

29 September 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

- (1) CONNECTED TRANSACTION AND VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE ACQUISITION OF THE ENTIRE EQUITY
INTEREST IN AVIC ELECTROMECHANICAL;
(2) CONNECTED TRANSACTION AND VERY SUBSTANTIAL DISPOSAL
IN RELATION TO THE DEEMED DISPOSAL OF THE
EQUITY INTEREST IN AVIC AVIONICS; AND
(3) CONNECTED TRANSACTION AND DISCLOSEABLE TRANSACTION
IN RELATION TO THE SUBSCRIPTION AND DEEMED DISPOSAL OF
AVIC AVIONICS A SHARES BY THE COMPANY**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board of Committee and the Independent Shareholders in relation to the Share Swap and Absorption and the Subscription, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 29 September 2022 issued by the Company (“the **Circular**”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 10 June 2022 (after trading hours), AVIC Avionics and AVIC Electromechanical entered into the Share Swap and Absorption Agreement, pursuant to which AVIC Avionics has agreed to issue AVIC Avionics A Shares to the Share Swap participating shareholders of AVIC Electromechanical as at the Share Swap Date in exchange for the AVIC Electromechanical A Shares held by them at an exchange ratio of 1 AVIC Electromechanical A Shares to 0.6647 AVIC Avionics A Share. Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration. The Exchange Shares will be listed and circulated on the main board of the Shanghai Stock Exchange.

Conditional upon the Share Swap and Absorption Agreement becoming effective, AVIC Avionics also intended to place AVIC Avionics A Shares to not more than 35 designated investors (including the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry) to raise fund at a total amount not exceeding RMB5,000 million. On 10 June, 2022 (after trading hours), AVIC Avionics has entered into the Subscription Agreements with the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, respectively. Pursuant to the Subscription Agreements, subject to the Completion, (i) the Company has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB500 million in cash; (ii) AVIC Aviation Industry Investment agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB300 million in cash; (iii) AVIC Shenfei has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash; and (iv) Chengdu Aircraft Industry has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash.

On 10 June 2022 (after trading hours), the Company and AVIC Airborne Systems entered into the Entrusted Voting Arrangement Agreement, pursuant to which AVIC Airborne Systems will entrust the Company to exercise the voting rights of the AVIC Avionics A Shares held by AVIC Airborne Systems for an indefinite period until such arrangement is terminated by the Company and AVIC Airborne Systems by mutual agreement. No consideration is payable under the Entrusted Voting Arrangement Agreement.

Based on the shareholding of AVIC Avionics after the Share Swap and Absorption and the Subscription as disclosed in the section headed “H. EFFECT OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION ON THE SHAREHOLDING STRUCTURE OF AVIC AVIONICS” in the Letter from the Board, after the Entrusted Voting Arrangement becoming effective, the Company will be able to exercise approximately 47.54% voting right in AVIC Avionics. AVIC Avionics will continue to be a subsidiary of the Company and consolidated in the consolidated financial statements of the Company.

As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the acquisition of AVIC Electromechanical under the Share Swap and Absorption exceeds 100%, the Share Swap and Absorption, if materialised, will constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Furthermore, upon completion of the Share Swap and Absorption, the shareholding the Company in AVIC Avionics will reduce from 39.43% to 16.86%. Therefore, the Share Swap and Absorption will also constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Deemed Disposal exceeds 75%, the Deemed Disposal of AVIC Avionics will constitute a very substantial disposal for the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, AVIC Electromechanical is a connected person of the Company by virtue of being owned as to 51.97% by AVIC (i.e. the controlling shareholder of the Company), directly and indirectly through several of its subsidiaries. Therefore, the Share Swap and Absorption constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the relevant reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Upon completion of the Subscription, the shareholding of the Company in AVIC Avionics will reduce from 16.86% to 16.47%. Therefore, the Subscription of AVIC Avionics A Shares by the Company will constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. As the highest applicable

percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Subscription of AVIC Avionics A Shares by the Company exceeds 5% but below 25%, the Subscription, if materialised, will constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, AVIC Avionics is a subsidiary of the Company and a connected subsidiary of the Company by virtue of being owned as to 16.42% by AVIC Airborne Systems, a wholly-owned subsidiary of AVIC. Therefore, the Subscription of AVIC Avionics A Shares by the Company, if materialised, will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratio (other than the profits ratio) in respect of the Subscription of AVIC Avionics A Shares by the Company exceeds 5%, the Subscription of AVIC Avionics A Shares by the Company is subject to the relevant reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise and provide recommendations to the Independent Shareholders in respect of the Share Swap and Absorption and the Subscription. We, Maxa Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Share Swap and Absorption and the Subscription.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company in accordance with Rule 13.84 of the Listing Rules and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Share Swap and Absorption and the Subscription. Save for this appointment as the Independent Financial Adviser, there was no other engagement between the Company and us in the last two years. Apart from the normal advisory fee payable to us in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Company (the "Management"). We have reviewed, inter alia, the statements, the information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the EGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration.

The Company confirmed that they have, at our request, provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our opinion. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representation and opinions expressed by the Company, its advisers, the Directors and the Management. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Company, AVIC Avionics, AVIC Electromechanical and each of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

The Company is a joint stock limited liability company established in the PRC, whose H shares are listed on the Stock Exchange. The Company is mainly engaged in the research, development, manufacture and sales of aviation products, and relevant engineering services.

Set out below is the summarised financial information of the Group for (i) the year ended 31 December 2019 (“FY2019”), prepared in accordance with the International Financial Reporting Standards; and (ii) the two years ended 31 December 2021 respectively and six months ended 30 June 2022, prepared in accordance with the China Accounting Standards for Business Enterprises, as extracted from the 2022 interim results announcement, 2021 annual report and 2020 annual report of the Company:

	For the year ended 31 December			For six months ended	
	2019	2020	2021	30 June	
	(restated)	(restated)	(audited)	2021	2022
	RMB (million)	RMB (million)	RMB (million)	(unaudited) RMB (million)	(unaudited) RMB (million)
Revenue	43,831.76	50,929.90	60,296.28	27,897.39	25,812.63
Net profit attributable to owners	1,347.17	1,932.99	2,369.28	1,199.15	1,153.51

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	(restated)	(restated)	(audited)	(unaudited)
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Total assets	107,816.13	115,648.59	133,889.14	134,498.20
Total liabilities	67,975.36	69,498.58	79,122.63	78,286.31
Total equity	39,840.77	46,150.00	54,766.50	56,211.88

As shown in the table above, the Group recorded steady growth in the revenue during the three years ended 31 December 2021. For the year ended 31 December 2021 (“FY2021”), the Group’s revenue amounted to approximately RMB60,296.28 million, representing an increase of approximately 18.39% as compared to that for the year ended 31 December 2020 (“FY2020”), and it is mainly attributable to the increase in revenue of the Group’s aviation entire aircraft business of approximately 6.97% and the increase in revenue of the Group’s aviation ancillary system and related business of approximately 30.00%. For FY2020, the Group recorded a revenue of approximately RMB50,929.90 million, representing an increase of approximately 16.19% as compared to that for FY2019, and it is mainly attributable to the increase of sales volume of helicopter products and connector products. The Group recorded profit attributable to owners of approximately RMB2,369.28 million in FY2021, representing an increase of approximately 22.57% as compared to that for FY2020, and it is mainly attributable to the increase of revenue and the growth of gross profit. The Group’s profit attributable to owners for FY2020 amounted approximately RMB1,932.99 million, representing an increase of approximately 43.49% as compared to that for FY2019, and it is mainly attributable to the increase of operating profit and decrease in the finance cost. For six months ended 30 June 2022, the Group recorded decrease in revenue and net profit attributable to owners of approximately 7.47% and 3.81% respectively as compared to that for the same period of 2021, mainly due to the decrease in sales volume of certain helicopters affected by the adjustment of helicopter products structure.

The Group’s net assets have been increasing stably during FY2019, FY2020 and FY2021. The Group’s net asset as at 31 December 2021 increased by approximately 18.67% as compared to that as at 31 December 2020. The Group’s net asset value as at 31 December 2020 increased by approximately 15.84% as compared to that as at 31 December 2019. As at 30 June 2022, the Group’s net assets recorded a growth of approximately 2.64% as compared to that as at 31 December 2021.

2. Background information of AVIC Avionics

AVIC Avionics is a joint stock limited liability company established in the PRC, whose A shares are listed on the Shanghai Stock Exchange. As at the Latest Practicable Date, the Company owns 39.43% equity interest in AVIC Avionics and it is a non-wholly-owned subsidiary of the Company. It is mainly engaged in the manufacture of avionics products and related accessories.

Set out below is the summarised unaudited financial information of AVIC Avionics prepared in accordance with the China Accounting Standards for Business Enterprises for FY2019, FY2020, FY2021 and five months ended 31 May 2022, respectively as extracted from the Appendix II to the Circular:

	For the year ended			For five months ended	
	31 December		2021	31 May	
	2019	2020		2021	2022
	RMB	RMB	RMB	RMB	RMB
	(million)	(million)	(million)	(million)	(million)
Revenue	8,352.19	8,746.61	9,839.30	3,360.65	3,722.10
Net profit attributable to owners	556.02	630.78	798.70	261.59	309.63

	As at 31 December			As at 31 May	
	2019	2020	2021	2022	
	RMB (million)	RMB (million)	RMB (million)	RMB (million)	
Total assets	22,696.70	24,719.90	26,262.65	26,463.29	
Total liabilities	14,474.42	13,691.59	14,610.62	14,655.86	
Total equity	8,222.28	11,028.31	11,652.03	11,807.43	

As shown in the table above, AVIC Avionics recorded stable growth on both revenue and profit. For FY2021 and FY2020, AVIC Avionics recorded a growth in revenue of approximately 12.49% and 4.72% as compared to that of the previous year, respectively. For FY2021 and FY2020, AVIC Avionics recorded a growth in net profit attributable to owners of approximately 26.62% and 13.45% as compared to that of the previous year, respectively. For five months ended 31 May 2022, AVIC Avionics recorded growth in revenue and net profit attributable to owners of approximately 10.86% and 18.36% respectively as compared to that as at 31 May 2021.

As at 31 December 2021 and 2020, AVIC Avionics' net assets recorded a growth of approximately 5.66% and 34.13% as compared to that as at 31 December 2020 and 2019, respectively. As at 31 May 2022, AVIC Avionics' net assets recorded a growth of approximately 1.33% as compared to that as 31 December 2021.

3. Background information of AVIC Electromechanical

AVIC Electromechanical is a joint stock limited liability company established in the PRC on 5 December 2000 with its shares listed on the Shenzhen Stock Exchange. AVIC Electromechanical is mainly engaged in development, production, sales and service of airborne electromechanical systems and equipment for all types of aircraft and engines. As at the Latest Practicable Date, AVIC Electromechanical is a connected person of the Company by virtue of being owned as to 51.97% by AVIC (i.e. the controlling shareholder of the Company), directly and indirectly through several of its subsidiaries. The Company has no interest in AVIC Electromechanical as at the Latest Practicable Date. At the time of establishment of AVIC Electromechanical, Life Saving Research Institute subscribed for 25.30 million shares at a consideration of RMB38.5 million for 84.33% of equity interest in AVIC Electromechanical. At the time of establishment of AVIC Electromechanical, Life Saving Research Institute was controlled by China Aviation

Industry Corporation I (中國航空工業第一集團). In 2008, China Aviation Industry Corporation I merged with China Aviation Industry Corporation II (中國航空工業第二集團) to form AVIC and AVIC has since become the actual controller of Life Saving Research Institute.

Set out below is the summarised financial information of AVIC Electromechanical prepared in accordance with the China Accounting Standards for Business Enterprises for FY2019, FY2020, FY2021 and five months ended 31 May 2022, respectively, as extracted from the Appendix IV to the Circular:

	For the year ended			For five months ended	
	31 December			31 May	
	2019	2020	2021	2021	2022
	(audited)	(audited)	(audited)	(unaudited)	(audited)
	RMB	RMB	RMB	RMB	RMB
	(million)	(million)	(million)	(million)	(million)
Revenue	12,131.38	12,224.10	14,992.20	6,310.70	6,712.69
Net profit attributable to owners	960.48	1,073.76	1,271.88	509.81	540.21

	As at 31 December			As at 31 May
	2019	2020	2021	2022
	(audited)	(audited)	(audited)	(audited)
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Total assets	28,757.96	30,506.12	34,893.01	34,815.59
Total liabilities	16,073.22	14,503.36	17,658.14	17,583.88
Total equity	12,684.74	16,002.75	17,234.87	17,231.72

As shown in the table above, AVIC Electromechanical recorded stable growth on both revenue and profit. For FY2021 and FY2020, AVIC Electromechanical recorded a growth in revenue of approximately 22.64% and 0.76% as compared to that of the previous year, respectively. For FY2021 and FY2020, AVIC Electromechanical recorded a growth in net profit attributable to owners of approximately 18.45% and 11.79% as compared to that of the previous year, respectively. For five months ended 31 May 2022, AVIC Electromechanical recorded growth in revenue and net profit attributable to owners of approximately 6.37% and 5.96% respectively as compared to that as at 31 May 2021.

As at 31 December 2021 and 2020, AVIC Electromechanical's net assets recorded a growth of approximately 7.70% and 26.16% as compared to that as at 31 December 2020 and 2019, respectively. As at 31 May 2022, AVIC Avionics' net assets recorded a slight decrease of approximately 0.02% as compared to that as 31 December 2021.

4. Reasons for and benefits of the Share Swap and Absorption and the Subscription

As mentioned in the Letter from the Board, the Share Swap and Absorption and the Subscription will help the Company to expand the scale, optimise the aviation industry chain and enhance the market value of the Company and its subsidiaries in accordance with the established strategy of optimising the industrial

structure, promote the investment and integration of aviation ancillary systems. Pursuant to the Outline of the Fourteenth Five-Year Plan for the National Economic and Social Development and the Long-Range Objectives Through the Year 2035” (國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要), the new generation of aviation equipment has become a key development direction of the PRC, which also drives the development of aviation equipment industry chain. As an important part of the aviation equipment industry and the core area of aviation equipment upgrading, airborne systems have ushered in a good opportunity for development. As the main supplier and leading enterprise in the avionics system and aviation electromechanical market, the integration of AVIC Avionics and AVIC Electromechanical will realise the professional integration of avionics systems and electromechanical systems, which is conducive to improving the efficiency of resource allocation, exerting synergistic effects, and laying a good foundation for the systemisation, integration and intelligentisation development of the aviation and airborne industry, thereby further improve the professional level and core competitiveness of the Group to build an aviation and airborne industry with international competitiveness. Furthermore, the integration of AVIC Avionics and AVIC Electromechanical could generate synergies in respect of products, customers and markets, as well as technology, research and development. In addition, the Subscription would allow AVIC Avionics to improve its capital structure and financial situation. The project constructions and the general working capital will further the business development of AVIC Avionics and provide the Enlarged Group with capital support for the research and production, improve research and production capability and enhance its productivity, thereby improving the competitiveness of products and expanding the market share and enhancing the profitability. For further details in this regard, please refer to the section headed “J. REASONS FOR AND BENEFITS OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION” in the Letter from the Board.

The Company has considered other alternative fundraising methods such as debt financing. However, should the original shareholders of AVIC Avionics decide not to participate in the Subscription, their shareholdings of AVIC Avionics A Shares will be diluted after the completion of the Subscription. The Company considered that debt financing may incur interest burden on the Group and will increase the ongoing interest expenses of the Group which may in turn affect the gearing ratio and profitability of the Company. Besides, debt financing may also be subject to lengthy due diligence and negotiations with the banks, which may be relatively uncertain and time-consuming. On the other hand, the Board considers that the Subscription would allow the Company to strengthen its balance sheet by raising fund without the need for payment of interest and repayment, which is of a lower financial cost as compared to that of debt financing. Furthermore, the time required for the Subscription is relatively shorter compared to that of debt financing. Therefore, the Company considers that the Subscription is currently the most feasible fundraising method to the Company. For further details in this regard, please refer to the section headed “Other fundraising alternatives” in the Letter from the Board.

Based on the above and our further analysis in the section headed “9. Financial effects of the Share Swap and Absorption and the Subscription on the Group” below in our letter, we concur with the Directors that the Share Swap and Absorption and the Subscription by the Company are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the Share Swap and Absorption

AVIC Avionics has entered into the Share Swap and Absorption Agreement with AVIC Electromechanical, the principal terms of which are summarised as follows:

Date

10 June 2022

Parties to the Share Swap and Absorption Agreement

- 1) AVIC Avionics; and
- 2) AVIC Electromechanical

Subject Matter

AVIC Avionics has agreed to issue AVIC Avionics A Shares to the Share Swap participating shareholders of AVIC Electromechanical in exchange for the entire AVIC Electromechanical A Shares held by them as at the Share Swap Date. Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration. Application will be made by AVIC Avionics to the Shanghai Stock Exchange for approval for the listing of, and permission to deal in, the Exchange Shares.

The Exchange Price and the Exchange Ratio

The Exchange Ratio is determined with reference to the exchange price of AVIC Avionics A Shares (the “AVIC Avionics Exchange Price”) and the exchange price of AVIC Electromechanical A Shares (the “AVIC Electromechanical Exchange Price”). Each of the AVIC Electromechanical Exchange Price and the AVIC Avionics Exchange Price is determined with reference to the average trading price of AVIC Electromechanical A Shares and AVIC Avionics A Shares, respectively, for the 120 trading days prior to the Price Determination Date. Based on the above formula, AVIC Electromechanical Exchange Price is RMB12.59 per share (as adjusted by its 2021 profit distribution plan) and AVIC Avionics Exchange Price is RMB18.94 per share (as adjusted by its 2021 profit distribution plan). Therefore, the Exchange Ratio equals to 1: 0.6647, which means that one AVIC Electromechanical A Share can exchange for 0.6647 AVIC Avionics A Share.

The Exchange Ratio was arrived at with reference to, among other things, (i) the rules and regulations under the Material Asset Restructuring Measures (《上市公司重大資產重組管理辦法》) and the Companies Law of the PRC; (ii) the valuation value of AVIC Electromechanical and AVIC Avionics in the past; and (iii) the usual practice and operation of share swap and absorption in other comparable cases in the market. Furthermore, the Company considers that the 120 days average trading prices of AVIC Avionics A Shares and AVIC Electromechanical A Shares can better reflect the fair value of AVIC Avionics and AVIC Electromechanical given the recent huge short-term fluctuation of the A-shares stock market.

Number of Exchange Shares to be issued

As at the Latest Practicable Date, the total issued share capital of AVIC Electromechanical is 3,884,824,789 AVIC Electromechanical A Shares, which will all participate in the Share Swap and Absorption. Based on the Exchange Ratio, it is estimated that a total of 582,243,037 AVIC Avionics A Shares (representing approximately 133.92% of the AVIC Avionics A Shares in issue as at the Latest Practicable Date) will be issued as Exchange Shares to the shareholders of AVIC Electromechanical. Upon Completion, the total number of issued shares of AVIC Avionics will be 4,510.46 million.

If any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital, allotment of shares and cancellation of treasury shares occurs on AVIC Avionics or AVIC Electromechanical between the Price Determination Date to the implementation date of Share Swap and Absorption, the number of Exchange Shares will be adjusted accordingly.

The number of AVIC Avionics A Shares to be acquired by the AVIC Electromechanical shareholders shall be an integer. If the number of AVIC Electromechanical A Shares held by them is not an integer after multiplying the Exchange Ratio, the AVIC Electromechanical shareholders shall be sorted according to the size of the mantissa after the decimal point and one AVIC Avionics A Share will be issued to these shareholders in turn until the actual number of swapped AVIC Avionics A Shares equals to the number of AVIC Avionics A Shares intended to be issued for the Share Swap and Absorption.

Upon completion of the Share Swap and Absorption, the shareholding of the Company in AVIC Avionics will reduce from 39.43% to 16.86%. Therefore, the Share Swap and Absorption will also constitute a Deemed Disposal of AVIC Avionics under the Listing Rules. According to the Entrusted Voting Arrangement as disclosed in the Letter from the Board, AVIC Avionics will continue to be a subsidiary of the Company upon the completion of the Share Swap and Absorption and the Subscription.

Listing of the Exchange Shares

The Exchange Shares will be listed and circulated on the main board of the Shanghai Stock Exchange.

Appraisal Right of the Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders

Pursuant to the Share Swap and Absorption Agreement, the Company has agreed to grant the AVIC Avionics Appraisal Right to the shareholders of AVIC Avionics and the AVIC Electromechanical Appraisal Right to the shareholders of AVIC Electromechanical. The AVIC Avionics Appraisal Right and the AVIC Electromechanical Appraisal Right are exercisable on the Appraisal Right Execution Date, pursuant to which the Opposing AVIC Avionics Shareholders can request the Company to purchase the AVIC Avionics A Shares at the AVIC Avionics Appraisal Right

Exercise Price and the Opposing AVIC Electromechanical Shareholders can request the Company to purchase the AVIC Electromechanical A Shares at the AVIC Electromechanical Appraisal Right Exercise Price.

The AVIC Avionics Appraisal Right Exercise Price equals to RMB18.32 per share (as adjusted by its 2021 profit distribution plan), which is determined with reference to the its average trading price for the 20 trading days of AVIC Avionics prior to the Price Determination Date. The AVIC Avionic Appraisal Right Exercise Price was arrived at with reference to the usual practice and operation of share Swap and absorption in 20 other comparable cases (the “Comparable Cases”) in the market (including but not limited to the share swap and absorption of : (i) Beijing Capital Retailing Group Co., Ltd.* (北京首商集團股份有限公司) by Wangfujing Group Co., Ltd.* (王府井集團股份有限公司); (ii) Yingkou Port Liability Co., Ltd.* (營口港務股份有限公司) by Liaoning Port Co., Ltd. (遼寧港口股份有限公司); (iii) China CNR Corporation Limited* (中國北車股份有限公司) by CSR Corporation Limited* (中國南車股份有限公司); (iv) Chongqing Titanium Industry Co., Ltd of Pangang Group* (攀鋼集團重慶鈦業有限公司) by Panzihua New Steel & Vanadium Co., Ltd.* (攀枝花新鋼鈞股份有限公司); and (v) Shanghai Airlines Co., Ltd.* (上海航空股份有限公司) by China Eastern Airlines Corporation Limited* (中國東方航空股份有限公司), which the appraisal right exercise price is set as the average trading price for the 20 trading days of the listed company prior to the announcement date of the board approval of the share swap and absorption. Considering: (i) the AVIC Avionics Appraisal Right Exercise Price has no premium over the average trading price for the 20 trading days of AVIC Avionics prior to the Price Determination Date, which is in line with the market practice and is the same as the 1st quartile, median and 3rd quartile of the premium rate of the appraisal right exercise price of the dissenting shareholders in the Comparable Cases; and (ii) the shares of AVIC Avionics is freely transferable in the secondary market and the use of the average trading price of AVIC Avionics can better reflect the value of shares AVIC Avionics, the Directors are of the view that the AVIC Avionics Appraisal Right Exercise Price is fair and reasonable.

The AVIC Electromechanical Appraisal Right Exercise Price equals to RMB10.33 per share (as adjusted by its 2021 profit distribution plan), which is determined with reference to the average trading price of AVIC Electromechanical for the 20 trading days prior to the Price Determination Date. The AVIC Electromechanical Appraisal Right Exercise Price was arrived at with reference to the usual practice and operation of share swap and absorption in other comparable cases in the market, which the appraisal right exercise price is set as the average trading price for the 20 trading days of the listed company prior to the announcement date of the board approval of the share swap and absorption.

For further details in this regard, please refer to the section headed “Appraisal Right of the Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders” in the Letter from the Board.

Arrangement for the Rollover of the Undistributed Profits of AVIC Avionics and AVIC Electromechanical

In addition to the profit distribution plan approved by the respective shareholders' meetings of AVIC Avionics and AVIC Electromechanical, the accumulated undistributed profits of AVIC Avionics and AVIC Electromechanical as at the Share Swap Date shall be shared by the old and new shareholders of AVIC Avionics in proportion to their shareholdings.

Conditions precedent

The Share Swap and Absorption Agreement shall take effect upon the satisfaction of the following conditions:

- 1) the Share Swap and Absorption Agreement having been duly signed by AVIC Avionics and AVIC Electromechanical;
- 2) AVIC Avionics, AVIC Electromechanical and the Company having obtained all effective approvals in respect of the Share Swap and Absorption from its board of directors and shareholders pursuant to their respective articles and associations;
- 3) the Share Swap and Absorption having completed all the regulatory procedures of the Stock Exchange; and
- 4) the Share Swap and Absorption having obtained approvals from SASTIND, SASAC and CSRC.

Completion

The date of Completion shall be the date of completion of the transfer of all business operation, assets and liabilities of AVIC Electromechanical to AVIC Avionics. Upon Completion, AVIC Avionics will take over all the assets, liabilities, business operation, employees, contracts and other rights and obligation of AVIC Electromechanical, and AVIC Electromechanical will apply to delist from the Shenzhen Stock Exchange and deregistration.

6. Principal terms of the Subscription

Conditional upon the Share Swap and Absorption Agreement becoming effective, AVIC Avionics also intended to place AVIC Avionics A Shares to not more than 35 designated investors (including the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, the "Subscribers") to raise fund at a total amount not exceeding RMB5,000 million. AVIC Avionics has also entered into the Subscription Agreements with the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, the principal terms of which are summarised as follows:

Date

10 June 2022

Parties to the Subscription Agreements

- 1) AVIC Avionics;
- 2) the Company;
- 3) AVIC Aviation Industry Investment;
- 4) AVIC Shenfei; and
- 5) Chengdu Aircraft Industry (the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry, collectively the “AVIC Subscribers”)

Subject Matter

Conditional upon the approval of the Share Swap and Absorption, (i) the Company has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB500 million in cash; (ii) AVIC Aviation Industry Investment agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB300 million in cash; (iii) AVIC Shenfei has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash; and (iv) Chengdu Aircraft Industry has agreed to subscribe for AVIC Avionics A Shares at a total consideration of RMB180 million in cash. If the number of issued shares of AVIC Avionics is less than one share, the AVIC Subscribers agree to round off the non-integer part. If the balance of the subscription amount is insufficient to convert into one share, such balance shall be converted into the capital reserve of AVIC Avionics.

The final subscription amount and the number of subscribed AVIC Avionics A Shares shall be in accordance with the payment notice as issued to the AVIC Subscribers by the underwriter of AVIC Avionics.

The aviation and airborne equipment manufacturing industry is a typically high-tech, high-value added and high-risk strategic industry which is knowledge, technology and capital-intensive. The aviation industry in China is experiencing a rapid growth, and puts high requirements on research and development and modification of airborne equipment, which requires a large amount of funds investment.

In order to cope with the national industrial policies and industry development trends, the Group will require capital to improve its production capacity and facilities so as to enhance its production efficiency and product competitiveness and expand its market shares, so that the production tasks can be successfully completed. Although AVIC Avionics and AVIC Electromechanical have issued convertible corporate bonds to raise approximately RMB2,400 million and RMB2,100 million in 2017 and 2018 respectively, AVIC Avionics has fully utilised and AVIC Electromechanical has utilised most of the proceeds raised from the issue of the convertible corporate bonds.

Furthermore, with the increase in market demand, there was continuous increase in revenue for AVIC Avionics and AVIC Electromechanical from 2019 to 2021, with a compound annual growth rate of 8.78% and 8.81%, respectively. As a result, in order to meet the increasing orders from customers, AVIC Avionics and AVIC Electromechanical had to purchase more raw materials for production and expand storage and budgets, resulting in the continuous growth of inventories. For the three years ended 31 December 2021, the inventories of AVIC Avionics amounted to RMB3,962 million, RMB4,746 million and RMB6,112 million, and the inventories of AVIC Electromechanical amounted to RMB4,489 million, RMB5,277 million and RMB6,228 million, respectively. With the increase in inventories and accounts receivable alongside with the increase in revenue of AVIC Avionics and AVIC Electromechanical, there will be an increase in demand for working capital of the Enlarged Group so as to maintain its cashflow position.

Therefore, in order to support the long-term development of AVIC Avionics and the Enlarged Group, the Board is of the view that there is an imminent need to perform the fund raising after the Completion, so as to provide capital for the enhancement of the production capacity and supplement working capital of the Enlarged Group to ensure the stable development of the Enlarged Group and cope with the national industrial policies and industry development trends.

Use of Proceeds

Upon completion of the Subscription, it is estimated that the maximum amount of fund raised by AVIC Avionics will be RMB5,000 million. The proceeds from the Subscription will be used to expand production capacity, improve R&D and production capability and supplement the working capital of AVIC Avionics, repay the debt of AVIC Avionics. In the event the proceeds raised from the Subscription is less than RMB5,000 million, the Group will decide the sequence of the use of the proceeds and the amount of proceeds to be used in the above projects based on, including but not limited to, the investment amounts and urgency of needs of capital of the projects. The Group will prioritise projects that are more urgent and require less funds. For details of the use of proceeds from the Subscription and the corresponding amount, please refer to the sub-section headed "Use of Proceeds" in the Letter from the Board.

Subscription Price

The Subscription Price will be determined by the underwriters for the Subscription and the board of directors of AVIC Avionics after:

- 1) CSRC has approved the Subscription;
- 2) the board of directors of AVIC Avionics have obtained the authorisation from the shareholders' meeting of AVIC Avionics in accordance to the relevant laws and regulations; and
- 3) considering the price quotation provided by the Subscribers during the price consultation process.

In any event, the Subscription Price shall not be lower than 80% of the average trading price (the “Average Trading Price”) of AVIC Avionics A Shares for the 20 trading days prior to the price determination date of the Subscription (being the first day of the Subscription), with ex-rights and ex-dividend events adjustment. The Average Trading Price was determined based on the regulations under the Administrative Measures, pursuant to which the issue price of any non-public issued shares shall not be lower than 80% of the average trading price of the shares for the 20 trading days prior to the price determination date.

The Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry will not participate in the price consultation process of the Subscription. However, they will accept the results of the price consultation process and subscribe for AVIC Avionics A Shares with the Subscription Price. If the Subscription Price is not determined by the price consultation process, the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry will subscribe AVIC Avionics A Shares at the Average Trading Price.

If any ex-rights and ex-dividend events, such as distribution of cash dividends, stock dividends, conversion of capital reserves to share capital and allotment of shares, occurs on any of the 20 trading days (including both the starting and the end date) prior to the first day of the Subscription, the trading price on the date prior to the occurrence of such ex-rights and ex-dividend event shall be adjusted as the trading price after the ex-rights and ex-dividend event. If any of the abovementioned ex-rights and ex-dividend events occur between the first date of the Subscription and the last date of the Subscription (including both days), the Subscription Price will be adjusted according to the relevant regulations of CSRC and the Shanghai Stock Exchange.

The AVIC Subscribers will use their own capital to finance the Subscription. They shall pay the total Subscription amount to the designated bank account for Subscription opened by the underwriter after the effective date of the Subscription Agreement and receipt of the payment notice issued by the underwriter.

Lock-up Period

The AVIC Subscribers undertake not to transfer any of their subscribed AVIC Avionics A Shares within 18 months after the Subscription. For Subscribers other than the AVIC Subscribers, they will undertake not to transfer any of their subscriber AVIC Avionics A Shares within 6 months after the Subscription.

The lock-up period is determined with reference to the regulations under the Administrative Measures, pursuant to which the lock-up period for any non-public issued shares of a listed company subscribed by: (i) independent subscribers shall be 6 months, and (ii) controlling shareholder, actual controller or a corporation controlled by the controlling shareholder or actual controller of a listed company shall be 18 months. As AVIC is the actual controller of AVIC Avionics and AVIC Subscribers are companies controlled by AVIC, the lock-up period for AVIC Subscribers is therefore 18 months.

Conditions precedent

The Subscription Agreements shall take effect upon the satisfaction of the following conditions:

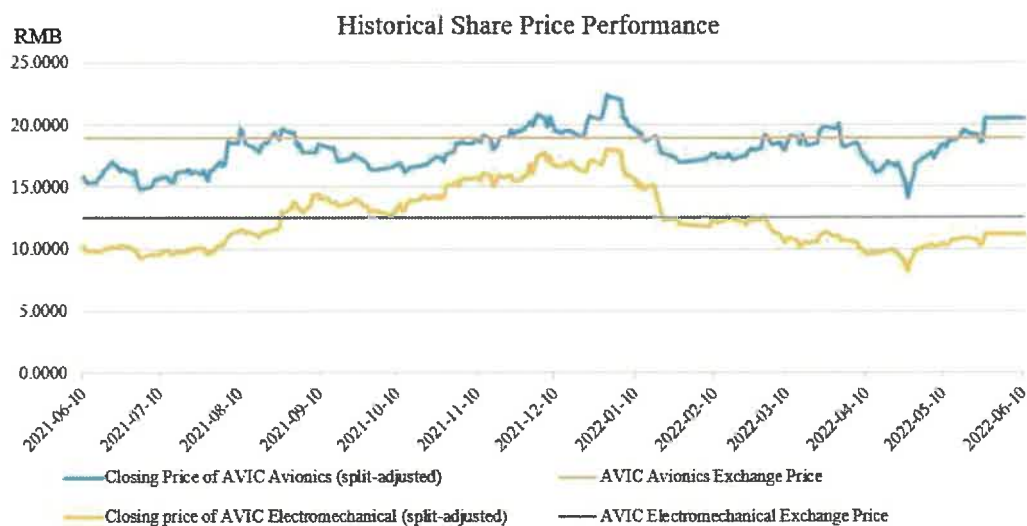
- 1) the Subscription Agreements having been duly signed by AVIC Avionics, the Company, AVIC Aviation Industry Investment, AVIC Shenfei and Chengdu Aircraft Industry;
- 2) the Subscription having obtained all effective approvals from the board of directors and shareholders pursuant to the articles and associations of AVIC Avionics and AVIC Electromechanical;
- 3) the Share Swap and Absorption Agreement having become effective;
- 4) the Subscription having obtained all effective approvals from (i) the Board and Shareholders pursuant to the articles and associations of the Company; (ii) the internal investment decision making body of AVIC Aviation Industry Investment; (iii) the board of directors and shareholders pursuant to the articles and associations of AVIC Shenfei; and (iv) the internal investment decision making body of Chengdu Aircraft Industry;
- 5) the Subscription having completed all the regulatory procedures of the Stock Exchange; and
- 6) the Subscription having obtained approvals from SASTIND, SASAC and CSRC.

7. Assessment of the terms of the Share Swap and Absorption and the Subscription

7.1 Historical share performance

In order to assess the fairness and reasonableness of the Exchange Ratio, which is determined by the AVIC Avionics Exchange Price and the AVIC Electromechanical Exchange Price, we have reviewed the closing price performance of the AVIC Avionics A Shares and the AVIC Electromechanical A Shares as quoted on the Shanghai Stock Exchange and the Shenzhen Stock Exchange from 10 June 2021, being the 12 months period prior to the date of the Announcement (“**Announcement Date**”) (the “**Review Period**”). We consider that the Review Period is appropriate as it covers the period of the recent annual and interim financial result publications of AVIC Avionics and AVIC Electromechanical prior to the Announcement Date and represents a reasonable period to provide a general overview of the recent trend of the share prices of both AVIC Avionics and AVIC

Electromechanical. The following chart illustrates the closing price performances of the AVIC Avionics A Shares and the AVIC Electromechanical A Shares during the Review Period, as adjusted for all applicable splits and dividend distributions:



As shown in the chart above, the closing price of the AVIC Avionics A Shares and the AVIC Electromechanical A Shares fluctuated during the Review Period and represent similar trend. During the Review Period, the closing price of the AVIC Avionics A Shares is within the range from RMB14.12 to RMB22.46 with an average price of RMB18.12, while the closing price of the AVIC Electromechanical A Shares is within the range from RMB8.27 to RMB18.13 with an average price of RMB12.51. The exchange prices of AVIC Avionics A Shares and the AVIC Electromechanical A Shares are within their respective price range and close to their respective average price during the Review Period. Based on the above analysis, we consider that the AVIC Avionics Exchange Price and the AVIC Electromechanical Exchange Price are fair and reasonable, given both of them are determined with reference to the average trading price for the same period, being 120 trading days prior to the Price Determination Date.

7.2 Comparable company analysis

In order to assess the fairness and reasonableness of the AVIC Electromechanical Exchange Price and the AVIC Avionics Exchange Price, we have adopted the price-to-earnings multiple (the “P/E Ratio”) analysis and price-to-book multiple (the “P/B Ratio”) analysis, which are the most widely used and accepted methods for valuing a business. We have conducted a comparable analysis through identifying listed companies (i) whose A shares are listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange; (ii) whose 50% or more of the total revenue is generated from the manufacturing and sales of aviation or aviation related parts and products; (iii) which recorded net profit in FY2021; and (iv) with market capitalisation over RMB10 billion as at the Latest Practicable Date given the market capitalisation of AVIC Electromechanical and the AVIC Avionics were approximately RMB47.36 billion and RMB37.43 billion, respectively, as at the Latest Practicable Date. Nine comparable companies (“Comparable Companies”) have been identified based on the

abovementioned criteria, which is an exhaustive list and forms a representative sample to provide us with the recent market sentiment on valuation of the relevant companies. Set out below is the summary of the market capitalisation, P/E Ratio and P/B Ratio of the Comparable Companies:

Stock code	Company name	Market Capitalisation as at the Latest Practicable Date	P/E Ratio ¹	P/B Ratio ²
		(RMB billion)	(times)	(times)
600760.SH	AVIC Shenyang Aircraft Company Limited	130.00	76.67	11.12
600893.SH	AECC Aviation Power Co, Ltd	124.22	104.59	3.29
000768.SZ	AVIC Xi'an aircraft industry Group Company Ltd.	82.59	126.49	5.16
600765.SH	AVIC Heavy Machinery Co., Ltd.	47.97	53.86	4.92
000738.SZ	AECC Aero-Engine Control Co., Ltd.	36.76	75.39	3.37
600038.SH	Avicopter Plc.	26.78	29.32	2.85
600316.SH	Jiangxi Hongdu Aviation Industry Co., Ltd.	18.14	119.78	3.48
300775.SZ	Xi'an Triangle Defense Co., Ltd	20.33	49.30	7.94
688239.SH	Guizhou Aviation Technical Development Co., Ltd.	11.62	83.63	10.44
Minimum			29.32	2.85
Average			79.89	5.84
Maximum			126.49	11.12
600372.SH	AVIC Avionics³	37.43	45.72	3.21
002013.SZ	AVIC Electromechanical⁴	47.36	38.45	3.50

Notes:

1. The P/E Ratios of Comparable Companies are calculated based on their respective market capitalisation on the Latest Practicable Date and net profit attributable to shareholders for FY2021.
2. The P/B Ratios of Comparable Companies are calculated based on their respective market capitalisation on the Latest Practicable Date and net asset value attributable to shareholders as at 30 June 2022.
3. The implied P/E Ratio and the implied P/B Ratio of AVIC Avionics are calculated based on AVIC Avionics Exchange Price of RMB18.94 per share, its net profit attributable to owners for FY2021 and its net asset attributable to owners as at 31 May 2022.
4. The implied P/E Ratio and the implied P/B Ratio of AVIC Electromechanical are calculated based on AVIC Electromechanical Exchange Price of RMB12.59 per share, its net profit attributable to owners for FY2021 and its net asset attributable to owners as at 31 May 2022.

As shown in table above, the P/E Ratios of the Comparable Companies ranged from approximately 29.32 times to approximately 126.49 times, with an average of approximately 79.89 times, and the P/B Ratios of the Comparable Companies ranged from approximately 2.85 times to approximately 11.12 times, with an average of approximately 5.84 times.

Based on the profit attributable to owners of AVIC Avionics for FY2021, the net assets attributable to owners of AVIC Avionics as at 31 May 2022, the total number of issued shares of AVIC Avionics of 1,928,214,265 as at the Latest Practicable Date and the AVIC Avionics Exchange Price of RMB18.94 per share, the implied P/E Ratio of AVIC Avionics would be approximately 45.72 times which falls within the range of the P/E Ratios of the Comparable Companies and below the average P/E Ratio of the Comparable Companies; and the implied P/B Ratio of AVIC Avionics would be approximately 3.21 times which also falls within the range of the P/B Ratios of the Comparable Companies and below the average P/B Ratio of the Comparable Companies.

Based on the profit attributable owners of AVIC Electromechanical for FY2021, the net assets attributable to owners of AVIC Electromechanical as at 31 May 2022, the total number of issued shares of AVIC Electromechanical of 3,884,824,789 as at the Latest Practicable Date and the AVIC Electromechanical Exchange Price of RMB12.59 per share, the implied P/E Ratio of AVIC Electromechanical would be approximately 38.45 times which falls within the range of the P/E Ratios of the Comparable Companies, below the average P/E Ratio of the Comparable Companies and below the implied P/E Ratio of AVIC Avionics; and the implied P/B Ratio of AVIC Electromechanical would be approximately 3.50 times which also falls within the range of the P/B Ratios of the Comparable Companies, below the average P/B Ratio of the Comparable Companies and comparable to the implied P/B Ratio of AVIC Avionics.

Having considered (i) the implied P/E Ratios and the implied P/B Ratios of AVIC Avionics and AVIC Electromechanical fall within the range of Comparable Companies; (ii) the implied P/E Ratio of AVIC Avionics is higher than that of AVIC Electromechanical, which is more favourable to the Group due to a better valuation of AVIC Avionics, being a non-wholly-owned subsidiary of Company, and (iii) the implied P/B Ratio of AVIC Avionics is comparable to that of AVIC Electromechanical, we consider that the AVIC Avionics Exchange Price and the AVIC Electromechanical Exchange Price are fair and reasonable as far as the Independent Shareholders are concerned.

7.3 Comparable precedents analysis

To assess the terms of the Share Swap and Absorption and the Subscription, we have conducted an analysis through identifying companies (i) whose A shares listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange; (ii) which had involved in a merger of another company whose A shares also listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange by similar share swap and absorption arrangements which had not been terminated; and (iii) which announced the subscription of new A shares of the absorbing company together with such share swap and absorption (the “Comparable Precedents”) since 10 June 2020, being two years prior to the Announcement Date and up to the Latest Practicable Date.

Three Comparable Precedents were identified based on the above criteria, which is an exhaustive list and forms a representative sample to provide us with the information on latest market practice and transactions features for the Share Swap and Absorption and the Subscription. Set out below is the summary of the Comparable Precedents.

Date	Absorbing company	Absorbed company	Exchange price of the shares of the absorbing company	Exchange price of the shares of the absorbed company	Appraisal right exercise price	Subscription Price
22/1/24 (Date of the revised proposal)	City Development Environment Co., Ltd. (000885.SZ)	Tus Environmental Science and Technology Development Co., Ltd. (000826.SZ)	Average trading price of the shares for the 120 trading days prior to the price determination date	10% premium over the average trading price of the shares for the 120 trading days prior to the price determination date	Average trading price of the shares for the 120 trading days prior to the price determination date	Shall not be lower than 80% of the average trading price of the shares for the 20 days prior to the price determination date
21/9/3 (Date of the final transaction report)	Wangfujing Group Co., Ltd. (600859.SH)	Beijing Capital Retailing Group Co., Ltd. (600723.SH)	Average trading price of the shares for the 20 trading days prior to the price determination date	20% premium over the average trading price of the shares for the 20 trading days prior to the price determination date	Average trading price of the shares for the 20 trading days prior to the price determination date	Shall not be lower than 80% of the average trading price of the shares for the 20 days prior to the price determination date
21/1/7 (Date of the final transaction report)	Liaoning Port Co., Ltd. (2880.HK/ 601880.SH)	Yingkou Port Liability Co., Ltd (600317.SH)	Average trading price of A shares for the 20 trading days prior to the price determination date	20% premium over the average trading price of the shares for the 20 trading days prior to the price determination date	Average trading price of the shares for the 20 trading days prior to the price determination date	Shall not be lower than 80% of the average trading price of the A shares for the 20 days prior to the price determination date

7.3.1 Exchange price of the shares of the absorbing company

As shown in the table above, the exchange price of the absorbing company in one of the Comparable Precedents was set as the average trading price of the shares for the 120 days prior to the price determination date, and the exchange price of the shares of the absorbing company in two out of three of the Comparable Precedents was set as the average trading price of the shares for the 20 days prior to the price determination date. Therefore, we consider the AVIC Avionics Exchange Price, which will be determined with reference to the average trading price for the same period as that to determine the AVIC Electromechanical Exchange Price, is in line with the market practice, fair and reasonable.

7.3.2 Exchange price of the shares of the absorbed company

As shown in the table above, the exchange price of the shares of the absorbed company in one of the Comparable Precedents was set as at premium over the average trading price of the shares for the 120 days prior to the price determination date; the exchange price of the shares of the absorbed company in two out of three of the Comparable Precedents was set as at a premium over the average trading price of the shares of the absorbed company for the 20 days prior to the price determination date; and in each of the Comparable Precedents, the period for calculating the average trading price to determine the exchange price of the shares of the absorbing company and the absorbed company are the same. Therefore, we consider the AVIC Electromechanical Exchange Price, which will be determined with reference to the average trading price for the same period as that to determine the AVIC Avionics Exchange Price but with no premium, is fair and reasonable and on better commercial terms as far as the Independent Shareholders are concerned.

7.3.3 Appraisal right exercise price

As shown in the table above, the appraisal right exercise price in one of the Comparable Precedents is set as the average trading price of the shares for the 120 trading days prior to the price determination date; the appraisal right exercise price in two out of three of the Comparable Precedents is set as the average trading price for the 20 trading days of the listed company prior to the price determination date; and in each of the Comparable Precedents, the period for calculating the average trading price to determine the appraisal right exercise price of the absorbing company and the absorbed company are the same. In addition, we noted that in all of the Comparable Precedents, the exchange prices of the shares of the absorbing companies are the same as the appraisal right exercise prices to the shareholders of the absorbing companies, while the exchange prices of the shares of the absorbed companies represent a premium of 10% to 20% over the appraisal right exercise prices to the shareholders of the absorbed companies. Given that (i) the Company provides Opposing AVIC Avionics Shareholders and the Opposing AVIC Electromechanical Shareholders a cash out opportunity as in the Comparable Precedents; (ii) the AVIC Avionics Appraisal Right Exercise Price and the AVIC Electromechanical Appraisal Right Exercise Price are both determined with reference to the average trading price for the same period of time; (iii) AVIC Avionics Exchange Price represents a premium of 3.38% over the AVIC Avionics Appraisal Right Exercise Price, which is within the premium range of 0 to 20% in the Comparable Precedents;

and (iv) AVIC Electromechanical Exchange Price represents a premium of 21.88% over the AVIC Electromechanical Appraisal Right Exercise Price, which is merely slightly higher than the premium range in the Comparable Precedents, while both the AVIC Electromechanical Exchange Price and the AVIC Electromechanical Appraisal Right Exercise Price are determined with reference to the historical average trading price of AVIC Electromechanical A Shares, we consider that the AVIC Avionics Appraisal Right Exercise Price and the AVIC Electromechanical Appraisal Right Exercise Price are in line with the market practice, fair and reasonable so far as the Independent Shareholders are concerned.

7.3.4 Subscription price

As shown in the table above, the subscription price in all of the Comparable Precedents was set as not lower than 80% of the average trading price of the shares for the 20 days prior to the price determination date.

Given the Subscription Price determination mechanism (i) is in line with recent market practice; (ii) complies with the relevant laws and regulations in the PRC, and (iii) will take into account the price quotation provided by the Subscribers during the price consultation process, and the Subscription Price will be the same for all Subscribers, no matter AVIC Subscribers or independent Subscribers, we concur with the Board that the Subscription Price is fair and reasonable.

8. Effects on the shareholding structure of AVIC Avionics

Assuming: (i) no Opposing AVIC Avionics Shareholders and Opposing AVIC Electromechanical Shareholders have exercised their Appraisal Rights; (ii) the Subscription Price is RMB18.32 per share (being the average trading price of AVIC Avionics A Shares for the 20 trading days prior to the price determination date of the Subscription adjusted with ex-rights and ex-dividend events); and (iii) the proceeds from the Subscription is RMB5,000 million, of which the total subscription amount of the AVIC Subscribers is RMB1.16 billion, upon completion of the Share Swap and Absorption, the shareholding the Company in AVIC Avionics would reduce from 39.43% to 16.86%, while the shareholding of public shareholders in AVIC Avionics would increase from 33.62% to 41.87%; and after the completion to the Share Swap and Absorption and the Subscription, the shareholding the Company in AVIC Avionics would reduce further to 16.47% while the shareholding of public shareholders in AVIC Avionics would increase further to 43.86%. For further details in this regard, please refer to the section headed "H. EFFECT OF THE SHARE SWAP AND ABSORPTION AND THE SUBSCRIPTION ON THE SHAREHOLDING STRUCTURE OF AVIC AVIONICS" in the Letter from the Board.

9. Financial effects of the Share Swap and Absorption and the Subscription on the Group

After completion of the Share Swap and Absorption and the Subscription and the Entrusted Voting Arrangement becoming effective, the Company will be able to exercise approximately 47.54% voting right in AVIC Avionics. AVIC Avionics will continue to be a subsidiary of the Company and consolidated in the consolidated financial statements of the Company.

Set out below the financial effects of the Share Swap and Absorption and the Subscription on the Group based on the unaudited pro forma financial information of the Enlarged Group, as set out in the Appendix V to the Circular, which has been prepared for illustration purposes and because of its hypothetical nature, may not give a true picture of the financial position or results of the Group had the Share Swap and Absorption and the Subscription been completed as at the specified dates or any future date.

9.1 *Effects on earnings*

For FY2021, the Group recorded net profit attributable to owners of approximately RMB2.37 billion and earnings per Share of approximately RMB0.307. Based on Appendix V to the Circular, the net profit attributable to owners of the Enlarged Group would be approximately RMB2.44 billion, representing an increase of approximately 2.78% as compared to the net profit attributable to owners of the Group for FY2021, and earnings per Share would be approximately RMB0.316.

9.2 *Effects on net assets*

As at 30 June 2022, the Group had net assets attributable to owners approximately RMB27.14 billion, with net assets per Share of approximately RMB3.520. Based on the Appendix V to the Circular, the net assets attributable to owners of the Enlarged Group would be approximately RMB26.52 billion, representing a decrease of approximately 2.28% as compared to the net assets attributable to owners of the Group as at 30 June 2022; and net assets per Share would be approximately RMB3.439.

9.3 *Effects on liabilities*

As at 30 June 2022, the Group had total liabilities of approximately RMB78.29 billion. Based on the Appendix V to the Circular, the total liabilities of the Enlarged Group would be approximately RMB94.39 billion, representing an increase of approximately 20.57% as compared to the total liabilities of the Group as at 30 June 2022.

9.4 *Effects on monetary funds and working capital*

As at 30 June 2022, the Group had monetary funds of approximately RMB16.02 billion and working capital of approximately RMB36.58 billion. The total consideration of the Subscription of AVIC Avionics A Shares by the Company is RMB500 million, representing approximately 3.12% of the monetary funds of the Group as at 30 June 2022. Based on the Appendix V to the Circular, the monetary funds of the Enlarged Group would be approximately RMB26.41 billion, representing an increase of approximately 64.87% as compared to the monetary funds of the Group as at 30 June 2022; and the working capital of the Enlarged Group would be approximately RMB49.12 billion, representing an increase of approximately 34.29% as compared to the working capital of the Group as at 30 June 2022.

Based on the above, we are of the view that the Share Swap and Absorption and the Subscription have overall positive financial effects on the Group and are in the interest of the Independent Shareholders.

OPINION AND RECOMMENDATION

Taking into account of the above factors and reasons, we are of the view that (i) the terms of the Share Swap and Absorption Agreement and the Subscription Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Share Swap and Absorption and the Subscription, though not in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Share Swap and Absorption and the Subscription.

Yours faithfully,
For and on behalf of
Maxa Capital Limited



Dian Deng
Managing Director

Ms. Dian Deng is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has over 14 years of experience in the corporate finance industry.