the recommendation of the IBC to the Independent Shareholders as to voting at the EGM in relation to the ASA.

The Directors (including the INEDs after they have taken into account the IFA Advice) consider that the terms of ASA are fair and reasonable and the ASA is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the ASA.

The Directors also consider that the special resolution as set out in the notice of the EGM in relation to the proposed amendments to the Articles of Association is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the special resolution to be proposed at the EGM.

LETTER FROM THE BOARD

17. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board
AviChina Industry & Technology Company Limited*
Chen Yuanxian
Chairman

LETTER FROM THE IBC



中國航空科技工業股份有限公司
AviChina Industry & Technology Company Limited*
(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2357)

23 July 2019

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS: ASSET SWAP
COMPRISING (A) ACQUISITION OF NATIONAL DEFENCE RELATED
ASSETS; AND (B) DISPOSAL OF PARTS AND COMPONENTS
MANUFACTURING ASSETS**

We refer to the circular of the Company to the Shareholders of the date of this letter (the “**Circular**”), in which this letter forms part. Unless the context otherwise requires, capitalized terms used in this letter have the same meanings as defined in the Circular.

For the purposes of the HKLR, we have been appointed as the IBC to consider the Asset Swap Transactions and to advise the Independent Shareholders as to the fairness and reasonableness of the Asset Swap Transactions. We are required to recommend whether or not the Independent Shareholders should vote for the resolution(s) to be proposed at the EGM to approve the Asset Swap Transactions.

The IFA, namely Lego Corporate Finance Limited, has been appointed with the IBC’s approval to advise the IBC and the Independent Shareholders in relation to the Asset Swap Transactions.

We wish to draw your attention to the “Letter from the IFA” as set out in the Circular which contains its advice to us in relation to the Asset Swap Transactions. We also draw your attention to the “Letter from the Board” set out in the Circular.

Having taken into account the principal factors and reasons considered by and the opinion of the IFA as stated in its letter of advice, we are of the view that (i) the terms of the ASA are fair and reasonable; (ii) the ASA is on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) the ASA is in the interests of the Company and the Shareholder as a whole.

* For identification purpose only

LETTER FROM THE IBC

We therefore recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the ASA and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
the IBC

Mr. Liu Renhuai

Mr. Liu Weiwu

Mr. Wang Jianxin

Independent non-executive Directors

LETTER FROM THE IFA

The following is the full text of the letter of advice from Lego Corporate Finance Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the ASA and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



23 July 2019

To the Independent Shareholders and the Independent Board Committee

Dear Sirs or Madams,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS:
ASSET SWAP COMPRISING
(A) ACQUISITION OF NATIONAL DEFENCE RELATED ASSETS; AND
(B) DISPOSAL OF PARTS AND COMPONENTS MANUFACTURING ASSETS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the ASA and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 23 July 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is made to the announcement of the Company dated 31 May 2019. On 31 May 2019, Hongdu Aviation (a non-wholly-owned subsidiary of the Company) and Hongdu Group entered into the ASA (i.e. the asset swap agreement), pursuant to which, Hongdu Aviation has agreed to (i) acquire the Acquisition Assets from Hongdu Group; and (ii) dispose of the Disposal Assets to Hongdu Group.

The consideration for the acquisition of the Acquisition Assets is RMB1,362,424,500, such consideration shall be satisfied by Hongdu Aviation transferring the Disposal Assets to Hongdu Group. The consideration for the disposal of the Disposal Assets is RMB2,208,462,300, such consideration shall be satisfied by Hongdu Group (i) transferring the Acquisition Assets to Hongdu Aviation; and (ii) paying the difference between the consideration for the Acquisition and the Disposal (being RMB846,037,800) to Hongdu Aviation in cash.

The Asset Swap Transactions comprise both the Acquisition and the Disposal. Pursuant to the relevant requirements of the HKLR, the Company classifies the Asset Swap Transactions by reference to the larger of the Acquisition or the Disposal in terms of the respective percentage ratios, and subject to the

LETTER FROM THE IFA

relevant requirements applicable to such classification. As the highest applicable percentage ratio in respect of the Asset Swap Transactions exceeds 5% but is less than 25%, the Asset Swap Transactions constitute a discloseable transaction of the Company under Chapter 14 of the HKLR. In addition, as the highest percentage ratio (other than profit ratio) in respect of the Asset Swap Transactions being 5% or above, the Asset Swap Transactions also constitute a non-exempt connected transaction of the Company under Chapter 14A of the HKLR. Accordingly, the Asset Swap Transactions are subject to the reporting, announcement and independent shareholders' approval requirements under the HKLR.

As at the Latest Practicable Date, AVIC is the controlling shareholder of the Company interested in approximately 56.04% of the Shares in issue directly and indirectly and hence a connected person of the Company. Hongdu Group is wholly-owned subsidiary of AVIC and is interested in approximately 4.38% of the equity interests of Hongdu Aviation. By virtue of Hongdu Group being a wholly-owned subsidiary of a connected person of the Company, namely AVIC, it is an associate of a connected person of the Company and therefore is also a connected person of the Company. As AVIC has a material interest in the Asset Swap Transactions and, therefore, AVIC and its associates will be required to abstain from voting on the resolution(s) at the EGM approving the Asset Swap Transactions.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the independent non-executive Directors (namely Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin), has been formed in accordance with Chapter 14A of the HKLR to advise the Independent Shareholders as to (i) whether the terms of the ASA are on normal commercial terms or better, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; (ii) whether the Asset Swap Transactions pursuant to the ASA is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in relation to the resolution(s) to be proposed for approving the ASA and the transactions contemplated thereunder at the EGM. We, Lego Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on this matter.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. In the last two years, there was no engagement between the Group and Lego Corporate Finance Limited. Apart from normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangement exist whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Accordingly, we are qualified to give independent advice in respect of the ASA and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate

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and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors, the management of the Group, and/or the advisers of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the Latest Practicable Date.

We consider that we have reviewed the sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, its subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

1. Background information

(a) Information on the Group

The Company is a joint stock limited liability company established in the PRC, with its H Shares listed on the HKEX. The Company is mainly engaged in the research and development, manufacture and sales of aviation products, and relevant engineering services.

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Set out below is a summary of the audited consolidated financial information of the Group for the two years ended 31 December 2018, as extracted from the annual report of the Company for the year ended 31 December 2018 (the “2018 Annual Report”):

| | For the year ended 31 December 2017 | For the year ended 31 December 2018 | Year on year change |
|---|--|--|--------------------------------|
| | (Audited) | (Audited) | |
| | <i>RMB'000</i> | <i>RMB'000</i> | % |
| Revenue | 32,596,711 | 35,153,264 | 7.84 |
| – Aviation entire aircraft | 10,404,546 | 11,010,731 | 5.83 |
| – Aviation parts and components | 16,980,047 | 18,546,711 | 9.23 |
| – Aviation engineering services | 5,212,118 | 5,595,822 | 7.36 |
| Gross profit | 7,443,909 | 7,776,458 | 4.47 |
| Gross profit margin (%) | 22.84 | 22.12 | |
| Profit for the year attributable to the equity holders of the Company | 1,222,280 | 1,287,942 | 5.37 |
| | As at 31 December 2017 | As at 31 December 2018 | Year on year change |
| | (Audited) | (Audited) | |
| | <i>RMB'000</i> | <i>RMB'000</i> | % |
| Total assets | 78,933,102 | 86,720,289 | 9.87 |
| Total liabilities | 47,773,368 | 51,747,651 | 8.32 |
| Net assets | 31,159,734 | 34,972,638 | 12.24 |
| Total equity attributable to equity holders of the Company | 14,709,261 | 16,804,375 | 14.24 |
| Cash and cash equivalents | 11,063,187 | 12,122,364 | 9.57 |

As depicted by the above table and as referred to in the 2018 Annual Report, the Group derived its revenue mainly from its aviation parts and components segment which accounted for approximately 52.76% of total revenue for the year ended 31 December 2018 and recorded a growth of the total revenue of approximately 7.84% as compared to the previous financial year. Such increase was mainly attributable to (i) the increase in sales volume of helicopter products from its aviation entire aircraft business; (ii) the stable and rapid increase of aviation parts and components orders due to new market exploration and new products promotion from one of the Company’s subsidiaries from its aviation parts and components business; and (iii) the enhanced market exploration in civil aviation, general aviation and municipal planning market from its aviation engineering services business.

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The profit attributable to equity holders of the Company for the year ended 31 December 2018 amounted to approximately RMB1,287.9 million, representing an increase of RMB65.6 million or 5.37% as compared with that of RMB1,222.3 million in the corresponding period of the preceding year. Such increase was mainly due to (i) the increase in revenue as mentioned above; and (ii) the increases in operating profit as well as investment gains from associates and joint ventures during the year ended 31 December 2018 as compared with that in the corresponding period of the preceding year.

(b) Information on Hongdu Aviation

Hongdu Aviation is a company established in the PRC and a non-wholly-owned subsidiary of the Company. As at the Latest Practicable Date, the shares of Hongdu Aviation are listed on the SSE. The principal business of Hongdu Aviation is design, development, manufacture and sale of trainers, general-purpose aeroplanes and other aero products, including parts and components.

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Set out below is a summary of the audited consolidated financial information of Hongdu Aviation for the two years ended 31 December 2018, as extracted from the annual reports of Hongdu Aviation for the year ended 31 December 2017 and the year ended 31 December 2018 (the “**Hongdu Aviation Annual Reports**”):

| | For the year ended 31 December 2017 | For the year ended 31 December 2018 | Year on year change |
|---|--|--|--------------------------------|
| | (Audited) | (Audited) | |
| | <i>RMB'000</i> | <i>RMB'000</i> | % |
| Revenue | 2,530,025 | 2,417,800 | -4.44 |
| – Aircraft manufacturing | 1,544,288 | 1,992,225 | 29.01 |
| – Mechanical manufacturing and parts and components | 204,232 | 216,600 | 6.06 |
| – Technical collaboration and general aviation | 106,442 | 105,452 | -0.93 |
| – Others | 675,063 | 103,523 | -84.66 |
| Net profit for the year attributable to the equity holders of Hongdu Aviation | 30,680 | 148,369 | 383.59 |
| Net loss for the year attributable to the equity holders of Hongdu Aviation after deducting non- recurring gains and/or losses | 83,670 | 94,055 | 12.4 |
| | As at 31 December 2017 | As at 31 December 2018 | Year on year change |
| | (Audited) | (Audited) | |
| | <i>RMB'000</i> | <i>RMB'000</i> | % |
| Total assets | 9,548,134 | 9,672,298 | 1.30 |
| Total liabilities | 4,624,847 | 4,784,154 | 3.44 |
| Net assets | 4,923,287 | 4,888,144 | -0.71 |
| Total equity attributable to equity holders of Hongdu Aviation | 4,906,406 | 4,871,011 | -0.72 |

As illustrated in the above table and as referred to in the Hongdu Aviation Annual Reports, Hongdu Aviation recorded a decline of revenue of approximately 4.44% or RMB112.2 million for the year ended 31 December 2018 as compared to the previous financial year. Such decrease was mainly attributable to the decrease in revenue generated from other business of approximately 84.66% or RMB571.5 million, which was partially offset by (i) the increase of the revenue generated from aircraft manufacturing business of

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approximately RMB447.9 million as a result of the increase in sales volume of the aircraft; and (ii) the increase of the revenue generated from mechanical manufacturing and parts and components business of approximately RMB12.4 million.

The profit attributable to equity holders of Hongdu Aviation for the year ended 31 December 2018 amounted to approximately RMB148.4 million, representing an increase of RMB117.7 million or 383.59% as compared with that of RMB30.7 million in the corresponding period of the preceding year. Such increase was primarily due to the recognition of non-recurring gains/losses of approximately RMB242.4 million for the year ended 31 December 2018, which primarily consist of (i) the gain from the disposal of non-current assets of approximately RMB107.8 million; (ii) the gain from investment income from and changes in fair value arising from trading financial assets and liabilities of approximately RMB173.7 million; and (iii) the loss from the impact on the income tax of approximately RMB42.8 million. Excluding the aforesaid non-recurring gains/losses of approximately RMB242.4 million, Hongdu Aviation would have recorded a net loss for the year attributable to the equity holders of Hongdu Aviation of approximately RMB94.1 million for the year ended 31 December 2018, representing an increase of net loss of approximately RMB10.4 million or 12.4% as compared to the previous year.

(c) *Hongdu Group*

Hongdu Group is a company established in the PRC and a wholly-owned subsidiary of AVIC. Hongdu Group is principally engaged in research and development, production, sales and service of aviation aircraft, trainers and missiles.

(d) *Information on the Acquisition Assets*

According to the Letter from the Board, the Acquisition Assets are Hongdu Group's national defense business related assets and all the rights and benefits attaching thereto together with all the debts and other obligations which such business and assets are subject to as at the Reference Date, more details of which are set out below:

| | |
|---|--|
| Production plants and facilities and related properties | a factory named Feilong Machinery Factory situated in the south of the Aviation City (航空城) of Nanchang City, Jiangxi Province which principally produced missiles and whose principal assets include the Feilong machinery complex production plant and related ancillary facilities and equipment and the relevant land use rights of 12 pieces of lands with an aggregate area of approximately 893,047.04 sq. m and 27 properties with an aggregate area of approximately 41,344.05 sq. m |
|---|--|

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| | |
|------------------------------|--|
| Other assets and liabilities | current assets (pre-payments and inventory) and current liabilities (accounts payables and wages payables) |
| Total assets | RMB1,399,572,506.66 |
| Total liabilities | RMB101,638,645.86 |
| Net assets | RMB1,297,933,860.80 |

As disclosed in the Letter from the Board, the book value of the Acquisition Properties as at the Reference Date was RMB729,895,843.18. In accordance with Rule 14A.70(7) of the HKLR, a valuation report in respect of the Acquisition Properties (“**AP Valuation Report**”) is set out in Appendix I to the Circular.

Set out below is the financial information on the Acquisition Assets for the two financial years ended 31 December 2017 and 2018 respectively which were prepared in accordance with the PRC Accounting Standards:

| | For the year ended 31 December 2017 (Audited) RMB | For the year ended 31 December 2018 (Unaudited) RMB |
|---|--|--|
| Profit before tax and extraordinary items | 9,533,441.82 | 7,484,017.96 |
| Profit after tax and extraordinary items | 8,103,425.55 | 6,361,415.27 |

As set out from the table above, the profit before and after tax and extraordinary items decreased from approximately RMB9.5 million and RMB8.1 million for the year ended 31 December 2017 to approximately RMB7.5 million and RMB6.4 million, respectively. As advised by the management of the Group, such decrease was mainly due to the decrease of the sales order as a result of the intensified competition in the market.

(e) Information on the Disposal Assets

According to the Letter from the Board, the Disposal Assets are Hongdu Aviation’s certain parts and components manufacturing business related assets and all the rights and benefits attaching thereto together with all the debts and other obligations which such assets are subject to as at the Reference Date, more details of which are set out below:

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| | |
|---|--|
| Production plants and facilities and related properties | Thermal surface treatment factory, sheet metal fabrication factory, clamp welding hydraulic accessories plant factory, composite materials factory, mechanical processing factory, parts possessing factory, numerical control machinery factory, machinery processing factory for accessories, machine tools manufacturing factory, equipment and energy centre and other production workshops for parts and components and the corresponding supporting facilities and equipment, the associated operating and financial liabilities, the relevant land use rights of nine pieces of lands with an aggregate area of approximately 1,444,526.67 sq. m and 16 properties with an aggregate area of approximately 227,068.46 sq. m |
| Other assets and liabilities | current assets (pre-payments, inventory and other receivables) and current liabilities (short-term borrowing, accounts payables and wages payables) and non-current liabilities (long term payables) |
| Total assets | RMB4,608,180,091.19 (of which RMB1,987,200,754.28 or 42.45% is attributable to properties) |
| Total liabilities | RMB2,471,323,922.02 |
| Net assets | RMB2,136,856,169.17 |

As disclosed in the Letter from the Board, the book value of the Disposal Properties as at the Reference Date was RMB1,987,200,754.28. In accordance with Rule 14A.70(7) of the HKLR, a valuation report in respect of the Disposal Properties (“**DP Valuation Report**”) is set out in Appendix II to the Circular.

Set out below is the financial information on the Disposal Assets for the two financial years ended 31 December 2017 and 2018 respectively and which was prepared in accordance with the PRC Accounting Standards:

| | For the year ended 31 December 2017 (Audited) RMB | For the year ended 31 December 2018 (Unaudited) RMB |
|---|--|--|
| Loss before tax and extraordinary items | 40,169,878.58 | 57,264,247.52 |
| Loss after tax and extraordinary items | 40,169,878.58 | 57,264,247.52 |

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As set out from the table above, the loss before and after tax and extraordinary items deteriorated from approximately RMB40.2 million for the year ended 31 December 2017 to approximately RMB57.3 million for the year ended 31 December 2018. Such decrease was mainly due to the decrease in sales volume of the trainer aircraft as a result of the intensified competition in the trainer aircraft market during the past few years.

2. Reasons for and benefits of the Asset Swap Transactions

According to the Letter from the Board, the Asset Swap Transactions could help Hongdu Aviation to optimise resource allocation, improve industrial structure, enrich product lines, increase revenue sources, improve income structure, and enhance the market competitiveness and profitability of Hongdu Aviation. In this connection and for the purpose of focusing on the core businesses of the Group, such as in the research & development and manufacture of trainers aircrafts in order to optimise the assets and personnel structure of the Group, the Group entered into the Asset Swap Transactions under which (i) the parts and components manufacturing business, which involves more assets and employees, will be disposed of; and (ii) the defense products business will be acquired by the Group.

Industry overview of the national defense industry in the PRC

According to “2018/2019 Global aerospace and defense industry outlook” (the “**Report**”) issued by an international accounting firm, whose author possesses 30 years’ experience as a consultant to the aerospace and defense sector in which we considered he has sufficient expertise and industry knowhow to prepare the Report that we can rely on, the aerospace and defense industry is positioned for steady growth across the globe primarily due to passenger travel demand strengthened and global military expenditure continued to rise as a result of heightened global security threats. As the geopolitical tensions are continuing to intensify and the demand for military equipment is on the uptick and therefore driving defense spending worldwide. It is estimated that the global defense spending will grow at a compound annual growth rate (“**CAGR**”) of about 3% over the 2017-2022 period, crossing US\$2 trillion by 2022.

As disclosed in the Report, the PRC is the second-largest defense-spending nation after the United States and it is expected to drive growth in both commercial aerospace and defense sectors. The Report further pinpoints that the PRC’s 2018 defense budget grew 8.1% year over year to US\$175 billion, which is the largest increase in the past three years, and the PRC’s defense expenditure is projected to grow in the range of 9-10% in the near future. The Report concluded by forecasting the aerospace and defense industry will continue its growth trajectory in 2019, led by growing commercial aircraft production and strong defense spending.

Furthermore, we noted that, according to the National Bureau of Statistics of China (<http://data.stats.gov.cn>, which is the latest information available to the public), the national defense expenditure continued to expand in recent years from approximately RMB828.9 billion in 2014 to approximately RMB1,128.1 billion in 2018, representing a CAGR of approximately 8.01% during this period, which is consistent with the projected growth rate of national

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defense expenditure in the PRC as mentioned above. The expected growth of the national defense expenditure indicating that it will derive higher demand and supply of national defense products such as missiles in the PRC.

In relation to the Acquisition

As mentioned above, the Acquisition Assets are Hongdu Group's national defense business related assets, which mainly comprised of production plants and facilities, namely Feilong Machinery Factory and related ancillary facilities (the "**Feilong Machinery Factory**"), relevant land use rights of 12 pieces of lands with an aggregate area of approximately 893,000 sq. m. and 27 properties with an aggregate area of approximately 41,300 sq. m. As discussed with the management of the Group, we were given to understand that Feilong Machinery Factory is mainly engaged in the development and manufacture of national defense products, in particular, missile products which will enrich the principal business activity of the Group, which is development, manufacture, sale and upgrade of defense products such as trainer aircraft as disclosed in the 2018 Annual Report.

Moreover, based on the financial information on the Acquisition Assets for the two years ended 31 December 2018 as set out in the section headed "1. Background information – (d) Information on the Acquisition Assets" above, we noted that the Acquisition Assets had been continuously recording profit before and after tax and extraordinary items in each of the two years ended 31 December 2018. Thus, it is expected that the sharing of profit will increase the earnings of the Group accordingly.

We were further advised by the Directors that, after the Acquisition, Feilong Machinery Factory will develop and manufacture new product type and/or specification of missiles by acquiring new machineries and/or replacing existing machineries and continuously improving and developing production techniques through research and development so as to further expand its product lines with different specification in order to capture the high market demands on the national defense products as mentioned in the paragraph headed "Industry overview of the national defense industry in the PRC" above. In this connection, we are of the view that the Acquisition Assets will enable the Group to expand its defense products business so as to broaden its revenue stream.

As disclosed in the 2018 Annual Report, the Company will, among other things, optimise capital investment and improve operating efficiency, enhance its capability in aviation product development and system protection and expand defense products business. As mentioned above, Feilong Machinery Factory is mainly engaged in the development and manufacture of national defense products such as missile products. Upon completion of the Acquisition, the Acquisition Assets will be owned by Hongdu Aviation, which enable the Group to broaden its existing defense product portfolio. Hence, the Acquisition will (i) create cost synergy by integrating the research and development capability of the Group, the Acquisition Assets and the related employees, thereby reducing the aggregate operational costs and general expenses which will in turn improve the profitability of the Group and enhance the

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Group's position in the PRC's aviation industry; and (ii) enable expansion of the scale of the defense products business. We concur with the Directors' view that the results of the Acquisition are in line with the business strategy of the Group.

In relation to the Disposal

As set out in the Letter from the Board, the Disposal Assets are Hongdu Aviation's certain parts and components manufacturing business related assets, which mainly comprised of parts and components processing equipment and ancillary facilities including thermal surface treatment factory, sheet metal fabrication factory, mechanical processing factory, etc. mainly for the manufacture of parts and components on basic as well as advanced series of trainer aircrafts which are designed and used for pilot training purposes.

As mentioned above, according to the Hongdu Aviation Annual Reports, the revenue generated from the mechanical manufacturing and parts and components business recorded a year-on-year growth rate of 6.06% in 2018. However, based on the financial information on the Disposal Assets for the two years ended 31 December 2018, we noted that the Disposal Assets had been continuously recording loss before and after tax and extraordinary items in each of the two years ended 31 December 2018. As advised by the management of the Group, the loss-making results is mainly due to the decrease in sales volume of the trainer aircraft as a result of the intensified competition in the trainer aircraft market during the past few years.

We have discussed with the management of the Group in relation to the competition in the trainer aircraft market in recent years and we understand that there are certain amount of domestic trainer aircraft manufacturers in the PRC as well as overseas trainer aircraft manufacturers mainly from the United Kingdom, Germany, Czech Republic, South Korea and Russia, in which most of trainer aircraft models that were developed and manufactured by them are very competitive as compared to the trainer aircraft manufactured by the Group. In light of the intensive competition in the market mentioned above, the Disposal will enable the Group to streamline its assets portfolio and personnel structure (as further discussed below) as the utilisation rate of the Disposal Assets and the profit margin of the Hongdu Aviation's certain parts and components manufacturing business are relatively low as compared to the Acquisition Assets. Hence, it is the intension of the Group to source the parts and components of the trainer aircrafts from other suppliers and focus on the research and development and manufacture of trainer aircrafts business after the Disposal in order to enhance the market competitiveness in respect of its trainer aircrafts.

In addition, we were advised that the employees of the Disposal Assets and Acquisition Assets will also be swapped together with the corresponding assets. Since the Disposal Assets involves more assets with relatively lower utilisation rate and more employees with higher operating expenses accordingly as compared to the Acquisition Assets, the Asset Swap Transactions provide a good opportunity for the Company to optimise the assets and personnel structure of the Group so as to allow the Group to redeploy resources into its core business where the Group can make further investments (by using part of the cash proceeds under the Asset Swap Transactions as further discussed below) to the research & development of trainer aircrafts. In other words, the Disposal will create cost synergy by streamlining the Group's

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assets portfolio and personnel structure and integrating the research and development capability of the Group, its assets and employees, thereby reducing the aggregate operational costs and general expenses which will in turn improve the profitability of the Group and enhance the Group's position in the PRC's aviation industry.

The use of cash proceeds

As set out in the Letter from the Board, the Group will receive a cash consideration in the amount of RMB846,037,800 under the Asset Swap Transactions. The Group intends to apply the said cash consideration as follows: (i) approximately 10% to enhance the research and development capability with regard to the principal business of Hongdu Aviation; (ii) approximately 20% to settle the payables in relation to the production of Hongdu Aviation; and (iii) approximately 70% to replenish the cash flow of Hongdu Aviation.

According to the 2018 Annual Report, the Group will, among other things, carry out the innovation-driven development strategy, concretely improve its high-tech innovation capabilities and speed up the research and development and production of the innovation products such as unmanned aerial vehicles and light helicopter. We have discussed with the management of the Group in this regard and understand that part of the cash proceeds will be applied to the enhancement of research and development capability with regard to its principal business including the development and manufacture of trainer aircraft and defense products.

In addition, we noted from the 2018 Annual Report that the accounts and notes payables of the Group amounted to approximately RMB25,325 million as at 31 December 2018, of which approximately RMB12,199 million of accounts payable and approximately RMB7,085 million of notes payables will fall due within one year, while the cash and cash equivalents was approximately RMB12,122 million as at 31 December 2018, and that the net cash flows from operating activities was approximately RMB508 million for the year ended 31 December 2018, representing a decrease of approximately 68.0% as compared to previous year, mainly attributable to the increase of receivables and inventory during the year.

It is expected that the applying of the cash proceeds under the Asset Swap Transactions for enhancement of research and development capability with regard to the principal business can help the Group to achieve the business strategies of the Group as stated in the 2018 Annual Report. Furthermore, in view of the latest financial position of the Group as at 31 December 2018, we are of the view that part of the cash proceeds which is allocated for the Group's financial needs for the repayment of the Group's payables (in relation to the production) will enhance the Group's overall liquidity and can have better financial resources to allocate for its operation in this regard. As such, we are of the view that the entering into of the ASA and the transactions contemplated thereunder is in the interests of the Company and the Shareholders as a whole.

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Our view

In light of the above and after taking into account (i) the continuous growth in the national defense market in the PRC is positive as discussed in the paragraph headed “Industry overview of the national defense industry in the PRC” above; (ii) the Acquisition Assets will enable the Group to expand its defense products business so as to increase revenue source; (iii) the Acquisition and the Disposal are in line with the business strategy of the Group; (iv) the continuous loss-making results of the Disposal Assets in recent years; (v) the Asset Swap Transactions provide a good opportunity for the Company to optimise the assets and personnel structure of the Group so as to allow the Group to redeploy resources into its core business where the Group can make further investments to the research & development in order to enhance its market competitiveness of trainer aircrafts; and (vi) the estimated gain of approximately RMB7,120,000 to be realised upon completion of the Asset Swap Transactions, we concur with the Directors’ view that the Asset Swap Transactions are in the interests of the Company and the Shareholders as a whole.

3. Major terms of the Asset Swap Agreement

Please refer to the section headed “ASA” in the Letter from the Board for the detailed information of the terms of the ASA.

The Consideration

According to the ASA, the Acquisition Consideration is equivalent to the Appraisal Value (Acquisition Assets), being RMB1,362,424,500, while the Disposal Consideration is equivalent to the Appraisal Value (Disposal Assets), being RMB2,208,462,300. The Acquisition Consideration shall be satisfied by Hongdu Aviation transferring the Disposal Assets to Hongdu Group. The Disposal Consideration shall be satisfied by Hongdu Group (i) transferring the Acquisition Assets to Hongdu Aviation; and (ii) paying the difference between the Acquisition Consideration and the Disposal Consideration, being RMB846,037,800, to Hongdu Aviation in cash within 12 months after the Completion Date. Each Party shall be deemed to have fully performed its obligation to pay consideration to another Party after it has delivered the relevant assets to the other Party and, where applicable, paid the difference between the Acquisition Consideration and the Disposal Consideration to the other Party.

Basis of the Consideration

Each of the Acquisition Consideration and the Disposal Consideration is determined after arm’s length negotiations between the Parties with reference to the appraisal results as confirmed by AVIC, namely, the Appraisal Value. The Appraisal Value was determined by the

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Valuer who was appointed jointly by the Group and Hongdu Group to issue a valuation report in respect of the Acquisition Assets and the Disposal Assets, respectively. Set out below is the information on the Appraisal Value and the valuation approach:

| Assets | Appraisal Value as at the Reference Date (RMB) | Appraisal approach |
|--------------------|--|----------------------|
| Acquisition Assets | 1,362,424,500 | Asset-based approach |
| Disposal Assets | 2,208,462,300 | Asset-based approach |

For more information on, among other things, (i) the assumptions adopted in the Valuation Reports; and (ii) the breakdown of the valuation outcome, please refer to the sections headed “SUMMARY OF VALUATION REPORT (ACQUISITION)” and “SUMMARY OF VALUATION REPORT (DISPOSAL)” in the Letter from the Board.

Moreover, we were given to understand that the Acquisition Properties and Disposal Properties are part of the Acquisition Assets and Disposal Assets, respectively. As disclosed in the Letter from the Board, the difference of approximately RMB65.79 million between (i) the value attributable to the Acquisition Properties as at the Reference Date (being RMB800,643,728.38 comprising of land use rights of RMB110,298,000, work in progress of RMB557,544,800 and buildings of RMB132,800,981) and (ii) the market value of the Acquisition Properties as at 31 May 2019 as shown in the AP Valuation Report (being RMB866,433,045.10) (“**AP Difference**”) was mainly due to the combined effect of the increase in the investment on the Acquisition Properties and the depreciation of the Acquisition Properties since the Reference Date; whereas the difference of approximately RMB30.95 million between (i) the value attributable to the Disposal Properties as at the Reference Date (being RMB2,085,850,468 comprising of land use rights of RMB158,278,609, work in progress of RMB991,796,700 and buildings of RMB933,555,159) and (ii) the market value of the Disposal Properties as at 31 May 2019 as shown in the DP Valuation Report (being RMB2,116,807,200) (“**DP Difference**”) was mainly due to the combined effect of the increase in the investment on the Disposal Properties and the depreciation of the Disposal Properties since the Reference Date. Set out below is the breakdown of the AP Difference and DP Difference:

| | Value attributable as at the Reference Date (RMB) | Market value as at 31 May 2019 (RMB) | Difference (RMB) |
|------------------------|--|--|---------------------|
| Acquisition Properties | 800,643,728.38 | 866,433,045.10 | 65,789,316.72 |
| Disposal Properties | 2,085,850,468.00 | 2,116,807,200.00 | 30,956,732.00 |
| Net gain | N/A | N/A | 34,832,584.72 |

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In light of the above and after taking into account (i) the net gain of the AP Difference and DP Difference of approximately RMB34.83 million as a result of the premium of the value attributable to the Acquisition Properties of approximately RMB65.79 million due to the higher market value of the Acquisition Properties as at 31 May 2019 as compared to the appraisal value of the Acquisition Properties as at the Reference Date, which was partially offset by the loss of the value attributable to the Disposal Properties of approximately RMB30.96 million due to the higher market value of the Disposal Properties as at 31 May 2019 as compared to the appraisal value of the Disposal Properties as at the Reference Date; and (ii) the Acquisition Consideration and Disposal Consideration should be determined by reference to the information available to the Directors immediately prior to entering into the ASA, the Directors believe and we concur that the Acquisition Consideration and Disposal Consideration are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

Valuation of Acquisition Assets and Disposal Assets

To assess the fairness and reasonableness of the Acquisition Consideration and the Disposal Consideration, we have reviewed the (i) Valuation Reports; (ii) AP Valuation Report; and (iii) DP Valuation Report (collectively “**CEA Valuation Reports**”) and interviewed the Valuer, who possesses over 10 years’ experience as an assets and properties valuer, as to its expertise, independence and details in relation to the CEA Valuation Reports. We also reviewed and enquired into the Valuer on (i) the methodology adopted; and (ii) the basis and assumptions adopted in the CEA Valuation Reports in order for us to understand the CEA Valuation Reports. We noted from the Valuation Reports that were prepared by the Valuer in accordance with various requirements/standards, including the Asset Valuation Basic Standards as issued by Ministry of Finance of the PRC, the Asset Appraisal Law of the PRC and valuation standards published by the China Appraisal Society.

We understand that, during the course of valuation, the Valuer (i) conducted inspection and verification to the Acquisition Assets and Disposal Assets (such as obtaining information required for the valuation business through enquiries, interviews, verifications and other means; understanding the current status of the valuation subject; and paying attention to the legal titles of the valuation subject); and (ii) collected and verified valuation information (such as examining sales contracts). As advised by the Valuer, the Valuer did not identify any circumstances which may affect the verification of information. We also understand that the Valuer assumed that all basic information and financial information provided by Hongdu Group and Hongdu Aviation are true, correct and complete.

With reference to the Valuation Reports, income approach, market approach and asset-based approach are three basic approaches for valuation. Valuer shall consider the applicability of each of the approaches to different business models and relevant factors such as type of the assessment object and the findings from data collection and adopt the most appropriate valuation approach. We also noted that the Valuer considered the market approach is not applicable for both the valuation of Acquisition Assets and Disposal Assets due to the lack of similar market transaction comparables. The Valuer assessed the appropriateness of the adoption of income approach and asset-based approach in preparing the Valuation Reports

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based on the fact that (i) income approach is based on assessing the value of the target of evaluation by capitalising or discounting the anticipated income, while the Valuer considered that (a) the financial performance of the Disposal Assets is loss-making in previous years and thus the profitability of the Disposal Assets is uncertain in future which could not satisfy the premise of the income approach; and (b) the projection on expected discounted future revenue and/or cash inflows from the Acquisition Assets require numerous assumptions and is relied on the estimated purchase order of the relevant products which is impractical to accurately forecast; and (ii) the Acquisition Assets and the Disposal Assets are both asset-intensive in nature. We are given to understand that the asset-based approach conducted by the Valuer is in accordance with the common market practice and standards, we concur with the view of the Valuer that the asset-based approach finally adopted by the Valuer in the Valuation Reports is the most preferred approach for conducting the valuation of the Acquisition Assets and the Disposal Assets. We confirmed with the Valuer that it has conducted adequate due diligence work in determining the respective valuation of the Acquisition Assets and the Disposal Assets with the steps and procedures in accordance with the market practices and generally accepted valuation procedure in the PRC.

In compliance with the requirements of Rule 13.80 of the HKLR, we have reviewed and enquired into (i) the terms of engagement and scope of work of the Valuer with the Company; (ii) the Valuer's qualification and experience in relation to the preparation of the CEA Valuation Reports; and (iii) the steps and due diligence measures taken by the Valuer for conducting the valuation. We are satisfied with scope of work of engagement and qualification of the Valuer. We note that the due diligence measures are appropriate to the opinion given. Also, we have checked to the website of the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (the "SASAC") and noted that the Valuer is on the SASAC's recognised list of valuation companies. Meanwhile, we understand from our enquiry with the Valuer that it is a third party independent of the Group and/or the connected persons of the Group. Thus, we consider that the Valuer is qualified and possesses sufficient relevant experience in performing the valuation of the Acquisition Assets and the Disposal Assets.

In order to independently assess the value of the Acquisition Assets and Disposal Assets, we have considered other valuation approaches such as the market approach by making reference to benchmarks of price-to-earnings ratio (the "P/E Ratio") and price-to-book ratio (the "P/B Ratio") as they are the most widely adopted benchmarks for evaluating the value of a company. In particular, for companies that generate recurring turnover and income, P/E Ratio analysis is the most appropriate approach for valuation. Therefore, for the purpose of our analysis, we have opted for both P/E Ratio and P/B Ratio analysis to assess the fairness and reasonableness of the Acquisition Assets and Disposal Assets.

The Acquisition Comparables Analysis

For consideration analysis of Acquisition Assets, we have searched for comparables companies listed on the HKEX, Shenzhen Stock Exchange and SSE. However, we were unable to identify any comparable that has similar business(es) to Acquisition Assets, i.e. development and manufacture of national defense products, in particular, missiles, the revenue of which is

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mainly generated from the sale of missiles in domestic and overseas markets. In light of this, in order to assess the fairness and reasonableness of the Acquisition Consideration, we decided to use the net asset value of Acquisition Assets to compare with the Acquisition Consideration.

RMB

| | |
|--|---------------|
| Net asset value of Acquisition Assets as at 30 November 2018 | 1,297,933,861 |
| Acquisition Consideration | 1,362,424,500 |
| Premium | 64,490,639 |

As shown above, the net asset value of Acquisition Assets was approximately RMB1,297.9 million as at 30 November 2018 while the Acquisition Consideration is approximately RMB1,362.4 million. The Acquisition Consideration is at a premium of approximately RMB64.5 million or 4.97% as compared to the net asset value of the Acquisition Assets.

Despite that Acquisition Consideration is at premium, having considered that (i) it is offset by the Disposal Consideration which is also at premium as discussed below; and (ii) the reasons for and benefits of the Assets Swap Transactions as described above, we are of the view that the Acquisition Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Disposal Assets Comparables Analysis

As the Disposal Assets is principally engaged in manufacture of parts and components on basic and advanced series of trainer aircrafts, we have identified listed companies that (i) are listed in the Shenzhen Stock Exchange and SSE; and (ii) are principally engaged in similar line of business to the Disposal Assets. We have identified five companies (the “**Comparables**”) that fall into the abovementioned selection criteria, forming an exhaustive list of companies for our Comparables analysis. Shareholders should note that the businesses, operations, prospects and scale of the Disposal Assets may not be the same as, or even substantially vary from, that of the Comparables; and we have not conducted any detailed investigation into the respective businesses and operations of the Comparables. Thus, we have not relied only on the result of this Comparables analysis to form our view. Instead, we have

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taken all the relevant factors and analysis (of which this analysis formed part) as a whole when making our recommendation contained in this letter. Our analysis on the Comparables is set out below:

| Stock Code | Name | Principal Activities | Market | P/E | P/B |
|------------|---|--|-----------------------------|---------------------|---------------------|
| | | | Capitalisation (RMB'000) | (times) (Note 1) | (times) (Note 2) |
| 000697.SZ | Ligeance Aerospace Technology Co Ltd | a PRC-based company principally engaged in the manufacture and processing of various kinds of aircraft-related precision components and structural parts | 7,508,467 | 314.85 | 2.52 |
| 000768.SZ | AVIC Aircraft Co Ltd | the company's main products consist of aircraft, aircraft parts, aviation materials, ground equipment, automotive parts, technical equipment, aluminum alloy products, power equipment and facilities and carbon materials, among others | 43,467,728 | 78.39 | 2.73 |
| 300696.SZ | Chengdu ALD Aviation Manufacturing Corp | a PRC-based company principally engaged in the processing and manufacturing of military aircraft and civil airliner parts | 3,871,179 | 48.68 | 4.45 |
| 300775.SZ | Xi'an Triangle Defense Co Ltd | a PRC-based company mainly engaged in the research, production and sales of forging products in the fields of aviation, aerospace and marine, as well as the provision of corresponding service businesses | 12,126,079 | 115.29 | 12.60 |
| 600893.SS | AECC Aviation Power Co Ltd | a China-based company, principally engaged in the research and development, manufacture and distribution of aircraft engines and derivatives | 7,350,353 | 47.79 | 1.92 |
| | Minimum: | | | 47.79 | 1.92 |
| | Maximum: | | | 314.85 | 12.60 |
| | Average: | | | 121.00 | 4.84 |
| | The Disposal Assets | | 2,280,462 | N/A (Note 3) | 1.03 |

Source: Thomson Reuters

Notes:

1. P/E of the Comparables are calculated based on their respective market capitalisation (stock price times total number of issued shares) as at the last trading date and the net profit for the year attributable to owners of the Comparables as extracted from their respective latest annual reports.

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2. P/B of the Comparables are calculated based on their respective market capitalisation (stock price times total number of issued shares) as at the last trading date and the net asset value attributable to owners of the Comparables as extracted from their respective latest annual reports (where applicable).
3. The Disposal Assets was loss making for the year ended 31 December 2018 and thus no P/E.

P/E analysis

As set out in the section headed “1. Background information – (e) Information on the Disposal Assets” above, the Disposal Assets recorded a loss before and after tax and extraordinary items of approximately RMB57.3 million for the year ended 31 December 2018. Hence, the P/E analysis is not applicable.

P/B analysis

As illustrated above, the average P/B of the Comparables is approximately 4.84 times and the P/B of the Comparables range from approximately 1.92 to 12.60 times. The implied P/B of the Disposal Assets is approximately 1.03 times. The Company is willing to dispose RMB1.03 per one RMB net asset value attributable to the Disposal Assets. We noted that the implied P/B of the Disposal Assets is lower than the average of and below the range of P/B of the Comparables.

In addition, we used the net asset value of Disposal Assets to compare with the Disposal Consideration in order to assess the fairness and reasonableness of the Disposal Consideration.

| | |
|---|---------------|
| | <i>RMB</i> |
| Net asset value of Disposal Assets as at 30 November 2018 | 2,136,856,169 |
| Disposal Consideration | 2,208,462,300 |
| Premium | 71,606,131 |

As shown above, the net asset value of Disposal Assets was approximately RMB2,136.9 million as at 30 November 2018 while the Disposal Consideration is approximately RMB2,208.5 million. The Disposal Consideration is at a premium of approximately RMB71.6 million or 3.35% as compared to the net asset value of the Disposal Assets.

Despite that the implied P/B of the Disposal Assets is lower than the average of and below the range of P/B of the Comparables, having considered that (i) the Disposal Assets were loss-making for the last two financial years, which recorded the loss before and after tax and extraordinary items of approximately RMB40.2 million and RMB57.3 million for the year ended 31 December 2017 and 2018, respectively; (ii) the Acquisition Assets will enable the Group to expand its defense products business so as to increase revenue source; (iii) the Disposal will allow the Group to focus on the research and development and manufacture of trainer aircrafts business after the Disposal in order to enhance the market competitiveness in respect of its trainer aircrafts; (iv) the Disposal will create cost synergy by streamlining the Group’s assets portfolio and personnel structure and integrating the research and development capability of the Group, its assets and employees, thereby reducing the aggregate operational

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costs and general expenses which will in turn improve the profitability of the Group and enhance the Group's position in the PRC's aviation industry; and (v) the Disposal Consideration is at premium as compared to its net asset value as at 30 November 2018, we are of the view that the Disposal Consideration, with reference to the above implied P/B, is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

Possible financial impact of the Asset Swap Transactions on the Group

(i) Earnings

As stated in the Letter from the Board, it is expected that a gain of approximately RMB7,120,000 will be accrued. The said gain represents the difference between (i) RMB2,143,971,700, being the sum of (x) the book value of the Acquisition Assets as at the Reference Date (being RMB1,297,933,900 as extracted from the Valuation Report (Acquisition)) and the cash consideration that the Group will receive (being RMB846,037,800); and (ii) the book value of the Disposal Assets as at the Reference Date (being RMB2,136,856,200 as extracted from the Valuation Report (Disposal)). It is expected that the said gain will be recognised in the equity of the Company in proportion to the Company's shareholding in Hongdu Aviation. In addition, the Acquisition Assets are profit making while the Disposal Assets are loss making, sharing of profit will increase the earnings of the Group accordingly.

(ii) Net asset value

As disclosed in the Annual Report, the Group's audited total assets, total liabilities and net assets were approximately RMB86,720.3 million, RMB51,747.7 million and RMB34,972.6 million respectively. Although the Company holds less than 50% of the equity interests and voting rights in Hongdu Aviation, it is deemed to have control since the equity interests held by other shareholdings are dispersed and the other shareholders have not organised their interests in such a way that they exercise more votes than the Group. As such, the Asset Swap Transaction will result in decrease in total assets and total liabilities of the Group of approximately RMB2,362.6 million and RMB2,369.7 million, respectively, whereas the net assets of the Group will be increased by RMB7.1 million. Based on the Directors' confirmation, there is no material change to the total assets and net asset value of the Group since 31 December 2018 and up to the Latest Practicable Date.

(iii) Liquidity

According to the 2018 Annual Report, the Group had cash and cash equivalent amounted to approximately RMB12,122.4 million as at 31 December 2018. Given that the Group will receive a cash consideration in the amount of RMB846,037,800, which the Group, as at the LPD, intended to apply the said cash consideration as follows: (i) approximately 10% to enhance the research and development capability with regard to the principal business of Hongdu Aviation; (ii) approximately 20% to settle the payables in relation to the production of Hongdu Aviation; and (iii) approximately 70% to replenish the cash flow of Hongdu Aviation, the liquidity and cash position of the Group will not be materially adversely affected by the Assets Swap Transactions.

LETTER FROM THE IFA

It should be noted that the aforesaid analyses are for illustrative purposes only and do not purport to represent the financial position of the Group as a result of the Assets Swap Transactions.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the ASA and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the transactions contemplated under the ASA are in the interests of the Company and the Shareholders as a whole and conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the ASA and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Gary Mui
Chief Executive Officer

Mr. Gary Mui is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 20 years of experience in the finance and investment banking industries.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

The following is the text of a letter, prepared for the purpose of incorporation in this circular, received from China Enterprise Appraisals Co., Ltd., an independent valuer appointed for the valuation of the Acquisition Properties as at 31 May 2019.

China Enterprise Appraisals Co., Ltd.

F/3 Zhongfu Plaza, No.18 Gongti East Road, Chaoyang District, Beijing, PRC

Qualification in Valuation of Asset(s), Asset Group(s), Business Value and Other Relevant Consulting Business; Qualification in Valuation of Securities and Futures Related Business; Qualification in Valuation of Prospecting and Mining Rights; Qualification in Valuation of Lands; and Qualification in Valuation of Real Estate.



23 July 2019

To: the Board of Directors

Dear Sir,

Re: Valuation of Various Real Property Interests Located at Gaoan City and Nanchang City, Jiangxi Province, the People's Republic of China (the "PRC")

In accordance with the instructions from Jiangxi Hongdu Aviation Industry Co., Ltd. (the "Company") for us to value the captioned real property interests, details of which are provided in the enclosed valuation certificates, in the PRC, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such real property interests as at 31 May 2019 (referred to as the "valuation date").

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, title investigation of the real properties and the limiting conditions.

I. BASIS OF VALUATION

The valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

II. VALUATION METHODOLOGY

Due to the nature of buildings and structures constructed, there are no readily identifiable market comparables to them. We have applied the cost method in valuing the real properties on the basis of their depreciated replacement costs.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacing the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The reported market value only applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed. The depreciated replacement cost of the real property interest is subject to adequate potential profitability of the concerned business.

III. ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the real property interests on the open market in their existing states without the benefit of any deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangement which would serve to increase the values of the real property interests.

As the real properties are held under long term land use rights, we have assumed that the owners of the real property interests have free and uninterrupted rights to use or transfer the real property interests for the whole of the unexpired term of the respective land use rights. In our valuation, we have assumed that the real property interests can be freely disposed of and transferred to third parties on the open market without any additional payment to the relevant government authorities.

All applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the valuation report.

No environment impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licences, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

Other specific assumptions of the real properties, if any, have been stated out in the footnotes of the valuation certificates.

IV. TITLESHP INVESTIGATION

We have been provided with copies of legal documents regarding the real properties. However, due to the current registration system of the PRC, no investigation has been made for the legal title or any liability attached to the real properties.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

In the course of our valuation, we have relied upon the legal opinion given by the Company's PRC legal advisor – Jia Yuan Law Offices (嘉源律師事務所) in relation to the legal title to the real properties. All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the real properties set out in this report.

V. LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the real properties. However, no structural survey has been made and we are therefore unable to report as to whether the real properties are free from rot, infestation or any other structural defects. Also, no tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the areas in respect of the real properties but have assumed that the areas shown on the relevant documents provided to us are correct. Based on our experience of valuation of similar real properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

No site investigations have been carried out to determine the suitability of the ground conditions or the services for any real property development. Our valuation is made on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided and have accepted advice given to us by the Company on such matters as planning approvals, statutory notices, easements, tenure, occupation, construction costs, leasing, rental, site and floor areas and in the identification of the real properties. We have had no reason to doubt the truth and accuracy of the information provided by the Company. We were also advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the real properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the real property interests are free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Since the real properties are located in a relatively under-developed market, the PRC, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the real properties depending upon the assumptions made. While we have exercised our professional judgment in arriving at the values, report readers are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

VI. OPINION OF VALUE

Our opinion of the market values of the real properties is set out in the attached summary of values and the valuation certificates.

VII. REMARKS

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

In valuing the real property interests, we have complied with the requirements contained in the HKIS Valuation Standards (2017 Edition) published by The Hong Kong Institute of Surveyors.

Site inspection of the real property no.1-12 was conducted in April 2019 by Zhuo YIN, Ran'e WANG, Minjuan MA, and Na WANG. The completed real properties were maintained in a reasonable condition commensurate with their ages and uses and equipped with normal building services.

Unless otherwise stated, all monetary amounts herein are denominated in the currency of Renminbi (referred to as "RMB").

We enclose here with our summary of values and valuation certificates.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
China Enterprise Appraisals Co., Ltd.
Zhuo YIN
Vice GM of CEA Shaanxi
China PV, CPA
Ran'e WANG
Project Manager, CEA Shaanxi
China PV, CPA

Note: Zhuo YIN is the Vice General Manager of CEA Shaanxi and an expert of valuation of business enterprise, real estate, machinery and equipment, intangible assets, etc in China. YIN has led or participated valuation assignments across a broad spectrum of industries for a variety of purposes in relation to including IPO, material assets reorganization of listed companies, the New OTC Market, bond issuance, etc. Ran'e WANG is a Public Valuer with more than 10 years of experience in valuation services in various industries including healthcare, aviation, energy, utility, etc in China. WANG is an expert in valuation of assets through income (DCF) approach, market comparable approach, and asset based (cost) approach. Zhuo YIN and Ran'e WANG are both registered member under the China Appraisal Society.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

SUMMARY OF VALUES

| No. | Real Property | Market Value in existing state as at 31 May 2019 (RMB) |
|---|--|---|
| Real property interests held for owner-occupied in the PRC | | |
| 1. | An industrial complex located at a parcel of land (Lot No. 4-2-1), Xiang Cheng Zhen, Gaoan City, Jiangxi Province, the PRC | No Commercial Value |
| 2. | An industrial complex located at a parcel of land (Lot No. 4-2-2), Xiang Cheng Zhen, Gaoan City, Jiangxi Province, the PRC | No Commercial Value |
| 3. | An industrial complex located at a parcel of land (Lot No. 4-2-4), Xiang Cheng Zhen, Gaoan City, Jiangxi Province, the PRC | No Commercial Value |
| 4. | An industrial complex located at a parcel of land (Lot No. 4-2-3), Xiang Cheng Zhen, Gaoan City, Jiangxi Province, the PRC | No Commercial Value |
| 5. | A parcel of land (within Lot No. 360101101510k) located at East of Aviation Road, South of Maojiang Road, Nanchang City, Jiangxi Province, the PRC | 320,100,000 |
| 6. | A parcel of land (within Lot No. 36201501010009) located at East of Aviation Road, South of Maojiang Road, Nanchang City, Jiangxi Province, the PRC | 89,700,000 |
| 7. | A parcel of land (within Lot No. 360101101508k) located at East of Aviation Road, South of Maojiang Road, Nanchang City, Jiangxi Province, the PRC | 239,500,000 |
| 8. | A parcel of land (360121024008GB00016) located at East of Aviation Road, North of Maojiang Road, Nanchang City, Jiangxi Province, the PRC | 15,400,000 |
| 9. | A parcel of land (360121025002GB00132) located at East of Aviation Road Hi-tech Zone, South of Zhonghang Avenue, Nanchang City, Jiangxi Province, the PRC | 26,700,000 |
| 10. | A parcel of land (360121025002GB00131) located at East of Aviation Road Hi-tech Zone, South of Zhonghang Avenue, Nanchang City, Jiangxi Province, the PRC | 2,700,000 |
| 11. | An industrial complex located at a parcel of land, between Xin Xi Qiao Er Road and North of Guangzhou Road, Hongdu Group Production Area, Qingyunpu District, Nanchang City, Jiangxi Province, the PRC | No Commercial Value |
| 12. | An industrial complex located at a parcel of land (360104004001GB01126), Hongdu Group Production Area, Qingyunpu District, Nanchang City, Jiangxi Province, the PRC | No Commercial Value |
| Total: | | <u>RMB 694,100,000</u> |

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

VALUATION CERTIFICATE

Real property interests held for owner-occupied in the PRC

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|---|---|--|
| 1. | An industrial complex located at a parcel of land (Lot No. 4-2-1), Xiang Cheng Zhen, Gaoan City, Jiangxi Province, the PRC | <p>The subject development is located at Xiang Cheng Zhen of Gaoan City. Xiang Cheng Zhen, located in the southwest of Gaoan City, Jiangxi Province, is a major agricultural town in Gaoan City. Industrial activities have also developed rapidly in the area. The benchmark land price of industrial land (Grade V) in Gaoan City is about RMB120 per square meters.</p> <p>The subject development is an industrial complex comprises a parcel of land with a site area of approximately 63,851.65 square metres and various factory buildings, warehouses, corridors, various structures and other ancillary facilities thereon. The buildings were completed in or about 2017.</p> <p>The total gross floor area of the buildings is approximately 3,767.70 square metres.</p> <p>The land use rights of the real property are held under authorized operation (授權經營) for agricultural uses for a term expiring on 11 February 2057.</p> | According to the information provided, the real property is currently occupied for industrial and ancillary uses. | No Commercial Value (See note (iii)) |

Notes:

- (i) According to a State-owned Land Use Rights Certificate, No. Gao Guo Yong (2014) No.1896 issued by Gao An City People's Government (高安市人民政府) dated 1 August 2014, the land use rights of a land parcel with a site area of approximately 2,258,909.22 square metres were held by Hongdu Aviation Industrial Group Co. Ltd (江西洪都航空工業集團有限公司) ("**Hongdu Group**") under the nature of authorized operations (授權經營) for agricultural uses for a term expiring on 11 February 2057. As advised by the Company, the land use rights of the real property with a site area of approximately 63,851.65 square metres, constitute portion of this certificate.
- (ii) As advised by the Company, Hongdu Group has not yet obtained the Building Ownership Certificate of the six factory buildings, with a total gross floor area of approximately 3,767.70 square metres, erected on the parcel of land as of the valuation date.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

- (iii) As the nature of the land is under authorized operation and the buildings have not been obtained the building ownership certificate, we have not assigned any commercial value to the real property. However, for reference purpose, we are of the opinion that the reference value of the real property is at RMB23,500,000 assuming that the real property has obtained all relevant title document in granted nature and can be freely transferred in the market without payment of onerous fees to relevant government authority.
- (iv) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:
1. The titleship of the land use rights and building ownership is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
 2. The actual use of the parcel of land, with a total site area of approximately 63,851.65 square metres, is currently for industrial use. However, the land use stated in the Stated-owned Land Use Rights certificate is agriculture use. The land use change procedure is still required.
 3. The land of the real property has to be applied for sub-division registration procedure.
 4. Hongdu Group has not yet obtained the Building Ownership Certificate of the six factory buildings, with a total gross floor area of approximately 3,767.70 square metres, erected on the parcel of land as of the valuation date.

These buildings were built by Hongdu Group on their own land. Hongdu Group has obtained the "Construction Works Planning Permit" and "Construction Works Commencement Permit" when constructing these buildings. Hongdu Group is currently completing the relevant procedures for the environmental assessment, and will apply for the Building Ownership Certificate after completing the relevant procedures.

5. The land and buildings assets can be injected into the Company. For the land use rights which have to be sub-divided registration and change in usage, and for those buildings have to apply for the building ownership certificate, there is no practical legal impediment for going through these procedures, but have to submit all relevant information for the applications. Hongdu Group has made practical commitment for those titleship completion matter of the land use rights and building ownership. Therefore, the above mentioned defects in the titleship of the land use rights and buildings would not compose any practical legal impediment on this transaction.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|---|---|--|
| 2. | An industrial complex located at a parcel of land (Lot No. 4-2-2), Xiang Cheng Zhen, Gaoan City, Jiangxi Province, the PRC | <p>The subject development is located at Xiang Cheng Zhen of Gaoan City. Xiang Cheng Zhen, located in the southwest of Gaoan City, Jiangxi Province, is a major agricultural town in Gaoan City. Industrial activities have also developed rapidly in the area. The benchmark land price of industrial land (Grade V) in Gaoan City is about RMB120 per square meters.</p> <p>The subject development is an industrial complex comprises a parcel of land with a site area of approximately 43,124.53 square metres and a factory building, various structures and other ancillary facilities thereon. The building was completed in or about 2007.</p> <p>The total gross floor area of the building is approximately 136 square metres.</p> <p>The land use rights of the real property are held under authorized operation (授權經營) for industrial uses for a term expiring on 11 February 2057.</p> | According to the information provided, the real property is currently occupied for industrial and ancillary uses. | No Commercial Value (See note (iii)) |

Notes:

- (i) According to a State-owned Land Rights Certificate, No. Gao GuoYong (2014) No.1897 issued by Gaoan City People's Government (高安市人民政府) dated 1 August 2014, the land use rights of a land parcel with a site area of approximately 43,124.53 square metres were held by Jiangxi Hongdu Technology Co. Ltd (江西洪都科技有限責任公司) ("**Hongdu Technology**") under the nature of authorized operation (授權經營) for industrial uses for a term expiring on 11 February 2057.
- (ii) As advised by the Company, Hongdu Technology has not yet obtained the Building Ownership Certificate of the factory building, with a total gross floor area of approximately 136 square metres, erected on the parcel of land as of the valuation date.
- (iii) As the nature of the land is under authorized operation and the building has not been obtained the building ownership certificate, we have not assigned any commercial value to the real property. However, for reference purpose, we are of the opinion that the reference value of the real property is at RMB 6,600,000 assuming that the real property has obtained all relevant title document in granted nature and can be freely transferred in the market without payment of onerous fees to relevant government authority.
- (iv) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

1. The titleship of the land use rights and building ownership is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
2. The owner of the land use rights certificate should be changed to Hongdu Group.
3. Hongdu Technology has not yet obtained the Building Ownership Certificate of the factory building, with a total gross floor area of approximately 136 square metres, erected on the parcel of land as of the valuation date.

The building was built by Hongdu Group on their own land. Hongdu Group has obtained the “Construction Works Planning Permit” and “Construction Works Commencement Permit” when constructing these buildings. Hongdu Group is currently completing the relevant procedures for the environmental assessment, and will apply for the Building Ownership Certificate after completing the relevant procedures.

4. The land and buildings assets can be injected into the Company. For the land use rights which have to be sub-divided registration and change the owner of the land use rights certificate, and for those buildings have to apply for the building ownership certificate, there is no practical legal impediment for going through these procedures, but have to submit all relevant information for the applications. Hongdu Group has made practical commitment for those titleship completion matter of the land use rights and building ownership. Therefore, the above mentioned defects in the titleship of the land use rights and buildings would not compose any practical legal impediment on this transaction.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|---|---|--|
| 3. | An industrial complex located at a parcel of land (Lot No. 4-2-4), Xiang Cheng Zhen, Gaoan City, Jiangxi Province, the PRC | <p>The subject development is located at Xiang Cheng Zhen of Gaoan City. Xiang Cheng Zhen, located in the southwest of Gaoan City, Jiangxi Province, is a major agricultural town in Gaoan City. Industrial activities have also developed rapidly in the area. The benchmark land price of industrial land (Grade V) in Gaoan City is about RMB120 per square meters.</p> <p>The subject development is an industrial complex comprises a parcel of land with a site area of approximately 118,081.97 square metres and various factory buildings, warehouses, dormitory, various structures and other ancillary facilities thereon. The buildings were completed from 2005 to 2017.</p> <p>The total gross floor area of the buildings is approximately 5,527.75 square metres.</p> <p>The land use rights of the real property are held under authorized operation (授權經營) for industrial uses for a term expiring on 11 February 2057.</p> | According to the information provided, the real property is currently occupied for industrial and ancillary uses. | No Commercial Value (See note (iii)) |

Notes:

(i) According to a State-owned Land Use Rights Certificate, No. Gao GuoYong (2014) No.1899 issued by Gaoan City People's Government (高安市人民政府) dated 1 August 2014, the land use rights of a land parcel with a site area of approximately 118,081.97 square metres were held by Hongdu Technology under the nature of authorized operation (授權經營) for industrial uses for a term expiring on 11 February 2057.

(ii) According to 9 Building Ownership Certificates, known as Gao Fang Quan Zheng Xiang Zi No. 1034612, 1034614-1034621, the building ownership of 9 buildings with a total gross floor area of approximately 5,182.05 square metres was held by Hongdu Technology.

As advised by the Company, Hongdu Technology has not yet obtained the Building Ownership Certificate of 3 buildings, with a total gross floor area of approximately 345.7 square metres, erected on the parcel of land as of the valuation date.

(iii) As the nature of the land is under authorized operation and portion of the buildings have not been obtained the building ownership certificate, we have not assigned any commercial value to the real property. However, for reference purpose, we are of the opinion that the reference value of the real property is at RMB 45,600,000 assuming that the real property has obtained all relevant title document in granted nature and can be freely transferred in the market without payment of onerous fees to relevant government authority.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

(iv) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:

1. The titleship of the land use rights and building ownership is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
2. The owner of the land use rights certificate should be changed to Hongdu Group.
3. Hongdu Technology has not yet obtained the Building Ownership Certificate of the three factory buildings, with a total gross floor area of approximately 345.7 square metres, erected on the parcel of land as of the valuation date.

The buildings were built by Hongdu Group on their own land. Hongdu Group has obtained the "Construction Works Planning Permit" and "Construction Works Commencement Permit" when constructing these buildings. Hongdu Group is currently completing the relevant procedures for the environmental assessment, and will apply for the Building Ownership Certificate after completing the relevant procedures.

4. The land and buildings assets can be injected into the Company. For the land use rights which have to be sub-divided registration and change the owner of the land use rights certificate, and for those buildings have to apply for the building ownership certificate, there is no practical legal impediment for going through these procedures, but have to submit all relevant information for the applications. Hongdu Group has made practical commitment for those titleship completion matter of the land use rights and building ownership. Therefore, the above mentioned defects in the titleship of the land use rights and buildings would not compose any practical legal impediment on this transaction.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|---|--|--|
| 4. | An industrial complex located at a parcel of land (Lot No. 4-2-3), Xiang Cheng Zhen, Gaoan City, Jiangxi Province, the PRC | <p>The subject development is located at Xiang Cheng Zhen of Gaoan City. Xiang Cheng Zhen, located in the southwest of Gaoan City, Jiangxi Province, is a major agricultural town in Gaoan City. Industrial activities have also developed rapidly in the area. The benchmark land price of industrial land (Grade V) in Gaoan City is about RMB120 per square meters.</p> <p>The subject development is an industrial complex comprises a parcel of land with a site area of approximately 853.28 square metres and various buildings, barracks, canteen and various structures. The buildings were completed between 2008 and 2012.</p> <p>The total gross floor area of the buildings is approximately 1,613.89 square metres.</p> <p>The land use rights of the real property are held under authorized operation (授權經營) for industrial uses for a term expiring on 11 February 2057.</p> | According to the information provided, the real property is currently occupied for ancillary uses. | No Commercial Value (See note (iii)) |

Notes:

(i) According to a State-owned Land Rights Certificate, No. Gao GuoYong (2014) No.1898 issued by Gaoan City People's Government (高安市人民政府) dated 1 August 2014, the land use rights of a land parcel with a site area of approximately 853.28 square metres were held by Hongdu Technology under the nature of authorized operation (授權經營) for industrial uses for a term expiring on 11 February 2057.

(ii) According to an Building Ownership Certificate, known as Gao Fang Quan Zheng Xiang Zi No. 1034613, the building ownership of abuilding with a total gross floor area of approximately 1,013.89 square metres was held by Hongdu Technology.

As advised by the Company, Hongdu Technology has not yet obtained the Building Ownership Certificate of a building with a total gross floor area of approximately 600 square metres, erected on the parcel of land as of the valuation date.

(iii) As the nature of the land is under authorized operation and portion of the buildings have not been obtained the building ownership certificate, we have not assigned any commercial value to the real property. However, for reference purpose, we are of the opinion that the reference value of the real property is at RMB 2,500,000 assuming that the real property has obtained all relevant title document in granted nature and can be freely transferred in the market without payment of onerous fees to relevant government authority.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

(iv) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:

1. The titleship of the land use rights and building ownership is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
2. The owner of the land use rights certificate should be changed to Hongdu Group.
3. Hongdu Technology has not yet obtained the Building Ownership Certificate of a building, with a total gross floor area of approximately 600 square metres, erected on the parcel of land as of the valuation date.

The buildings were built by Hongdu Group on their own land. Hongdu Group has obtained the "Construction Works Planning Permit" and "Construction Works Commencement Permit" when constructing these buildings. Hongdu Group is currently completing the relevant procedures for the environmental assessment, and will apply for the Building Ownership Certificate after completing the relevant procedures.

4. The land and buildings assets can be injected into the Company. For the land use rights which have to be sub-divided registration and change the owner of the land use rights certificate, and for those buildings have to apply for the building ownership certificate, there is no practical legal impediment for going through these procedures, but have to submit all relevant information for the applications. Hongdu Group has made practical commitment for those titleship completion matter of the land use rights and building ownership. Therefore, the above mentioned defects in the titleship of the land use rights and buildings would not compose any practical legal impediment on this transaction.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|---|---|--|
| 5. | A parcel of land (within Lot No. 360101101510k) located at East of Aviation Road, South of Maojiang Road, Nanchang City, Jiangxi Province, the PRC | <p>The land is located in the aviation road of Hi-tech Zone, Nanchang City. The aviation industry in the region has formed an aviation industry chain based on aviation manufacturing technology, integrating design, research and development, manufacturing, testing, operation and supporting. Various aviation-related companies are located in the region. The benchmark land price of industrial land (Grade I to Grade VI) in Nanchang City is in a range from about RMB584 to RMB114 per square meters.</p> <p>The subject property is an industrial land with a site area of approximately 148,188 square metres and certain construction in progress thereon.</p> <p>According to the information provided, two factory buildings are currently under construction on the land (construction in progress, “the CIP”). The total gross floor area of the CIP is approximately 82,591 square metres upon completion. The estimated total construction cost is approximately RMB328,000,000. The construction work of the CIP is completed recently.</p> <p>The land use rights of the real property are granted for industrial uses for a term expiring on 10 May 2065.</p> | According to the information provided, the construction of the real property is recently completed. | RMB320,100,000 (Renminbi Three Hundred and Twenty Million and One Hundred Thousand). |

Notes:

- (i) According to a State-owned Land Use Rights Grant Contract (Contract No. 36201501010010), entered into between Nanchang Land Resources Bureau (南昌市國土資源局) and Hongdu Group dated 11 May 2015, the land use rights of the land parcel with a site area of approximately 323,686 square metres were contracted to be granted to Hongdu Group for a term of 50 years commencing from 11 May 2015 for industrial use at a consideration of RMB27, 870,000. As advised by the Company, the land use rights of the real property with a site area of approximately 148,188 square metres, constitute portion of this granted land.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

- (ii) According to State-owned Land Use Rights Certificate, Hong Tu Guo Yong Deng Gao (2015) No. D116 issued by Nanchang City People's Government (南昌市人民政府) dated 26 November 2015, the land use rights of land parcel with a site area of approximately 323,686 square metres, were granted to Hongdu Group for industrial uses for a term expiring on 10 May 2065. As advised by the Company, the land use rights of the real property with a site area of approximately 148,188 square metres, constitute portion of this certificate.
- (iii) According to a Construction Land Use Planning Permit, known as Di Zi Di No.360100201510052, the proposed land use of the property with a site area of approximately 485.53 chinese mu has been approved.
- (iv) According to two Construction Work Planning Permits, known as Jian Zi Di No. 360100201610021 and 360100201610022, the proposed construction of the property with a gross floor area of approximately 82,591 square metres has been approved.
- (v) According to a Construction Work Commencement Permit, known as Hong Gaoxin Guan Shi Zi No. 360101201609194101, permission has been given for commencement of construction of the property with a gross floor area of approximately 158,257 square metres. As advised by the Company, the real property constitutes portion of this permit.
- (vi) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:
 - 1. The titleship of the land use rights is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
 - 2. The land of the real property has to be applied for sub-division registration procedure.
 - 3. The land asset can be injected into the Company. For the land use rights which have to be sub-divided registration, there is no practical legal impediment for going through these procedures, but have to submit all relevant information for the applications. Hongdu Group has made practical commitment for those titleship completion matter of the land use rights. Therefore, the above mentioned defects in the titleship of the land use rights would not compose any practical legal impediment on this transaction.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|---|---|---|
| 6. | A parcel of land (within Lot No.36201501010009) located at East of Aviation Road, South of Maojiang Road, Nanchang City, Jiangxi Province, the PRC | <p>The land is located in the aviation road of Hi-tech Zone, Nanchang City. The aviation industry in the region has formed an aviation industry chain based on aviation manufacturing technology, integrating design, research and development, manufacturing, testing, operation and supporting. Various aviation-related companies are located in the region. The benchmark land price of industrial land (Grade I to Grade VI) in Nanchang City is in a range from about RMB584 to RMB114 per square meters.</p> <p>The subject property is an industrial land with a site area of approximately 45,750 square metres and a construction in progress (“CIP”) thereon.</p> <p>According to the information provided, a factory building is currently under construction on the land. The total gross floor area of the CIP is approximately 34,275 square metres upon completion. The estimated total construction cost is approximately RMB131,000,000 and the cost incurred up to the valuation date is approximately RMB82,800,000. The CIP will be completed in mid 2019.</p> <p>The land use rights of the real property are granted for industrial uses for a term expiring on 10 May 2065.</p> | According to the information provided, the real property is currently under construction. | RMB89,700,000 (Renminbi Eighty-Nine Million and Seven Hundred Thousand) |

Notes:

- (i) According to a State-owned Land Use Rights Grant Contract (Contract No. 36201501010009), entered into between Nanchang Land Resources Bureau (南昌市国土资源局) and Hongdu Group dated 11 May 2015, the land use rights of the land parcel with a site area of approximately 328,328 square metres were contracted to be granted to Hongdu Group for a term of 50 years commencing from 11 May 2015 for industrial use at a consideration of RMB28,270,000. As advised by the Company, the land use rights of the real property with a site area of approximately 45,750 square metres, constitute portion of this granted land.
- (ii) According to State-owned Land Use Rights Certificate, Hong Tu Guo Yong Deng Gao (2015) No. D118 issued by Nanchang City People’s Government (南昌市人民政府) dated 26 November 2015, the land use rights of land parcel with a site area of approximately 328,328 square metres, were granted to Hongdu Group for industrial uses for a term expiring on 10 May 2065. As advised by the Company, the land use rights of the real property with a site area of approximately 45,750 square metres, constitute portion of this certificate.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

- (iii) According to a Construction Land Use Planning Permit, known as Di Zi Di No. 360100201510053, the proposed land use of the property with a site area of approximately 492.49 chinese mu has been approved.
- (iv) According to a Construction Work Planning Permit, known as Jian Zi Di No. 360100201610352, the proposed construction of the property with a gross floor area of approximately 34,275 square metres has been approved.
- (v) According to a Construction Work Commencement Permit, known as Hong Gaoxin Guan Shi Zi No. 360101201709074201, permission has been given for commencement of construction of the property with a gross floor area of approximately 116,567 square metres. As advised by the Company, the real property constitutes portion of this permit.
- (vi) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:
 - 1. The titleship of the land use rights is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
 - 2. The land of the real property has to be applied for sub-division registration procedure.
 - 3. The land asset can be injected into the Company. For the land use rights which have to be sub-divided registration, there is no practical legal impediment for going through these procedures, but have to submit all relevant information for the applications. Hongdu Group has made practical commitment for those titleship completion matter of the land use rights. Therefore, the above mentioned defects in the titleship of the land use rights would not compose any practical legal impediment on this transaction.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|--|---|--|
| 7. | A parcel of land (within Lot No. 360101101508k) located at East of Aviation Road, South of Maojiang Road, Nanchang City, Jiangxi Province, the PRC | <p>The land is located in the aviation road of Hi-tech Zone, Nanchang City. The aviation industry in the region has formed an aviation industry chain based on aviation manufacturing technology, integrating design, research and development, manufacturing, testing, operation and supporting. Various aviation-related companies are located in the region. The benchmark land price of industrial land (Grade I to Grade VI) in Nanchang City is in a range from about RMB584 to RMB114 per square meters.</p> <p>The subject property is an industrial land with a site area of approximately 67,320 square metres and certain construction in progress (“CIP”) thereon.</p> <p>According to the information provided, a factory building is currently under construction on the land. The total gross floor area of the CIP is approximately 70,856 square metres upon completion. The estimated total construction cost is approximately RMB305,000,000 and the cost incurred up to the valuation date is approximately RMB227,000,000. The CIP will be completed in mid 2019.</p> <p>The land use rights of the real property are granted for industrial uses for a term expiring on 10 May 2065.</p> | According to the information provided, the real property is currently under construction. | RMB239,500,000 (Renminbi Two Hundred and Thirty-Nine Million and Five Hundred Thousand). |

Notes:

- (i) According to a State-owned Land Use Rights Grant Contract (Contract No. 36201501010008), entered into between Nanchang Land Resources Bureau (南昌市国土资源局) and Hongdu Group dated 11 May 2015, the land use rights of the land parcel with a site area of approximately 330,581 square metres were contracted to be granted to Hongdu Group for a term of 50 years commencing from 11 May 2015 for industrial use at a consideration of RMB28,460,000. As advised by the Company, the land use rights of the real property with a site area of approximately 67,320 square metres, constitute portion of this granted land.
- (ii) According to State-owned Land Use Rights Certificate, Hong Tu Guo Yong Deng Gao (2015) No. D119 issued by Nanchang City People’s Government (南昌市人民政府) dated 26 November 2015, the land use rights of land parcel with a site area of approximately 330,581 square metres, were granted to Hongdu Group for industrial uses for a term expiring on 10 May 2065. As advised by the Company, the land use rights of the real property with a site area of approximately 67,320 square metres, constitute portion of this certificate.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

- (iii) According to a Construction Land Use Planning Permit, known as Di Zi Di No. 360100201510051, the proposed land use of the property with a site area of approximately 495.87 chinese mu has been approved.
- (iv) According to four Construction Work Planning Permits, known as Jian Zi Di No. 360100201610023, 360100201610378 – 360100201610380, the proposed construction of the property with a gross floor area of approximately 71,240 square metres has been approved.
- (v) According to two Construction Work Commencement Permits, known as Hong Gaoxin Guan Shi Zi No. 360101201609194101 and 360101201709074201, permission has been given for commencement of construction of the property with a gross floor area of approximately 274,824 square metres. As advised by the Company, the real property constitutes portion of this permit.
- (vi) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:
 - 1. The titleship of the land use rights is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
 - 2. The land of the real property has to be applied for sub-division registration procedure.
 - 3. The land asset can be injected into the Company. For the land use rights which have to be sub-divided registration, there is no practical legal impediment for going through these procedures, but have to submit all relevant information for the applications. Hongdu Group has made practical commitment for those titleship completion matter of the land use rights. Therefore, the above mentioned defects in the titleship of the land use rights would not compose any practical legal impediment on this transaction.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|---|---|---|
| 8. | A parcel of land (360121024008G-B00016) located at East of Aviation Road, North of Maojiang Road, Nanchang City, Jiangxi Province, the PRC | <p>The land is located in the aviation road of Hi-tech Zone, Nanchang City. The aviation industry in the region has formed an aviation industry chain based on aviation manufacturing technology, integrating design, research and development, manufacturing, testing, operation and supporting. Various aviation-related companies are located in the region. The benchmark land price of industrial land (Grade I to Grade VI) in Nanchang City is in a range from about RMB584 to RMB114 per square meters.</p> <p>The subject land is an industrial land with a site area of approximately 136,810 square metres.</p> <p>The land use rights of the real property are granted for industrial uses for a term expiring on 18 August 2066.</p> | According to the information provided, the real property is currently owner-occupied for industrial uses or vacant. | RMB15,400,000 (Renminbi Fifteen Million and Four Hundred Thousand). |

Notes:

- (i) According to a State-owned Land Use Rights Grant Contract (Contract No. 36201601010015), entered into between Nanchang Land Resources Bureau (南昌市國土資源局) and Hongdu Group dated 19 August 2016, the land use rights of the land parcel with a site area of approximately 136,810 square metres were contracted to be granted to Hongdu Group for a term of 50 years commencing from 19 August 2016 for industrial use at a consideration of RMB11,780,000.
- (ii) According to an Immovable Property Rights Certificate, Gan (2017) Nanchang Shi Bu Dong Chan Quan No. 0068036 issued by Nanchang City People's Government (南昌市人民政府) dated 12 April 2017, the land use rights of land parcel with a site area of approximately 136,810 square metres, were granted to Hongdu Group for industrial uses for a term expiring on 18 August 2066.
- (iii) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:
 1. The titleship of the land use rights is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|---|---|---|
| 9. | A parcel of land (360121025002G-B00132) located at East of Aviation Road Hi-tech Zone, South of Zhonghang Avenue, Nanchang City, Jiangxi Province, the PRC | <p>The land is located in the aviation road of Hi-tech Zone, Nanchang City. The aviation industry in the region has formed an aviation industry chain based on aviation manufacturing technology, integrating design, research and development, manufacturing, testing, operation and supporting. Various aviation-related companies are located in the region. The benchmark land price of industrial land (Grade I to Grade VI) in Nanchang City is in a range from about RMB584 to RMB114 per square meters.</p> <p>The subject land is an industrial land with a site area of approximately 220,593 square metres.</p> <p>The land use rights of the real property are granted for industrial uses for a term expiring on 18 August 2066.</p> | According to the information provided, the real property is currently owner-occupied for industrial uses or vacant. | RMB26,700,000 (Renminbi Twenty Six Million and Seven Hundred Thousand). |

Notes:

- (i) According to a State-owned Land Use Rights Grant Contract (Contract No. 36201601010017), entered into between Nanchang Land Resources Bureau (南昌市國土資源局) and Hongdu Group dated 19 August 2016, the land use rights of the land parcel with a site area of approximately 220,593 square metres were contracted to be granted to Hongdu Group for a term of 50 years commencing from 19 August 2016 for industrial use at a consideration of RMB19,000,000.
- (ii) According to an Immovable Property Rights Certificate, Gan (2017) Nanchang Shi Bu Dong Chan Quan No. 0072178 issued by Nanchang City People's Government (南昌市人民政府) dated 13 April 2017, the land use rights of land parcel with a site area of approximately 220,593 square metres, were granted to Hongdu Group for industrial uses for a term expiring on 18 August 2066.
- (iii) According to a Construction Land Use Planning Permit, known as Di Zi Di No. 360100201910015, the proposed land use of the property with a site area of approximately 330.89 square metres has been approved.
- (iv) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:
 1. The titleship of the land use rights is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|--|---|---|
| 10. | A parcel of land (360121025002G-B00131) located at East of Aviation Road Hi-tech Zone, South of Zhonghang Avenue, Nanchang City, Jiangxi Province, the PRC | <p>The land is located in the aviation road of Hi-tech Zone, Nanchang City. The aviation industry in the region has formed an aviation industry chain based on aviation manufacturing technology, integrating design, research and development, manufacturing, testing, operation and supporting. Various aviation-related companies are located in the region. The benchmark land price of industrial land (Grade I to Grade VI) in Nanchang City is in a range from about RMB584 to RMB114 per square meters.</p> <p>The subject land is an industrial land with a site area of approximately 24,416 square metres.</p> <p>The land use rights of the real property are granted for industrial uses for a term expiring on 18 August 2066.</p> | According to the information provided, the real property is currently owner-occupied for industrial uses or vacant. | RMB2,700,000 (Renminbi Two Million and Seven Hundred Thousand). |

Notes:

- (i) According to a State-owned Land Use Rights Grant Contract (Contract No. 36201601010016), entered into between Nanchang Land Resources Bureau (南昌市國土資源局) and Hongdu Group dated 19 August 2016, the land use rights of the land parcel with a site area of approximately 163,304 square metres were contracted to be granted to Hongdu Group for a term of 50 years commencing from 19 August 2016 for industrial use at a consideration of RMB14,060,000. As advised by the Company, the land use rights of the real property with a site area of approximately 24,416 square metres, constitute portion of this granted land.
- (ii) According to an Immovable Property Rights Certificate, Gan (2017) Nanchang Shi Bu Dong Chan Quan No.0073499 issued by Nanchang City People's Government (南昌市人民政府) dated 12 April 2017, the land use rights of land parcel with a site area of approximately 163,304 square metres, were granted to Hongdu Group for industrial uses for a term expiring on 18 August 2066. As advised by the Company, the land use rights of the real property with a site area of approximately 24,416 square metres, constitute portion of this certificate.
- (iii) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:
 1. The titleship of the land use rights is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
 2. The land of the real property has to be applied for sub-division registration procedure.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

3. The land asset can be injected into the Company. For the land use rights which have to be sub-divided registration, there is no practical legal impediment for going through these procedures, but have to submit all relevant information for the applications. Hongdu Group has made practical commitment for those titleship completion matter of the land use rights. Therefore, the above mentioned defects in the titleship of the land use rights would not compose any practical legal impediment on this transaction.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|--|---|--|
| 11. | An industrial complex located at a parcel of land, between Xin Xi Qiao Er Road and North of Guangzhou Road, Hongdu Group Production Area, Qingyunpu District, Nanchang City, Jiangxi Province, the PRC | <p>The subject development is located in the production area of Hongdu Group, Qingyunpu District, Nanchang City. Qingyunpu District, which is located in the southern part of Nanchang City, is an industrial city with more than 20 large and medium-sized central, provincial and municipal enterprises. Hongdu Aviation Industry Group and Jiangling Motors Corporation are among the top 500 industrial enterprises in China. The benchmark land price of industrial land (Grade I to Grade VI) in Nanchang City is in a range from about RMB584 to RMB114 per square meters.</p> <p>The subject development is an industrial complex comprises a parcel of land with a site area of approximately 23,500.13 square metres and various factory buildings, laboratory, various structures and other ancillary facilities thereon. The buildings were completed between 1997 and 2016.</p> <p>The total gross floor area of the buildings is approximately 27,792 square metres.</p> | According to the information provided, the real property is currently owner-occupied for industrial and ancillary uses. | No Commercial Value (See note (iii)) |

Notes:

- (i) According to a State-owned Land Rights Certificate, Hong Tu Guo Yong Deng Pu (2014) No. D015 issued by Nanchang City People's Government (南昌市人民政府) dated 18 June 2014, the land use rights of land parcel with a site area of approximately 1,155,956.88 square metres were held by Hongdu Group under the nature of authorized operations (授權經營) for industrial uses for a term expiring in April 2049. As advised by the Company, the land use rights of the real property with a site area of approximately 23,500.13 square metres, constitute portion of this certificate.
- (ii) According to a Building Ownership Certificate, known as No.2.2-3.03.71-3.0.0-0-002590, the building ownership of 3 buildings with a total gross floor area of approximately 7,392 square metres was held by Nanchang Aircraft Manufacturing Company (Predecessor of Hongdu Group).

As advised by the company, Hongdu Group has not yet obtained the Building Ownerships Certificate of a building, with a total gross floor area of approximately 20,400 square metres, erected on the parcel of land as of the valuation date.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

- (iii) As the nature of the land is under authorized operation and portion of the buildings have not been obtained the building ownership certificate, we have not assigned any commercial value to the real property. However, for reference purpose, we are of the opinion that the reference value of the real property is at RMB 92,800,000 assuming that the real property has obtained all relevant title document in granted nature and can be freely transferred in the market without payment of onerous fees to relevant government authority.
- (iv) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:
1. The titleship of the land use rights and building ownership is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
 2. The land of the real property has to be applied for sub-division registration procedure.
 3. Hongdu Group has not yet obtained the Building Ownership Certificate of a factory building, with a total gross floor area of approximately 20,400 square metres, erected on the parcel of land as of the valuation date.

This building was built by Hongdu Group on their own land. Hongdu Group has obtained the "Construction Works Planning Permit" and "Construction Works Commencement Permit" when constructing this building. Hongdu Group is currently completing the relevant procedures for the environmental assessment, and will apply for the Building Ownership Certificate after completing the relevant procedures.

4. The land and buildings assets can be injected into the Company. For the land use rights which have to be sub-divided registration, and for the building has to apply for the building ownership certificate, there is no practical legal impediment for going through these procedures, but have to submit all relevant information for the applications. Hongdu Group has made practical commitment for those titleship completion matter of the land use rights and building ownership. Therefore, the above mentioned defects in the titleship of the land use rights and buildings would not compose any practical legal impediment on this transaction.

APPENDIX I VALUATION REPORT ON THE ACQUISITION PROPERTIES

| No. | Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|-----|--|---|---|--|
| 12. | An industrial complex located at a parcel of land (360104004001G-B01126), Hongdu Group Production Area, Qingyunpu District, Nanchang City, Jiangxi Province, the PRC | <p>The subject development is located in the production area of Hongdu Group, Qingyunpu District, Nanchang City. Qingyunpu District, which is located in the southern part of Nanchang City, is an industrial city with more than 20 large and medium-sized central, provincial and municipal enterprises. Hongdu Aviation Industry Group and Jiangling Motors Corporation are among the top 500 industrial enterprises in China. The benchmark land price of industrial land (Grade I to Grade VI) in Nanchang City is in a range from about RMB584 to RMB114 per square meters.</p> <p>The subject development is an industrial complex comprises a parcel of land with a site area of approximately 558.48 square metres and laboratory thereon. The building was completed in or about 2005.</p> <p>The total gross floor area of the building is approximately 506.71 square metres.</p> <p>The land use rights of the real property are held under authorized operation (授權經營) for industrial uses for a term expiring in April 2049.</p> | According to the information provided, the real property is currently occupied for industrial and ancillary uses. | No Commercial Value (See note (iii)) |

Notes:

- (i) According to an Immovable Property Rights Certificate, Gan (2017) Nanchang Shi Bu Dong Chan Quan No. 0215016 issued by Nanchang City People's Government (南昌市人民政府) dated 21 September 2017, the land use rights of land parcel with a site area of approximately 83,903.79 square metres were held by Hongdu Group under the nature of authorized operation (授權經營) for industrial uses for a term expiring in April 2049. As advised by the Company, the land use rights of the real property with a site area of approximately 558.48 square metres, constitute portion of this certificate.
- (ii) According to an Immovable Property Rights Certificate, known as Gan (2017) Nanchang Shi Bu Dong Chan Quan No. 0215016, the building ownership of various buildings with a total gross floor area of approximately 26,562.72 square metres was held by Hongdu Group. As advised by the Company, the building ownership of the building with a total gross floor area of approximately 506.71 square metres, constitute portion of this certificate.

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- (iii) As the nature of the land is under authorized operation, we have not assigned any commercial value to the real property. However, for reference purpose, we are of the opinion that the reference value of the real property is at RMB 1,300,000 assuming that the real property has obtained all relevant title document in granted nature and can be freely transferred in the market without payment of onerous fees to relevant government authority.
- (iv) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:
1. The titleship of the land use rights and building ownership is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
 2. The land of the real property has to be applied for sub-division registration procedure.
 3. The land and buildings assets can be injected into the Company. For the land use rights which have to be sub-divided registration, there is no practical legal impediment for going through these procedures, but have to submit all relevant information for the applications. Hongdu Group has made practical commitment for those titleship completion matter of the land use rights. Therefore, the above mentioned defect in the titleship of the land use rights would not compose any practical legal impediment on this transaction.

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular, received from China Enterprise Appraisals Co., Ltd., an independent valuer appointed for the valuation of the Disposal Properties as at 31 May 2019.

China Enterprise Appraisals Co., Ltd.

F/3 Zhongfu Plaza, No.18 Gongti East Road, Chaoyang District, Beijing, PRC

Qualification in Valuation of Asset(s), Asset Group(s), Business Value and Other Relevant Consulting Business; Qualification in Valuation of Securities and Futures Related Business; Qualification in Valuation of Prospecting and Mining Rights; Qualification in Valuation of Lands; and Qualification in Valuation of Real Estate.



23 July 2019

The Board of Directors

Jiangxi Hongdu Aviation Industry Co., Ltd.

Xinxiqiao, Qingyunpu District, Nanchang, Jiangxi Province, PRC

Dear Sir,

**Re: Valuation of Various Real Property Interests Located at Nanchang City,
Jiangxi Province, the People's Republic of China (the "PRC")**

In accordance with the instructions from Jiangxi Hongdu Aviation Industry Co., Ltd. (the "**Company**") for us to value the captioned real property interests, details of which are provided in the enclosed valuation certificate, in the PRC, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such real property interests as at 31 May 2019 (referred to as the "**valuation date**").

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, title investigation of the real properties and the limiting conditions.

I. BASIS OF VALUATION

The valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

II. VALUATION METHODOLOGY

Due to the nature of buildings and structures constructed, there are no readily identifiable market comparables to them. We have applied the cost method in valuing the real properties on the basis of their depreciated replacement costs.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacing the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The reported market value only applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed. The depreciated replacement cost of the real property interest is subject to adequate potential profitability of the concerned business.

III. ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the real property interests on the open market in their existing states without the benefit of any deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangement which would serve to increase the values of the real property interests.

As the real properties are held under long term land use rights, we have assumed that the owners of the real property interests have free and uninterrupted rights to use or transfer the real property interests for the whole of the unexpired term of the respective land use rights. In our valuation, we have assumed that the real property interests can be freely disposed of and transferred to third parties on the open market without any additional payment to the relevant government authorities.

All applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the valuation report.

No environment impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licences, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

Other specific assumptions of the real properties, if any, have been stated out in the footnotes of the valuation certificates.

IV. TITLESHP INVESTIGATION

We have been provided with copies of legal documents regarding the real properties. However, due to the current registration system of the PRC, no investigation has been made for the legal title or any liability attached to the real properties.

In the course of our valuation, we have relied upon the legal opinion given by the Company's PRC legal advisor – Jia Yuan Law Offices (嘉源律師事務所) in relation to the legal title to the real properties. All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the real properties set out in this report.

V. LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the real properties. However, no structural survey has been made and we are therefore unable to report as to whether the real properties are free from rot, infestation or any other structural defects. Also, no tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the areas in respect of the real properties but have assumed that the areas shown on the relevant documents provided to us are correct. Based on our experience of valuation of similar real properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

No site investigations have been carried out to determine the suitability of the ground conditions or the services for any real property development. Our valuation is made on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided and have accepted advice given to us by the Company on such matters as planning approvals, statutory notices, easements, tenure, occupation, construction costs, leasing, rental, site and floor areas and in the identification of the real properties. We have had no reason to doubt the truth and accuracy of the information provided by the Company. We were also advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the real properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the real property interests are free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Since the real properties are located in a relatively under-developed market, the PRC, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the real properties depending upon the assumptions made. While we have exercised our professional judgment in arriving at the values, report readers are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

VI. OPINION OF VALUE

Our opinion of the market values of the real properties is set out in the attached valuation certificates.

VII. REMARKS

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

In valuing the real property interests, we have complied with the requirements contained in the HKIS Valuation Standards (2017 Edition) published by The Hong Kong Institute of Surveyors.

Site inspection of the real property was conducted in April 2019 by Zhuo YIN, Bin YANG, Minjuan MA, and Na WANG. The completed real properties were maintained in a reasonable condition commensurate with their ages and uses and equipped with normal building services.

Unless otherwise stated, all monetary amounts herein are denominated in the currency of Renminbi (referred to as “RMB”).

We enclose herewith our valuation certificate.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
China Enterprise Appraisals Co., Ltd.

Zhuo YIN
Vice GM of CEA Shaanxi
China PV, CPA

Bin YANG
Project Manager, CEA Shaanxi
China PV, CPA

Note: Zhuo YIN is the Vice General Manager of CEA Shaanxi and an expert of valuation of business enterprise, real estate, machinery and equipment, intangible assets, etc in China. YIN has led or participated valuation assignments across a broad spectrum of industries for a variety of purposes in relation to including IPO, material assets reorganization of listed companies, the New OTC Market, bond issuance, etc. Bin YANG is a Public Valuer with more than 10 years of experience in valuation services in various industries including healthcare, aviation, energy, utility, etc in China. YANG is an expert in valuation of assets through income (DCF) approach, market comparable approach, and asset based (cost) approach. Zhuo YIN and Bin YANG are both registered member under the China Appraisal Society.

VALUATION CERTIFICATE

Real property interests held for owner-occupied in the PRC

| Real Property | Descriptions and Tenure | Particulars of Occupancy | Market Value in existing state as at 31 May 2019 |
|---|---|---|---|
| An industrial complex located at nine parcels of land (Lot No. 360101101313K, 360101101210, 360101101135K, 360101101136K, 360101101137K, 360101101138K, 360101101326K, 3601011014091, 360101101507K), East of Aviation Road, South of Park Road, Nanchang Aviation City, Nanchang City, Jiangxi Province, the PRC | <p>The subject development is located in the aviation road of Hi-tech Zone, Nanchang City. The aviation industry in the region has formed an aviation industry chain based on aviation manufacturing technology, integrating design, research and development, manufacturing, testing, operation and supporting. Various aviation-related companies are located in the region. The benchmark land price of industrial land (Grade I to Grade VI) in Nanchang City is in a range from about RMB584 to RMB114 per square meters.</p> <p>The subject development is an industrial complex comprises nine parcels of land with a total site area of approximately 1,444,526.67 square metres, and various buildings and structures thereon.</p> <p>The buildings comprises various factory buildings, warehouses, various structures and other ancillary facilities. The buildings were completed between 2015 and 2019.</p> <p>The total gross floor area of the buildings is approximately 246,697.63 square metres.</p> <p>According to the information provided, various factory buildings and ancillary facilities are currently under construction on the land (construction in progress, “the CIP”). The total gross floor area of the buildings of the CIP is approximately 389,000 square metres upon completion. The estimated total construction cost is approximately RMB1,862,000,000. The construction work of portions of the CIP is completed recently and other portions will be updated in mid 2019.</p> <p>The land use rights of the real property are granted for industrial uses for terms expiring on 12 October 2061, 22 April 2062, 3 February 2063, 25 March 2063, 13 April 2064, 10 May 2065 respectively.</p> | According to the information provided, the real property is currently occupied for industrial and ancillary uses. | RMB1,205,100,000 (Renminbi One Thousand Two Hundred and Five Million and One Hundred Thousand). |

Notes:

- (i) According to nine State-owned Land Use Rights Grant Contracts (Contract No.3601002013B00104, 3601000201200376, 3601002013B00445, 3601002014B10603, 3601002015B11996, 3601002011B06189, 3601002011B6170, 3601002011B6190, 3601002011B6169), entered into between Nanchang Land Resources Bureau (南昌市國土資源局) and Hongdu Group dated 13 October 2011, 4 February 2013, 26 March 2013, 14 April 2014, and

11 May 2015, the land use rights of the land parcel with a site area of approximately 1,480,082 square metres were contracted to be granted to Hongdu Group for a term of 50 years commencing from 13 October 2011 for industrial use at a consideration of RMB127,400,000.

- (ii) According to nine State-owned Land Use Rights Certificates, Hong Tu Guo Yong Deng Gao (2015) No. D108, D109, D110, D112, D154, D155, D156, D157, D158 issued by Nanchang City People's Government (南昌市人民政府) dated between 23 October 2015 and 21 December 2015, the land use rights of land parcel with a site area of approximately 1,480,082.0 square metres, were granted to Hongdu Group for industrial uses for a term expiring on 12 October 2061, 22 April 2062, 3 February 2063, 25 March 2063, 13 April 2064, 10 May 2065 respectively. As advised by the company, the land use rights of the real property with a site area of approximately 1,444,526.67 square metres constitute portions of these land parcels.
- (iii) As advised by the Company, Hongdu Group has not yet obtained the Building Ownership Certificate of the twenty-six buildings, with a total gross floor area of approximately 246,697.63 square metres, erected on the parcel of land as of the valuation date, listed as below:

| Building Name | Structures | Gross Floor | |
|--|-----------------------------------|---------------------------|-----------------|
| | | Area (m ²) | Completion Date |
| B02 oxidation, painting and fire detection plant | Frame concrete structure | 15,610.00 | December 2015 |
| B05 plant | Auxiliary building concrete frame | 8,370.00 | December 2016 |
| B201 Power Station – Sewage Treatment Station | Framework | 2,338.72 | December 2015 |
| B01 sheet metal processing plant | Concrete frame | 43,870.00 | December 2015 |
| B03 clamp welding hydraulic plant | Concrete frame | 28,852.00 | December 2016 |
| D03 machine and factory | Concrete frame | 24,510.00 | December 2016 |
| D02 landing gear factory | Concrete frame | 23,648.00 | December 2016 |
| D01 CNC plant | Auxiliary building frame | 42,150.00 | December 2015 |
| D05 standard factory building | Concrete frame | 12,780.00 | June 2018 |
| B201 Power Station | Framework | 2,511.28 | December 2015 |
| B202 Power Station | Framework | 4,549.46 | December 2015 |
| D102 Restaurant | Steel-concrete frame structure | 4,966.00 | November 2016 |
| B101 Non-ferrous Metal Library | Auxiliary building frame | 11,030.00 | December 2015 |
| B102 Finished Product Library | Concrete frame | 930.00 | December 2015 |
| B103 Chemical Library | Concrete frame | 530.00 | December 2015 |
| D201 Water supply station | Concrete frame | 423.00 | November 2018 |
| B09 falling pressure plant | Concrete frame | 2,044.00 | December 2018 |
| D08 Physical and Chemical Center | Concrete frame | 6,920.00 | December 2018 |
| B06 blowing plant | Concrete frame | 1,697.00 | December 2018 |
| D203 Power Station | Concrete frame | 3,538.00 | April 2019 |
| B113 paint library | Concrete frame | 739.10 | April 2019 |
| B110 comprehensive recycling library | Concrete frame | 2,603.00 | April 2019 |

| Building Name | Structures | Gross Floor | |
|-----------------------------------|----------------|---------------------------|-----------------|
| | | Area (m ²) | Completion Date |
| B114 dangerous goods library | Concrete frame | 729.60 | April 2019 |
| B116 Integrated Chemicals Library | Concrete frame | 1,185.80 | April 2019 |
| B117 drama drug library | Concrete frame | 118.37 | April 2019 |
| B117a Gate No. | Concrete frame | 54.30 | April 2019 |

- (iv) The buildings have not been obtained the building ownership certificate, we have not assigned any commercial value to the buildings. However, for reference purpose, we are of the opinion that the reference value of the buildings is at RMB853,600,000 assuming that the real property has obtained all relevant title document and can be freely transferred in the market without payment of onerous fees to relevant government authority.
- (v) According to the information provided, various buildings are currently under construction on the land (construction in progress, "the CIP"). The CIP are comprises of factory buildings, warehouses, offices, and other ancillary facilities thereon. The total gross floor area of the buildings of the CIP is approximately 389,000 square metres upon completion. The estimated total construction cost is approximately RMB1,862,000,000. The construction cost incurred as at the valuation date is RMB622,400,000.
- (vi) According to a Construction Land Use Planning Permit, known as Di Zi Di No. 360100201310063 and 360100201610028, the proposed land use of the property with a site area of approximately 2,142.94 chinese mu has been approved.
- (vii) According to forty Construction Work Planning Permits, known as Jian Zi Di No. 360100201210021, 360100201210022, 360100201210023, 360100201210026, 360100201310387, 360100201310388, 360100201310389, 360100201310390, 360100201310391, 360100201410028, 360100201410029, 360100201410030, 360100201410031, 360100201410032, 360100201410033, 360100201410034, 360100201410035, 360100201410036, 360100201410037, 360100201410038, 360100201410039, 360100201410040, 360100201410041, 360100201410042, 360100201410043, 360100201510060, 360100201510061, 360100201510062, 360100201510334, 360100201510335, 360100201610245, 360100201610246, 360100201610247, 360100201610248, 360100201610249, 360100201610250, 360100201610251, 360100201610252, and 360100201610253, the proposed construction of the property with a gross floor area of approximately 390,957.71 square metres has been approved.
- (viii) According to twenty-four Construction Work Commencement Permit, known as Hong Gaoxin Guan Shi Zi No. 360101201501284101, 360101201501284201, 360101201502034101, 360101201502094301, 360101201502094401, 360101201502094501, 360101201504214101, 360101201504214201, 360101201504214301, 360101201504214401, 360101201504214501, 360101201504214601, 360101201504214701, 360101201504214801, 360101201504214901, 360101201506234101, 360101201507294101, 360101201508134101, 360101201703244101, 360101201703284101, 360101201704274101, 360101201705314101, 360101201711084101, permission has been given for commencement of construction of the property with a gross floor area of approximately 386,201.40 square metres.

As advised by the company, Hongdu Group has not yet obtained the Construction Work Commencement Permit of two buildings, with a total gross floor area of approximately 4,626.0 square metres, erected on the parcel of land as of the valuation date. We have not assigned any commercial value to these two CIP buildings. For reference purpose, the reference value is at RMB58,100,000 assuming that the real property has obtained all relevant title document and can be freely transferred in the market without payment of onerous fees to relevant government authority.

APPENDIX II VALUATION REPORT ON THE DISPOSAL PROPERTIES

(ix) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisor which are summarised as below:

1. The titleship of the land use rights and building ownership is clean and there is no dispute on the titleship or potential dispute. They are not subject to any mortgage, guarantee or other rights restrictions.
2. One land parcel of the real property has to be applied for sub-division registration procedure.
3. Hongdu Group has not yet obtained the Building Ownership Certificate of the 16 buildings, with a total gross floor area of approximately 227,068.46 square metres, erected on the parcel of land as of the valuation date.

These buildings were built by Hongdu Group on their own land. Hongdu Group has obtained the "Construction Works Planning Permit" and "Construction Works Commencement Permit" when constructing these buildings. Hongdu Group is currently completing the relevant procedures for the environmental assessment, and will apply for the Building Ownership Certificate after completing the relevant procedures.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the HKLR for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. INTERESTS IN SHARES: DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

A. Interests and short positions in the shares, underlying shares and debentures of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares and, in respect of equity derivatives, underlying shares in, and debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the HKEX pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or, which were required, pursuant to the Model Code to be notified to the Company and the HKEX were as follows:

| Name of Director/ Supervisor | Capacity | Number of Shares | Approximate percentage of shareholdings to share capital in issue | Nature of Shares held |
|---------------------------------|--------------------|---------------------|---|--------------------------|
| Chen Yuanxian (a Director) | Beneficial owner | 255,687 | 0.004% | Long position |
| Yan Lingxi (a Director) | Beneficial owner | 267,740 | 0.004% | Long position |
| Zheng Qiang (a Supervisor) | Beneficial owner | 239,687 | 0.004% | Long position |
| | Interest of spouse | 71,000 | 0.001% | Long position |
| Shi Shiming (a Supervisor) | Beneficial owner | 35,984 | 0.0006% | Long position |

B. Interests and short positions in the shares, underlying shares and debentures of associated corporations

Mr. Zheng Qiang (a Supervisor) and his spouse jointly held 126,400 A shares in AVIC Capital Co., Ltd.* (中航資本控股股份有限公司) (“**AVIC Capital**”), representing approximately 0.0014% of the total issued share capital of AVIC Capital as at the LPD. AVIC Capital is a subsidiary of AVIC, and is therefore an associated corporation (within the meaning of Part XV of the SFO) of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors or the chief executives of the Company or their respective associates had any interests or short positions in the shares or, in respect of equity derivatives, underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKSX pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code, to be notified to the Company and the HKSX.

3. INTERESTS IN SHARES: SUBSTANTIAL SHAREHOLDERS

A. Interests and short positions in the shares, underlying shares and debentures of the Company

As at the Latest Practicable Date, so far as was known to any Directors or chief executive of the Company, the following person(s) (not being a Director, Supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the HKSX under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name of shareholder | Capacity | Number of Shares | Approximate percentage of shareholdings to share capital in issue | Nature of Shares held |
|----------------------|--|------------------|---|-----------------------|
| AVIC ^{Note} | Beneficial owner; interest in controlled corporation | 3,499,531,569 | 56.04% | Long position |

Note:

Among these 3,499,531,569 Shares, 3,297,780,902 Shares were directly held by it as beneficial owner, 183,404,667 Shares were held through AVIC Airborne Systems Company Limited* (中航機載系統有限公司), its subsidiary and 18,346,000 Shares were held through China Aviation Industry (HK) Company Limited.* (中國航空工業集團(香港)有限公司), its subsidiary.

B. Director who was also a director or employee of substantial shareholder

Save and except that (i) Mr. Chen Yuanxian (an executive Director) was the vice general manager, a director and the chief economist of AVIC as at the LPD; and (ii) Mr. Yang Lingxi (a non-executive Director) was a departmental director of AVIC as at the LPD, none of the Directors was also a director and/or employee of the substantial shareholder of the Company (namely, AVIC) as at the LPD.

4. INTERESTS OF DIRECTORS AND SUPERVISORS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

- (a) As at the LPD, none of the Directors or Supervisors had, or have had, any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.
- (b) There was no contract or arrangement subsisting as at the date of this circular in which any of the Directors or Supervisors is materially interested and which is significant in relation to the business of the Group.

5. MATERIAL ADVERSE CHANGE

There had been no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the LPD.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective close associates had any businesses or interests that compete or might compete with the business of the Group or any other conflict of interests with the Group.

7. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at the LPD, none of the Directors or Supervisors had entered or proposed to enter into a service contract with any member of the Group which will not expire or is not determinable within one year without payment of compensation (other than statutory compensation).

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given opinions or advice contained in this circular:

| Name | Qualification |
|--|---|
| Lego Corporate Finance Limited | A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO |
| China Enterprise Appraisals Co., Ltd. (北京中企華資產評估有限責任公司) | Valuer |

Note: (i) Beijing Municipal Bureau of Finance# (北京財政局) has issued the Certificate of Assets Appraisal Qualification# (資產評估資格證書) to it and (ii) the Ministry of Finance of the PRC# (中國財政部) and the China Securities Regulatory Commission# (中國證券監督管理委員會) have jointly issued the Certificate of Securities and Futures related Business Appraisal Qualification# (證券期貨相關業務評估資格證書) to it

Jia Yuan Law Offices (嘉源律師事務所) PRC legal adviser

As at the LPD, the above experts (a) did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and (b) did not have any direct or indirect interest in any assets which have been acquired, or disposed of by, or leased to any member of the Group, or were proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter(s), report(s), opinion and/or the references to its name in the form and context in which they appeared.

9. DOCUMENT(S) AVAILABLE FOR INSPECTION

A copy of the ASA is available for inspection during normal business hours on any Hong Kong business day, up to and including the date of the EGM from the date of this circular, at the principal place of business of the Company in Hong Kong at Unit 2202A, 22th Floor, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

NOTICE OF EGM



中國航空科技工業股份有限公司 AviChina Industry & Technology Company Limited*

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02357)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (“EGM”) of AviChina Industry & Technology Company Limited (the “Company”) will be held at AVIC Hotel, No.10 Yi, Central East Third Ring Road, Chaoyang District, Beijing, the PRC at 9:00 a.m. on Friday, 23 August 2019 to consider and, if thought fit, approve the following resolution(s). Unless otherwise indicated, capitalized terms used in this notice and the following resolution(s) shall have the same meanings as those defined in the circular of the Company dated 23 July 2019 (the “Circular”):

ORDINARY RESOLUTION

1. **“THAT** the terms of the ASA be and are hereby approved, ratified and confirmed; and any one Director or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect and/or to complete the transactions contemplated thereunder and all other matters ancillary thereto, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder and to make changes or amendments to the aforesaid agreement, as such Director or authorized representative may in his absolute discretion deems fit.”

SPECIAL RESOLUTION

2. **“THAT:**
 - (1) subject to the required approval or endorsement from or registration with the relevant regulatory authorities in the PRC, the proposed amendments to the Articles of Association (details of which are set out in the paragraph headed “Proposed Amendments to the Articles of Association” in the letter from the Board contained in the Circular) be and are hereby approved and confirmed; and
 - (2) any one of the Directors or authorized representative of the Chairman of the Board be and is hereby authorized to implement and take all steps and to do all acts and things as may be necessary or desirable to give effect to the proposed amendments to the Articles of Association, including, without limitation, to obtain all necessary approvals from the

* For identification purpose only

NOTICE OF EGM

relevant regulatory authorities in the PRC, and to sign and execute such further documents, or to do any other matters incidental thereto and/or as contemplated thereunder, as such Director or authorized representative may in his absolute discretion deem fit.”

By Order of the board of directors
AviChina Industry & Technology Company Limited*
Xu Bin
Company Secretary

Beijing, 23 July 2019

As at the date of this notice, the Board comprises (i) Mr. Chen Yuanxian and Mr. Wang Xuejun as executive directors; (ii) Mr. Yan Lingxi, Mr. Lian Dawei and Mr. Xu Gang as non-executive directors; and (iii) Mr. Liu Renhuai, Mr. Liu Weiwu and Mr. Wang Jianxin as independent non-executive directors.

Notes:

1. CLOSURE OF REGISTER OF MEMBERS AND ELIGIBILITY TO ATTEND AND VOTE AT THE EGM

Pursuant to Article 41 of the Articles of Association, the H Share register of members of the Company will be closed from Saturday, 3 August 2019 to Friday, 23 August 2019 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of the H Shares whose names appear on the Company’s Register of Members at the opening of business on Friday, 23 August 2019 are entitled to attend and vote at the EGM.

In order to be eligible to attend and vote at the EGM, holders of the H Shares shall lodge all transfer instruments together with the relevant share certificates with Computershare Hong Kong Investor Services Limited, the Company’s H Shares registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 2 August 2019.

2. REGISTRATION PROCEDURES FOR ATTENDING THE EGM

- (a) Shareholder or its proxies shall produce his identification proof. If a legal representative of a corporate Shareholder or any other person authorized by the board of directors or other governing body of such corporate Shareholder (as the case may be) attends the EGM, such legal representative or other person shall produce his proof of identity, and proof of designation as legal representative and the valid authorization document of the board of directors or other governing body of such corporate shareholder (as the case may be) to prove the identity and authorisation of that legal representative or other person.
- (b) Shareholders may deliver the reply slip by post or facsimile to the correspondence address designated by the Company.

3. PROXIES

- (a) Any Shareholder who is entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his behalf at the EGM. A proxy needs not be a Shareholder. Any Shareholder who wishes to appoint a proxy should first review the form of proxy in relation to the EGM.
- (b) Any Shareholder shall appoint its proxy in writing. The instrument appointing a proxy must be in writing signed under the hand of the appointer or his attorney duly authorized in writing. If the appointer is a body corporate, the instrument shall be affixed with the seal of the body corporate or shall be signed by the directors

NOTICE OF EGM

of the board of the body corporate or by attorneys duly authorized. If the instrument is signed by an attorney of the appointer, the power of attorney authorizing the attorney to sign or other documents of authorization must be notarially certified. In order to be valid, for H shareholders, the form of proxy, and a notarially certified copy of the power of attorney or other documents of authorization, where appropriate, must be delivered to Computershare Hong Kong Investor Services Limited, the Company's H Shares registrar, at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time for holding the EGM and return of a form of proxy will not preclude a Shareholder from attending EGM or any adjournment thereof (as the case may be) in person and voting at the EGM if he or she so wishes.

4. MISCELLANEOUS

- (a) The EGM is expected to last for half a day, Shareholders attending the meeting are responsible for their own transportation and accommodation expenses.
- (b) The contact details of the Company are as follow:

Designated address: Building A, No. 14 Xiaoguandongli, Andingmenwai, Chaoyang District, Beijing, the PRC
Postal code: 100029
Telephone No.: 86-10-58354335
Facsimile No.: 86-10-58354310
Attention: Mr. Liu Kai