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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in AVIC International Holding (HK) Limited (the “Company”), you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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AVIC International Holding (HK) Limited
中國航空工業國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF SPECIAL GENERAL MEETING**

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



A notice convening the special general meeting (the “SGM”) of the Company to be held at Forum Room 1, Basement 2, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, 13 March 2020 at 3 p.m. is set out on pages 31 to 32 of this circular. A form of proxy for use at the SGM is also enclosed with this circular.

A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 13 to 14 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 27 of this circular.

Whether or not you are able to attend the SGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for holding the SGM (i.e. Wednesday, 11 March 2020 at 3 p.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude Shareholders from attending and voting in person at the SGM or any adjournment thereof if they so wish.

19 February 2020

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“associates”	has the meaning ascribed to it under the Listing Rules
“Aviation Industry”	Aviation Industry Corporation of China, Ltd. (中國航空工業集團有限公司), a company established in the PRC and holds 91.14% of the equity interest in AVIC International as at the date of this circular, a controlling shareholder (as defined in the Listing Rules) of the Company
“AVIC International”	AVIC International Holding Corporation (中國航空技術國際控股有限公司), a company incorporated with limited liability in the PRC and indirectly owns as to 46.40% of the entire issued share capital of the Company
“Board”	the board of Directors
“Company”	AVIC International Holding (HK) Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 232)
“Continental Aerospace”	Continental Aerospace Technologies, Inc., a subsidiary of the Company in the United States of America
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“First Sale Framework Agreement”	the agreement dated 17 January 2020 and entered into between the Company and Aviation Industry in relation to sale of engines and engine parts to Aviation Industry and/or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul for a term from 17 January 2020 to 31 March 2020
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders on the Second Sale Framework Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders on the Second Sale Framework Agreement and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) other than Aviation Industry, its respective associates and all other Shareholders who are interested in the Second Sale Framework Agreement and the transactions contemplated thereunder
“Latest Practicable Date”	14 February 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“OEM”	original equipment manufacturer
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Proposed Annual Cap(s)”	the annual cap amount in respect of the sale of engines, engine parts and related services to Aviation Industry and/or its associates by the Group for the period commencing on 17 January 2020 and ending on 31 December 2020 and the year ending 31 December 2021
“SASAC”	the PRC State-owned Assets Supervision and Administration Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Second Sale Framework Agreement”	the agreement dated 22 January 2020 and entered into between the Company and Aviation Industry in relation to sale of engines and engine parts to Aviation Industry and/ or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul for a term from 1 April 2020 to 31 December 2021
“SGM”	the special general meeting of the Company to be convened and held on Friday, 13 March 2020 at 3 p.m. for the Independent Shareholders to consider and, if thought fit, approve, among other things, the Second Sale Framework Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued capital of the Company
“Shareholder(s)”	holder(s) of issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD



AVIC International Holding (HK) Limited
中國航空工業國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)

Executive Directors:

Mr. Lai Weixuan (*Chairman*)
Mr. Fu Fangxing
Mr. Yu Xiaodong
Mr. Zhang Zhibiao
Mr. Zhao Yang (*Chief Executive Officer*)

Non-executive Director:

Mr. Chow Wai Kam

Independent non-executive Directors:

Mr. Chu Yu Lin, David
Mr. Li Ka Fai, David
Mr. Zhang Ping

Registered office:

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

*Head office and principal place of
business in Hong Kong:*

Unit A, 20/F
Tower 2, Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

19 February 2020

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

References are made to the announcements of the Company dated 17 January 2020 and 22 January 2020 in respect of the First Sale Framework Agreement, the Second Sale Framework Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

On 17 January 2020, the Company entered into the First Sale Framework Agreement with Aviation Industry, pursuant to which the Group has agreed to sell engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul for a term from 17 January 2020 to 31 March 2020.

On 22 January 2020, the Company entered into the Second Sale Framework Agreement with Aviation Industry, pursuant to which the Group will continue to sell engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul for a term from 1 April 2020 to 31 December 2021. The terms of the Second Sale Framework Agreement are substantially the same as the First Sale Framework Agreement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Second Sale Framework Agreement and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Second Sale Framework Agreement and the transactions contemplated thereunder; and (iv) a notice of the SGM.

THE SECOND SALE FRAMEWORK AGREEMENT

Principal terms of the Second Sale Framework Agreement

Date:	22 January 2020
Parties:	Aviation Industry and the Company
Subject:	The Group will sell engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul
Term:	From 1 April 2020 up to 31 December 2021
Pricing:	To be determined on a fair and reasonable basis based on the negotiated price, product specifications, configurations, competitiveness and general market conditions with the pricing provided based on factors including, but not limited to, volume levels, strategic relationship and new product introduction strategies

LETTER FROM THE BOARD

- Payment: Specific payment terms are to be agreed between the parties by entering into specific agreements periodically consistent with general terms and conditions of payment in US dollars and terms not to exceed 45 days from invoice date
- Conditions precedent: The Second Sale Framework Agreement is conditional upon:
- (a) the due execution of the Second Sale Framework Agreement by the Company and Aviation Industry; and
 - (b) the Second Sale Framework Agreement and the transactions contemplated thereunder having been approved by the Board and having obtained all necessary authorisations and approvals (including, if necessary, approval from Independent Shareholders at the SGM) from the Stock Exchange and other relevant laws, regulations and rules (including the Listing Rules).

Annual caps and basis of determination

The Group has been selling engines, engine parts and related services for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul to Aviation Industry and/or its associates (excluding the Group). The actual historical transaction amounts for such sales to Aviation Industry and/or its associates for each of the three financial years ended 31 December 2019 are as follows:

	For the year ended 31 December		
	2017	2018	2019
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Actual historical transaction amount	19.5	22.7	23.9

LETTER FROM THE BOARD

When assessing the Proposed Annual Caps, the Company has aggregated the estimated transaction amounts under the First Sale Framework Agreement and the Second Sale Framework Agreement. The proposed annual cap amount for the sale of engine, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) under the First Sale Framework Agreement shall not exceed US\$8.5 million. It is proposed that the annual cap amount for the sale of engine, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) for each of the period commencing on 17 January 2020 and ending on 31 December 2020 and the financial year ending 31 December 2021 respectively shall not exceed the following:

	For the period commencing on 17 January 2020 and ending on 31 December 2020 US\$ million	For the year ending 31 December 2021 US\$ million
Proposed Annual Caps	28.0	29.0

Note: Amount for the year ending 31 December 2020 includes the transactions under the First Sale Framework Agreement.

The above Proposed Annual Caps were determined mainly by reference to: (i) the actual historical transaction amount for the three financial years ended 31 December 2019; (ii) the estimated amount of engines, engine parts and related services to be purchased by Aviation Industry and/or its associates (excluding the Group) for the period commencing on 17 January 2020 and ending on 31 December 2020 and the financial year ending 31 December 2021; and (iii) an adequate buffer for a potential increase in demand by Aviation Industry and/or its associates (excluding the Group).

LETTER FROM THE BOARD

Pricing of products and control mechanism of the Company

The products to be sold by the Group to Aviation Industry and/or its associates are mainly OEM engines and related parts and services. Therefore, the products are usually unique in nature and involve different specifications and configurations. When determining the selling prices of the products, the same policy is adopted for the products to be sold by the Group to Aviation Industry and/or its associates and similar OEM independent third party customers. The process for determining the prices of the products are governed under the standard operating process for pricing of products of Continental Aerospace. This pricing policy is specific in how the pricing for all customers is determined. It makes reference to a number of factors, including a negotiated price for different products, the specifications and configurations of the products to be sold, the competitiveness of the Group in producing such products and the then market conditions. In addition, the level of pricing is also determined after taking into account, among other things, purchase volume, strategic relationship and new product introduction strategies.

When determining the selling prices of the OEM products, the Group will first understand from the customer the nature, type of the products and any incumbent competitors. An initial price list or individual prices by part number will be set with market alignment. The price lists of the products will be reviewed and set based on several factors such as, but not limited to, the specifications and configurations of the products, the complexity of producing the products and the estimated cost to produce such products with the required specifications and configurations. The Group will also consider the then market conditions and the Group's competitiveness (such as experience, capabilities, costs and efficiency). Further pricing considerations may also be given to individual customers with reference to the factors mentioned above, including, among other things, purchase volume, strategic relationship and new product introduction strategies. The prices are then approved in accordance with the pricing administration policy, including approvals from the director of business development, relevant sales director and vice president of sales of Continental Aerospace. Cost accounting department is informed of all the increases in price as an additional check. Related party pricing (including connected persons of the Company) also has additional mandated approvals by the director of business development, relevant director of sales, vice president of sales, the chief financial officer or global controller of Continental Aerospace, and shall be reported to the company secretary of the Company.

The Group has formulated internal control measures and procedures in order to ensure the pricing mechanism and the terms of the transactions under the Second Sale Framework Agreement are fair and reasonable and no less favourable to the Company than the terms available to or from independent third parties, and in the interest of the Company and its Shareholders as a whole. A control mechanism to segregate duties to notify and review connected transactions has been set up within the Group. Connected transaction report is required to be submitted to the company secretary and financial department of the Company monthly. All selling prices and price lists of the products are analysed and reviewed annually and documented approval of all pricing is required by the director of business development, the relevant sales director and vice president of sales of Continental Aerospace.

LETTER FROM THE BOARD

Continental Aerospace, a subsidiary of the Company in the United States of America engaging in the transactions contemplated under the Second Sale Framework Agreement, has adopted internal control procedures in relation to the transactions with customers, including transactions with Aviation Industry and/or its associates. Based on the standard procedures which have been approved by the global director of business development of Continental Aerospace for setting prices for products and services sold, among others,

- (i) all pricing is analysed and reviewed annually. Documented approval of all pricing is required by the director of business development, the relevant sales director and vice president of sales of Continental Aerospace;
- (ii) negotiated discounts and/or indexed based increases are allowed based on a customer-by-customer case and business development evaluation. All discounts and/or indexed based increases must be approved by the director of business development, the relevant sales director or vice president of sales for annual pricing updates; and
- (iii) all customers determined to be a related party (including connected persons of the Company) must be approved by the director of business development, relevant director of sales, vice president of sales, the chief financial officer or global controller. Related party pricing (including connected persons of the Company) shall follow standard pricing guidelines outlined in the procedures.

Further, the Company will comply with all relevant requirements under the Listing Rules which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the transactions contemplated under the Second Sale Framework Agreement.

Reasons for and benefits of the Second Sale Framework Agreement

The Group has been selling engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group), such as Cirrus Design Corporation, for use in new aircraft manufacture and for the sale of parts into the aftermarket for maintenance, repair and overhaul and will continue to do so on an ongoing basis. Such transactions are conducted in the ordinary and usual course of business of the Group and agreed on an arm's length basis with terms that are fair and reasonable to the Company. Cirrus Design Corporation, which is indirectly owned as to 70% by Aviation Industry, is the world's largest producer of piston-powered aircraft located in the United States of America. Also, with the growth in the PRC general aviation industry in recent years and the intentions of the PRC government in encouraging the development of such industry, the Company shall continue to seize the potential business opportunities available in such industry and benefit from the industrial development in future years. The Company considers it is in its best interest to continue the business relationship between the Group and Aviation Industry and/or its associates, provided that such parties shall purchase from the Group at prices comparable to market prices and are considered to be fair and reasonable to the Group. The Company therefore extended the term and entered into the Second Sale Framework Agreement further to the First Sale Framework Agreement with Aviation Industry to govern such sales.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors after considering the advice from the Independent Financial Adviser) consider that the Second Sale Framework Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the Second Sale Framework Agreement and its Proposed Annual Caps are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

INFORMATION OF THE GROUP

The Company is a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 232). The Group is principally engaged in the general aviation aircraft piston engine business.

INFORMATION OF AVIATION INDUSTRY

Aviation Industry is established in the PRC and is wholly-owned by SASAC. Aviation Industry's core businesses consist of defense, transport aircraft, helicopter, avionics and systems, general aviation, aviation research and development, flight testing, trade and logistics, assets management, finance services, engineering and construction, automobile etc.

LISTING RULES IMPLICATIONS

As Aviation Industry and its associates are connected persons of the Company under Chapter 14A of the Listing Rules, the Second Sale Framework Agreement constitute continuing connected transactions on the part of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.81 of the Listing Rules, the transaction contemplated under the Second Sale Framework Agreement is required to be aggregated with the transactions under the First Sale Framework Agreement. As the Proposed Annual Caps exceed HK\$10,000,000 and one or more of the relevant applicable percentage ratios calculated under Rule 14.07 of the Listing Rules exceeds 5%, the Second Sale Framework Agreement constitutes non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and is therefore subject to reporting, announcement and independent shareholders' approval requirements.

As (i) Mr. Lai Weixuan is the director of AVIC International, (ii) Mr. Fu Fangxing, Mr. Zhang Zhibiao, Mr. Yu Xiaodong and Mr. Zhao Yang are directors of subsidiaries of AVIC International, each of Mr. Lai Weixuan, Mr. Fu Fangxing, Mr. Zhang Zhibiao, Mr. Yu Xiaodong and Mr. Zhao Yang had abstained from voting on the resolutions at the meeting of the Board for approving the Second Sale Framework Agreement.

LETTER FROM THE BOARD

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders as to whether the Second Sale Framework Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole, and as to how to vote on the proposed resolution to approve the Second Sale Framework Agreement and the transactions contemplated thereunder at the SGM. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

SGM

The notice convening the SGM is set out on pages 31 to 32 of this circular. The SGM will be convened and held at Forum Room 1, Basement 2, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, 13 March 2020 at 3 p.m. for the Independent Shareholders to consider and, if thought fit, pass the resolution to approve, among others, the Second Sale Framework Agreement and the transactions contemplated thereunder. The voting at the SGM will be taken by way of poll.

In view of the interests of Aviation Industry in the Second Sale Framework Agreement, Aviation Industry and its associates will be required to abstain from voting in relation to the Second Sale Framework Agreement and the transactions contemplated thereunder at the SGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, save and except Aviation Industry and its associates, no other Shareholder has a material interest in the Second Sale Framework Agreement, therefore, no other Shareholder will be required to abstain from voting at the SGM.

Whether or not you are able to attend the SGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for holding the SGM (i.e. Wednesday, 11 March 2020 at 3 p.m. (Hong Kong time)) or any adjournment thereof. Completion and return of the enclosed form of proxy will not preclude Shareholders from attending and voting in person at the SGM or any adjournment thereof if they so wish.

LETTER FROM THE BOARD

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 13 to 14 of the circular. The Independent Board Committee, having taken into account the advice from the Independent Financial Adviser, the text of which is set out on pages 15 to 27 of this circular, considers that the Second Sale Framework Agreement were entered into on normal commercial terms following arm's length negotiations between the parties thereto and in the ordinary and usual course of business of the Group, and that the terms of the Second Sale Framework Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Second Sale Framework Agreement and the transactions contemplated thereunder.

The Board considers that the Second Sale Framework Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its Shareholders as a whole and therefore recommends that the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM.

ADDITIONAL INFORMATION

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

For and on behalf of the Board
AVIC International Holding (HK) Limited
Lai Weixuan
Chairman



AVIC International Holding (HK) Limited
中國航空工業國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)

19 February 2020

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 19 February 2020 (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee to consider the Second Sale Framework Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to whether the Second Sale Framework Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole, and as to how the Independent Shareholders should vote on the proposed resolution to approve the Second Sale Framework Agreement and the transactions contemplated thereunder at the SGM. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. Details of the letter of advice from the Independent Financial Adviser, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 15 to 27 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 12 of the Circular and the additional information set out in the Appendix to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the Second Sale Framework Agreement and the transactions contemplated thereunder, and the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we consider that the Second Sale Framework Agreement were entered into on normal commercial terms following arm's length negotiations between the parties thereto and in the ordinary and usual course of business of the Group, and that the terms of the Second Sale Framework Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution at the SGM to approve the Second Sale Framework Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Mr. Chu Yu Lin, David
*Independent non-executive
Director*

Mr. Li Ka Fai, David
*Independent non-executive
Director*

Mr. Zhang Ping
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

19 February 2020

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Second Sale Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps). Details of the Second Sale Framework Agreement are set out in the circular of the Company dated 19 February 2020 (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.

On 22 January 2020, the Company entered into the Second Sale Framework Agreement with Aviation Industry, pursuant to which the Group will continue to sell engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) for use in new aircraft manufacture and for the sale of parts into the aftermarket for maintenance, repair and overhaul for a term from 1 April 2020 to 31 December 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As Aviation Industry and its associates are connected persons of the Company under Chapter 14A of the Listing Rules, the Second Sale Framework Agreement constitutes continuing connected transactions on the part of the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.81 of the Listing Rules, the transactions contemplated under the Second Sale Framework Agreement are required to be aggregated with the transactions contemplated under the First Sale Framework Agreement. As the Proposed Annual Caps exceed HK\$10,000,000 and one or more of the relevant applicable percentage ratios calculated under Rule 14.07 of the Listing Rules exceed 5%, the transactions contemplated under the Second Sale Framework Agreement constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are therefore subject to reporting, announcement and independent shareholders' approval requirements. Aviation Industry and its associates will be required to abstain from voting in relation to the resolutions to approve the Second Sale Framework Agreement at the SGM.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Zhang Ping, has been established to advise the Independent Shareholders in respect of the Second Sale Framework Agreement and on how they should vote at the SGM. We, Somerley Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, Somerley Capital Limited does not have any relationships or interests with the Company that could reasonably be regarded as a hindrance to the independence of Somerley Capital Limited as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Second Sale Framework Agreement. In the past two years, except for the independent financial adviser engagements in relation to (i) the very substantial acquisition and connected transaction regarding the acquisition of general aviation aircraft piston engines business, the continuing connected transactions, and the application for whitewash waiver, details of which were set out in the circular of the Company dated 29 December 2017; (ii) the very substantial disposal and connected transaction regarding the disposal of property development and investment business, details of which were set out in the announcement of the Company dated 1 October 2018; and (iii) the revision of annual cap and renewal of continuing connected transactions, details of which were set out in the circular of the Company dated 5 December 2019, there has been no other engagement between the Group and Somerley Capital Limited. We do not consider that the past engagements as independent financial adviser give rise to any conflict for Somerley Capital Limited to act as the independent financial adviser in respect of the Second Sale Framework Agreement. Apart from normal professional fees paid in respect of the past engagements or payable to us in connection with this appointment as the independent financial adviser in respect of the Second Sale Framework Agreement, no arrangement exists whereby we will receive any fees or benefits from the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group (the “**Management**”), and have assumed that they are true, accurate and complete in all material aspects at the time they were made and will remain so up to the time of the SGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us, and no material facts have been omitted or withheld from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our opinion and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Group and Aviation Industry and its associates, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background to and reasons for the Second Sale Framework Agreement

As set out in the 2019 interim report of the Company, the Group is principally engaged in design, development and production of general aviation aircraft piston engines and spare parts as well as the provision of aftermarket services and support for piston engines. The Group sells products to different customers around the world and its major operations are in the United States of America (the “**USA**”) with over 70% of the Group’s revenue generated in the USA. Continental Aerospace is one of the Group’s key subsidiaries located and operating in the USA.

As disclosed in the “Letter from the Board” contained in the Circular, the Group has been selling engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group), such as Cirrus Design Corporation (“**Cirrus**”), for use in new aircraft manufacture and for the sale of parts into the aftermarket for maintenance, repair and overhaul. Cirrus, which is indirectly owned as to 70% by Aviation Industry, has been a customer of Continental Aerospace since 1984. It is the world’s largest producer of piston-powered aircraft located in the USA. As such, the Management is of the view that such transactions are conducted in the ordinary and usual course of business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand from the Management that the Group has maintained good business relationship with Cirrus with no major disputes in the past few years. The Management considers that the past transactions between the Group and Cirrus were conducted under fair and reasonable terms and it is appropriate to continue the business relationship with Aviation Industry and/or its associates so as to maintain a stable revenue stream of the Group. In view of the time needed to obtain the Shareholders' approval of the continuing connected transactions with Aviation Industry and/or its associates, the Company therefore entered into the First Sale Framework Agreement with Aviation Industry on 17 January 2020 to govern such sales up to 31 March 2020. The Management has further discussed and agreed with Aviation Industry that the relevant transactions contemplated under the First Sale Framework Agreement would continue until 31 December 2021 and hence the Second Sale Framework Agreement was entered into between the Company and Aviation Industry.

In view of the above and given that (i) the Group is principally engaged in the manufacture of engines and engine components; and (ii) the Group has been conducting transactions with Aviation Industry and/or its associates over the past few years and the Second Sale Framework Agreement represents a continuation of such business relationship, we concur with the Management's view that the entering into of the Second Sale Framework Agreement is in the interests of the Company and the Shareholders as a whole, and consider that the transactions under the Second Sale Framework Agreement are in the ordinary and usual course of business of the Group.

2. Principal terms of the Second Sale Framework Agreement

Set out below is a summary of details of the Second Sale Framework Agreement. Further details of the Second Sale Framework Agreement are set out in the "Letter from the Board" contained in the Circular.

Date:	22 January 2020
Parties:	Aviation Industry and the Company
Subject:	The Group will sell engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group) for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul
Term:	From 1 April 2020 up to 31 December 2021

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Pricing: To be determined on a fair and reasonable basis based on the negotiated price, product specifications, configurations, competitiveness and general market conditions with the pricing provided based on factors including, but not limited to, volume levels, strategic relationship and new product introduction strategies
- Payment: Specific payment terms are to be agreed between the parties by entering into specific agreements periodically consistent with general terms and conditions of payment in United States dollars and terms not to exceed 45 days from invoice date

As disclosed in the “Letter from the Board” contained in the Circular, the terms of the Second Sale Framework Agreement, including the pricing terms and payment terms, are substantially the same as the First Sale Framework Agreement.

Assessment of the terms of the Second Sale Framework Agreement

As regards the pricing terms above, we are advised by the Management that since the products to be sold by the Group to Aviation Industry and/or its associates are mainly engines and related parts and services to be produced as an original equipment manufacturer (“OEM”), the products are usually unique in nature and involve different specifications and configurations. When determining the selling prices of the products, the same policy is adopted for the products to be sold by the Group to Aviation Industry and/or its associates and similar OEM independent third party customers. The process for determining the prices of the products are governed under the standard operating process for pricing of products of Continental Aerospace. This pricing policy is specific in how the pricing for all customers is determined. The pricing makes reference to a number of factors, including a negotiated price for different products, the specifications and configurations of the products to be sold, the competitiveness of the Group in producing such products and the then market conditions. In addition, the level of pricing is also determined after taking into account, among other things, purchase volume, strategic relationship and new product introduction strategies.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand from the Management that when determining the selling prices of the OEM products, the Group will first understand from the customer the nature, type of the products and any incumbent competitors. An initial price list or individual prices by part number will be set with market alignment. The pricing will be based on several factors such as, but not limited to, the specifications and configurations of the products, the complexity of producing the products and the estimated cost to produce such products with the required specifications and configurations. The Group will also consider the then market conditions and the Group's competitiveness (such as experience, capabilities, cost and efficiency). Further pricing considerations may also be given to individual customers with reference to the factors mentioned above, including, among other things, purchase volume, strategic relationship and new product introduction strategies. The prices are then approved in accordance with the pricing administration policy, including approvals from the director of business development, relevant sales director and vice president of sales of Continental Aerospace. Cost accounting department is informed of all the increases in price as an additional check. Connected party pricing also has additional approvals by the director of business development, relevant director of sales, vice president of sales, the chief financial officer or global controller of Continental Aerospace, and shall be reported to the company secretary of the Company.

We have reviewed transaction agreements and internal documentations in relation to the price determination procedures for transactions between the Group with Cirrus and two independent third party customers who also placed OEM sales orders to the Group for engines and parts. Based on our review of the abovementioned documents and our discussion with the Management, we noted that the Group adopted a consistent approach as set out above with same set of procedures, and has taken into consideration the same set of factors, including but not limited to, product specifications, volume levels, competitiveness and strategic relationships, when determining the selling prices of the OEM products for Cirrus and the two independent third party customers.

In respect of payment terms, we understand from the Management that specific payment terms will be agreed with Aviation Industry and/or its associates in the specific agreement, but in any event will be consistent with general terms and conditions of payment in US dollars and terms not to exceed 45 days from invoice date. We have reviewed agreements between the Group and Cirrus and the aforesaid two independent third party customers and noted that the payment terms offered to Cirrus are consistent with the aforesaid payment terms, and are generally comparable to that offered to those independent third party customers.

In view of the above, we are of the view that the pricing and payments terms of the Second Sale Framework Agreement are on normal commercial terms, and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Internal control measures regarding the transactions contemplated under the Second Sale Framework Agreement

As disclosed in the “Letter from the Board” contained in the Circular, the Group has formulated internal control measures and procedures in order to ensure the pricing mechanism and the terms of the transactions under the Second Sale Framework Agreement are fair and reasonable and no less favourable to the Company than the terms available to or from independent third parties, and in the interest of the Company and its Shareholders as a whole. A control mechanism to segregate duties to notify and review connected transactions has been set up within the Group. Connected transaction report is required to be submitted to the company secretary and financial department of the Company monthly. All selling prices and price lists of the products are analysed and reviewed annually and documented approval of all pricing is required by the director of business development, relevant sales director and vice president of sales of Continental Aerospace with further details set out below.

Continental Aerospace, a subsidiary of the Company in the USA engaging in the transactions contemplated under the Second Sale Framework Agreement, has adopted internal control procedures in relation to the transactions with customers, including transactions with Aviation Industry and/or its associates. Based on the discussion with the Management and the standard procedures which have been approved by the global director of business development of Continental Aerospace for setting prices for products and services sold, among others,

- (i) all pricing is analysed and reviewed annually. Documented approval of all pricing is required by the relevant sales director and vice president of sales;
- (ii) negotiated discounts and/or indexed based increases are allowed based on a customer-by-customer case and business development evaluation. All discounts and/or indexed based increases must be approved by the director of business development, the relevant sales director or vice president of sales for annual pricing updates; and
- (iii) all customers determined to be a related party (including connected persons of the Company) must be approved by the director of business development, relevant director of sales, vice president of sales, the chief financial officer or global controller. Related party pricing (including connected persons of the Company) shall follow standard pricing guidelines outlined in the procedures.

We have discussed with, and reviewed sample documents obtained from the Company, including the monthly report on connected transactions and review of selling prices, in respect of transactions with Aviation Industry and/or its associates conducted in 2019. Based on the review of sample documents of the above transactions, we noted that the pricing terms of those transactions were properly approved by relevant level of management as stated in the procedures above.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Furthermore, we understand from the Management that the Company would enhance the existing pricing policies in governing the transactions contemplated under the Second Sale Framework Agreement. We have discussed with the Management and noted that additional pricing and approval procedures will be in place, including that:

- (i) the pricing is further reviewed and approved by the director of business development;
- (ii) cost accounting department will be informed of all price increases as an additional check; and
- (iii) related party pricing (including connected persons of the Company) shall be reported to the company secretary of the Company.

The overall internal control measures provide reasonable assurance that the transactions contemplated under the Second Sale Framework Agreement are governed with approval from relevant management level and hence are appropriate in safeguarding the interests of the Company in this regard by ensuring the pricing of the relevant transactions are fair and reasonable and on normal commercial terms.

4. Review of the continuing connected transactions by auditors

The auditors of the Company have performed a review of the continuing connected transactions of the Group, including, among other things, the transactions contemplated under the sale framework agreement dated 24 October 2017 for the year ended 31 December 2018 (the “**Past Transactions**”). We noted from the 2018 annual report of the Company that the auditors were engaged to report in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, and with reference to *Practice Note 740 Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing the findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules.

Based on the analysis in this letter above, the auditors’ review of the Past Transactions and the obligations of the Directors to comply with the Listing Rules to conduct the continuing connected transactions on normal commercial terms, we consider that the continuing connected transactions are being conducted on normal commercial terms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. The proposed annual caps

The Group has been selling engines and engine parts for use in new aircraft manufacture and the sale of parts into the aftermarket for maintenance, repair and overhaul to Aviation Industry and/or its associates (excluding the Group). Set out below are (i) the historical transaction amounts for such sales to Aviation Industry and/or its associates for each of the three financial years ended 31 December 2017, 2018 and 2019; and (ii) the Proposed Annual Caps.

	Actual transaction amounts <i>(Note 1)</i>			Proposed Annual Caps	
<i>(US\$ million)</i>	For the year ended 31 December			For the period commencing on 17 January 2020 and ending on 31 December 2020	For the year ending 31 December 2021
	2017	2018	2019	2020	2021
Sale of engines, engine parts and related services to Aviation Industry and/or its associates (excluding the Group)	19.5	22.7	23.9	28.0 <i>(Note 2)</i>	29.0

Notes:

1. The above transactions constituted continuing connected transactions of the Company since the completion of the very substantial acquisition of Motto Investment Limited in February 2018.
2. Amount for the period commencing on 17 January 2020 and ending on 31 December 2020 includes the transactions under the First Sale Framework Agreement.

As disclosed in the “Letter from the Board” contained in the Circular, when assessing the Proposed Annual Caps, the Company has aggregated the estimated transaction amounts under the First Sale Framework Agreement and the Second Sale Framework Agreement. The Proposed Annual Caps were determined mainly with reference to (i) the actual historical transaction amount for each of the three financial years ended 31 December 2017, 2018 and 2019; (ii) the estimated amount of engines, engine parts and related services to be purchased by Aviation Industry and/or its associates (excluding the Group) for the period commencing on 17 January 2020 and ending on 31 December 2020 and the financial year ending 31 December 2021; and (iii) an adequate buffer for a potential increase in demand by Aviation Industry and/or its associates (excluding the Group).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have further discussed with the Management the basis of determining the Proposed Annual Caps and obtained and reviewed the calculation of the Proposed Annual Caps. When determining the Proposed Annual Caps, the Management has first considered the estimated sales amounts, comprising the estimated amount of sales of engines and related parts and the estimated amount of extended warranty of engines and parts. These amounts were based on indicative sales quantity as advised by Cirrus and historical trends of sales, including the estimated amounts of extended warranty to be purchased by the customers, and also estimated increase in selling prices of products. These amounts also include potential additional sales as a result of possible business growth. As advised by the Management, they understand from Aviation Industry and/or its associates (including Cirrus) that they have on-going development or manufacturing plans of new aircraft models, which if materialised, will require further purchases of engines, parts and warranties. Considering the good business relationship between the Group and Cirrus, the Management is of the view that Aviation Industry and/or its associates may place additional orders to the Group and hence demand for engines of the new aircraft models from the Group may increase in coming years. Based on the above factors, the Management estimated that sales (including engines, parts and warranty) to Aviation Industry and/or its associates (excluding the Group) would amount to approximately US\$27.1 million for the relevant period in 2020 and US\$28.2 million for the year ending 31 December 2021. We noted that such estimated sales amount represented an increase of approximately 3.8% from 2020 to 2021. As advised by the Management, the Group has achieved an increase in sales to Aviation Industry and/or its associates in 2018 and 2019 due to an increased operation needs from Aviation Industry and its associates. The Management, considering the positive future prospects of the overall aviation industry and the possibilities of future increases in production costs, is of the view that such increasing trend will continue in the coming two years from 2020 to 2021. Considering the historical increase in sales to Cirrus as demonstrated by the historical compound annual growth rate of approximately 10.7% from 2017 to 2019, we consider the aforesaid Management's estimate of sales for the period commencing on 17 January 2020 and ending on 31 December 2020 and the year ending 31 December 2021 to be reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have further discussed with the Management and understand that buffers of approximately 3.3% and 3.0% were incorporated in estimating the Proposed Annual Caps for the period commencing on 17 January 2020 and ending on 31 December 2020 and the year ending 31 December 2021 respectively to cover additional sales as a result of possible business growth. Taking into account (i) the historical growth in transactions with Aviation Industry and/or its associates as mentioned above; and (ii) the increase in price of approximately 2.5% and 4.0% in 2018 and 2019 respectively for products sold to Aviation Industry and/or its associates as advised by the Management, it is reasonable for the Group to consider the potential additional growth opportunities when determining the Proposed Annual Caps, and the buffers are considered to be moderate. Generally speaking, in our opinion, it is in the interest of the Group for the Proposed Annual Caps to be as accommodating to the Group as possible. Provided that the terms for the transactions contemplated under the Second Sale Framework Agreement, including the pricing terms, are fair and reasonable and that the conduct of such transactions is subject to the internal control measures as mentioned in this letter above and annual review by independent non-executive Directors and auditors of the Company as required under the Listing Rules (as discussed below), the Group would have flexibility in conducting its businesses if the Proposed Annual Caps are tailored to future business growth.

Taking into account the above factors, we are of the view that the bases and assumptions involved in setting the Proposed Annual Caps are reasonable.

6. Review and conditions of the transactions contemplated under the Second Sale Framework Agreement

As disclosed in the “Letter from the Board” contained in the Circular, the Company will comply with all relevant requirements under the Listing Rules which include the annual review and/or confirmation by the independent non-executive Directors and auditors of the Company on the actual execution of the transactions contemplated under the Second Sale Framework Agreement. In compliance with the Listing Rules, such transactions are subject to a number of conditions which include, among other things:

- (i) the Proposed Annual Caps for the transactions under the Second Sale Framework Agreement for each of the periods will not be exceeded;
- (ii) the independent non-executive Directors must, in accordance with the Listing Rules, review annually the transactions contemplated under the Second Sale Framework Agreement and confirm in the Company’s annual report whether the transactions contemplated under the Second Sale Framework Agreement have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the auditors of the Company must, in accordance with the Listing Rules, review annually the transactions contemplated under the Second Sale Framework Agreement and they must confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company) whether anything has come to their attention that causes them to believe that the transactions:
 - (a) have not been approved by the Board;
 - (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
 - (c) were not entered into, in all material respects, in accordance with the relevant agreement(s) governing the transactions contemplated under the Second Sale Framework Agreement; and
 - (d) have exceeded the Proposed Annual Caps with respect to the transactions contemplated under the Second Sale Framework Agreement;
- (iv) the Company must promptly notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or the auditors cannot confirm the matters as required;
- (v) the Company must allow, and ensure that Aviation Industry allows, the auditors of the Company sufficient access to their records of the continuing connected transactions for the purpose of the auditors' reporting on the transactions contemplated under the Second Sale Framework Agreement. The Board must state in the annual report whether the auditors of the Company have confirmed the matters set out in Rule 14A.56 of the Listing Rules; and
- (vi) the Company must comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the total amount of the transactions contemplated under the Second Sale Framework Agreement exceeds the relevant Proposed Annual Cap(s), or that there is any material amendment to the terms of the Second Sale Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In light of the conditions imposed on the continuing connected transactions, in particular, (1) the limit of the value of the transactions by way of the Proposed Annual Caps; (2) the on-going review by the independent non-executive Directors and auditors of the Company regarding the terms of the transactions under the Second Sale Framework Agreement; and (3) the on-going review by the auditors of the Company confirming the relevant Proposed Annual Cap(s) not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the transactions contemplated under the Second Sale Framework Agreement and safeguard the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors, we consider that (i) the terms of the Second Sale Framework Agreement are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned; (ii) the transactions contemplated under the Second Sale Framework Agreement are in the ordinary and usual course of business of the Group; (iii) the entering into of the Second Sale Framework Agreement is in the interests of the Company and the Shareholders as a whole; and (iv) the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the SGM to approve the Second Sale Framework Agreement (including the Proposed Annual Caps).

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over nine years of experience in the corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particular given in compliance with the Listing Rules 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 is not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken 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 for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, so far as the Directors were aware, the following Directors or proposed Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the issuer which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director

Mr. Lai Weixuan (*Note*)

Note: Mr. Lai Weixuan is a director of AVIC International, which indirectly owns as to 46.40% of the entire issued share capital of the Company and is deemed to be interested in such Shares under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the issuer which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which does not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. COMPETING INTERESTS

None of the Directors or their respective associate(s) are considered to have interests in business which compete or are likely to compete, either directly or indirectly, with the business of the Group which require disclosure under the Listing Rules. In any event, such Directors will be subject to the usual requirement to abstain from voting on resolutions of the Board approving any proposal in which any Director or his associate has a material interest, such that the decision making of the Board should not be affected by such material interest.

5. MATERIAL ADVERSE CHANGE

The Directors confirm that there is no material adverse change in the financial position or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group was made up.

6. INTERESTS IN CONTRACTS, ASSETS AND ARRANGEMENT OF SIGNIFICANCE

None of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group taken as a whole.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2018, the date to which the latest published audited financial statements of the Group were made up.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given an opinion or advice contained in this circular:

Name	Qualification
Somerley Capital Limited	A licensed corporation to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Somerley Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports and reference to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Somerley Capital Limited did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Somerley Capital Limited did not have any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, any member of the Group, or which are proposed to be acquired or disposed of by or leased to, any member of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Unit A, 20/F, Tower 2, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong during normal business hours on any business day for a period of 14 days from the date of this circular:

- (a) the Second Sale Framework Agreement;
- (b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 13 to 14 of this circular;
- (c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 27 of this circular;
- (d) the written consent referred to in the section headed “7. Expert and consent” in this Appendix; and
- (e) this circular.

NOTICE OF SGM



AVIC International Holding (HK) Limited
中國航空工業國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of AVIC International Holding (HK) Limited (the “**Company**”) will be held at Forum Room 1, Basement 2, Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, 13 March 2020 at 3 p.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution to be proposed as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the sale framework agreement dated 22 January 2020 (the “**Second Sale Framework Agreement**”) and entered into between the Company and Aviation Industry (a copy of which is marked “A” and produced to the Meeting and signed by the chairman of the Meeting for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the respective annual caps for the transactions contemplated under the Second Sale Framework Agreement for the period commencing on 17 January 2020 and ending on 31 December 2020 and the year ending 31 December 2021 be and are hereby approved, confirmed and ratified; and
- (c) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Second Sale Framework Agreement and the transactions contemplated thereunder.”

By Order of the Board
AVIC International Holding (HK) Limited
Lai Weixuan
Chairman

Hong Kong, 19 February 2020

NOTICE OF SGM

Registered office:

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

*Head office and principal place of
business in Hong Kong:*

Unit A, 20/F
Tower 2, Admiralty Centre
18 Harcourt Road
Admiralty, Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint one or, if he is the holder of two or more shares, more than one person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. Where there are joint registered holders of any share of the Company, any one of such persons may vote at the meeting either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
3. Completion and return of the form of proxy will not preclude a member from attending and voting at the above meeting or any adjournment thereof if he so wishes. In that event, his form of proxy will be deemed to have been revoked.
4. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 3 p.m. (Hong Kong time) on Wednesday, 11 March 2020.
5. In order to determine the entitlement to attend and vote at the meeting, the register of members of the Company will be closed from Tuesday, 10 March 2020 to Friday, 13 March 2020, both days inclusive, during which period the registration of Shares will be suspended. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration no later than 4:30 p.m. on Monday, 9 March 2020.