
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of the Proposal, this Scheme Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Hong Kong Aircraft Engineering Company Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This Scheme Document appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of Swire Pacific Limited or Hong Kong Aircraft Engineering Company Limited.



SWIRE PACIFIC LIMITED

太古股份有限公司

*(Incorporated in Hong Kong
with limited liability)*

(Stock Codes: 19 and 87)



**HONG KONG AIRCRAFT ENGINEERING
COMPANY LIMITED**

香港飛機工程有限公司

*(Incorporated in Hong Kong
with limited liability)*

(Stock Code: 44)

**(1) PROPOSAL FOR THE PRIVATISATION OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
BY SWIRE PACIFIC LIMITED BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED**

Financial Adviser to Swire Pacific Limited

MOELIS & COMPANY

Independent Financial Adviser to the HAECO Independent Board Committee



Unless the context otherwise requires, capitalised terms used in this Scheme Document (including this cover page) are defined in the section headed "Definitions" of this Scheme Document.

A letter from the HAECO Board is set out on pages 16 to 25 of this Scheme Document. A letter from the HAECO Independent Board Committee containing its advice to the Independent HAECO Shareholders in relation to the Proposal is set out on pages 26 to 27 of this Scheme Document. A letter from Somerley, being the HAECO Independent Financial Adviser, containing its advice to the HAECO Independent Board Committee in relation to the Proposal is set out on pages 28 to 58 of this Scheme Document. An Explanatory Statement is set out on pages 59 to 78 of this Scheme Document.

The actions to be taken by the HAECO Shareholders are set out on pages 4 to 6 of this Scheme Document.

Notices convening the Court Meeting and the General Meeting to be held at the Ballroom, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Wednesday, 10 October 2018 at 10:00 a.m. and 10:30 a.m. respectively (or, in the case of the General Meeting, as soon thereafter as the Court Meeting shall have concluded or been adjourned) are set out on pages 128 to 130 and 131 to 133 of this Scheme Document respectively. Whether or not you are able to attend the Court Meeting and/or the General Meeting or any adjournment thereof in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the General Meeting, in accordance with the instructions printed thereon and to lodge them at the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any event no later than the respective times and dates as stated under the section headed "Actions to be taken" set out on pages 4 to 6 of this Scheme Document. Completion and return of the forms of proxy for Court Meeting and/or the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof, should you so wish. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your forms of proxy, the returned forms of proxy shall be deemed to have been revoked by operation of law.

This Scheme Document is issued jointly by Swire Pacific and HAECO. In case of inconsistency, the English language text of this Scheme Document shall prevail over the Chinese language text.

14 September 2018

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

NOTICE TO US INVESTORS

The Proposal is being made to cancel the securities of a Hong Kong company by means of a scheme of arrangement provided for under the Companies Ordinance and is subject to Hong Kong disclosure requirements, which are different from those of the US. The financial information included in this Scheme Document (if any) has been prepared in accordance with Hong Kong Financial Reporting Standards and thus may not be comparable to the financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles of the US.

A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules of the US Securities Exchange Act of 1934, as amended. Accordingly, the Proposal is subject to the disclosure requirements and practices applicable in Hong Kong to schemes of arrangement, which differ from the disclosure requirements of the US tender offer rules.

This Scheme Document does not constitute an offer or invitation to purchase or subscribe for any securities of HAECO in the US.

The receipt of cash pursuant to the Proposal by a US holder of Scheme Shares as consideration for the cancellation of their Scheme Shares pursuant to the Scheme may be a taxable transaction for US federal income tax purposes and under applicable US state and local, as well as foreign and other tax laws. Each holder of Scheme Shares is urged to consult their independent professional adviser immediately regarding the potential tax consequences of the Proposal.

It may be difficult for US holders of Scheme Shares to enforce their rights and claims arising out of the US federal securities laws, as Swire Pacific and HAECO are located in a country other than the US and some or all of their officers and directors may be residents of a country other than the US. US holders of Scheme Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

CONTENTS

	<i>Page</i>
ACTIONS TO BE TAKEN	4
DEFINITIONS	7
EXPECTED TIMETABLE	13
LETTER FROM THE HAECO BOARD	16
LETTER FROM THE HAECO INDEPENDENT BOARD COMMITTEE	26
LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER	28
EXPLANATORY STATEMENT	59
APPENDIX I — FINANCIAL INFORMATION RELATING TO THE HAECO GROUP .	79
APPENDIX II — PROPERTY VALUATION REPORT	83
APPENDIX III — GENERAL INFORMATION	112
THE SCHEME	121
NOTICE OF COURT MEETING	128
NOTICE OF GENERAL MEETING	131

ACTIONS TO BE TAKEN

1. ACTIONS TO BE TAKEN BY HAECO SHAREHOLDERS

For the purpose of determining the entitlements of the holders of Scheme Shares to attend and vote at the Court Meeting and the entitlements of the HAECO Shareholders to attend and vote at the General Meeting, the register of members of HAECO will be closed from Thursday, 4 October 2018 to Wednesday, 10 October 2018 (both days inclusive) and during such period, no transfer of HAECO Shares will be effected. In order to qualify to vote at the Court Meeting and the General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 3 October 2018. A subsequent purchaser of Scheme Shares will need to obtain a proxy form from the transferor if he wishes to attend or vote at the Court Meeting or the General Meeting.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the General Meeting are enclosed with this Scheme Document.

Whether or not you are able to attend the Court Meeting and/or the General Meeting or any adjournment thereof in person, if you are a holder of Scheme Shares, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a HAECO Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the General Meeting, in accordance with the instructions printed thereon, and to lodge them at the office of the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. **In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged no later than 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof, and the white form of proxy for use at the General Meeting should be lodged no later than 48 hours before the time appointed for holding the General Meeting or any adjournment thereof.** The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your form of proxy, the returned form of proxy will be deemed to have been revoked by operation of law.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the General Meeting, you will still be bound by the outcome of the Court Meeting and/or the General Meeting. You are therefore strongly urged to attend and vote at the Court Meeting and/or the General Meeting in person or by proxy.

Voting at the Court Meeting and the General Meeting will be taken by poll as required under the Listing Rules and the Takeovers Code.

HAECO and Swire Pacific will make an announcement in relation to the results of the Court Meeting and the General Meeting and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date and the date of withdrawal of listing of HAECO Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

ACTIONS TO BE TAKEN

2. ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE HAECO SHARES ARE HELD BY A REGISTERED OWNER OR DEPOSITED IN CCASS

No person shall be recognised by HAECO as holding any HAECO Shares on trust.

If you are a Beneficial Owner whose HAECO Shares are registered in the name of a nominee, trustee, depositary or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the HAECO Shares beneficially owned by you should be voted at the Court Meeting and/or the General Meeting.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the General Meeting personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the General Meeting and, for such purpose, the Registered Owner may appoint you as its proxy; or
- (b) arrange for some or all of the HAECO Shares registered in the name of the Registered Owner to be transferred into your own name.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the General Meeting shall be in accordance with all relevant provisions in the articles of association of HAECO.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof. In the event that the Registered Owner attends and votes at the relevant meeting or any adjournment thereof after having lodged his forms of proxy, the returned form of proxy will be deemed to have been revoked by operation of law.

If you are a Beneficial Owner whose HAECO Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such HAECO Shares with, a CCASS participant regarding voting instructions to be given to such persons, or alternatively to arrange for some or all of such HAECO Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote in respect of the Scheme. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to HAECO Shares registered under the name of HKSCC Nominees shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

ACTIONS TO BE TAKEN

3. EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A HAECO SHAREHOLDER OR A BENEFICIAL OWNER, SWIRE PACIFIC AND HAECO STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE GENERAL MEETING. IF YOU KEEP ANY HAECO SHARES IN A SHARE LENDING PROGRAMME, SWIRE PACIFIC AND HAECO URGE YOU TO RECALL ANY OUTSTANDING HAECO SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A REGISTERED OWNER HOLDING HAECO SHARES ON BEHALF OF BENEFICIAL OWNERS, SWIRE PACIFIC AND HAECO WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

DEFINITIONS

In this Scheme Document, the following expressions have the meanings set out below, unless the context requires otherwise:

acting in concert	has the meaning ascribed to it in the Takeovers Code, and “persons acting in concert” shall be construed accordingly
Adjusted NAV	the adjusted unaudited consolidated net asset value attributable to HAECO Shareholders as at 30 June 2018 as set out in section 2.4 headed “Adjusted NAV” in the Letter from the HAECO Independent Financial Adviser on pages 45 to 46 of this Scheme Document
associates	has the meaning ascribed to it in the Takeovers Code
Beneficial Owner	any beneficial owner of the HAECO Shares whose HAECO Shares are registered in the name of a Registered Owner other than himself
Business Day	a day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
Cancellation Price	the cancellation price of HK\$72 (less the Dividend Adjustment) per Scheme Share payable in cash by Swire Pacific to the Scheme Shareholders pursuant to the Scheme. The HAECO Directors have declared a first interim dividend of HK\$0.72 per HAECO Share for the financial year ending 31 December 2018. HAECO does not expect to declare any further dividend on or before the Effective Date. The Dividend Adjustment is HK\$0.19 and the Cancellation Price is therefore HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment)
CCASS	the Central Clearing and Settlement System established and operated by HKSCC
CCASS Participant	a person admitted to participate in CCASS as a participant, including an Investor Participant
Companies Ordinance	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Conditions	the conditions of the Proposal as set out in the section headed “Conditions of the Proposal” in the Explanatory Statement

DEFINITIONS

Court Meeting	a meeting of the holders of Scheme Shares to be convened at the direction of the High Court at 10:00 a.m. on Wednesday, 10 October 2018 at the Ballroom, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong and any adjournment thereof at which the Scheme will be voted upon
Disinterested Shares	has the meaning ascribed to it in section 674(3)(a) of the Companies Ordinance
Dividend Adjustment	has the meaning given to it in the section headed “The Scheme” in the Explanatory Statement
Effective Date	the date on which the Scheme becomes effective in accordance with the Companies Ordinance
Executive	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
Explanatory Statement	the explanatory statement in relation to the Scheme, the text of which is set out on pages 59 to 78 of this Scheme Document
General Meeting	a general meeting of HAECO to be held at 10:30 a.m. (or immediately after the conclusion or adjournment of the Court Meeting) on Wednesday, 10 October 2018 at the Ballroom, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong and any adjournment thereof to be held after the Court Meeting for the purpose of approving the reduction of the share capital of HAECO and implementing the Scheme
HAECO	Hong Kong Aircraft Engineering Company Limited, a company incorporated in Hong Kong and listed on the Stock Exchange
HAECO Board	the board of directors of HAECO
HAECO Directors	the directors of HAECO
HAECO Group	HAECO and its subsidiaries
HAECO Independent Board Committee	an independent board committee of the directors of HAECO comprising B.Y.C. Cha, Y.K. Leung and P.P.W. Tse

DEFINITIONS

HAECO Independent Financial Adviser or Somerley	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the HAECO Independent Board Committee
HAECO Shareholders	registered holders of HAECO Shares
HAECO Shares	shares in the capital of HAECO
High Court	the High Court of Hong Kong
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
HKSCC	Hong Kong Securities Clearing Company Limited
HKSCC Nominees	HKSCC Nominees Limited
Hong Kong	the Hong Kong Special Administrative Region of the People's Republic of China
Independent HAECO Shareholders	HAECO Shareholders other than Swire Pacific and the Swire Pacific Concert Parties
Independent HAECO Shares	HAECO Shares held by Independent HAECO Shareholders
Investor Participant	a person admitted to participate in CCASS as an investor participant
Irrevocable Undertakings	three deeds of irrevocable undertaking, each given by an IU Shareholder in favour of Swire Pacific and dated 8 June 2018
IU Shareholders	Roms Nominees Limited, Wavoff Nominees Limited and The Mikado Private Trust Company Limited as trustee of The Mikado Unit Trust
IU Shares	the HAECO Shares held by the IU Shareholders
Joint Announcement	the joint announcement dated 10 June 2018 issued by Swire Pacific and HAECO in relation to the Proposal
JSS	John Swire & Sons Limited, a company incorporated in England
Last Trading Date	8 June 2018, being the last day on which HAECO Shares were traded on the Stock Exchange prior to the publication of the Joint Announcement

DEFINITIONS

Latest Practicable Date	12 September 2018, being the latest practicable date prior to the date of this Scheme Document for the purpose of ascertaining certain information contained in this Scheme Document
Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Long Stop Date	means 28 February 2019 or such other date as may be agreed between Swire Pacific and HAECO or, to the extent applicable, as the Executive may consent and the High Court may direct
Meeting Record Date	Friday, 5 October 2018, or such other date as shall have been announced to the HAECO shareholders, being the record date for the purpose of determining the entitlement of holders of Scheme Shares to attend and vote at the Court Meeting and the entitlement of HAECO Shareholders to attend and vote at the General Meeting
Moelis	Moelis & Company Asia Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to Swire Pacific in connection with the Proposal
Other CCASS Participant	a broker, custodian, nominee or other relevant person who is, or has deposited HAECO Shares with, a CCASS participant
Properties	has the meaning given to it in the Letter from the HAECO Independent Financial Adviser on page 43 of this Scheme Document
Proposal	the proposal for the privatisation of HAECO by Swire Pacific by way of the Scheme
Registered Owner	any person (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) whose name is entered in the register of members of HAECO as a holder of the HAECO Shares
Registrar of Companies	the Registrar of Companies appointed under the Companies Ordinance
Relevant Period	the period commencing on 10 December 2017, being the date falling six months prior to the date of the Joint Announcement and ending on the Latest Practicable Date

DEFINITIONS

Scheme	the scheme of arrangement under section 673 of the Companies Ordinance for the implementation of the Proposal as set out on pages 121 to 127 of this Scheme Document, with or subject to any modification thereof or addition thereof or condition approved or imposed by the High Court
Scheme Document	this composite scheme document of Swire Pacific and HAECO containing, among other things, each of the letters, statements, appendices and notices in it
Scheme Record Date	Wednesday, 28 November 2018, or such other date as shall have been announced to the HAECO Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cancellation Price under the Scheme
Scheme Shareholders	registered holders of the Scheme Shares as at the Scheme Record Date
Scheme Shares	HAECO Shares other than those held by Swire Pacific and its subsidiaries
SFC	Securities and Futures Commission of Hong Kong
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Share Registrar	Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, being the share registrar of HAECO
Stock Exchange	The Stock Exchange of Hong Kong Limited
Swire Pacific	Swire Pacific Limited, a company incorporated in Hong Kong and listed on the Stock Exchange
Swire Pacific 'A' Shares	'A' shares in the share capital of Swire Pacific
Swire Pacific 'B' Shares	'B' shares in the share capital of Swire Pacific
Swire Pacific Concert Parties	persons acting in concert with Swire Pacific
Swire Pacific Directors	the directors of Swire Pacific
Swire Pacific Shareholders	registered holders of Swire Pacific Shares
Swire Pacific Shares	Swire Pacific 'A' Shares and Swire Pacific 'B' Shares

DEFINITIONS

Takeovers Code	the Hong Kong Code on Takeovers and Mergers
US	United States of America
%	per cent

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified.

EXPECTED TIMETABLE

The timetable set out below is indicative only and is subject to change. Any changes to the timetable will be jointly announced by Swire Pacific and HAECO. Unless otherwise specified, all times and dates refer to Hong Kong local times and dates.

Hong Kong time

Latest time for lodging transfers of HAECO Shares
in order to qualify for entitlement to attend and vote
at the Court Meeting and the General Meeting. 4:30 p.m. on
Wednesday, 3 October 2018

Register of members of HAECO closed for
determining entitlement to attend and vote
at the Court Meeting and the General Meeting (*Note 1*) Thursday, 4 October 2018
to Wednesday, 10 October 2018
(both days inclusive)

Meeting Record Date Friday, 5 October 2018

Latest time for lodging forms of proxy in respect of:

- Court Meeting (*Note 2*) 10:00 a.m. on
Monday, 8 October 2018
- General Meeting (*Note 2*) 10:30 a.m. on
Monday, 8 October 2018

Court Meeting (*Notes 2 and 3*) 10:00 a.m. on
Wednesday, 10 October 2018

General Meeting (*Notes 2 and 3*) 10:30 a.m. on
Wednesday, 10 October 2018
(or immediately after the conclusion or
adjournment of the Court Meeting)

Announcement of the results of the Court Meeting
and the General Meeting posted on the website
of the Stock Exchange. no later than 7:00 p.m.
on Wednesday, 10 October 2018

Expected latest time for trading of
HAECO Shares on the Stock Exchange 4:00 p.m. on
Monday, 19 November 2018

EXPECTED TIMETABLE

Latest time for lodging transfers of HAECO Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Thursday, 22 November 2018
Register of members of HAECO closed for determining entitlement to qualify under the Scheme (<i>Note 4</i>)	from Friday, 23 November 2018 onwards
High Court hearing of the petition for the sanction of the Scheme (<i>Note 5</i>)	Wednesday, 28 November 2018
Announcement of (1) the results of the High Court hearing for the petition for the sanction of the Scheme, (2) the expected Effective Date and (3) the expected date of withdrawal of listing of HAECO Shares on the Stock Exchange posted on the website of the Stock Exchange	no later than 7:00 p.m. on Wednesday, 28 November 2018
Scheme Record Date	Wednesday, 28 November 2018
Effective Date (<i>Note 5</i>)	Thursday, 29 November 2018
Announcement of (1) the Effective Date and (2) the withdrawal of listing of HAECO Shares on the Stock Exchange posted on the website of the Stock Exchange	Thursday, 29 November 2018
Withdrawal of listing of HAECO Shares on the Stock Exchange becomes effective	9:00 a.m. on Thursday, 29 November 2018
Cheques for the cash payment under the Proposal to be despatched (<i>Note 6</i>)	on or before Monday, 10 December 2018

Notes:

1. The register of members of HAECO will be closed during such period for the purpose of determining entitlements of the holders of Scheme Shares to attend and vote at the Court Meeting and of the HAECO Shareholders to attend and vote at the General Meeting. For the avoidance of doubt, this period of closure is not for determining entitlements under the Scheme.
2. The **pink** form of proxy in respect of the Court Meeting and the **white** form of proxy in respect of the General Meeting should be completed and signed in accordance with the instructions respectively printed thereon and should be lodged at the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by the times and dates stated above. The **pink** form of proxy for use at the Court Meeting and the **white**

EXPECTED TIMETABLE

form of proxy for use at the General Meeting must be lodged no later than the time and date stated above in order for them to be valid. The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude a member from attending and voting in person at the relevant meeting or any adjournment thereof if he so wishes. In the event that the member attends and votes at the relevant meeting or any adjournment thereof after having lodged his form of proxy, the returned form of proxy shall be deemed to have been revoked by operation of law.

3. If a tropical cyclone warning signal No.8 or above is or is expected to be hoisted or a black rainstorm warning signal is or is expected to be in force at any time after 7:00 a.m. on the date of the Court Meeting and the General Meeting, the Court Meeting and the General Meeting will be postponed. HAECO will post an announcement on the respective websites of Hong Kong Exchanges and Clearing Limited and HAECO to notify the members of the date, time and venue of the rescheduled meetings.
4. The register of members of HAECO will be closed during such period for the purpose of determining the Scheme Shareholders, who are qualified for entitlements under the Scheme.
5. The High Court hearing will be held at the High Court at the High Court Building, 38 Queensway, Hong Kong. The Scheme shall become effective when an office copy of the order of the High Court sanctioning the Scheme (with or without modification) and confirming the reduction of the share capital of HAECO involved in the Scheme is registered by the Registrar of Companies under Part 2 of the Companies Ordinance.
6. Cheques for entitlements of Scheme Shareholders will be despatched by ordinary post in postage pre-paid envelopes addressed to Scheme Shareholders at their respective addresses as appearing in the register of members of HAECO as at the Scheme Record Date or, in the case of joint holders, at the address appearing in the register of members of HAECO as at the Scheme Record Date of the joint holder whose name then stands first in the register of members of HAECO in respect of the relevant joint holding as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the Effective Date. Cheques shall be posted at the risk of the addressees and none of Swire Pacific, HAECO, Moelis, the HAECO Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal shall be responsible for any loss or delay in transmission.

LETTER FROM THE HAECO BOARD



HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

香港飛機工程有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 44)

Executive Directors:

SWIRE, Merlin Bingham
TANG, Kin Wing Augustus
BARRINGTON, William Edward James
GIBBS, Christopher Patrick
SHARPE, Rebecca Jane

Registered Office:

33rd Floor, One Pacific Place
88 Queensway
Hong Kong

Non-Executive Director:

HUGHES, Gregory Thomas Forrest

Independent Non-Executive Directors:

CHA, Yiu Chung Benjamin
LEUNG, Yu Keung
LEWIS, James Lindsay
TSE, Pak Wing Peter

14 September 2018

To the HAECO Shareholders

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
BY SWIRE PACIFIC LIMITED BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED**

INTRODUCTION

On 10 June 2018, Swire Pacific and HAECO jointly announced that on 8 June 2018, Swire Pacific requested the HAECO Board to put forward to the holders of Scheme Shares the

LETTER FROM THE HAECO BOARD

Proposal, which, if implemented, would result in HAECO becoming wholly owned by Swire Pacific and the withdrawal of listing of HAECO Shares from the Stock Exchange. Swire Pacific also confirmed in the Joint Announcement that there would be no increase in the Cancellation Price and that Swire Pacific did not reserve a right to do so.

As at the Latest Practicable Date, Swire Pacific owned or controlled 124,723,637 HAECO Shares, representing approximately 74.99% of the issued share capital of HAECO. The Proposal will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance.

If the Proposal is approved and implemented:

- (a) all the Scheme Shares will, on the Effective Date, be cancelled in exchange for the payment by Swire Pacific to each Scheme Shareholder of the Cancellation Price in cash for each Scheme Share;
- (b) the share capital of HAECO will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of HAECO will be increased to its former amount by the issue to Swire Pacific, credited as fully paid, of the same number of HAECO Shares as the number of Scheme Shares cancelled. The credit arising in HAECO's books of account as a result of the capital reduction will be applied in paying up in full the new HAECO Shares so allotted and issued to Swire Pacific; and
- (c) the withdrawal of listing of HAECO Shares on the Stock Exchange is expected to take place with effect from 9:00 a.m. on the Effective Date.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and, in particular, the Scheme, and to give you notice of the Court Meeting and of the General Meeting (together with proxy forms in relation thereto). Your attention is also drawn to (i) the letter from the HAECO Independent Board Committee set out on pages 26 to 27 of this Scheme Document; (ii) the letter from the HAECO Independent Financial Adviser set out on pages 28 to 58 of this Scheme Document; (iii) the Explanatory Statement set out on pages 59 to 78 of this Scheme Document; and (iv) the terms of the Scheme set out on pages 121 to 127 of this Scheme Document.

THE PROPOSAL

Subject to the Conditions described in the section headed "Conditions of the Proposal" on pages 62 to 65 of this Scheme Document being fulfilled or waived, as applicable, the proposed privatisation of HAECO will be implemented by way of the Scheme between HAECO and the Scheme Shareholders.

LETTER FROM THE HAECO BOARD

THE SCHEME

Subject to the Scheme becoming effective, the Scheme Shareholders will receive from Swire Pacific as Cancellation Price:

HK\$72 less the Dividend Adjustment
(being HK\$71.81 (assuming that there will be no
further Dividend Adjustment)) in cash. for every Scheme Share

If (1) the HAECO Directors declare any dividend (for example, the first interim dividend for the financial year ending 31 December 2018) after the date of the Joint Announcement, (2) such dividend is payable to HAECO Shareholders registered on a record date which is before the Effective Date (that is, before Swire Pacific becomes the sole HAECO Shareholder) and (3) the aggregate amount of all of such dividends per HAECO Share exceeds HK\$0.53 (being the first interim dividend per HAECO Share paid for the financial year ended 31 December 2017), then such excess is the “**Dividend Adjustment**”. HAECO Shareholders registered on such record date (comprising the holders of the Scheme Shares on such record date and Swire Pacific) will be entitled to such dividend and the amount of the consideration for the cancellation of each Scheme Share will be reduced by the amount of the Dividend Adjustment. The HAECO Directors have declared a first interim dividend of HK\$0.72 per HAECO Share for the financial year ending 31 December 2018, which will be paid on Tuesday, 18 September 2018 to HAECO Shareholders registered at the close of business on Friday, 31 August 2018, which is before the Effective Date. HAECO does not expect to declare any further dividend on or before the Effective Date.

The Dividend Adjustment is HK\$0.19 and the Cancellation Price is therefore HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment).

Swire Pacific has advised that the Cancellation Price will not be increased and Swire Pacific does not reserve the right to do so.

The Cancellation Price of HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment) represents:

- (a) a premium of approximately 63.2% over the closing price of HK\$44.00 per HAECO Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 63.2% over the average closing price of approximately HK\$43.99 per HAECO Share as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;
- (c) a premium of approximately 62.4% over the average closing price of approximately HK\$44.21 per HAECO Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;

LETTER FROM THE HAECO BOARD

- (d) a premium of approximately 60.3% over the average closing price of approximately HK\$44.81 per HAECO Share as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 57.0% over the average closing price of approximately HK\$45.75 per HAECO Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 50.0% over the average closing price of approximately HK\$47.88 per HAECO Share as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;
- (g) a premium of approximately 114.5% over the audited consolidated net asset value (after deducting minority interests) attributable to HAECO Shareholders per HAECO Share of approximately HK\$33.48 as at 31 December 2017;
- (h) a premium of approximately 99.3% over the unaudited consolidated net asset value (after deducting minority interests) attributable to HAECO Shareholders per HAECO Share of HK\$36.04 as at 30 June 2018; and
- (i) a premium of approximately 4.7% over the closing price of HK\$68.60 per HAECO Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Cancellation Price has been determined after taking into account the traded prices of HAECO Shares before the Joint Announcement and publicly available financial information of HAECO and with reference to privatisation transactions in Hong Kong in recent years.

Assuming that the Scheme becomes effective on Thursday, 29 November 2018, cheques for entitlements under the Scheme will be despatched as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the Effective Date and accordingly, the cheques are expected to be despatched on or before Monday, 10 December 2018. All such cheques will be posted at the risk of the persons entitled thereto and none of Swire Pacific, HAECO, Moelis, the HAECO Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in transmission.

While the comparison of the Cancellation Price with the Adjusted NAV is not of material relevance to the HAECO Shareholders' consideration of the merits of the Proposal for the reasons set out below, the Cancellation Price of HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment) represents a premium of approximately 42.3% over the Adjusted NAV of approximately HK\$50.46 as at 30 June 2018. As disclosed in the Letter from the HAECO Independent Financial Adviser, the appreciation in value of the Properties represented by the property valuation in Appendix II was mainly attributable to the fact that most of the Properties have been stated at cost in the consolidated financial

LETTER FROM THE HAECO BOARD

statements of the HAECO Group since their construction or acquisition in accordance with the accounting policy adopted by the HAECO Group. All of the Properties since the completion of their construction or acquisition have been and are currently occupied by the HAECO Group as its bases for its own operations, as offices or as staff dormitories. The HAECO Group has no intention to dispose of or transfer the Properties. Accordingly, such appreciation amount is unlikely to be realised. As disclosed in the Explanatory Statement, it is the intention of Swire Pacific that HAECO will continue to carry on its current business, which principally comprises the provision of overhaul and maintenance services for commercial aircraft in Hong Kong and elsewhere and Swire Pacific does not intend to introduce any major changes to the business of HAECO (including any redeployment of fixed assets of HAECO).

TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment) and 41,601,213 Scheme Shares in issue as at the Latest Practicable Date, the amount of cash payable to the Scheme Shareholders under the Proposal would be approximately HK\$2,987.38 million.

Swire Pacific intends to finance the cash required for the Proposal from credit facilities provided by Mizuho Bank, Ltd., Hong Kong Branch, MUFG Bank, Ltd. and Sumitomo Mitsui Banking Corporation, respectively. Moelis is satisfied that sufficient financial resources are available to Swire Pacific for satisfying its obligations in respect of the full implementation of the Proposal.

CONDITIONS OF THE PROPOSAL

The Proposal is subject to the satisfaction or waiver, as applicable, of the Conditions described in the section headed “Conditions of the Proposal” in the Explanatory Statement on pages 62 to 65 of this Scheme Document.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither Swire Pacific nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for HAECO, except with the consent of the Executive. Swire Pacific has indicated that it has no intention to seek such consent.

If approved, the Scheme will be binding on all of the Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the General Meeting.

Swire Pacific Shareholders, HAECO Shareholders and potential investors should be aware that the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and therefore the Proposal may or may not be implemented. Swire Pacific

LETTER FROM THE HAECO BOARD

Shareholders, HAECO Shareholders and potential investors should therefore exercise caution when dealing in the securities of Swire Pacific or HAECO. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

IRREVOCABLE UNDERTAKINGS

Pursuant to the Irrevocable Undertakings, each IU Shareholder has irrevocably undertaken to Swire Pacific to exercise or procure the exercise of all voting rights attached to the IU Shares held by it at the Court Meeting and the General Meeting in favour of all the resolutions which are necessary to implement or otherwise relate to the Proposal. Each IU Shareholder has also undertaken in the Irrevocable Undertaking that it will not sell, transfer or encumber in any way any of the IU Shares held by it.

Each Irrevocable Undertaking is unconditional.

The IU Shares comprised 5,223,811 HAECO Shares in total, representing 3.14% of the issued share capital of HAECO, 12.56% of the Scheme Shares, 12.56% of the Independent HAECO Shares and 12.56% of the Disinterested Shares as at the Latest Practicable Date.

Each Irrevocable Undertaking shall terminate upon the Proposal becoming effective or lapsing in accordance with its terms.

SHAREHOLDING STRUCTURE OF HAECO

As at the Latest Practicable Date, the issued share capital of HAECO comprised 166,324,850 HAECO Shares.

A table setting out the shareholding structure of HAECO as at the Latest Practicable Date and immediately upon the Scheme becoming effective (assuming no new HAECO Shares will be issued prior thereto) is to be found in the section headed "Shareholding Structure of HAECO and Effect of the Proposal and the Scheme" in the Explanatory Statement on pages 65 to 66 of this Scheme Document.

As at the Latest Practicable Date, no HAECO Director held any HAECO Shares.

Upon the Scheme becoming effective, Swire Pacific will hold 100% of the issued share capital of HAECO.

As at the Latest Practicable Date, the Scheme Shares, comprising 41,601,213 HAECO Shares, represented approximately 25.01% of the issued HAECO Shares.

As at the Latest Practicable Date, Swire Pacific owned or controlled 124,723,637 HAECO Shares, representing approximately 74.99% of the issued share capital of HAECO. Such

LETTER FROM THE HAECO BOARD

HAECO Shares will not form part of the Scheme Shares and will not be voted at the Court Meeting and will not be cancelled upon the Scheme becoming effective. Swire Pacific has indicated that, if the Scheme is approved at the Court Meeting, Swire Pacific will vote in favour of the special resolution to be proposed at the General Meeting.

As at the Latest Practicable Date, HAECO did not have any outstanding options, warrants, derivatives or securities convertible into HAECO Shares in issue.

REASONS FOR AND BENEFITS OF THE PROPOSAL

You are urged to read carefully the section headed “Reasons for and benefits of the Proposal” in the Explanatory Statement on page 69 of this Scheme Document.

SWIRE PACIFIC’S INTENTIONS IN RELATION TO THE HAECO GROUP

You are urged to read carefully the section headed “Swire Pacific’s intentions in relation to the HAECO Group” in the Explanatory Statement on page 70 of this Scheme Document.

The HAECO Board has noted the intentions of Swire Pacific in respect of HAECO and the employees of the HAECO Group, as disclosed in the Explanatory Statement on page 70 of this Scheme Document.

FINANCIAL ADVISER TO SWIRE PACIFIC AND THE HAECO INDEPENDENT BOARD COMMITTEE

Swire Pacific has appointed Moelis as its financial adviser in connection with the Proposal.

The HAECO Independent Board Committee comprising B.Y.C. Cha, Y.K. Leung and P.P.W. Tse has been constituted to advise the Independent HAECO Shareholders on the Proposal.

M.B. Swire, who is a director and the chairman of HAECO, is not a member of the HAECO Independent Board Committee as he is also the chairman of Swire Pacific. G.T.F. Hughes, who is a non-executive director of HAECO, is not a member of the HAECO Independent Board Committee as he is an employee of a wholly-owned subsidiary of JSS. J.L. Lewis, who is an independent non-executive director of HAECO, is not a member of the HAECO Independent Board Committee as he is a director of companies affiliated to the IU Shareholders.

The full text of the letter from the HAECO Independent Board Committee is set out on pages 26 to 27 of this Scheme Document.

LETTER FROM THE HAECO BOARD

HAECO INDEPENDENT FINANCIAL ADVISER

HAECO has, with the approval of the HAECO Independent Board Committee, appointed Somerley Capital Limited as the HAECO Independent Financial Adviser to advise the HAECO Independent Board Committee in connection with the Proposal.

The full text of the letter from the HAECO Independent Financial Adviser is set out on pages 28 to 58 of this Scheme Document.

INFORMATION ABOUT SWIRE PACIFIC AND HAECO

Your attention is drawn to Appendix I headed “Financial Information Relating to the HAECO Group” on pages 79 to 82 of this Scheme Document, and the sections headed “Information about HAECO” and “Information about Swire Pacific” in the Explanatory Statement on pages 70 to 71 of this Scheme Document.

OVERSEAS SHAREHOLDERS

If you are an overseas holder of Scheme Shares, your attention is drawn to the section headed “Overseas Shareholders” in the Explanatory Statement on pages 73 to 74 of this Scheme Document.

COURT MEETING AND GENERAL MEETING

For the purpose of exercising your right to vote at the Court Meeting and the General Meeting, you are requested to read carefully the section headed “Court Meeting and General Meeting” in the Explanatory Statement on pages 74 to 75 of this Scheme Document, the section headed “Actions to be taken” on pages 4 to 6 of this Scheme Document, and the notices of the Court Meeting and the General Meeting on pages 128 to 130 and 131 to 133 respectively of this Scheme Document.

ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposal are set out under the section headed “Actions to be taken” on pages 4 to 6 and the section headed “Actions to be taken” in the Explanatory Statement on pages 75 to 77 of this Scheme Document.

RECOMMENDATION

The HAECO Independent Financial Adviser has advised the HAECO Independent Board Committee that it considers the terms of the Proposal are fair and reasonable so far as the Independent HAECO Shareholders are concerned, and accordingly, advises the HAECO Independent Board Committee to recommend the Independent HAECO Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal.

LETTER FROM THE HAECO BOARD

The HAECO Independent Board Committee, having considered the terms of the Proposal, and having taken into account the advice of the HAECO Independent Financial Adviser, considers that the terms of the Proposal are fair and reasonable so far as the Independent HAECO Shareholders are concerned and recommends the Independent HAECO Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal.

Your attention is drawn to the recommendation of the HAECO Independent Financial Adviser to the HAECO Independent Board Committee, in respect of the Proposal as set out in the “Letter from the HAECO Independent Financial Adviser” on pages 28 to 58 of this Scheme Document. Your attention is also drawn to the recommendation of the HAECO Independent Board Committee in respect of the Proposal as set out in the “Letter from the HAECO Independent Board Committee” on pages 26 to 27 of this Scheme Document.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. In that case, HAECO does not intend to maintain its listing on the Stock Exchange and will make an application for the listing of HAECO Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from 9:00 a.m. on the Effective Date.

Subject to the requirements of the Takeovers Code, the Proposal will lapse if any of the Conditions described in the section headed “Conditions of the Proposal” has not been fulfilled or waived, as applicable, on or before the Long Stop Date.

The holders of Scheme Shares will be notified by way of an announcement of the exact dates of the last day for dealing in HAECO Shares and the day on which the Scheme and the withdrawal of listing of HAECO Shares on the Stock Exchange will become effective.

If the Scheme is not approved or the Proposal otherwise lapses, the listing of HAECO Shares on the Stock Exchange will not be withdrawn.

Your attention is drawn to the sections entitled “Withdrawal of listing of HAECO Shares” and “Registration and Payment” in the Explanatory Statement set out on page 71 and pages 71 to 73, respectively, of this Scheme Document.

TAXATION, EFFECTS AND LIABILITIES

It is emphasised that none of Swire Pacific, HAECO, Moelis, the HAECO Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their approval or rejection, or the implementation, of the Proposal. Accordingly, you

LETTER FROM THE HAECO BOARD

are urged to read the section entitled “Taxation and Independent Advice” in the Explanatory Statement set out on page 74 of this Scheme Document and if you are in any doubt as to any aspect of this Scheme Document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

FURTHER INFORMATION

You are urged to read carefully the letters from the HAECO Independent Board Committee and from the HAECO Independent Financial Adviser, as set out on pages 26 to 27, and pages 28 to 58 respectively of this Scheme Document, the Explanatory Statement as set out on pages 59 to 78 of this Scheme Document, the appendices to this Scheme Document, the terms of the Scheme as set out on pages 121 to 127 of this Scheme Document, the notice of the Court Meeting as set out on pages 128 to 130 of this Scheme Document and the notice of the General Meeting as set out on pages 131 to 133 of this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the General Meeting are enclosed with this Scheme Document.

By order of the board of
Hong Kong Aircraft Engineering Company Limited
Merlin Swire
Chairman

LETTER FROM THE HAECO INDEPENDENT BOARD COMMITTEE



HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

香港飛機工程有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 44)

14 September 2018

To the Independent HAECO Shareholders

Dear Sir or Madam,

**(1) PROPOSAL FOR THE PRIVATISATION OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
BY SWIRE PACIFIC LIMITED BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED**

We refer to the document dated 14 September 2018 jointly issued by Swire Pacific and HAECO in relation to the Proposal (the “**Scheme Document**”), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the HAECO Board as the HAECO Independent Board Committee to make a recommendation to the Independent HAECO Shareholders in respect of the Proposal, details of which are set out in the “Letter from the HAECO Board” and the “Explanatory Statement” of this Scheme Document.

Somerley Capital Limited, the HAECO Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal. The details of its advice and the principal factors taken into consideration in arriving at its recommendations are set out in the “Letter from the HAECO Independent Financial Adviser” of this Scheme Document.

In the “Letter from the HAECO Independent Financial Adviser” of this Scheme Document, the Independent Financial Adviser states that it considers the terms of the Proposal are fair and reasonable so far as the Independent HAECO Shareholders are concerned, and advises the HAECO Independent Board Committee to recommend the Independent HAECO Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal.

LETTER FROM THE HAECO INDEPENDENT BOARD COMMITTEE

The HAECO Independent Board Committee, having considered the terms of the Proposal, and having taken into account the opinion of the HAECO Independent Financial Adviser, and in particular the factors, reasons and recommendations set out in its letter, considers that the terms of the Proposal are fair and reasonable so far as the Independent HAECO Shareholders are concerned. Accordingly, the HAECO Independent Board Committee recommends the Independent HAECO Shareholders to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the Proposal.

The HAECO Independent Board Committee draws the attention of the Independent HAECO Shareholders to (i) the “Letter from the HAECO Board” set out in this Scheme Document; (ii) the “Letter from the HAECO Independent Financial Adviser”, which sets out the factors and reasons taken into account in arriving at its recommendation to the HAECO Independent Board Committee, set out in this Scheme Document; and (iii) the Explanatory Statement set out in this Scheme Document.

Yours faithfully,

The HAECO Independent Board Committee

Mr. CHA, Yiu Chung Benjamin <i>Independent Non-Executive Director</i>	Mr. LEUNG, Yu Keung <i>Independent Non-Executive Director</i>	Mr. TSE, Pak Wing Peter <i>Independent Non-Executive Director</i>
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LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Set out below is the letter of advice from Somerley Capital Limited, the HAECO Independent Financial Adviser to the HAECO Independent Board Committee regarding the Proposal and the Scheme prepared for the purpose of incorporation in this Scheme Document.



SOMERLEY CAPITAL LIMITED

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

14 September 2018

To: the HAECO Independent Board Committee

Dear Sirs,

**PROPOSED PRIVATISATION OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
BY SWIRE PACIFIC LIMITED BY WAY OF
A SCHEME OF ARRANGEMENT
UNDER SECTION 673 OF THE COMPANIES ORDINANCE; AND
PROPOSED WITHDRAWAL OF LISTING OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED**

INTRODUCTION

We refer to our appointment to advise the HAECO Independent Board Committee in connection with the Proposal and the Scheme. Details of the Proposal and the Scheme are set out in the Scheme Document dated 14 September 2018, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 10 June 2018, Swire Pacific and HAECO jointly announced that on 8 June 2018, Swire Pacific had requested the board of directors of HAECO to put forward the Proposal to the holders of Scheme Shares for the privatisation of HAECO by way of a scheme of arrangement under section 673 of the Companies Ordinance involving the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the initial cancellation price of HK\$72 (less any Dividend Adjustment) in cash for each Scheme Share.

The HAECO Independent Board Committee comprising the following independent non-executive Directors, namely Mr. Cha, Yiu Chung Benjamin, Mr. Leung, Yu Keung and Mr. Tse, Pak Wing Peter, has been established to make a recommendation to the Independent HAECO Shareholders as to (i) whether the terms of the Proposal and the Scheme are, or are not, fair and reasonable; and (ii) whether to vote in favour of the relevant resolution(s) to be proposed at the Court Meeting and the General Meeting to approve and implement the

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Proposal. Mr. G.T.F. Hughes, who is a non-executive director of HAECO, is not a member of the HAECO Independent Board Committee as he is an employee of a wholly owned subsidiary of JSS. Mr. J.L. Lewis, who is an independent non-executive director of HAECO, is not a member of the HAECO Independent Board Committee as he is a director of companies affiliated to the IU Shareholders. The HAECO Independent Board Committee has approved our appointment as the HAECO Independent Financial Adviser to advise the HAECO Independent Board Committee and the Independent HAECO Shareholders in these regards.

We are not associated with HAECO, Swire Pacific, or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Proposal and the Scheme. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from HAECO, Swire Pacific or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the HAECO Directors and management of the HAECO Group, which we have assumed to be true, accurate and complete. We have reviewed, among other things, the annual reports of HAECO for each of the two years ended 31 December 2016 (the “**2016 Annual Report**”) and 31 December 2017 (the “**2017 Annual Report**”), the interim results report of HAECO for the six months ended 30 June 2018 (the “**2018 IR**”), the property valuation report prepared by Cushman & Wakefield Limited (the “**Valuer**”) which we have discussed with the Valuer, the trading performance of the HAECO Shares on the Stock Exchange, and information set out in the Scheme Document. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the HAECO Group, Swire Pacific or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Scheme Document were true at the time they were made and at the date of the Scheme Document and will continue to be true up to the time of the Court Meeting and the General Meeting, and Independent HAECO Shareholders will be informed of any material change as soon as possible.

We have not considered the tax and regulatory implications on the Independent HAECO Shareholders of acceptance or non-acceptance of the Proposal, as the case may be, since these are particular to their individual circumstances. In particular, the Independent HAECO Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

PRINCIPAL TERMS OF THE PROPOSAL AND THE SCHEME

The Proposal and the Scheme and the Cancellation Price

The Proposal to the Scheme Shareholders for the privatisation of HAECO by way of a scheme of arrangement under section 673 of the Companies Ordinance involves the cancellation of the Scheme Shares and, in consideration therefor, the payment to the Scheme Shareholders of the initial cancellation price of HK\$72 (less the Dividend Adjustment) in cash for each Scheme Share. As disclosed in the Explanatory Statement, the Cancellation Price was determined after taking into account the traded prices of HAECO Shares before the Joint Announcement and publicly available financial information of HAECO and with reference to privatisation transactions in Hong Kong in recent years.

Under the terms of the Proposal, if (1) the HAECO Directors declare any dividend (for example, the first interim dividend of HK\$0.72 for the financial year ending 31 December 2018) after the date of the Joint Announcement, (2) such dividend is payable to HAECO Shareholders registered on a record date which is before the Effective Date (that is, before Swire Pacific becomes the sole HAECO Shareholder) and (3) the aggregate amount of all of such dividends per HAECO Share exceeds HK\$0.53 (being the first interim dividend per HAECO Share paid for the financial year ended 31 December 2017), then such excess is the “**Dividend Adjustment**”. HAECO Shareholders registered on such record date (comprising the holders of the Scheme Shares on such record date and Swire Pacific) will be entitled to such dividend and the amount of the consideration for the cancellation of each Scheme Share will be reduced by the amount of the Dividend Adjustment.

As disclosed in the 2018 IR, the Directors have declared a first interim dividend of HK\$0.72 per Share (the “**2018 Interim Dividend**”) payable on 18 September 2018 to Shareholders registered at the close of business on record date, being Friday, 31 August 2018. Based on the Dividend Adjustment mechanism under the Proposal, as the 2018 Interim Dividend exceeds the 2017 Interim Dividend by HK\$0.19, and as the 2018 Interim Dividend relates to a financial period which has already ended, the cancellation price under the Proposal will be adjusted to HK\$71.81 per Scheme Share. Accordingly, we have adopted the Cancellation Price of HK\$71.81 per Scheme Share in conducting our analysis of the fairness and reasonableness of the Proposal and the Scheme throughout our letter.

If the Proposal is approved and implemented:

- (a) all the Scheme Shares held by the Scheme Shareholders will, on the Effective Date, be cancelled in exchange for the payment by Swire Pacific to each Scheme Shareholder of the Cancellation Price in cash for each Scheme Share;
- (b) the share capital of HAECO will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the share capital of HAECO will be increased to its former amount by the issue to Swire Pacific, credited as fully

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

paid, of the same number of HAECO Shares as the number of Scheme Shares cancelled. The credit arising in HAECO's books of account as a result of the capital reduction will be applied in paying up in full the new HAECO Shares so allotted and issued to Swire Pacific; and

- (c) the withdrawal of listing of HAECO Shares on the Stock Exchange is expected to take place with effect from 9:00 a.m. on the Effective Date.

The Cancellation Price will not be increased and Swire Pacific does not reserve the right to do so.

As at the Latest Practicable Date, HAECO has no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than its issued share capital of 166,324,850 HAECO Shares.

As at the Latest Practicable Date, Swire Pacific beneficially owns or controls 124,723,637 HAECO Shares, representing approximately 74.99% of the issued share capital of HAECO. Such HAECO Shares will not form part of the Scheme Shares and will not be voted at the Court Meeting and will not be cancelled upon the Scheme becoming effective. As at the Latest Practicable Date, the Scheme Shares, comprising 41,601,213 HAECO Shares, represented approximately 25.01% of the issued HAECO Shares.

All HAECO Shareholders will be entitled to vote on the special resolutions to be proposed at the General Meeting to approve and give effect to the reduction of capital and the implementation of the Scheme. Swire Pacific has indicated that, if the Scheme is approved at the Court Meeting, Swire Pacific will vote in favour of the special resolution(s) to be proposed at the General Meeting. Upon the Scheme becoming effective, Swire Pacific will hold 100% of the issued share capital of HAECO.

Conditions of the Proposal and the Scheme

The Proposal is, and the Scheme will become effective and binding on HAECO and all HAECO Shareholders, subject to the fulfilment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme at the Court Meeting (by way of a poll) by holders of the Scheme Shares representing at least 75% of the voting rights of such holders present and voting, in person or by proxy, at the Court Meeting, and the votes cast (by way of poll) against the Scheme at the Court Meeting not exceeding 10% of the total voting rights attached to all Disinterested Shares, provided that:
 - (i) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Independent HAECO Shareholders that are cast either in person or by proxy at the Court Meeting; and

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

- (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by Independent HAECO Shareholders;
- (b) the passing of a special resolution(s) by a majority of at least 75% of the votes cast by the HAECO Shareholders present and voting in person or by proxy at the General Meeting (and otherwise in accordance with the procedural requirements of section 564 of the Companies Ordinance) to approve and give effect to the Scheme, including the approval of the reduction of the share capital of HAECO by cancelling and extinguishing the Scheme Shares and the issue to Swire Pacific of such number of new HAECO Shares as is equal to the number of the Scheme Shares cancelled;
- (c) the sanction of the Scheme (with or without modification) and the confirmation of the reduction of the share capital of HAECO involved in the Scheme by the High Court and the registration of a copy of the order of the High Court by the Registrar of Companies under Part 2 of the Companies Ordinance;
- (d) the compliance with the procedural requirements of sections 230 and 231 and sections 673 and 674 of the Companies Ordinance in relation to the reduction of the share capital of HAECO and the Scheme, respectively;
- (e) all authorisations, approvals, permissions, waivers and consents and all registrations and filings (including without limitation any which are required or desirable under or in connection with any applicable laws or regulations or any licences, permits or contractual obligations of HAECO) in connection with the Proposal or its implementation in accordance with its terms having been obtained (or, as the case may be, completed) and remaining in full force and effect without modification;
- (f) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order), in each case, which would make the Proposal or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material conditions or obligations with respect to the Proposal or its implementation in accordance with its terms);
- (g) all necessary legal or regulatory obligations in all relevant jurisdictions having been complied with and no legal or regulatory requirement having been imposed which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws or regulations in connection with the Proposal or its implementation in accordance with its terms;

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

- (h) the implementation of the Proposal not resulting in, and no event or circumstance having occurred or arisen which would or might be expected to result in:
 - (i) any indebtedness (actual or contingent) of any member of the HAECO Group being or becoming repayable (or capable of being declared repayable) immediately or prior to its stated maturity or repayment date;
 - (ii) any agreement, arrangement, licence, permit or instrument to which any member of the HAECO Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject (or any of the rights, liabilities, obligations or interests of any member of the HAECO Group thereunder) being terminated or adversely modified (or any material obligation or liability on the part of any member of the HAECO Group arising in relation thereto); or
 - (iii) the creation or enforcement of any security interest over the whole or any part of the business, property or assets of any member of the HAECO Group or any such security (whenever arising) becoming enforceable,

in each case, which is material in the context of the HAECO Group as a whole or in the context of the Proposal or its implementation in accordance with its terms; and

- (i) since the date of the Joint Announcement:
 - (i) there having been no adverse change in the business, assets, financial or trading, positions, profits or prospects of any member of the HAECO Group which is material in the context of the HAECO Group taken as a whole or in the context of the Proposal; and
 - (ii) there not having been instituted, threatened in writing or remaining outstanding any litigation, arbitration, other proceedings or other dispute resolution process to which any such member is a party (whether as plaintiff, defendant or otherwise) and no investigation by any government, quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member having been threatened in writing, instituted or remaining outstanding, in each case, which is material in the context of the HAECO Group taken as a whole or in the context of the Proposal or its implementation in accordance with its terms.

Swire Pacific reserves the right to waive all or any of the Conditions (except for the Conditions in paragraphs (a) to (d) above) in whole or in part. HAECO does not have the right to waive any of the Conditions. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal will lapse. Pursuant

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

to Note 2 to Rule 30.1 of the Takeovers Code, Swire Pacific may only invoke any or all of the Conditions as a basis for not proceeding with the Proposal if the circumstances which give rise to the right to invoke such Condition are of material significance to Swire Pacific in the context of the Proposal.

If approved, the Scheme will be binding on all of the Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the General Meeting.

Please refer to the Explanatory Statement for further details of the Conditions. As at the Latest Practicable Date, none of the conditions has been fulfilled or waived.

Irrevocable Undertakings

Pursuant to the Irrevocable Undertakings, each IU Shareholder has irrevocably undertaken to Swire Pacific to exercise or procure the exercise of all voting rights attached to the IU Shares held by it at the Court Meeting and the General Meeting in favour of all the resolutions which are necessary to implement or otherwise relate to the Proposal. Each IU Shareholder has also undertaken in its Irrevocable Undertaking that it will not sell, transfer or encumber in any way any of the IU Shares held by it. Each Irrevocable Undertaking is unconditional.

The IU Shares comprise 5,223,811 HAECO Shares in total, representing 12.56% of the Independent HAECO Shares and 12.56% of the Disinterested Shares as at the Latest Practicable Date. Each Irrevocable Undertaking shall terminate upon the Proposal becoming effective or lapsing in accordance with its terms.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal and the Scheme, we have taken into account the following principal factors and reasons:

1. Background to and reasons for the Proposal and the Scheme

As set out in the Explanatory Statement of the Scheme Document, the Proposal is intended to provide holders of Scheme Shares with an opportunity to realise their investment in HAECO for cash at a significant premium over the prevailing share price. The Cancellation Price of HK\$71.81 per Scheme Share represents premiums of approximately 62.4% and 50.0% over the average closing prices of HK\$44.21 and HK\$47.88 per HAECO Share for 30 and 180 consecutive trading days up to and including the Last Trading Date, respectively. Additionally, the trading liquidity of HAECO Shares has been at a low level over a long period of time. The average daily trading volume of HAECO Shares for the 6 months up to and including the Last Trading Date was approximately 33,250 shares per day, representing approximately 0.020% of the issued shares as at the date of the Joint Announcement. The low trading liquidity of HAECO Shares could make it difficult for holders of Scheme Shares to execute on-market disposals without adversely affecting the share price.

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

2. Information and prospects of the HAECO Group

2.1. *Background information of HAECO*

HAECO is a company incorporated in 1950 with limited liability in Hong Kong. It was listed on the predecessor exchange to the Stock Exchange. It is principally engaged in commercial aircraft overhaul, modification and maintenance mainly in Hong Kong, Mainland China and the United States. The HAECO Group offers a full spectrum of services including airframe services, line services, component services, engine services, inventory technical management, fleet technical management, cabin integration and reconfiguration services and interior products, private jet solutions, freighter conversion, parts manufacturing and technical training. As set out in the 2017 Annual Report, the HAECO Group is one of the largest maintenance, repair and overhaul service providers in the world in terms of capacity. As at the Latest Practicable Date, Swire Pacific owned and controlled approximately 74.99% of the issued share capital of HAECO.

As disclosed in the 2017 Annual Report and 2018 IR, the principal business operations of the HAECO Group comprise mainly 5 segment units namely:

- (i) HAECO's business in Hong Kong ("**HAECO Hong Kong**") which comprises airframe services, line services at the passenger and cargo terminals at Hong Kong International Airport, component services and material management. As further discussed in the section headed "2.2 Financial information of the HAECO Group" below, HAECO Hong Kong has been one of the key revenue and profits contributors of the HAECO Group for the past three financial years ended 31 December 2017 and the six months ended 30 June 2018. It employed 5,875 staff as at 30 June 2018;
- (ii) the business of HAECO USA Holdings, Inc. ("**HAECO Americas**") which comprises mainly airframe services and the manufacture of seats and cabin interior products in the USA. HAECO Americas has sustained substantial losses in the recent financial periods. HAECO Americas employed around 2,349 staff as at 30 June 2018;
- (iii) the business of Taikoo (Xiamen) Aircraft Engineering Company Limited ("**HAECO Xiamen**") comprising mainly airframe services, line services, private jet work, parts manufacturing and technical training in Xiamen, the People's Republic of China (the "**PRC**"). HAECO Xiamen is owned as to 58.55% by HAECO. As further discussed in the section headed "2.2 Financial information of the HAECO Group" below, HAECO Xiamen has also become one of the key profits contributors of the HAECO Group for the six months ended 30 June 2018. It employed 4,411 staff as at 30 June 2018;
- (iv) the business of Taikoo Engine Services (Xiamen) Company Limited ("**TEXL**"), which comprises mainly maintenance, repair and overhaul services for General Electric engines and engine components in Xiamen, the PRC. TEXL is owned as to 67.58% by HAECO, as to 9.01% by HAECO Xiamen and as to 23.41% in total by Cathay Pacific Airways Limited, Xiamen Aviation Industry Company Limited and GE (China)

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Co. Ltd.. As further discussed in the section headed “2.2 Financial information of the HAECO Group” below, TEXL has also been one of the key revenue and profits contributors of the HAECO Group for the past three financial years ended 31 December 2017 and the six months ended 30 June 2018; and

- (v) the business of Hong Kong Aero Engine Services Limited (“HAESL”) comprising mainly repair services for Rolls-Royce engines and engine components in Tseung Kwan O. HAESL is a joint venture company owned as to 50% by the HAECO Group and 50% by Rolls-Royce Overseas Holdings Limited. As further discussed in the section headed “2.2 Financial information of the HAECO Group” below, HAESL has also been one of the key profits contributors of the HAECO Group for the past three financial years ended 31 December 2017 and the six months ended 30 June 2018.

Further discussion on the financial information of these businesses of the HAECO Group is set out in section headed “2.2 Financial information of the HAECO Group” below.

2.2. Financial information of the HAECO Group

(i) Financial performance

Set out below is a summary of the HAECO Group’s consolidated financial performance for the three years ended 31 December 2015, 2016 and 2017, and for the six months ended 30 June 2017 and 2018 (the “Period”) as extracted from the 2016 Annual Report, the 2017 Annual Report and the 2018 IR:

	For the six months		For the year ended		
	ended 30 June		31 December		
	2018	2017	2017	2016	2015
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue					
- HAECO Hong Kong	2,077	2,041	4,041	3,879	3,628
- HAECO Americas	1,356	1,435	2,625	2,836	2,554
- HAECO Xiamen	1,090	1,055	2,041	1,640	1,712
- TEXL	2,422	2,556	5,162	4,808	3,719
- Others	380	318	677	597	482
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	7,325	7,405	14,546	13,760	12,095

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

	For the six months ended 30 June		For the year ended 31 December		
	2018 <i>HK\$</i> <i>million</i> <i>(unaudited)</i>	2017 <i>HK\$</i> <i>million</i> <i>(unaudited)</i>	2017 <i>HK\$</i> <i>million</i> <i>(audited)</i>	2016 <i>HK\$</i> <i>million</i> <i>(audited)</i>	2015 <i>HK\$</i> <i>million</i> <i>(audited)</i>
Cost of direct material and job expenses	(3,417)	(3,575)	(7,335)	(6,679)	(5,460)
Staff remuneration and benefits	(2,618)	(2,608)	(5,110)	(5,059)	(4,813)
Depreciation, amortization and impairment	(319)	(313)	(1,270)	(966)	(620)
Other expenses and net gains/losses	<u>(418)</u>	<u>(443)</u>	<u>(920)</u>	<u>(929)</u>	<u>(787)</u>
Operating profit/(loss)	553	466	(89)	127	415
Net finance charges	(53)	(51)	(120)	(89)	(76)
Share of results of joint ventures	<u>222</u>	<u>181</u>	<u>314</u>	<u>1,072</u>	<u>246</u>
Profit before taxation	722	596	105	1,110	585
Taxation	<u>(115)</u>	<u>(121)</u>	<u>(451)</u>	<u>(17)</u>	<u>(33)</u>
Profit/(loss) for the period/year	<u>607</u>	<u>475</u>	<u>(346)</u>	<u>1,093</u>	<u>552</u>
Profit / (loss) for the period/year attributable to HAECO Shareholders	<u>469</u>	<u>348</u>	<u>(541)</u>	<u>975</u>	<u>464</u>
Earnings/(losses) per Share (in HK\$)	2.82	2.09	(3.25)	5.86	2.79
Dividend per Share (in HK\$)	0.72	0.53	1.03	3.90	1.70

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Revenue

The total revenue of the HAECO Group had shown a gradual upward trend during the three financial years ended 31 December 2017. HAECO Hong Kong and TEXL had been the key revenue contributors of the HAECO Group for the past three financial years ended 31 December 2017 and the six months ended 30 June 2018, representing over 60% of the total revenue of the HAECO Group for each of the aforesaid periods. Revenue of HAESL and the HAECO Group's other joint ventures was not included in HAECO's revenue, in accordance with applicable accounting standards.

The HAECO Group recorded total revenue of approximately HK\$13,760 million for the year ended 31 December 2016 ("**FY2016**"), representing an increase of approximately HK\$1,665 million or approximately 13.8% compared with that for the year ended 31 December 2015 ("**FY2015**"). The increment was mainly attributable to, among others, an increase in revenue of TEXL by approximately 29.3% resulting from more performance restoration work on General Electric engines during FY2016. Increased line services work by HAECO Hong Kong and more airframe work and more Panasonic communication equipment installation kits work by HAECO Americas also contributed to the increase in total revenue during the year.

Total revenue of the HAECO Group continued to rise to approximately HK\$14,546 million for the year ended 31 December 2017 ("**FY2017**"), representing growth of approximately 5.7% over FY2016. Such growth was mainly attributable to the increase in revenue from HAECO Xiamen by around 24.5% in FY2017, which was driven by higher demand for its airframe service work than in FY2016. TEXL also recorded an increase in revenue by around 7.4% in FY2017 owing to more engine performance restoration and component repair work done.

Total revenue of the HAECO Group for the six months ended 30 June 2018 ("**1H2018**") of approximately HK\$7,325 million was comparable to that of the corresponding Period in 2017 ("**1H2017**") of approximately HK\$7,405 million. According to the 2018 IR, less airframe services work at HAECO Americas and the effect of a change in scope of engine performance restoration work by TEXL were partly offset by, among others, more airframe services work at HAECO Xiamen, line services work at HAECO Hong Kong and landing gear repair services provided during 1H2018.

Operating profit

Despite the increase in revenue for FY2016, the HAECO Group recorded a decrease in operating profit of approximately 69.4% from approximately HK\$415 million for FY2015 to approximately HK\$127 million for FY2016. The significant decrease in operating profit was mainly due to an impairment charge of approximately HK\$285 million recorded in FY2016 in respect of the goodwill recorded on the acquisition of TIMCO Aviation Services Inc. (now known as HAECO Americas, Inc.) in the United States in 2014. The impairment charge in respect of goodwill was made after considering the reduction in expected profitability of the seats business and a weak cabin integration order book at HAECO Americas.

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Although the HAECO Group continued to record an increase in revenue in FY2017, it reported an operating loss of approximately HK\$89 million for FY2017 as compared with an operating profit of approximately HK\$127 million for FY2016. The FY2017 operating loss was mainly attributable to an impairment charge in respect of goodwill of approximately HK\$625 million (upon a review which took into account the prospects for the airframe maintenance business of HAECO Americas) and a write-off of net deferred tax assets of approximately HK\$249 million, both in respect of HAECO Americas.

It was reported in the 2018 IR that there was an increase in operating profit of around 18.7% from approximately HK\$466 million for 1H2017 to approximately HK\$553 million for 1H2018 due to, among other things, the improved operating results at HAECO Americas and HAECO Xiamen during the period.

Net profit or loss attributable to HAECO Shareholders

The HAECO Group reported a growth in net profit attributable to HAECO Shareholders of approximately 110.1% from approximately HK\$464 million for FY2015 to approximately HK\$975 million for FY2016, which was mainly attributable to the share of profit from HAESL in respect of the disposal of its 20% interest in Singapore Aero Engine Services Pte. Limited (“SAESL”) on 30 June 2016, recognising a gain on disposal of approximately HK\$805 million for FY2016.

The HAECO Group, however, recorded a net loss attributable to HAECO Shareholders of approximately HK\$541 million for FY2017, as compared to the net profits attributable to HAECO Shareholders in FY2015 and FY2016. The deterioration in results in FY2017 was mainly due to: (i) the operating loss in FY2017 due to, as mentioned above, an impairment charge in respect of goodwill of approximately HK\$625 million and the write-off of net deferred tax assets of approximately HK\$249 million, both in respect of HAECO Americas; and (ii) the absence of the gain on disposal of SAESL in FY2016. HAECO Shareholders should note that, if the one-off items relating to the impairment charges in both FY2016 and FY2017, the write-off of net deferred tax assets in FY2017 and the gain on disposal of SAESL in FY2016 were disregarded, the HAECO Group would have made a net profit attributable to HAECO Shareholders of approximately HK\$516 million in FY2016 and approximately HK\$340 million in FY2017 (the “Adjusted Profit”).

It was reported in the 2018 IR that there was an increase in net profit attributable to HAECO Shareholders for 1H2018 by around 34.8% from approximately HK\$348 million for 1H2017 to approximately HK\$469 million for 1H2018 due to, among other things, the reduction in losses at HAECO Americas during the period 1H2018.

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Set out below is an analysis of Adjusted Profit by entities after excluding extraordinary items, namely, (i) the gain on disposal of SAESL, net of associated expenses; (ii) impairment charges in respect of goodwill and plant, machinery and tools; and (iii) write-off of net deferred tax assets, for the following periods:

	For the six months ended 30 June		For the year ended 31 December		
	2018	2017	2017	2016	2015
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
HAECO Hong Kong	117	139	257	194	167
HAECO Americas	(118)	(208)	(602)	(238)	(158)
HAECO Xiamen	126	104	135	94	69
TEXL	90	112	209	196	149
Share of:					
HAESL and SAESL (<i>Note</i>)	180	136	244	218	194
Other subsidiary and joint ventures	74	65	97	52	56
	<u>469</u>	<u>348</u>	<u>340</u>	<u>516</u>	<u>477</u>
Adjusted Profit	<u>469</u>	<u>348</u>	<u>340</u>	<u>516</u>	<u>477</u>

Note: SAESL ceased to be a joint venture company of the HAECO Group since June 2016.

As shown on the table above, HAECO Hong Kong, TEXL and HAESL and SAESL have been the key contributors of the HAECO Group's Adjusted Profit and have recorded significant growth in Adjusted Profit for the past three financial years ended 31 December 2017. For the six months ended 30 June 2018, given the reduction in profit contribution by HAECO Hong Kong and TEXL, HAECO Xiamen, which has maintained a continuous growth in profit, has joined HAECO Hong Kong and TEXL and HAESL to become one of the key profits contributors of the HAECO Group during the six months ended 30 June 2018.

While improvements in financial performance have been noted amongst most of the business areas of the HAECO Group during the Period, HAECO Americas has recorded losses since the financial year ended 31 December 2014 which have adversely affected the overall performance of the HAECO Group. As disclosed in the FY2017 Annual Report, the decrease in demand for HAECO America's airframe services, reconfiguration services and Panasonic communication equipment work added pressure to the struggling segment in FY2017.

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Total Adjusted Profit further increased by around 34.8% from approximately HK\$348 million for 1H2017 to approximately HK\$469 million for 1H2018. HAECO Americas reported a reduction in loss in 1H2018 of approximately 43.3% as compared to that in 1H2017, which was mainly attributable to an increased proportion of higher margin airframe services work and gains in efficiency as well as more seats sold at higher margins. The Adjusted Profit of HAECO Hong Kong and TEXL reduced by approximately 15.8% and 19.6% respectively during 1H2018, mainly resulting from fewer airframe services manhours sold by HAECO Hong Kong during the first half of 2018, as well as the change in contract terms with TEXL's key customer during the period. HAECO Xiamen recorded an increase of around 21.2% in attributable profits mainly due to an increase in airframe services work. The share of profit of HAESL increased sharply by around 32.4% owing to the increased number of engines serviced by HAESL.

Dividends

The total dividend per HAECO Share in FY2017 of HK\$1.03 represented a decrease from that of HK\$3.90 in FY2016, which was mainly due to the absence of the special interim dividend of HK\$2.35 per HAECO Share that was paid in FY2016 in view of the gain from the disposal of SAESL recorded in that year. As disclosed in the 2018 IR, the HAECO Directors have declared a 2018 Interim Dividend of HK\$0.72 per Share, which is 35.8% higher than the interim dividend of HK\$0.53 per Share in 1H2017, in line with the growth in the net profit attributable to HAECO Shareholders.

(ii) *Financial position*

Set out below is a summary of the consolidated financial position of the HAECO Group as at 31 December 2017 and as at 30 June 2018, as extracted from the 2018 IR:

	As at 30 June 2018	As at 31 December 2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
	(unaudited)	(audited)
Non-current assets		
Property, plant and equipment	5,610	5,719
Investment in joint ventures	1,795	1,727
Intangible assets	1,430	1,466
Other non-current assets	461	470
	<u>9,296</u>	<u>9,382</u>

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

	As at 30 June 2018	As at 31 December 2017
	<i>HK\$ million</i> (unaudited)	<i>HK\$ million</i> (audited)
Current assets		
Stocks and work in progress	1,667	1,966
Trade and other receivables	1,660	1,689
Cash and cash equivalents and short-term deposits	1,450	991
Other current assets	5	7
	<u>4,782</u>	<u>4,653</u>
Current liabilities		
Trade and other payables	2,187	2,576
Advance from a related party	—	292
Short-term loans and long-term loans due within one year	171	145
Other current liabilities	214	170
	<u>2,572</u>	<u>3,183</u>
Net current assets	<u>2,210</u>	<u>1,470</u>
Total assets less current liabilities	11,506	10,852
Non-current liabilities		
Long-term loans	3,125	3,208
Other non-current liabilities	778	459
	<u>3,903</u>	<u>3,667</u>
	<u>7,603</u>	<u>7,185</u>
Equity		
Net asset value (“NAV”) attributable to owners of HAECO	5,994	5,568
Non-controlling interests	1,609	1,617
	<u>7,603</u>	<u>7,185</u>
NAV attributable to owners of HAECO per HAECO Share	<u>36.04</u>	<u>33.48</u>

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Total assets of the HAECO Group were approximately HK\$14,078 million as at 30 June 2018, comparable to the position as at 31 December 2017. Non-current assets of the HAECO Group as at both 31 December 2017 and 30 June 2018 mainly consist of (i) property, plant and equipment; (ii) investment in joint ventures including, but not limited to, HAESL; and (iii) intangible assets relating to goodwill, technical licenses and customer relationships. Property, plant and equipment represented over 60% of the total non-current assets of the HAECO Group as at 31 December 2017 and 30 June 2018. With reference to the property valuation report prepared by the Valuer as disclosed in Appendix II of the Scheme Document, the fair value of properties held by the HAECO Group as at 30 June 2018 was in aggregate approximately HK\$7,852 million.

Current assets of the HAECO Group as at both 31 December 2017 and 30 June 2018 mainly consist of (i) stocks and work in progress; (ii) trade and other receivables; and (iii) cash and cash equivalents and short-term deposits. The HAECO Group had cash and cash equivalents and short-term deposits totaling approximately HK\$1,450 million as at 30 June 2018, representing an increase of approximately 46.3% as compared to the balance as at 31 December 2017. This increase was mainly attributable to the strong cash flow generated from operating activities at TEXL.

Total liabilities of the HAECO Group decreased by around 5.5% from approximately HK\$6,850 million as at 31 December 2017 to approximately HK\$6,475 million as at 30 June 2018, mainly due to the decrease in trade and other payables as at 30 June 2018. The HAECO Group recorded a decrease in current liabilities of approximately HK\$611 million and an increase in non-current liabilities of approximately HK\$236 million as compared to the respective balances as at 31 December 2017, as a result of, among other things, the decrease in trade and other payables and the reclassification of the advance from a related party from current liabilities to non-current liabilities during 1H2018. The gearing ratio, measured by net borrowings (i.e. total loans and finance lease obligations less bank balances and short-term deposits) divided by total equity, as at 30 June 2018 was approximately 24.3%, compared with the gearing ratio of approximately 33.0% as at 31 December 2017. We consider this a prudent level of gearing.

In line with the profitability of the HAECO Group in 1H2018, NAV attributable to HAECO Shareholders increased by around 7.7% to approximately HK\$5,994 million as at 30 June 2018. NAV attributable to HAECO Shareholders per HAECO Share increased from approximately HK\$33.48 as at 31 December 2017 to approximately HK\$36.04 as at 30 June 2018 (based on the total number of issued HAECO Shares of 166,324,850 as at the Latest Practicable Date). The Cancellation Price represents a premium of 99.3% over the NAV attributable to HAECO Shareholders of HK\$36.04 per HAECO Share as at 30 June 2018.

2.3. Valuation on property interests of the HAECO Group

The property interests of the HAECO Group (including the property interests held by HAECO and its subsidiaries, collectively, the “**Properties**”) have been valued by Cushman & Wakefield Limited, an independent and duly qualified Hong Kong valuer. The full text of the valuation report and certificate of the Properties for their respective market value in existing

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

state as at 30 June 2018 (the “**Valuation Report**”) is set out in Appendix II to the Scheme Document. According to the Valuation Report, the market values in existing state of the Properties attributable to the HAECO Group in Hong Kong, the PRC and the USA are approximately HK\$2,852 million, RMB2,183 million and US\$91 million respectively as at 30 June 2018 (the “**Valuation**”). Generally speaking, all the Properties are used in the business of the HAECO Group and consequently are not available for sale unless the business winds down.

We have reviewed the Valuation Report and discussed with the Valuer the methodology of and bases and assumptions adopted for the valuations and the adjustments made to arrive at the Valuation. We noted that the Valuer has valued the Properties in Hong Kong and the PRC, being the properties referred to under groups I and II as set out under the Valuation Report, and property no. 9 in the USA under group III, using the depreciated replacement costs method (“**DRC Method**”). The DRC Method is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimization. The Valuer referred to comparable land sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, time, size etc. for the land portion of the Properties. For the remaining Properties in the USA, we noted that the Valuer adopted the market comparison method (the “**Market Comparison Method**”) and the income capitalisation method (the “**Income Capitalisation Method**”) respectively for property no. 7 and properties nos. 8, 10, 11 and 12. Based on our further discussion with and understanding obtained from the Valuer, the Market Comparison Method is based on references made to comparable sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, size, quality and condition, loading facilities, clear height, time and other relevant factors. As disclosed in the Valuation Report, the Income Capitalisation Method is based on the capitalisation of the net income derived from the existing leases at appropriate capitalisation rates with references made to lettings of relevant comparable rental evidences of properties of similar use type subject to appropriate adjustments. The capitalisation rates adopted in the Valuation Report are based on the Valuer’s analyses of the yields of properties of similar use type after due adjustments and are estimated by reference to the yields generally expected by the market for comparable properties of similar use type.

We also understand that in valuing the properties in Hong Kong of which the Government Leases expired before 30 June 1997, the Valuer has taken into account the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of People’s Republic of China on the Question of Hong Kong as well as in the New Territories Leases (Extension) Ordinance, under which such leases have been extended without premium until 30th June 2047 and rents of 3% of the rateable value are charged per annum from the date of extension. The Valuer has specifically noted that the property leased to the HAECO Group from Hong Kong Industrial Estates Corporation (now known as Hong Kong Science and Technology Parks Corporation, the “**Corporation**”) is subject to restrictions

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

on alienation. The lease stipulated that if the HAECO Group wishes to assign such property at any time during the terms of the lease, the HAECO Group shall first offer to surrender its interest in such property to the Corporation at a consideration to be calculated in accordance with a formula set down in the lease. As such, we understand that the Valuer referred to the conditions in the relevant lease regarding alienation and the prescribed way of calculation of surrender consideration in undertaking its Valuation.

The above valuation methodologies are, in our opinion, commonly used and reasonable approaches in establishing the market values of the Properties. Furthermore, we have performed works as required under note (1) (d) to Rule 13.80 of the Listing Rules in relation to the Valuer and its work as regards the Valuation.

2.4. *Adjusted NAV*

In evaluating the Proposal and the Scheme, we have taken into account the adjusted consolidated net assets attributable to HAECO Shareholders (the “**Adjusted NAV**”), which is provided by HAECO and calculated based on the unaudited consolidated net assets attributable to HAECO Shareholders as at 30 June 2018, adjusted with reference to the Valuation as at 30 June 2018. Details of the adjustment are set out in the table below.

	<i>HK\$'million</i>
Consolidated net assets attributable to HAECO Shareholders as at 30 June 2018	5,994
<i>Add:</i>	
Revaluation surplus arising from the Valuation (<i>Note 1</i>)	<u>2,398</u>
Adjusted NAV	<u><u>8,392</u></u>
Adjusted NAV per HAECO Share (HK\$) (<i>Note 2</i>)	50.46
Cancellation Price (HK\$)	71.81
Premium represented by the Cancellation Price over Adjusted NAV per Share	42.3%

Notes:

1. This represents a revaluation surplus calculated by reference to the fair value of the property interests held by the HAECO Group as at 30 June 2018 as disclosed in the Valuation Report, net of the book value of such property interests as of 30 June 2018 and relevant deferred tax associated in the respective jurisdictions. Exchange rates used are as at 30 June 2018 (USD:HKD = 7.8477, RMB:HKD = 1.1852)
2. Based on 166,324,850 HAECO Shares in issue as at the Latest Practicable Date.

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

As set out in the above table, the Cancellation Price of HK\$71.81 per HAECO Share represents a premium of approximately 42.3% over the Adjusted NAV per HAECO Share of approximately HK\$50.46.

The appreciation in value of the Properties represented by the Valuation of approximately HK\$2,398 million was mainly attributable to the fact that most of the Properties have been stated at cost in the consolidated financial statements of the HAECO Group since their construction or acquisition in accordance with the accounting policy adopted by the HAECO Group. We also note that all of the Properties since the completion of their constructions or their acquisitions have been and are currently occupied by the HAECO Group as its bases for its own operations, as offices or as staff dormitories. According to the HAECO Directors, the HAECO Group has no intention to dispose of or transfer the relevant property interests and accordingly, such appreciation amount is unlikely to be realised. As also set out in the Explanatory Statement in the Scheme Document, it is the intention of Swire Pacific that HAECO will continue to carry on its current business, which principally comprises the provision of overhaul and maintenance services for commercial aircraft in Hong Kong and elsewhere, and Swire Pacific does not intend to introduce any major changes to the business of HAECO (including any redeployment of fixed assets of HAECO). Having considered the aforesaid, we consider that the appreciation in value of the Properties is not of material relevance in considering the underlying value of the HAECO Group and accordingly, we have assigned less weight to the Adjusted NAV in comparison to our overall analyses.

3. Prospects of the HAECO Group

As discussed in detail in section headed “2.2 Financial information of the HAECO Group” above, whilst the revenue of the HAECO Group has been relatively steady for the past three financial years ended 31 December 2017, the Adjusted Profit of the HAECO Group has demonstrated some fluctuation as a result of the mixed performance of its various business segments. The demand for the services provided by HAECO’s various business segments are traditionally not closely inter-related or easily predicted. HAECO’s financial performance was negatively impacted for the year ended 31 December 2017 by its operations in the USA. Based on the 2018 IR, HAECO’s operations in the USA showed signs of improvement mainly due to better profit margins received on the airframe service work performed.

Industry statistics relating to segments which the HAECO Group are engaged in are not readily available from the public domain given the provision of aircraft maintenance, repair and overhaul services is highly specialised. Nevertheless, the demand for aircraft maintenance, repair and overhaul services would traditionally correspond to the overall demand for air transport which is in turn driven by, among others, economic growth regionally and globally. As set out above, the operations of the HAECO Group comprises a wide range of services performed in various geographical areas and as disclosed in the 2017 Annual Report, approximately 77% of the HAECO Group’s revenue is derived from external customers in Hong Kong and the USA. For the USA, according to the statistics published by the Bureau of Economic Analysis, the third quarter 2017 GDP growth reached 3.2%, and the Federal Reserve Bank has also raised its inflation adjusted GDP for 2018 to approximately 2.5%. In Hong Kong, the reported GDP growth for 2017 is approximately 3.8% and its GDP growth is expected to remain steady at between 3% to 4% in 2018. Despite the above, the demand for

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

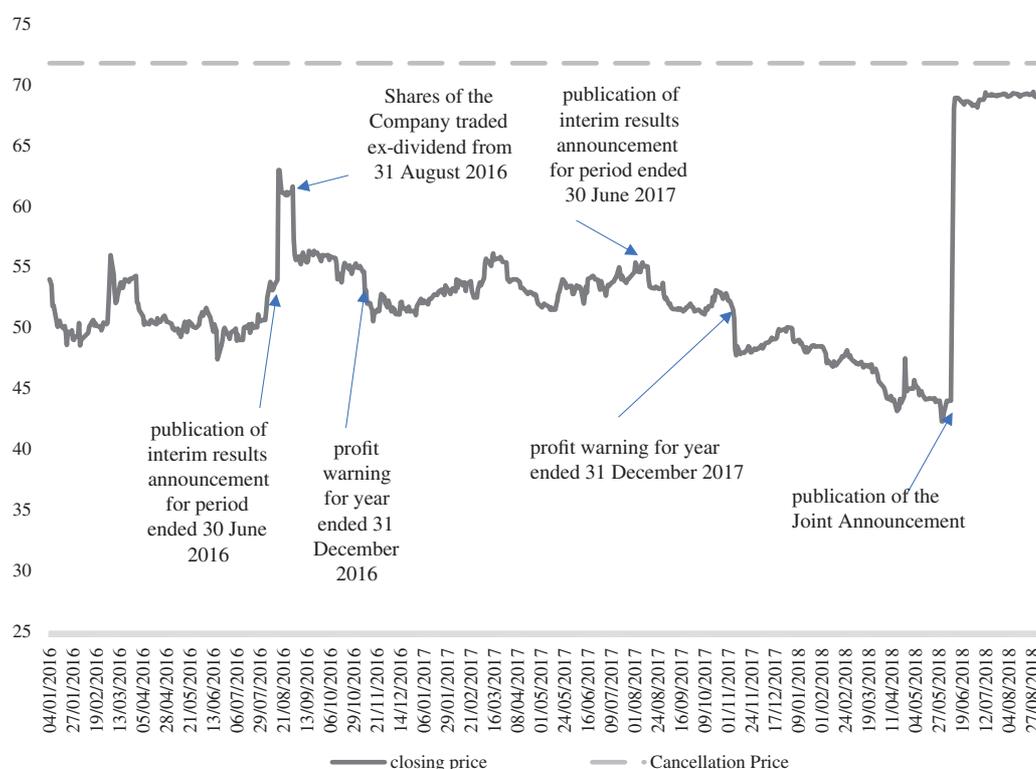
aircraft maintenance, repair and overhaul services from providers such as HAECO, including airframe services, cabin solutions, component services and engine services, is sensitive to factors specific to respective customers such as the condition of the fleet, aircraft age and capabilities of a particular airline, flight route of individual airline, which in turn affect aircrafts' maintenance frequency, flight repair and overhaul cycles and regional and/or seasonal ad hoc factors due to differences in geographical area.

Accordingly, the business outlook of the HAECO Group is highly dependent on the overall market conditions, economy of principal markets of the HAECO Group, ability to adapt to technological changes, availability of skilled workforce, and whether the HAECO Group will be able to maintain its relationship with its existing customers as well as to explore new business opportunities with potential new customers.

4. Analysis on price performance and trading liquidity of the HAECO Shares

4.1. Historical price performance of the HAECO Shares

Set out below is the movement of the closing prices of the HAECO Shares during the period from 4 January 2016 to the Latest Practicable Date (the "Review Period"), and the announcements of HAECO relating to certain corporate events that took place during the Review Period. The Review Period, which covers a period of more than 30 months, is considered to represent a sufficient period of time to provide a general overview on the recent market performance of the HAECO Shares for the purpose of this analysis:



Source: Bloomberg and the Website of the Stock Exchange

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

As shown in the chart above, the closing price of the HAECO Shares has been below the Cancellation Price of HK\$71.81 throughout the Review Period.

The closing prices of the HAECO Shares ranged from HK\$42.30 to HK\$63.00 during the period between 4 January 2016 and the Last Trading Day (both dates inclusive, the “**Pre-announcement Period**”), with an average closing price of around HK\$51.30.

The HAECO Share price closed within a range between HK\$47.40 and HK\$56.00 between 4 January 2016 and 15 August 2016 with mostly thin volume, trading averaging 24,097 HAECO Shares per day (representing approximately 0.01% of total issued share capital) until HAECO’s publication of its interim results announcement for the period ended 30 June 2016 on 16 August 2016. The HAECO Share price closed at HK\$63.00 on 16 August 2016 following the release of the results announcement intraday, representing an increase by around 16.8% over the previous day’s close. As set out in the interim results announcement for the period ended 30 June 2016, HAECO Directors declared a first interim dividend of HK\$0.63 and a special interim dividend of HK\$2.35 per HAECO Share (the “**2016 1H Dividends**”). HAECO Shares traded ex-dividend from 31 August 2016 reflecting the value of the 2016 1H Dividends and the HAECO Shares fell by as much as HK\$4.35 on 31 August 2016 (representing a 7.06% decline from the previous trade day). After that, the HAECO Share closing price showed a downward trend and fell to HK\$50.55 per HAECO Share on 17 November 2016. The closing price of the HAECO Shares then fluctuated within a range of HK\$51.05 and HK\$56.15 between 18 November 2016 and 14 August 2017. Following the release of the interim results announcement for period ended 30 June 2017 on 15 August 2017, the HAECO Share price closed at HK\$53.95. HAECO Shares then traded within a narrow range between HK\$50.80 and HK\$53.70 until the publication of a profit warning for the financial year ended 31 December 2017 (the “**Profit Warning**”) after trading hours on 7 November 2017. The closing price of the HAECO Shares fell below HK\$50.00 after the publication of the Profit Warning to HK\$48.20 on 8 November 2017, down by around 5.4% from HK\$50.80 each on the previous trading date.

The HAECO Share price continued a gradual downward trend, hitting a low of HK\$42.30 on both 30 and 31 May 2018, before closing at HK\$44.00 on 6 and 7 June 2018 and the Last Trading Day. The HAECO Share closing price increased substantially by around 54.8% from HK\$44.00 on 8 June 2018, being the Last Trading Date, to HK\$68.10 on 11 June 2018, being the first trade date following the publication of the Joint Announcement. Since then and up to the Latest Practicable Date, the HAECO Shares have closed in a narrow range between HK\$68.15 and HK\$69.45. The HAECO Share closing price as at Latest Practicable Date was HK\$68.60.

In summary, the Cancellation Price of HK\$71.81 per Scheme Share represents:

- (a) a premium of approximately 63.2% over the closing price of HK\$44.00 per HAECO Share as quoted on the Stock Exchange on the Last Trading Date;

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

- (b) a premium of approximately 63.2% over the average closing price of approximately HK\$43.99 per HAECO Share as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;
- (c) a premium of approximately 62.4% over the average closing price of approximately HK\$44.21 per HAECO Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- (d) a premium of approximately 60.3% over the average closing price of approximately HK\$44.81 per HAECO Share as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 57.0% over the average closing price of approximately HK\$45.75 per HAECO Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date; and
- (f) a premium of approximately 50.0% over the average closing price of approximately HK\$47.88 per HAECO Share as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date.

We consider that the HAECO Share price following the Joint Announcement has largely been determined by the terms of the Proposal and the Scheme. At the Latest Practicable Date before the despatch of the Scheme Document, the HAECO Share price closed at HK\$68.60, representing a discount of around 4.5% to the Cancellation Price.

4.2. *Trading liquidity of the HAECO Shares*

Set out below in the table are the average daily trading volume of the HAECO Shares and the percentages of the average daily trading volume to the total issued HAECO Shares and public float of HAECO respectively during the Review Period:

	Average daily trading volume of the HAECO Shares	Approximate % of average daily trading volume to the total issued HAECO Shares <i>(Note 1)</i>	Approximate % of average daily trading volume to the public float of the HAECO <i>(Note 2)</i>
2016			
January	14,183	0.009%	0.034%
February	20,795	0.013%	0.050%
March	17,266	0.010%	0.042%
April	26,380	0.016%	0.063%
May	52,933	0.032%	0.127%

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

	Average daily trading volume of the HAECO Shares	Approximate % of average daily trading volume to the total issued HAECO Shares <i>(Note 1)</i>	Approximate % of average daily trading volume to the public float of the HAECO <i>(Note 2)</i>
June	20,122	0.012%	0.048%
July	13,980	0.008%	0.034%
August	117,976	0.071%	0.284%
September	48,686	0.029%	0.117%
October	17,547	0.011%	0.042%
November	61,043	0.037%	0.147%
December	19,359	0.012%	0.047%
2017			
January	14,251	0.009%	0.034%
February	22,989	0.014%	0.055%
March	69,920	0.042%	0.168%
April	52,910	0.032%	0.127%
May	73,021	0.044%	0.176%
June	58,103	0.035%	0.140%
July	49,788	0.030%	0.120%
August	56,530	0.034%	0.136%
September	38,061	0.023%	0.091%
October	24,981	0.015%	0.060%
November	87,130	0.052%	0.209%
December	40,304	0.024%	0.097%
2018			
January	65,852	0.040%	0.158%
February	34,030	0.020%	0.082%
March	26,582	0.016%	0.064%
April	17,830	0.011%	0.043%
May	19,609	0.012%	0.047%
From 1 June to 8 June (being the Last Trading Day)	25,376	0.015%	0.061%
Average during the Pre-announcement period	40,251	0.024%	0.097%
From 11 June 2018 to the Latest Practicable Date <i>(Note 3)</i>	179,707	0.108%	0.432%

Source: Website of the Stock Exchange and Bloomberg

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Notes:

1. The calculation is based on the average daily trading volumes of the HAECO Shares divided by the total issued share capital of HAECO at the end of each month or as at the Latest Practicable Date, as applicable.
2. The total number of HAECO Shares held by the public is calculated based on the total number of issued HAECO Shares excluding those held by Swire Pacific, at the end of each month or as at the Latest Practicable Date, as applicable.
3. 11 June 2018 being the first trade date immediately following the publication of the Joint Announcement.

From the table above, which outlines the average daily trading volume as a percentage of the total issued HAECO Share capital and as a percentage of the public float, we note that the average daily trading volume of the HAECO Shares has been generally thin. The average daily trading volume of the HAECO Shares during the Pre-announcement Period was 40,251 HAECO Shares, representing around 0.024% of the total issued share capital of HAECO and around 0.097% of the public float. The publication of the Joint Announcement heightened the trading activity, with the average daily trading volume of the Shares increasing to approximately 179,707 HAECO Shares (representing around 0.108% and 0.432% of the total issued HAECO Share capital and of the HAECO Shares held by the public respectively) in the period from the Last Trading Day to the Latest Practicable Date. The increased trading volume of the Shares was still relatively thin. Independent HAECO Shareholders should note that the improvement in liquidity of the HAECO Shares subsequent to the publication of the Joint Announcement may not be sustainable if the Proposal and the Scheme lapse.

Given the historical thin trading volume of the HAECO Shares, it is uncertain whether there would be sufficient liquidity in the HAECO Shares for the Independent HAECO Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price of the HAECO Shares. The Proposal and the Scheme, therefore, represent an opportunity for the Independent HAECO Shareholders, particularly for those who hold a large volume of HAECO Shares, to dispose of their entire holdings at the Cancellation Price if they so wish.

5. Peer companies

As discussed under the section “2.1. Background information of HAECO” above, the HAECO Group is mainly engaged in the provision of aircraft engineering services. This is a unique industry among Hong Kong listed companies. We have conducted an exercise to identify entities whose shares are listed on a recognised stock exchange in Asia, and are primarily engaged in provision of aircraft maintenance, repair and overhaul services with over 50% of its total revenue generated from such businesses in its latest financial year. Based on the said criteria, we have identified only one comparable entity, being SIA Engineering Company Limited (SGX stock code: S59, “**SIAEC**”). Based on publicly available information, SIAEC is a Singaporean company specialising in aircraft maintenance, repair and overhaul services in the Asia-Pacific region with over 50% of its revenue from the provision of such

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

services as part of its business and is a listed subsidiary of Singapore Airlines. We were able to identify other aircraft maintenance, repair and overhaul service providers, but such companies are either primarily operating in countries or regions different from HAECO (i.e. outside of Asia), or privately owned or a business division of a larger aviation group company where information is limited.

In conducting our analysis, we compared the price to earnings ratio (“**PER**”) implied by the Cancellation Price of HAECO with the PER of SIAEC, using the publicly available financial information of SIAEC for the year ended 31 March 2018 and based on the market capitalisation as of the Latest Practicable Date. We consider the use of PER analysis appropriate because this ratio is a widely accepted method to evaluate a profitable business.

We have used the Adjusted Profit in this case for the purpose of the PER analysis because, as disclosed in the 2017 Annual Report, HAECO reported one-off items including impairment charges in respect of goodwill, plant, machinery and tools and deferred tax assets; excluding such one-off items, HAECO would have reported a net profit attributable to HAECO Shareholders of approximately HK\$340 million for year ended 31 December 2017. As those adjustments are not recurring in nature, we consider using the Adjusted Profit, rather than the actual profit/loss attributable to HAECO Shareholders, to be fair for comparison purposes.

	Market Capitalisation as at the Latest Practicable Date <i>(approx. HK\$ million)</i>	PER as at the Latest Practicable Date <i>(times)</i>	Dividend yield <i>(%)</i> <i>(Note 2)</i>
SIAEC <i>(Note 3)</i>	18,831	17.94	4.4
HAECO (based on the Cancellation Price and Adjusted Profit)		35.13	1.4

Source: SIAEC website, www.siaec.com.sg and Bloomberg

Note:

- (1) Exchange rate of HK\$5.7040 into one Singapore dollar as at the Latest Practicable Date was used.
- (2) The dividend yields are calculated based on the respective latest annual dividends per share divided by the respective closing prices as at the Latest Practicable Date. The dividend yield of SIAEC is calculated by dividing the annual total dividend per share of SIAEC of 13.0 cents for the year ended 31 March 2018 by the closing price of the shares of SIAEC as at the Latest Practicable Date. The implied dividend yield of HAECO is calculated by dividing the annual total dividend per HAECO Share of HK\$1.03 for the year ended 31 December 2017 by the Cancellation Price.

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

- (3) Based on the disclosures made in SIAEC's annual report for the year ended 31 March 2018, we are not aware of any one-off items requiring adjustments to be made to the net profit attributable to SIAEC's shareholders for comparison purposes.

As shown from the table above, the PER implied by the Cancellation Price of approximately 35.13 times is significantly higher than the PER of SIAEC of around 17.94 times as at the Latest Practicable Date. Other things being equal, this implies that the Cancellation Price is attractive compared to the ratio of SIAEC.

We have also compared the dividend yield of HAECO with SIAEC. Dividend yield is a financial ratio that indicates the percentage of the market price of a share a company pays out to its shareholders in the form of dividends. If companies have a lower dividend yield than their peer companies, this could be due to the higher share price of such company as compared to its dividend and/or lower dividend of such company as a percentage of its market value. On the basis set out above, we noted that the implied dividend yield of HAECO based on the Cancellation Price of HK\$71.81 is around 1.4% and is significantly lower than the dividend yield of SIAEC of approximately 4.4%, which indicates a lower investment return based on the dividend yield relative to the Cancellation Price, while at the same time, it also reflects the fact that the Cancellation Price offered by Swire relative to dividend is favourable in this respect.

Nevertheless, having stated the above, even though the PER and dividend yield represented by the Cancellation Price compare favourably with SIAEC, given that we are only able to identify one comparable, we have placed less weight on this factor in our overall analysis.

6. Privatisation precedents

We have compared the Proposal and the Scheme to privatisation proposals of other companies listed on the Stock Exchange announced since 1 January 2017, approximately eighteen months before the date of the Joint Announcement, and up to the Latest Practicable Date, excluding privatisation proposals which were not yet to be approved (the “Privatisation Precedents”), which represents an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange’s website satisfying the above selection criteria. The table below illustrates the premiums represented by the offer/cancellation price over the respective last trading day and respective 5 days, 30 days, 60 days, 90 days, and 180 days average share prices in respect of such privatisation proposals:

Date of the announcement	Company	Cancellation price HK (\$)	Premium/(discount) of the cancellation price over/(to) the (average) closing share price up to and including the					
			Last trading day (%)	Last 5 trading days (%)	Last 30 trading days (%)	Last 60 trading days (%)	Last 90 trading days (%)	Last 180 trading days (%)
7 June 2018	Portico International Holdings Limited (0589)	4.10	50.18	51.63	49.20	45.18	45.82	49.85
10 November 2017	Welling Holding Limited (0382)	2.06	30.40	30.38	33.80	35.53	28.75	22.62
3 July 2017	China Assets (Holdings) Limited (0170)	6.80	61.52	70.26	76.62	77.08	76.62	74.81
19 June 2017	Bloomage BioTechnology Corporation Limited (0963)	16.30	13.99	20.92	24.43	30.30	33.73	32.51
29 May 2017	China Metal International Holdings Inc. (0319)	3.01	27.54	26.68	25.94	22.86	24.38	18.29
28 April 2017	Belle International Holdings Limited (1880)	6.30	19.54	23.34	21.47	22.94	28.38	26.44
20 April 2017	TCC International Holdings Limited (1136) (Note 1)	3.60	38.46	40.08	51.26	66.67	74.30	84.73
29 March 2017	Goldin Properties Holdings Limited (0283)	9.00	14.20	26.40	33.74	31.43	33.24	44.01

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Based on the table above, the average premiums of the Privatisation Precedents over the last trading day share price, 5 days, 30 days, 60 days, 90 days and 180 days share price averages were approximately 29.67%, 33.58%, 39.01%, 43.75%, 46.46% and 47.23% respectively. We note that the premium represented by the Cancellation Price over the average closing prices of the Shares on each of the Last Trading Day, the 5 days, 30 days, 60 days, 90 days and 180 days were all above the corresponding averages of premiums of the Privatisation Precedents, which we consider a favourable aspect of the Proposal and the Scheme, for the Independent HAECO Shareholders.

DISCUSSION OF PRINCIPAL REASONS AND FACTORS

The Proposal and the Scheme have been announced after a challenging FY2017 for HAECO. Revenue grew 6% to HK\$14.5 billion, while profit (and the comparison with FY2016) was affected by one-off factors. Adjusting for these, FY2017 Adjusted Profit was one third lower than the comparable figure of HK\$516 million for FY2016 (all figures approximate).

The results for the first half of the financial year ending 31 December 2018 have shown broadly stable revenue and significant growth in profit owing mainly to reduced losses in the USA and a strong performance at HAESL. As set out above in the section headed “3. Prospects of the HAECO Group”, HAECO’s future prospects are subject to uncertainties as its operations comprise a wide range of services in various geographical areas and depend on factors which cannot easily be predicted.

An independent professional valuation of the HAECO Group’s property interests has been conducted, details of which are set out in Appendix II to the Scheme Document. A calculation of the Adjusted NAV taking into account the Valuation is set out in section “2.4 Adjusted NAV” above. The Properties are all used in the operations of the HAECO Group and, according to the HAECO Directors, the HAECO Group has no intention to dispose of or transfer the relevant property interests. After taking into account the Valuation, the Cancellation Price of HK\$71.81 per HAECO Share represents a premium of approximately 42.3% over the Adjusted NAV per HAECO Share of approximately HK\$50.46.

As the HAECO Shares have a long history of listing and trading in Hong Kong, our analysis of the HAECO Group’s value depends principally on market price comparison, liquidity and privatisation precedents, as disclosed in this letter, and not the NAV.

As shown in the chart under the section headed “4.1. Historical price performance of the HAECO Shares” above, the closing price of the HAECO Shares has demonstrated a downward trend since mid-August 2016 until the Last Trading Day, from HK\$63.00 per HAECO Share on 16 August 2016 to HK\$44.00 each on the Last Trading Day. This range is significantly below the Cancellation Price of HK\$71.81 per Scheme Share, which represents a premium of around 40% over the average closing price of the HAECO Shares for the Pre-announcement Period of around HK\$51.30 per HAECO Share, and a premium of 60% or more over the average closing prices for the 5 to 60 day periods up to the Last Trading Day.

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

As discussed in the section headed “4.2.Trading liquidity of the HAECO Shares” above, the trading volume of the HAECO Shares has been generally thin. Scheme Shareholders wishing to do so might not be able to dispose of their HAECO Shares without causing downward pressure on the market price. The relatively higher level of trading recently is, in our opinion, likely to be driven by the publication of the Joint Announcement and so may not be sustainable if the Proposal and the Scheme lapse. Consequently, we consider the Proposal and the Scheme offer an attractive opportunity for the Independent HAECO Shareholders, especially those holding a large block of HAECO Shares, to dispose their shareholdings, at a cash price set at a substantial premium over the market prices of the HAECO Shares prevailing before the Joint Announcement.

The terms represented by the Cancellation Price also compare favourably with the Privatisation Precedents as detailed in the section headed “6. Privatisation precedents” above.

As discussed in the section headed “5. Peer companies” above, the PER and dividend yield represented by the Cancellation Price compare favourably with SIAEC, being the only company we have identified as comparable to HAECO. As there is only one comparable, we have placed less weight on this factor in our analysis in this letter.

OPINION AND RECOMMENDATIONS

Based on the above principal factors and reasons, we consider the terms of the Proposal, including the Cancellation Price, are fair and reasonable so far as the Independent HAECO Shareholders are concerned. Accordingly, we advise the HAECO Independent Board Committee to recommend the Independent HAECO Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the General Meeting to approve and implement the Scheme.

The HAECO Shares have traded in the market below the Cancellation Price since 3 January 2017 up to the Latest Practicable Date when they closed at HK\$68.60. However, there is still a possibility that the HAECO Share price may exceed the Cancellation Price in the period up to 19 November 2018, being the expected last day for trading in the HAECO Shares on the Stock Exchange. Accordingly, HAECO Shareholders are reminded to monitor the trading price and liquidity of the HAECO Shares during this period and, having regard to their own circumstances, consider selling their HAECO Shares in the open market, if the net proceeds obtained from such disposal of the HAECO Shares (after deducting all transaction costs) would be higher than HK\$71.81 per HAECO Share.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

M.N. Sabine **Lyan Tam**
Chairman *Director*

LETTER FROM THE HAECO INDEPENDENT FINANCIAL ADVISER

Mr. M.N. Sabine is a licensed person registered with the SFC 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 thirty years of experience in the corporate finance industry.

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience in corporate finance industry.

EXPLANATORY STATEMENT

This Explanatory Statement constitutes the statement required under section 671 of the Companies Ordinance.

INTRODUCTION

On 10 June 2018, Swire Pacific and HAECO jointly announced that on 8 June 2018, Swire Pacific requested the HAECO Board to put forward to the holders of Scheme Shares the Proposal, which, if implemented, would result in HAECO becoming wholly owned by Swire Pacific and the withdrawal of listing of HAECO Shares from the Stock Exchange. Swire Pacific also confirmed in the Joint Announcement that there would be no increase in the Cancellation Price and that Swire Pacific did not reserve a right to do so.

As at the Latest Practicable Date, Swire Pacific owned or controlled 124,723,637 HAECO Shares, representing approximately 74.99% of the issued share capital of HAECO.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and, specifically, to provide the holders of Scheme Shares with additional information in relation to the Scheme.

THE PROPOSAL

The Proposal will be implemented by way of a scheme of arrangement under section 673 of the Companies Ordinance.

Subject to the Conditions being fulfilled or waived, as applicable, the proposed privatisation of HAECO will be implemented by way of the Scheme between HAECO and the Scheme Shareholders.

THE SCHEME

The Scheme involves a reduction of the share capital of HAECO by the cancellation of the Scheme Shares. Upon such reduction, the share capital of HAECO will be increased to its former amount by the creation of such number of new HAECO Shares as is equal to the number of Scheme Shares cancelled. The credit arising in HAECO's books of account as a result of the capital reduction will be applied in paying up in full the new HAECO Shares so allotted and issued, credited as fully paid, to Swire Pacific. The Scheme provides that, in consideration of the cancellation of the Scheme Shares, the Scheme Shareholders will be entitled to receive from Swire Pacific:

HK\$72 less the Dividend Adjustment
(being HK\$71.81 (assuming that there will be no
further Dividend Adjustment)) in cash. for every Scheme Share

If (1) the HAECO Directors declare any dividend (for example, the first interim dividend for the financial year ending 31 December 2018) after the date of the Joint Announcement, (2) such dividend is payable to HAECO Shareholders registered on a record date which is before

EXPLANATORY STATEMENT

the Effective Date (that is, before Swire Pacific becomes the sole HAECO Shareholder) and (3) the aggregate amount of all of such dividends per HAECO Share exceeds HK\$0.53 (being the first interim dividend per HAECO Share paid for the financial year ended 31 December 2017), then such excess is the “**Dividend Adjustment**”. HAECO Shareholders registered on such record date (comprising the holders of the Scheme Shares on such record date and Swire Pacific) will be entitled to such dividend and the amount of the consideration for the cancellation of each Scheme Share will be reduced by the amount of the Dividend Adjustment. The HAECO Directors have declared a first interim dividend of HK\$0.72 per HAECO Share for the financial year ending 31 December 2018, which will be paid on Tuesday, 18 September 2018 to HAECO Shareholders registered at the close of business on Friday, 31 August 2018, which is before the Effective Date. HAECO does not expect to declare any further dividend on or before the Effective Date.

The Dividend Adjustment is HK\$0.19 and the Cancellation Price is therefore HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment).

Swire Pacific has advised that the Cancellation Price will not be increased and Swire Pacific does not reserve the right to do so.

The Cancellation Price of HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment) represents:

- (a) a premium of approximately 63.2% over the closing price of HK\$44.00 per HAECO Share as quoted on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 63.2% over the average closing price of approximately HK\$43.99 per HAECO Share as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Date;
- (c) a premium of approximately 62.4% over the average closing price of approximately HK\$44.21 per HAECO Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;
- (d) a premium of approximately 60.3% over the average closing price of approximately HK\$44.81 per HAECO Share as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Date;
- (e) a premium of approximately 57.0% over the average closing price of approximately HK\$45.75 per HAECO Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;
- (f) a premium of approximately 50.0% over the average closing price of approximately HK\$47.88 per HAECO Share as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date;

EXPLANATORY STATEMENT

- (g) a premium of approximately 114.5% over the audited consolidated net asset value (after deducting minority interests) attributable to HAECO Shareholders per HAECO Share of approximately HK\$33.48 as at 31 December 2017;
- (h) a premium of approximately 99.3% over the unaudited consolidated net asset value (after deducting minority interests) attributable to HAECO Shareholders per HAECO Share of HK\$36.04 as at 30 June 2018; and
- (i) a premium of approximately 4.7% over the closing price of HK\$68.60 per HAECO Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Cancellation Price has been determined after taking into account the traded prices of HAECO Shares before the Joint Announcement and publicly available financial information of HAECO and with reference to privatisation transactions in Hong Kong in recent years.

While the comparison of the Cancellation Price with the Adjusted NAV is not of material relevance to the HAECO Shareholders' consideration of the merits of the Proposal for the reasons set out below, the Cancellation Price of HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment) represents a premium of approximately 42.3% over the Adjusted NAV of approximately HK\$50.46 as at 30 June 2018. As disclosed in the Letter from the HAECO Independent Financial Adviser, the appreciation in value of the Properties represented by the property valuation in Appendix II was mainly attributable to the fact that most of the Properties have been stated at cost in the consolidated financial statements of the HAECO Group since their construction or acquisition in accordance with the accounting policy adopted by the HAECO Group. All of the Properties since the completion of their construction or acquisition have been and are currently occupied by the HAECO Group as its bases for its own operations, as offices or as staff dormitories. The HAECO Group has no intention to dispose of or transfer the Properties. Accordingly, such appreciation amount is unlikely to be realised. As disclosed in this Explanatory Statement, it is the intention of Swire Pacific that HAECO will continue to carry on its current business, which principally comprises the provision of overhaul and maintenance services for commercial aircraft in Hong Kong and elsewhere and Swire Pacific does not intend to introduce any major changes to the business of HAECO (including any redeployment of fixed assets of HAECO).

TOTAL CONSIDERATION AND FINANCIAL RESOURCES

On the basis of the Cancellation Price of HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment) and 41,601,213 Scheme Shares in issue as at the Latest Practicable Date, the amount of cash payable to the Scheme Shareholders under the Proposal would be approximately HK\$2,987.38 million.

Swire Pacific intends to finance the cash required for the Proposal from credit facilities provided by Mizuho Bank, Ltd., Hong Kong Branch, MUFG Bank, Ltd. and Sumitomo Mitsui Banking Corporation, respectively. Moelis is satisfied that sufficient financial resources are available to Swire Pacific for satisfying its obligations in respect of the full implementation of the Proposal.

EXPLANATORY STATEMENT

CONDITIONS OF THE PROPOSAL

The Proposal is, and the Scheme will become effective and binding on HAECO and all HAECO Shareholders, subject to the fulfilment or waiver (as applicable) of the following Conditions:

- (a) the approval of the Scheme at the Court Meeting (by way of a poll) by holders of the Scheme Shares representing at least 75% of the voting rights of such holders present and voting, in person or by proxy, at the Court Meeting, and the votes cast (by way of poll) against the Scheme at the Court Meeting not exceeding 10% of the total voting rights attached to all Disinterested Shares, provided that:
 - (i) the Scheme is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Independent HAECO Shareholders that are cast either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by the Independent HAECO Shareholders;
- (b) the passing of a special resolution(s) by a majority of at least 75% of the votes cast by the HAECO Shareholders present and voting in person or by proxy at the General Meeting (and otherwise in accordance with the procedural requirements of section 564 of the Companies Ordinance) to approve and give effect to the Scheme, including the approval of the reduction of the share capital of HAECO by cancelling and extinguishing the Scheme Shares and the issue to Swire Pacific of such number of new HAECO Shares as is equal to the number of the Scheme Shares cancelled;
- (c) the sanction of the Scheme (with or without modification) and the confirmation of the reduction of the share capital of HAECO involved in the Scheme by the High Court and the registration of a copy of the order of the High Court by the Registrar of Companies under Part 2 of the Companies Ordinance;
- (d) the compliance with the procedural requirements of sections 230 and 231 and sections 673 and 674 of the Companies Ordinance in relation to the reduction of the share capital of HAECO and the Scheme, respectively;
- (e) all authorisations, approvals, permissions, waivers and consents and all registrations and filings (including without limitation any which are required or desirable under or in connection with any applicable laws or regulations or any licences, permits or contractual obligations of HAECO) in connection with the Proposal or its implementation in accordance with its terms having been obtained (or, as the case may be, completed) and remaining in full force and effect without modification;

EXPLANATORY STATEMENT

- (f) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry (or enacted or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order), in each case, which would make the Proposal or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material conditions or obligations with respect to the Proposal or its implementation in accordance with its terms);
- (g) all necessary legal or regulatory obligations in all relevant jurisdictions having been complied with and no legal or regulatory requirement having been imposed which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws or regulations in connection with the Proposal or its implementation in accordance with its terms;
- (h) the implementation of the Proposal not resulting in, and no event or circumstance having occurred or arisen which would or might be expected to result in:
 - (i) any indebtedness (actual or contingent) of any member of the HAECO Group being or becoming repayable (or capable of being declared repayable) immediately or prior to its stated maturity or repayment date;
 - (ii) any agreement, arrangement, licence, permit or instrument to which any member of the HAECO Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject (or any of the rights, liabilities, obligations or interests of any member of the HAECO Group thereunder) being terminated or adversely modified (or any material obligation or liability on the part of any member of the HAECO Group arising in relation thereto); or
 - (iii) the creation or enforcement of any security interest over the whole or any part of the business, property or assets of any member of the HAECO Group or any such security (whenever arising) becoming enforceable,

in each case, which is material in the context of the HAECO Group as a whole or in the context of the Proposal or its implementation in accordance with its terms; and

- (i) since the date of the Joint Announcement:
 - (i) there having been no adverse change in the business, assets, financial or trading, positions, profits or prospects of any member of the HAECO Group which is material in the context of the HAECO Group taken as a whole or in the context of the Proposal; and
 - (ii) there not having been instituted, threatened in writing or remaining outstanding any litigation, arbitration, other proceedings or other dispute resolution process

EXPLANATORY STATEMENT

to which any such member is a party (whether as plaintiff, defendant or otherwise) and no investigation by any government, quasi-governmental, supranational, regulatory or investigative body or court against or in respect of any such member or the business carried on by any such member having been threatened in writing, instituted or remaining outstanding, in each case, which is material in the context of the HAECO Group taken as a whole or in the context of the Proposal or its implementation in accordance with its terms.

Swire Pacific reserves the right to waive all or any of the Conditions (except for the Conditions in paragraphs (a) to (d) above) in whole or in part. HAECO does not have the right to waive any of the Conditions. All of the above Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date, failing which the Proposal will lapse. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, Swire Pacific may only invoke any or all of the Conditions as a basis for not proceeding with the Proposal if the circumstances which give rise to the right to invoke such Condition are of material significance to Swire Pacific in the context of the Proposal. With reference to the Condition in paragraph (e), as at the Latest Practicable Date, Swire Pacific was not aware of any requirement for such authorisations, approvals, permissions, waivers, consents, registrations or filings other than those set out in the Conditions in paragraphs (a) to (d). With reference to the Condition in paragraph (f), as at the Latest Practicable Date, Swire Pacific was not aware of any such action, proceeding, suit, investigation, statute, regulation, demand or order. With reference to the Condition in paragraph (g), as at the Latest Practicable Date, Swire Pacific was not aware of any such non-compliance or regulatory requirement other than those set out in the Conditions in paragraphs (a) to (d). With reference to the Condition in paragraph (h), as at the Latest Practicable Date, Swire Pacific was not aware of any such event or circumstance.

As at the Latest Practicable Date, none of the Conditions had been fulfilled or waived.

As at the Latest Practicable Date, there was no agreement or arrangement to which Swire Pacific is a party which relates to circumstances in which it may or may not invoke or seek to invoke a Condition.

If approved, the Scheme will be binding on all of the Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting or the General Meeting.

Assuming that the Conditions are fulfilled or, as applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be Thursday, 29 November 2018, and the listing of HAECO Shares on the Stock Exchange is expected to be withdrawn at 9:00 a.m. on the Effective Date pursuant to Rule 6.15(2) of the Listing Rules.

An announcement will be made by HAECO and Swire Pacific in relation to the results of the Court Meeting and the General Meeting and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date and the date of withdrawal of listing of HAECO Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

EXPLANATORY STATEMENT

Swire Pacific Shareholders, HAECO Shareholders and potential investors should be aware that the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and therefore the Proposal may or may not be implemented. Swire Pacific Shareholders, HAECO Shareholders and potential investors should therefore exercise caution when dealing in the securities of Swire Pacific or HAECO. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

IRREVOCABLE UNDERTAKINGS

Pursuant to the Irrevocable Undertakings, each IU Shareholder has irrevocably undertaken to Swire Pacific to exercise or procure the exercise of all voting rights attached to the IU Shares held by it at the Court Meeting and the General Meeting in favour of all the resolutions which are necessary to implement or otherwise relate to the Proposal. Each IU Shareholder has also undertaken in the Irrevocable Undertaking that it will not sell, transfer or encumber in any way any of the IU Shares held by it.

Each Irrevocable Undertaking is unconditional.

The IU Shares comprised 5,223,811 HAECO Shares in total, representing 3.14% of the issued share capital of HAECO, 12.56% of the Scheme Shares, 12.56% of the Independent HAECO Shares and 12.56% of the Disinterested Shares as at the Latest Practicable Date.

Each Irrevocable Undertaking shall terminate upon the Proposal becoming effective or lapsing in accordance with its terms.

SHAREHOLDING STRUCTURE OF HAECO AND EFFECT OF THE PROPOSAL AND THE SCHEME

As at the Latest Practicable Date, the issued share capital of HAECO comprised 166,324,850 HAECO Shares.

EXPLANATORY STATEMENT

The table below sets out the shareholding structure of HAECO as at the Latest Practicable Date and immediately upon the Scheme becoming effective (assuming no new HAECO Shares will be issued prior thereto).

Shareholder	As at the Latest Practicable Date		Immediately upon the Scheme becoming effective	
	Number of HAECO Shares	Approximate % of the issued share capital of HAECO	Number of HAECO Shares	Approximate % of the issued share capital of HAECO
Swire Pacific	124,723,637	74.99	166,324,850	100
Swire Pacific Concert Parties	—	—	—	—
Independent HAECO Shareholders	<u>41,601,213</u>	<u>25.01</u>	<u>—</u>	<u>—</u>
Total	<u>166,324,850</u>	<u>100</u>	<u>166,324,850</u>	<u>100</u>

As at the Latest Practicable Date, no HAECO Director held any HAECO Shares.

Upon the Scheme becoming effective, Swire Pacific will hold 100% of the issued share capital of HAECO.

As at the Latest Practicable Date, the Scheme Shares, comprising 41,601,213 HAECO Shares, represented approximately 25.01% of the issued HAECO Shares.

As at the Latest Practicable Date, Swire Pacific owned or controlled 124,723,637 HAECO Shares, representing approximately 74.99% of the issued share capital of HAECO. Such HAECO Shares will not form part of the Scheme Shares and will not be voted at the Court Meeting and will not be cancelled upon the Scheme becoming effective. Swire Pacific has indicated that, if the Scheme is approved at the Court Meeting, Swire Pacific will vote in favour of the special resolution to be proposed at the General Meeting.

As at the Latest Practicable Date, HAECO did not have any outstanding options, warrants, derivatives or securities convertible into HAECO Shares in issue.

EXPLANATORY STATEMENT

SCHEME OF ARRANGEMENT UNDER SECTION 673 OF THE COMPANIES ORDINANCE AND THE COURT MEETING

Under section 670 of the Companies Ordinance, where an arrangement is proposed to be entered into by a company with the members, or any class of the members, of the company, the High Court may, on an application made by the company, any of the members or any member of that class, order a meeting of those members or of that class of members, as the case may be, to be summoned in any manner that the High Court directs.

Under section 673 of the Companies Ordinance, if the members or the class of members with whom the arrangement is proposed to be entered into agree or agrees to the arrangement, the High Court may, on application by the company, any of the members or any member of that class, as the case may be, sanction the arrangement. An arrangement sanctioned by the High Court as aforesaid is binding on the members or the class of members with whom the arrangement is proposed to be entered into.

The Scheme is a takeover offer under section 674 of the Companies Ordinance. Under section 674 of the Companies Ordinance, where the arrangement involves a takeover offer, the members or the class of members agree or agrees to the arrangement if, at a meeting summoned as directed by the High Court as aforesaid, members representing at least 75% of the voting rights of the members or the class of members, as the case may be, present and voting, in person or by proxy, agree to the arrangement and the votes cast against the arrangement at the meeting do not exceed 10% of the total voting rights attached to all Disinterested Shares in the company or of the class in the company, as the case may be.

ADDITIONAL REQUIREMENTS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements under the Companies Ordinance as summarised above, under Rule 2.10 of the Takeovers Code, except with the consent of the Executive, the Scheme may only be implemented if:

- (a) the Scheme is approved by the Independent HAECO Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by the Independent HAECO Shareholders that are cast either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast by the Independent HAECO Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by all the Independent HAECO Shareholders. As at the Latest Practicable Date, the number of votes representing 10% of the votes attached to all the Scheme Shares held by all the Independent HAECO Shareholders was 4,160,121.

EXPLANATORY STATEMENT

BINDING EFFECT OF THE SCHEME

Notwithstanding the fact that there may be a dissenting minority, if the Scheme is approved at the Court Meeting in accordance with the requirements of section 673 of the Companies Ordinance and Rule 2.10 of the Takeovers Code and is sanctioned by the High Court and the other Conditions are either fulfilled or (to the extent permitted) waived, then the Scheme will become binding on HAECO and all HAECO Shareholders.

If the Scheme becomes effective:

- (a) all the Scheme Shares will be cancelled whereupon the share capital of HAECO shall be reduced and all share certificates for those Scheme Shares cancelled shall cease to have effect as evidence of title;
- (b) the share capital of HAECO will then be increased to its former amount by the creation of such number of new HAECO Shares as is equal to the number of Scheme Shares cancelled;
- (c) the credit arising in HAECO's books of account as a result of the said reduction of capital will be applied in paying up in full the new HAECO Shares created and such new HAECO Shares will be so allotted and issued, credited as fully paid, to Swire Pacific; and
- (d) Swire Pacific will pay the Cancellation Price of HK\$71.81 (assuming that there will be no further Dividend Adjustment) in cash to the Scheme Shareholders for each Scheme Share held by them on the Scheme Record Date.

Pursuant to Rule 2.3 of the Takeovers Code, if the Proposal is either not recommended by the HAECO Independent Board Committee or not recommended as fair and reasonable by the HAECO Independent Financial Adviser, all expenses incurred by HAECO in connection with the Proposal shall be borne by Swire Pacific if the Scheme is not approved. Given that the Proposal is recommended by the HAECO Independent Board Committee and is recommended as fair and reasonable by the HAECO Independent Financial Adviser, Swire Pacific and HAECO have agreed that all costs, charges and expenses of the advisers and counsels appointed by HAECO, including the HAECO Independent Financial Adviser, will be borne by HAECO, whereas all costs, charges and expenses of the advisers and counsels appointed by Swire Pacific will be borne by Swire Pacific, and other costs, charges and expenses of the Scheme and the Proposal will be shared between Swire Pacific and HAECO equally.

EXPLANATORY STATEMENT

REASONS FOR AND BENEFITS OF THE PROPOSAL

For holders of Scheme Shares: an opportunity to realise their investment at a significant premium

The Proposal is intended to provide holders of Scheme Shares with an opportunity to realise their investment in HAECO for cash at a significant premium over (i) the prevailing share price before the Joint Announcement and (ii) the net asset value per HAECO Share. The Cancellation Price of HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment) represents a premium of approximately 63.2% over the closing price of HK\$44.00 per HAECO Share on the Last Trading Date and a premium of approximately 62.4% and 50.0% over the average closing prices of HK\$44.21 and HK\$47.88 per HAECO Share for the 30 and 180 consecutive trading days up to and including the Last Trading Date, respectively.

Additionally, the trading liquidity of the HAECO Shares has been at a low level over a long period of time. The average daily trading volume of the HAECO Shares for the 6 months up to and including the Last Trading Date was approximately 0.033 million HAECO Shares per day, representing only approximately 0.020% of the issued HAECO Shares as at the date of the Joint Announcement. The low trading liquidity of the HAECO Shares could make it difficult for the holders of the Scheme Shares to execute on-market disposals without adversely affecting the share price. Hence, in light of the low liquidity of the HAECO Shares, the Scheme provides an opportunity for the holders of the Scheme Shares, if they so wish, to invest the monies received under the Scheme in alternative investments with higher liquidity than the HAECO Shares or use them for other purposes.

For Swire Pacific: to facilitate the creation of long term strategic value

HAECO is a core long term strategic business for Swire Pacific. The Proposal will enable Swire Pacific to consolidate its control over HAECO fully and is expected to allow an overall more efficient and cost-effective structure for Swire Pacific, with greater flexibility to manage the HAECO business.

Due to the low liquidity and the relative underperformance in the trading of HAECO Shares, Swire Pacific views the listing of HAECO Shares as no longer offering a viable source of funding for HAECO's business. In fact, HAECO has not raised any equity funds from the public equity markets for over 30 years and Swire Pacific sees no practicable opportunity for this to happen in the foreseeable future.

For HAECO: to save costs in maintaining its listing status

The maintenance of the listing status of HAECO results in administrative, compliance and other listing-related costs and expenses. If the Proposal is successful, it is expected that some of these costs and expenses (estimated at approximately HK\$5 million per annum) may be eliminated, and the funds saved could be used for business operations.

EXPLANATORY STATEMENT

SWIRE PACIFIC'S INTENTIONS IN RELATION TO THE HAECO GROUP

It is the intention of Swire Pacific that HAECO will continue to carry on its current business, which principally comprises the provision of overhaul and maintenance services for commercial aircraft in Hong Kong and elsewhere.

Swire Pacific does not intend to introduce any major changes to the business of HAECO (including any redeployment of fixed assets of HAECO).

Swire Pacific does not intend to make any significant changes to the continued employment of the employees of the HAECO Group.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

Subject to the requirements of the Takeovers Code, the Proposal will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. If the Scheme is not approved or the Proposal otherwise lapses, the listing of HAECO Shares on the Stock Exchange will not be withdrawn.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither Swire Pacific nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for HAECO, except with the consent of the Executive. Swire Pacific has no intention to seek such consent.

INFORMATION ABOUT SWIRE PACIFIC

Swire Pacific is an investment holding company incorporated in Hong Kong with limited liability and is listed on the Stock Exchange. Its subsidiaries, associates and joint ventures are engaged in property, aviation, beverages, marine services and trading and industrial businesses.

The executive directors of Swire Pacific are Merlin B. Swire (Chairman), Ivan K.L. Chu, David P. Cogman, Michelle M.S. Low; the non-executive director of Swire Pacific is Samuel C. Swire; and the independent non-executive directors of Swire Pacific are Paul K. Etchells, Timothy G. Freshwater, Chien Lee, Rose W.M. Lee and Gordon R.H. Orr.

Controlling shareholder of Swire Pacific

JSS is a controlling shareholder of Swire Pacific, being interested (directly and indirectly through its subsidiaries) in approximately 55.10% of the equity of Swire Pacific and controlling (directly and indirectly through its subsidiaries) approximately 63.97% of the voting rights attached to shares in Swire Pacific as at the Latest Practicable Date. JSS is a private investment holding company incorporated in England.

EXPLANATORY STATEMENT

The directors of JSS are Barnaby N. Swire (Chairman), Martin Cubbon, Baroness Lydia S. Dunn, N. Adam H. Fenwick, James E. Hughes-Hallett, James W.J. Hughes-Hallett, Gordon D. McCallum, John S. Swire, Merlin B. Swire, Samuel C. Swire and William J. Wemyss.

Interests of the Swire Pacific Directors

Merlin B. Swire, who is a director and the chairman of HAECO, is materially interested in the Scheme and therefore abstained from voting on the board resolution of Swire Pacific approving the Proposal.

John R. Slosar, who was a director and the former chairman of HAECO, was materially interested in the Scheme and had therefore abstained from voting on the board resolution of Swire Pacific approving the Proposal. (John R. Slosar resigned as chairman and a director of both Swire Pacific and HAECO with effect from 1st July 2018.)

INFORMATION ABOUT HAECO

HAECO is a company incorporated in Hong Kong with limited liability and is listed on the Stock Exchange. Its principal activity is the provision of overhaul and maintenance services for commercial aircraft.

Your attention is drawn to Appendix I headed “Financial Information Relating to the HAECO Group”, Appendix II headed “Property Valuation Report” and Appendix III headed “General Information” to this Scheme Document.

WITHDRAWAL OF LISTING OF HAECO SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled (with the equivalent number of new HAECO Shares being issued as fully paid to Swire Pacific) and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. In that case, HAECO does not intend to maintain its listing on the Stock Exchange and will make an application for the listing of HAECO Shares to be withdrawn from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from 9:00 a.m. on the Effective Date.

The holders of Scheme Shares will be notified by way of an announcement of the exact dates of the last day for dealing in HAECO Shares and the day on which the Scheme and the withdrawal of listing of HAECO Shares on the Stock Exchange will become effective.

REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Wednesday, 28 November 2018, it is proposed that the register of members of HAECO will be closed from Friday, 23 November 2018 (or such other date as HAECO Shareholders may be notified by an announcement) onwards in order to determine entitlements under the Scheme. In order to qualify for entitlements under the Scheme, holders of Scheme Shares should ensure that the transfers of

EXPLANATORY STATEMENT

HAECO Shares to them are lodged with the Share Registrar at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration in their names or in the names of their nominees no later than 4:30 p.m. (Hong Kong time) on Thursday, 22 November 2018.

Upon the Scheme becoming effective, the Cancellation Price will be paid to the Scheme Shareholders whose names appear in the register of members of the Company on the Scheme Record Date as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the Effective Date. On the basis that the Scheme becomes effective on Thursday, 29 November 2018, the cheques for the payment of the Cancellation Price are expected to be despatched on or before Monday, 10 December 2018.

Cheques for the payment of the Cancellation Price will be sent by ordinary post in postage pre-paid envelopes addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name then stands first in the register of members of HAECO in respect of the joint holding. All such cheques will be posted at the risk of the persons entitled thereto and none of Swire Pacific, HAECO, Moelis, the HAECO Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal will be responsible for any loss or delay in transmission.

On or after the day being six calendar months after the posting of such cheques, Swire Pacific shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in Swire Pacific's name with a licensed bank in Hong Kong selected by Swire Pacific.

Swire Pacific shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to the Scheme to persons who satisfy Swire Pacific that they are respectively entitled thereto and the cheques of which they are payees have not been cashed. Any payments made by Swire Pacific shall not include any interest accrued on the sums to which the respective persons are entitled pursuant to the Scheme. Swire Pacific shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of Swire Pacific to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

On the expiry of six years from the Effective Date, Swire Pacific shall be released from any further obligation to make any payments under the Scheme and Swire Pacific shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

EXPLANATORY STATEMENT

Assuming that the Scheme becomes effective, the register of members of HAECO will be updated accordingly to reflect the cancellation of all the Scheme Shares and all existing certificates for the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on Thursday, 29 November 2018.

Settlement of the Cancellation Price to which any Scheme Shareholder is entitled will be implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which Swire Pacific may otherwise be, or claim to be, entitled against such Scheme Shareholder.

OVERSEAS SHAREHOLDERS

This Scheme Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as that which would have been disclosed if this Scheme Document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

The making and implementation of the Proposal to holders of Scheme Shares who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such holders of Scheme Shares are located. Such holders of Scheme Shares should inform themselves about and observe any applicable legal, tax or regulatory requirements.

It is the responsibility of any overseas holders of Scheme Shares wishing to take any action in relation to the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, the compliance with the necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

As at the Latest Practicable Date, there were 14 HAECO Shareholders (representing approximately 2.29% of the total number of the HAECO Shareholders) whose addresses as shown in the register of members of HAECO (“**registered addresses**”) were outside Hong Kong and those HAECO Shareholders together held 177,011 HAECO Shares (representing approximately 0.11% of the issued share capital of HAECO). Those 14 HAECO Shareholders included one HAECO Shareholder whose registered address was in Australia, two HAECO Shareholders whose registered addresses were in India, one HAECO Shareholder whose registered address was in Kenya, three HAECO Shareholders whose registered addresses were in Malaysia, six HAECO Shareholders whose registered addresses were in the United Kingdom and one HAECO Shareholders whose registered address was in the United States. The Swire Pacific Directors and the HAECO Directors had been advised by the local counsel in the aforementioned jurisdictions that there is no restriction or requirement under the respective laws or regulations of those jurisdictions for extending the Scheme and despatching this Scheme Document to those overseas HAECO Shareholders. The Scheme will be extended and this Scheme Document will be despatched to those overseas HAECO Shareholders.

EXPLANATORY STATEMENT

Any acceptance by the holders of Scheme Shares will be deemed to constitute a representation and warranty from such persons to Swire Pacific and HAECO and their respective advisers that those laws and regulatory requirements have been complied with. If you are in doubt as to your position, you should consult your professional advisers.

TAXATION AND INDEPENDENT ADVICE

As the cancellation of the Scheme Shares upon the Scheme becoming effective does not involve the sale and purchase of any Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) in this respect.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Price will make them liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of Swire Pacific, HAECO, Moelis, the HAECO Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their approval or rejection, or the implementation, of the Proposal.

COURT MEETING AND GENERAL MEETING

The High Court has directed that the Court Meeting be convened for the purpose of considering and, if thought fit, approving the Scheme (with or without modification). The Scheme will be subject to the approval by holders of Scheme Shares and Independent HAECO Shareholders, whose names appear in the register of members of HAECO as at the Meeting Record Date, at the Court Meeting in the manner referred to in the section headed “Conditions of the Proposal” above in this Explanatory Statement. The HAECO Shares owned by Swire Pacific will not form part of the Scheme Shares and, as such, will not be voted at the Court Meeting. As at the Latest Practicable Date, save that Merlin B. Swire, a director and the chairman of HAECO, was interested within the meaning of Part XV of the SFO in (i) 1,353,585 Swire Pacific ‘B’ Shares (representing approximately 0.05% of the total number of Swire Pacific ‘B’ Shares in issue); (ii) 20,941,743 ordinary shares of JSS (an associated corporation (within the meaning of Part XV of the SFO) of each of Swire Pacific and HAECO) (representing approximately 20.94% of the total number of ordinary shares in issue of JSS); and (iii) 18,779,711 preference shares of JSS (representing approximately 20.87% of the total number of preference shares in issue of JSS), none of the HAECO Directors had any shareholding or any interest (within the meaning of Part XV of the SFO) in Swire Pacific or HAECO or any of their associated corporation(s).

EXPLANATORY STATEMENT

Immediately following the conclusion of the Court Meeting, the General Meeting will be held for the purpose of considering and, if thought fit, passing the special resolution to give effect to the Scheme, including the reduction of the share capital of HAECO. All HAECO Shareholders whose names appear in the register of members of HAECO as at the Meeting Record Date will be entitled to attend and vote in respect of the special resolution at the General Meeting. Swire Pacific has indicated that, if the Scheme is approved at the Court Meeting, Swire Pacific will vote in favour of the special resolution to be proposed at the General Meeting to approve and give effect to the Scheme, including the approval of the reduction of the share capital of HAECO by cancelling and extinguishing the Scheme Shares and of the issue to Swire Pacific of such number of new HAECO Shares as is equal to the number of the Scheme Shares cancelled.

Notice of the Court Meeting is set out on pages 128 to 130 of this Scheme Document. The Court Meeting will be held on Wednesday, 10 October 2018 at the time and place specified in the notice.

Notice of the General Meeting is set out on pages 131 to 133 of this Scheme Document. The General Meeting will be held at the same place and on the same date at 10:30 a.m. or, if later, immediately after the conclusion or adjournment of the Court Meeting.

Pursuant to the Irrevocable Undertakings, each IU Shareholder has irrevocably undertaken to Swire Pacific to exercise or procure the exercise of all voting rights attached to the IU Shares held by it at the Court Meeting and the General Meeting in favour of all the resolutions which are necessary to implement or otherwise relate to the Proposal.

ACTIONS TO BE TAKEN

Actions to be taken by HAECO Shareholders

For the purpose of determining the entitlements of the holders of Scheme Shares to attend and vote at the Court Meeting and the entitlements of the HAECO Shareholders to attend and vote at the General Meeting, the register of members of HAECO will be closed from Thursday, 4 October 2018 to Wednesday, 10 October 2018 (both days inclusive) and during such period, no transfer of HAECO Shares will be effected. In order to qualify to vote at the Court Meeting and the General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Share Registrar at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Wednesday, 3 October 2018. A subsequent purchaser of Scheme Shares will need to obtain a proxy form from the transferor if he wishes to attend or vote at the Court Meeting or the General Meeting.

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the General Meeting are enclosed with this Scheme Document.

Whether or not you are able to attend the Court Meeting and/or the General Meeting or any adjournment thereof in person, if you are a holder of Scheme Shares, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting,

EXPLANATORY STATEMENT

and if you are a HAECO Shareholder, we strongly urge you to complete and sign the enclosed **white** form of proxy in respect of the General Meeting, in accordance with the instructions printed thereon, and to lodge them at the office of the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. **In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged no later than 48 hours before the time appointed for holding the Court Meeting or any adjournment thereof, and the white form of proxy for use at the General Meeting should be lodged no later than 48 hours before the time appointed for holding the General Meeting or any adjournment thereof.** The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude you from attending and voting in person at the relevant meeting or any adjournment thereof. In the event that you attend and vote at the relevant meeting or any adjournment thereof after having lodged your form of proxy, the returned form of proxy will be deemed to have been revoked by operation of law.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the General Meeting, you will still be bound by the outcome of the Court Meeting and/or the General Meeting. You are therefore strongly urged to attend and vote at the Court Meeting and/or the General Meeting in person or by proxy.

Voting at the Court Meeting and the General Meeting will be taken by poll as required under the Listing Rules and the Takeovers Code.

HAECO and Swire Pacific will make an announcement in relation to the results of the Court Meeting and the General Meeting and, if all the resolutions are passed at those meetings, further announcements will be made in relation to, among other things, the results of the hearing of the petition for the sanction of the Scheme by the High Court, the Effective Date and the date of withdrawal of listing of HAECO Shares from the Stock Exchange in accordance with the requirements of the Takeovers Code and the Listing Rules.

Actions to be taken by Beneficial Owners whose HAECO Shares are held by a Registered Owner or deposited in CCASS

No person shall be recognised by HAECO as holding any HAECO Shares on trust.

If you are a Beneficial Owner whose HAECO Shares are registered in the name of a nominee, trustee, depositary or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the HAECO Shares beneficially owned by you should be voted at the Court Meeting and/or the General Meeting.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the General Meeting personally, you should:

- (a) contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the General Meeting and, for such purpose, the Registered Owner may appoint you as its proxy; or

EXPLANATORY STATEMENT

- (b) arrange for some or all of the HAECO Shares registered in the name of the Registered Owner to be transferred into your own name.

The appointment of a proxy by the Registered Owner at the Court Meeting and/or the General Meeting shall be in accordance with all relevant provisions in the articles of association of HAECO.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and no later than the latest time for lodging the relevant forms of proxy as more particularly set out in this Scheme Document.

The completion and return of a form of proxy for the Court Meeting and/or the General Meeting will not preclude the Registered Owner from attending and voting in person at the relevant meeting or any adjournment thereof. In the event that the Registered Owner attends and votes at the relevant meeting or any adjournment thereof after having lodged his forms of proxy, the returned form of proxy will be deemed to have been revoked by operation of law.

If you are a Beneficial Owner whose HAECO Shares are deposited in CCASS and registered under the name of HKSCC Nominees, you must, unless you are an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has, in turn, deposited such HAECO Shares with, a CCASS participant regarding voting instructions to be given to such persons, or alternatively to arrange for some or all of such HAECO Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote in respect of the Scheme. The procedure for voting in respect of the Scheme by the Investor Participants and the Other CCASS Participants with respect to HAECO Shares registered under the name of HKSCC Nominees shall be in accordance with the "General Rules of CCASS" and the "CCASS Operational Procedures" in effect from time to time.

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A HAECO SHAREHOLDER OR A BENEFICIAL OWNER, SWIRE PACIFIC AND HAECO STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE GENERAL MEETING. IF YOU KEEP ANY HAECO SHARES IN A SHARE LENDING PROGRAMME, SWIRE PACIFIC AND HAECO URGE YOU TO RECALL ANY OUTSTANDING HAECO SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A REGISTERED OWNER HOLDING HAECO SHARES ON BEHALF OF BENEFICIAL OWNERS, SWIRE PACIFIC AND HAECO WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR RIGHT TO VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER OR REGISTERED INSTITUTION IN SECURITIES, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

EXPLANATORY STATEMENT

FURTHER INFORMATION

Further information in relation to the Proposal is set out in the appendices to this Scheme Document, all of which form part of this Explanatory Statement.

HAECO Shareholders and Scheme Shareholders should rely only on the information contained in this Scheme Document. None of HAECO, Swire Pacific, Moelis, the HAECO Independent Financial Adviser and the Share Registrar and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal have authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

LANGUAGE

In case of any inconsistency, the English language text of this Scheme Document and the accompanying forms of proxy shall prevail over the Chinese language text.

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

1. FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial information of the HAECO Group for each of the three years ended 31st December 2015, 31st December 2016 and 31st December 2017 and for the six months ended 30th June 2018. The figures for the years ended 31st December 2015 and 31st December 2016 are extracted from the annual report of HAECO for the year ended 31st December 2016, the figures for the year ended 31st December 2017 are extracted from the annual report of HAECO for the year ended 31st December 2017, and the figures for the six months ended 30th June 2018 are extracted from the interim report of HAECO for the six months ended 30th June 2018.

The auditors' reports issued by the auditors of HAECO, PricewaterhouseCoopers, in respect of the audited consolidated financial statements of the HAECO Group for each of the three years ended 31st December 2015, 31st December 2016 and 31st December 2017 did not contain any modified opinion, emphasis of matter or material uncertainty related to going concern.

In this Appendix I, references to "the Company" shall mean HAECO.

Summary of Consolidated Statement of Profit or Loss and Other Comprehensive Income

	(Unaudited)	(Audited)		
	For the six months ended 30th June 2018	For the year ended 31st December		
	2018	2017	2016	2015
	<i>HK\$M</i>	<i>HK\$M</i>	<i>HK\$M</i>	<i>HK\$M</i>
Revenue	7,325	14,546	13,760	12,095
Profit before taxation	722	105	1,110	585
Taxation charge	(115)	(451)	(17)	(33)
Profit/(loss) after taxation	<u>607</u>	<u>(346)</u>	<u>1,093</u>	<u>552</u>
Profit/(loss) attributable to:				
The Company's shareholders	469	(541)	975	464
Non-controlling interests	<u>138</u>	<u>195</u>	<u>118</u>	<u>88</u>
	<u>607</u>	<u>(346)</u>	<u>1,093</u>	<u>552</u>

APPENDIX I FINANCIAL INFORMATION RELATING TO THE HAECO GROUP

	(Unaudited)		(Audited)	
	For the six months ended		For the year ended 31st December	
	30th June		2017	2016
	2018		2015	2015
	<i>HK\$M</i>	<i>HK\$M</i>	<i>HK\$M</i>	<i>HK\$M</i>
Total comprehensive income/(loss) attributable to:				
The Company's shareholders	447	(279)	972	153
Non-controlling interests	120	282	45	36
	<u>567</u>	<u>3</u>	<u>1,017</u>	<u>189</u>
Total dividends declared/paid	120	171	649	283
Earnings/(loss) per share attributable to the Company's shareholders (basic and diluted)	HK\$2.82	(HK\$3.25)	HK\$5.86	HK\$2.79
Total dividends per share	HK\$0.72	HK\$1.03	HK\$3.90	HK\$1.70

Remarks:

The following items (extracted from the section headed "Review of Operations" in the Annual Report 2017 and Annual Report 2016 of HAECO) are included in profit/(loss) after taxation above.

	For the six months ended		For the year ended 31st December	
	30th June		2017	2016
	2018		2015	2015
	<i>HK\$M</i>		<i>HK\$M</i>	<i>HK\$M</i>
Impairment charge in respect of goodwill	—	(625)	(285)	—
Impairment charge in respect of plant, machinery and tools	—	(7)	(39)	(13)
Write-off of net deferred tax assets	—	(249)	—	—
Gain on disposal of shares in Singapore Aero Engine Services Pte. Limited, net of associated expenses	—	—	783	—
	<u>—</u>	<u>(881)</u>	<u>459</u>	<u>(13)</u>

2. CONSOLIDATED FINANCIAL STATEMENTS

HAECO is required to set out or refer to in this Scheme Document the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in (i) the audited consolidated financial statements of the HAECO Group for the year ended 31st December 2017 (the “**2017 Financial Statements**”) and (ii) the unaudited condensed interim financial statements of the HAECO Group for the six months ended 30th June 2018 (the “**2018 Interim Financial Statements**”), together with the notes to the relevant published financial statements which are of major relevance to the appreciation of the above financial information.

The 2017 Financial Statements are set out on pages 64 to 119 of the Annual Report 2017 of HAECO, which was published on 29th March 2018. The Annual Report 2017 is posted on HAECO’s website <http://www.haeco.com>. Please also see below a direct link to the Annual Report 2017:

http://www.haeco.com/HAECO/media/download/Annual-Reports/HAECO_AR2017_eng.pdf

The 2018 Interim Financial Statements are set out on pages 11 to 33 in the Interim Report 2018 of HAECO, which was published on 29th August 2018. The Interim Report 2018 is posted on HAECO’s website <http://www.haeco.com>. Please also see below a direct link to the Interim Report 2018:

http://www.haeco.com/HAECO/media/download/Annual-Reports/HAECO_IR2018_eng.pdf

The 2017 Financial Statements and the 2018 Interim Financial Statements (but not any other part of the Annual Report 2017 and Interim Report 2018 in which they respectively appear) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3. STATEMENT OF INDEBTEDNESS AND CONTINGENT LIABILITIES

As at the close of business on 30th June 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Scheme Document, the HAECO Group had short term unsecured bank loans of HK\$54 million, long term unsecured bank loans of HK\$3,242 million, an unsecured advance from an associate of HAECO’s holding company of HK\$294 million, and unsecured obligations under finance leases of HK\$5 million.

Save as aforesaid and apart from intra-group liabilities, intra-group guarantees, and normal trade payables, the HAECO Group did not, as at 30th June 2018, have any material outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the HAECO Group or by third parties) or unsecured; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured; (iii) mortgage or charges; or (iv) guarantees or other contingent liabilities.

4. MATERIAL CHANGE

The HAECO Directors confirm that, save for the following matters, as at the Latest Practicable Date, there had been no material change in the financial or trading position or outlook of the HAECO Group since 31st December 2017, being the date to which the latest published audited consolidated financial statements of the HAECO Group were made up:

- (i) As disclosed in the Interim Report 2018 of HAECO for the six months ended 30th June 2018, the HAECO Group recorded a profit attributable to HAECO Shareholders of HK\$469 million for the six months ended 30th June 2018, as compared to a profit attributable to HAECO Shareholders of HK\$348 million for the corresponding period in 2017. HAECO USA Holdings, Inc., a subsidiary of HAECO, continued to make losses in the relevant period, albeit at a reduced level. This reduction in losses was the primary reason for the increase in the profit attributable to HAECO Shareholders, as disclosed in the sections headed “Chairman’s Letter” and “Review of Operations” in the Interim Report 2018 of HAECO.
- (ii) As disclosed in the Interim Report 2018 of HAECO for the six months ended 30th June 2018, the HAECO Group recorded a share of after-tax results of joint venture companies of HK\$222 million for the six months ended 30th June 2018, as compared to a share of after-tax results of joint venture companies of HK\$181 million for the corresponding period in 2017. Such increase in the share of after-tax results of joint venture companies was primarily due to the growth in profit of a joint venture company of HAECO, Hong Kong Aero Engine Services Limited, in the relevant period, as disclosed in the section headed “Review of Operations” in the Interim Report 2018 of HAECO.
- (iii) As disclosed in the Interim Report 2018 of HAECO, the HAECO Group’s net borrowings amounted to HK\$1,851 million as at 30th June 2018, representing a decrease of HK\$518 million from the HAECO Group’s net borrowings of HK\$2,369 million as at 31st December 2017. Such decrease in the HAECO Group’s net borrowings was principally attributable to the increase in cash and cash equivalents of the HAECO Group from HK\$971 million as at 31st December 2017 to HK\$1,436 million as at 30th June 2018, primarily due to the strong cash flow generated from operating activities of a subsidiary of HAECO, Taikoo Engine Services (Xiamen) Company Limited, in the six months ended 30th June 2018, as disclosed in the section headed “Financing” in the Interim Report 2018 of HAECO.

The following is the text of a letter, summary of valuations and valuation report prepared for the purpose of incorporation in this Scheme Document received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of value of the property interests of the HAECO Group as at 30 June 2018.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

14 September 2018

The Directors
Hong Kong Aircraft Engineering Company Limited
80 South Perimeter Road
Hong Kong International Airport
Lantau
Hong Kong

Dear Sirs,

Re: Portfolio Valuation

Instructions, Purpose & Valuation Date

In accordance with your instructions for us to value the property interests of Hong Kong Aircraft Engineering Company Limited (the “Company” or “HAECO”) and its subsidiaries (hereinafter together referred to as the “HAECO Group”) in Hong Kong, the People’s Republic of China (the “PRC”) and the United States of America (the “US”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the values of the properties as at 30 June 2018 (the “valuation date”).

Valuation Basis

Our valuation of each of the properties represents its market value which in accordance with the HKIS Valuation Standards 2017 Edition issued by The Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

We confirm that the valuations are undertaken in accordance with the requirements set out in Rule 11 of the Codes on Takeovers and Mergers and Share Buy-backs published by the

Securities and Futures Commission, Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited published by The Stock Exchange of Hong Kong Limited, and the HKIS Valuation Standards 2017 Edition issued by the Hong Kong Institute of Surveyors.

Our valuation of each of the properties is on an entirety interest basis.

Valuation Assumptions

Our valuation of each of the properties excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

In the course of our valuation of the PRC properties, we have relied on the information and advice given by the Company's PRC legal adviser, Jingtian & Gongcheng, regarding the titles to the properties and the interests of the HAECO Group in the properties in the PRC. Unless otherwise stated in the respective legal opinion, in valuing the PRC properties, we have assumed that (i) the HAECO Group has an enforceable title to each of the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired land use term as granted and that any premium payable has already been fully paid; and (ii) transferable land use rights in respect of the properties for their respective specific terms at nominal annual land use fees have been granted and that any land grant premiums payable have been fully paid.

We have relied on the information and advice given by the HAECO Group and the Company's PRC legal adviser regarding the title to the properties and the interests of the HAECO Group in the properties. In valuing the properties, we have assumed that the HAECO Group has enforceable titles to the properties and has free and uninterrupted right to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

In respect of the properties situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the HAECO Group are set out in the notes of the respective valuation report.

Methods of Valuation

In the valuation of Property Nos. 1, 2 and 3 in Hong Kong in Group I, Property Nos. 4, 5 and 6 in the PRC in Group II, and Property No. 9 in the US in Group III, due to the specific nature of the properties and lack of market comparables available, we have adopted the Depreciated Replacement Costs ("DRC") Method. The DRC Method is based on an estimate

of the market value of the land in its existing use, plus the current cost of replacement of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimization. For the land portion, we have made reference to comparable land sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, time, size etc. The DRC Method is subject to service potential of the entity from the use of assets as a whole paying due regard to the total assets employed. The market value arrived using the DRC Method applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Regarding Property No. 7 in the US in Group III, we have used Market Comparison Method by reference to comparable sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, size, quality and condition, loading facilities, clear height, time and other relevant factors. This method is in line with the market practice.

In respect of Property Nos. 8, 10, 11 and 12 in the US in Group III, we have used Income Capitalisation Method by capitalising the net income derived from the existing leases at appropriate capitalisation rates. We have made reference to lettings of relevant comparable rental evidence of properties of similar use type subject to appropriate adjustments. The capitalisation rates adopted in our valuations are based on our analyses of the yields of properties of similar use type after due adjustments. Such capitalisation rates are estimated by reference to the yields generally expected by the market for comparable properties of similar use type. The capitalisation rates adopted are in line with the market norm.

We have assumed that the design and construction of the buildings are in compliance with the local planning regulations and have been approved by the relevant authorities. We have also taken into account the construction cost expended up to the valuation date.

Property No. 3 in Group I is leased to the HAECO Group from Hong Kong Industrial Estates Corporation (the "Corporation") (now known as Hong Kong Science and Technology Parks Corporation), and is subject to restrictions on alienation. The lease stipulated that if the HAECO Group wishes to assign such property at any time during the terms of the lease, the HAECO Group shall first offer to surrender its interest to the Corporation at a consideration to be calculated in accordance with a formula set down in the lease. We have referred to the conditions in the relevant lease regarding alienation and the prescribed way of calculation of surrender consideration in undertaking our valuation.

Land Tenure

In valuing the properties in Hong Kong of which the Government Leases expired before 30 June 1997, we have taken into account the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland

and the Government of the People's Republic of China on the Question of Hong Kong as well as in the New Territories Leases (Extension) Ordinance, under which such leases have been extended without premium until 30 June 2047 and rents of 3% of the rateable value are charged per annum from the date of extension.

In respect of the properties in Hong Kong, we have been provided with copies of the title documents relating to the properties and have caused searches to be made at the Land Registry. In respect of the properties in the PRC and the US, we have been provided by the HAECO Group with copies of extracts from the relevant documents. However, we have not inspected the original documents to verify ownership or to ascertain any amendments which may not appear on the copies handed to us. All documents and leases have been used for reference only and all dimensions, measurements and areas are approximate. No on-site measurement has been taken.

In the course of our valuation, we have relied to a considerable extent on the information given by the HAECO Group and the Company's PRC legal adviser, Jingtian & Gongcheng in respect of the title to the properties in the PRC.

Source of Information

We have relied to a very considerable extent on the information given by the HAECO Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenures, identification of land and buildings, particulars of occupancy, development schemes, construction schedules and costs, site and floor areas, site and floor plans, interests attributable to the HAECO Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation report are based on the copies of documents and other information provided to us by the HAECO Group and are therefore only approximations. No on-site measurement has been carried out. We have had no reason to doubt the truth and accuracy of the information provided to us by the HAECO Group which is material to the valuations. We were also advised by the HAECO Group that no material facts have been omitted from the information provided.

We would point out that the copies of documents of the properties in the PRC provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise you to make reference to the original Chinese editions of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

Title Investigation

We have been provided with extracts of documents relating to the properties. However, we have not been able to conduct title searches and have not inspected the original documents

to ascertain any amendments which may not appear on the copies handed to us. We are also unable to ascertain the title of the properties and we have therefore relied on the advice given by the HAECO Group or the Company's PRC legal adviser regarding the interests of the HAECO Group in the properties.

Site Inspection

We have inspected the exterior and, wherever possible, the interior of the properties. The site inspections of the properties in Hong Kong were carried out on 27 July 2018 and 30 July 2018 by Miss Angelina Kwok, MRICS, MHKIS, RPS (GP), of our Hong Kong office. The site inspections of the properties in the PRC were carried out on 30 July 2018 by Miss Jennifer He, China Real Estate Appraiser, of our Xiamen office. The site inspections of the properties in the US were carried out on 1 August 2018 by Mr. Sean Kelly or Mr. David Aneser, North Carolina Certified General Appraisers, of our US offices. However, we have not carried out investigations on site to determine the suitability of soil conditions and services etc. for any development. Where necessary, our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred for development of the properties. Moreover, no structural survey of the existing buildings has been made, but in the course of our inspection, we did not note any serious defect. We are, however, not able to report that the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and gross floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

Currency

Unless otherwise stated, all sums stated in our valuations are in Hong Kong Dollars ("HK\$") for the properties in Hong Kong, in Renminbi ("RMB") for the properties in the PRC, and in United States Dollars ("US\$") for the properties in the US.

Potential Tax Liabilities

As advised by the HAECO Group, the potential tax liabilities which would arise on the disposal of the property interests held by the HAECO Group mainly include profits tax (16.5%) for the properties in Hong Kong; value added tax (5%), land appreciation tax (ranging from 30% to 60% of the net appreciation amount), corporate income tax (ranging from 15% to 25%) for the properties in the PRC; and federal and state corporate income tax (approximately 23.25%) for the properties in the US. There is little likelihood that the potential tax liabilities will crystallise as the properties are held for business operations and the HAECO Group has no intention to sell them.

According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liabilities. The precise tax implication will be subject to prevailing rules and regulations at the time of disposal.

Other Disclosure

We hereby confirm that Cushman & Wakefield Limited and the valuers conducting the valuations have no pecuniary or other interests that could conflict with the proper valuations of the properties or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. We confirm that we are an independent qualified valuer, as referred to Rule 11 of the Codes on Takeovers and Mergers and Share Buy-backs published by the Securities and Futures Commission.

We enclose herewith a summary of valuations and valuation report for your attention.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Andrew K.F. Chan
MSc, MRICS, MHKIS, MCIREA, RPS(GP)
Regional Director
Valuation & Advisory Services, Greater China

Note: Mr. Andrew K.F. Chan is a Registered Professional Surveyor who has over 30 years' experience in the valuation of properties in the PRC, Hong Kong and other countries. Mr. Chan has sufficient current knowledge of the market, and the skills and understanding to undertake the valuations competently.

The valuations of the properties in the US in Group III were undertaken by Andrew K.F. Chan in collaboration with Jeffrey Smith (Executive Managing Director, MAI), Marius Andreasen (Senior Managing Director, CFA, ASA, MAI), Sean Kelly (Senior Director, MAI, MRICS) and Travis Walsh (Senior Director, MAI, CRE) of our US offices.

SUMMARY OF VALUATIONS

Property	Market value in existing state as at 30 June 2018 (HK\$)	Interest attributable to the HAECO Group (%)	Market value in existing state attributable to the HAECO Group as at 30 June 2018 (HK\$)
Group I — Properties occupied by the HAECO Group in Hong Kong			
1. HAECO Aircraft Base Maintenance Facilities at 80 South Perimeter Road, Hong Kong International Airport, Lantau Island, New Territories, Hong Kong	2,830,000,000	100	2,830,000,000
2. Line Maintenance Facility on Cargo Apron at Hong Kong International Airport, Lantau Island, New Territories, Hong Kong	14,000,000	100	14,000,000
3. 80 Chun Choi Street, Tseung Kwan O Industrial Estate, Tseung Kwan O, Sai Kung, New Territories, Hong Kong	7,900,000	100	7,900,000
		Total of Group I:	2,851,900,000

Property	Market value in existing state as at 30 June 2018 (RMB)	Interest attributable to the HAECO Group (%)	Market value in existing state attributable to the HAECO Group as at 30 June 2018 (RMB)
Group II — Properties occupied by the HAECO Group in the PRC			
4. Hangars, the overhauling and maintenance facilities for commercial aircraft, the living zone and the training base at 20 Dailiao Road, Xiamen, Fujian Province, the PRC	3,271,000,000	58.55	1,915,170,500
5. The engine repair and overhaul workshop and facilities at 5 Gaoqi South Third Road, Xiamen, Fujian Province, the PRC	232,000,000	72.86	169,035,200
6. The landing gear services workshops and facilities at 280 Gaoqi South Fifth Road, Xiamen, Fujian Province, the PRC	114,000,000	86.53	98,644,200

		Total of Group II:	2,182,849,900

Property	Market value in existing state as at 30 June 2018 <i>(US\$)</i>	Interest attributable to the HAECO Group <i>(%)</i>	Market value in existing state attributable to the HAECO Group as at 30 June 2018 <i>(US\$)</i>
Group III — Properties occupied by the HAECO Group in the US			
7. Manufacturing facility at 8010 Piedmont Triad Parkway, High Point, Guilford County, North Carolina 27409, the US	11,400,000	100	11,400,000
8. Hangars 1, 2 and 3 at 623 Radar Road, Greensboro, Guilford County, North Carolina 27410, the US	9,500,000	100	9,500,000
9. Hangar 4 at 801 Radar Road, Greensboro, Guilford County, North Carolina 27410, the US	60,000,000	100	60,000,000
10. Hangar 5 at 815 Radar Road, Greensboro, Guilford County, North Carolina 27410, the US	4,500,000	100	4,500,000
11. Manufacturing facility at 5568 Gumtree Road, Wallburg, Davidson County, North Carolina 27107, the US	1,825,000	100	1,825,000
12. Hangar, maintenance repair and overhaul facilities at 102 SE Academic Avenue, Lake City, Columbia County, Florida 32025, the US	3,700,000	100	3,700,000
		Total of Group III:	90,925,000

VALUATION REPORT

Group I — Properties occupied by the HAECO Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
1. HAECO Aircraft Base Maintenance Facilities at 80 South Perimeter Road, Hong Kong International Airport, Lantau Island, New Territories, Hong Kong	<p>The property comprises various aircraft base maintenance facilities situated in the aircraft maintenance area on the western side of Hong Kong International Airport (see Note (2)).</p> <p>The property has a total site area of approximately 127,138 sq.m. (1,368,513 sq.ft.) including apron areas with a total area of 41,687 sq.m. (448,719 sq.ft.)</p> <p>The property has a total gross floor area of approximately 120,929 sq.m. (1,301,679 sq.ft.) (see Note (2)).</p>	The property is currently occupied by the HAECO Group for the operation plant of aircraft maintenance, office and storage uses.	HK\$2,830,000,000 (HONG KONG DOLLARS TWO BILLION EIGHT HUNDRED AND THIRTY MILLION)
Part of the Remaining Portion of Chek Lap Kok No. 1 and the Extension thereto	<p>The property is located in Chek Lap Kok District of Lantau Island, adjacent to Hong Kong International Airport. The surrounding area comprises aircraft related developments.</p> <p>The land portion of the property is leased by the Company from Airport Authority Hong Kong (the "Airport Authority") for a term from 30 October 1996 to 4 August 2036. The current Government rent payable on the property is an amount equal to 3% of the rateable value for the time being of the property per annum.</p>		

Notes:-

- (1) The property is situated on the land being a portion of the Remaining Portion of Chek Lap Kok Lot No. 1 and the Extension thereto. According to a Lease dated 30 October 1996 vide Memorial No. IS238151, a Deed of Modification of a Lease dated 18 March 2005 vide Memorial No. 05041602130398, a Second Deed of Modification of a Lease dated 20 December 2006 vide Memorial No. 07010902080123 and a Third Deed of Modification of a Lease dated 1 August 2017, the land (except the Building Restriction Zone area of 2,198 sq.m. (23,659 sq.ft.) comprising a total site area of 88,776 sq.m. (955,585 sq.ft.) (including Apron Area of Hangar 1 with 3,325 sq.m. (35,790 sq.ft.)) is leased from the Airport Authority for a term from 30 October 1996 to 4 August 2036. The current total monthly rent is approximately HK\$12,650,580 from 1 January 2018 to 31 December 2019. The rent is adjusted every 2 years by making reference to the Private Flatted Factories Index produced and published by the Government Rating and Valuation Department. The rent is exclusive of rates, Government rents and management fees.

- (2) The property comprises the following aircraft maintenance factories:

Property	Year of Completion	Brief Description	Gross Floor Area (sq.m.)
Hangar 1	1998	Hangar 1 comprises a single storey steel structure with two mobile tail enclosure steel structures. The facility also includes a 5-storey main building and a 3-storey ancillary building both of reinforced concrete structure for office, workshop, canteen, serviced and amenity uses.	56,284.129 (605,842 sq.ft.)
Hangar 2	2006	Hangar 2 comprises a single storey steel structure including various internal ancillary office/storeroom buildings.	21,031.118 (226,379 sq.ft.)
Hangar 3A	2009	Hangar 3A comprises a single storey steel structure. The facility also includes a 4-storey ancillary building of reinforced concrete structures for office, workshop, storeroom and canteen uses.	41,966.096 (451,723 sq.ft.)
Hangar 3B	2017	Hangar 3B comprises maintenance bays and engine igloos.	1,647.653 (17,735 sq.ft.)
		Total:	<u>120,928.996</u>

- (3) A portion of the property is subject to a Licence Agreement dated 7 November 2008 for the provision of a police observation post in Hangar 2 vide Memorial No. 08120502280015 between the Company and the e Financial Secretary Incorporated for a term from 3 April 2008 to 5 July 2031 at an annual rent of HK\$1, if demanded.
- (4) A portion of the property is subject to a Licence Agreement dated 1 April 2011 for the provision of a police observation post in Hangar 3A vide Memorial No. 11071100490015 between the Company and the Financial Secretary Incorporated for a term from 1 April 2011 to 5 July 2031 at an annual rent of HK\$1, if demanded.
- (5) The Base Maintenance Facilities include three areas of approximately 101.5 sq.m. (1,093 sq.ft.), 454.0 sq.m. (4,887 sq.ft.) and 2,198.0 sq.m. (23,659 sq.ft.) for the use, on a licence basis, as a vehicular exit gate, the parking and anchoring of a mobile tail enclosure and the strip of the land between hangars respectively. The total licence fee is HK\$204,363 per month.
- (6) The Base Maintenance Facilities include 2 Apron Areas (Hangar 2 & 3A, Hangar 3B) of total approximately 38,362.2 sq.m. (412,931 sq.ft.). The total licence fee is approximately HK\$1,242,848 per month.
- (7) The Base Maintenance Facilities include a Vehicle Staging Area of approximately 1,031 sq.m. (11,098 sq.ft.) for the temporary staging of vehicles. The current licence fee is approximately HK\$57,970 per month.

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
2. Line Maintenance Facility on Cargo Apron at Hong Kong International Airport, Lantau Island, New Territories, Hong Kong	<p>The property comprises a 2-storey office and workshop building situated in Hong Kong International Airport. The property was completed in 2006.</p> <p>The property has a total site area of approximately 300 sq.m. (3,229 sq.ft.).</p> <p>The property has a total gross floor area of approximately 595 sq.m. (6,405 sq.ft.).</p>	<p>The property is currently occupied by the HAECO Group for office and storage uses in connection with the provision of the aircraft line maintenance services.</p>	<p>HK\$14,000,000</p> <p>(HONG KONG DOLLARS FOURTEEN MILLION)</p>
Part of the Remaining Portion of Chek Lap Kok Lot No. 1 and the Extension thereto	<p>The property is located in Hong Kong International Airport. The surrounding area comprises aircraft related developments.</p> <p>The land portion of the property is leased by the Company from the Airport Authority for a term from 1 April 2006 to 4 August 2036. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.</p>		

Notes:-

- (1) The property is situated on land being a portion of the Remaining Portion of Chek Lap Kok Lot No. 1 and the Extension thereto. The site area of the land is approximately 300 sq.m. (3,229 sq.ft.) and is leased by the Airport Authority to the Company under a Lease dated 20 January 2005 vide Memorial No. 05021500990180.
- (2) Under the Lease, the land of the property (except the reserved airspace over the height of the highest point of the Line Maintenance Facility) is leased from the Airport Authority for a term up to 4 August 2036. The current monthly rent is approximately HK\$93,718 from 1 April 2018 to 31 March 2019. The rent is adjusted annually by making reference to the Composite Consumer Price Index (CPI) produced and published by the Government. The rent is exclusive of rates, Government rents and management fees.

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
3. 80 Chun Choi Street, Tseung Kwan O Industrial Estate, Tseung Kwan O, Sai Kung, New Territories, Hong Kong	<p>The property comprises a 5-storey factory building completed in 1998.</p> <p>The property has a total gross floor area of approximately 21,750.74 sq.m. (234,125 sq.ft.). It is erected on a site with a registered site area of 9,402.00 sq.m. (101,203 sq.ft.). Various car parking spaces, lorry parking spaces and loading/unloading platform are provided on the ground floor of the property.</p> <p>The property is located in Tseung Kwan O Industrial Estate in Tseung Kwan O. The surrounding area comprises industrial and commercial developments.</p> <p>The land portion of the property is leased by the Company from Hong Kong Industrial Estates Corporation (the "Corporation") (now known as Hong Kong Science and Technology Parks Corporation) for a term from 1 May 1996 to 27 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.</p>	<p>The property is currently occupied by the HAECO Group for office and workshop uses.</p>	<p>HK\$7,900,000</p> <p>(HONG KONG DOLLARS SEVEN MILLION AND NINE HUNDRED THOUSAND)</p> <p>(See Note (3))</p>
Lease of Sub-section 1 of Section G of Tseung Kwan O Town Lot No. 39 and the Extension thereto			

Notes:-

- (1) The Lease made between the Corporation and the Company (the "Lessee") restricts the assignment of the property by the Lessee. In the event that the Lessee is desirous of assigning the property at any time during the term of the Lease, the Lessee shall first offer to surrender its interest free from encumbrances and with vacant possession to the Corporation at a consideration calculated in accordance with a prescribed formula set out in the Lease. In the event that the offer is not accepted by the Corporation within a period of six weeks, it shall be deemed to have been rejected and the Lessee may thereafter dispose of the property by the way of assignment subject to certain conditions.
- (2) Whereas, if the Corporation accepts the surrender of the property offered by the Lessee, the consideration payable by the Corporation as provided in the Lease will be the lesser of either of Clause (11)(b)(i) (A) or (B) of the Lease extracted as follows:-
- (11)(b)(i) (A) The total of the following two amounts reduced by ten percent:
- (I) in respect of the said land, a sum equivalent to the fraction of 1/t (one over "t") of eighty percent (80%) of the premium referred to in the Particulars of the Land multiplied by the

number of complete years in the portion of the term hereby demised unexpired at the date of completion of the surrender and for the purposes of this sub-paragraph and also sub-paragraph (d)(iii) hereunder the symbol "t" means or represents the number of complete year or years and any fraction thereof, comprised in the period from the commencement date to 27 June 2047, which fraction of a year shall be deemed to be a complete year, and

- (II) in respect of any building (including any fixtures and fittings therein) constructed or erected in accordance with the provisions of the said Agreement for Lease or this Lease, the replacement cost thereof as at the date of the Corporation's acceptance of the surrender (if accepted) to be determined in the manner provided by the First Schedule hereto and discounted for depreciation which shall be calculated at the rate of five percent (5%) per annum or part thereof on the said replacement cost from the date of the occupation permit or temporary occupation permit (whichever shall be the earlier) for the first building on the said land or, in the event of redevelopment whereby all the building(s) on the said land has been replaced by new building(s), the first new building on the said land pursuant to such redevelopment.

or

- (B) in respect of both such land and such building (including any fixtures and fittings therein), the market value thereof as at the date of the Corporation's acceptance of the surrender (if accepted), to be determined in the manner provided by the First Schedule hereto but reduced by ten percent.
- (3) In undertaking our valuation, we have taken into account the restriction on assignment of the property as described in Note (1) and the prescribed formula for calculation of consideration for the surrender of the property to the Corporation as stated in Note (2). Our valuation is based on the amount of consideration for the surrender of the property to the Corporation as at the valuation date.
- (4) As advised by the HAECO Group, no action has been taken to offer the surrender to the Corporation. According to the instruction of the Company, we have separately assessed the value of the property on a special assumption. For the HAECO Group's management reference only, the value of the property as at the valuation date, disregarding the abovementioned restriction and assuming free alienation in the market, would be HK\$293,000,000. It must be emphasized that the value on such special assumption is hypothetical and is not a market value in existing state as at the valuation date. Such hypothetical valuation in this note must be read with caution.

VALUATION REPORT

Group II — Properties occupied by the HAECO Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
4. Hangars, the overhauling and maintenance facilities for commercial aircraft, the living zone and the training base at 20 Dailiao Road, Xiamen, Fujian Province, the PRC	<p>The property spreads over several pieces of land with a total site area of 592,498.93 sq.m.</p> <p>The whole development comprises 6 aircraft hangars, overhauling and maintenance repair workshops, assembly workshops, warehouses, power stations, transformer substations, firehouses, canteens, dormitories, laundries, offices, training centres, aircraft parking aprons and the like completed between 1995 and 2017.</p> <p>The existing building of the property have a total gross floor area of 451,233.22 sq.m. with title ownership.</p> <p>The property is located in Huli District of Xiamen, about 0.5 km from Xiamen Gaoqi International Airport. The surrounding area comprises industrial and commercial developments such as SCE Building, Aviation Business Plaza, and Shuili Building.</p> <p>The property is held with land use rights for terms of 50 years mainly for industrial use (except the living zone which is for residential use) from various dates.</p>	<p>Except for portions of a total gross floor area of 267 sq.m. which are leased to independent third parties for terms of 1 to 3 years with the latest expiry on 14 April 2019 at a total monthly rent of approximately RMB6,717, the property is currently mainly occupied by the HAECO Group for aircraft overhauling, maintenance and ancillary uses.</p>	<p>RMB3,271,000,000</p> <p>(RENMINBI THREE BILLION TWO HUNDRED AND SEVENTY ONE MILLION)</p> <p>(58.55% interest attributable to the HAECO Group: RMB1,915,170,500)</p>

Notes:-

- (1) According to 95 Real Estate Title Certificates all issued by Xiamen State-owned Land Resources and Housing Bureau, the land use rights and building ownership of the property located at 20 Dailiao Road, in respect of a total gross floor area of 451,233.22 sq.m. situated on various plots of land with a total site area of 562,890.87 sq.m. for industrial use and residential use, have been vested in Taikoo (Xiamen) Aircraft Engineering Company Limited (廈門太古飛機工程有限公司) (a subsidiary of the Company owned as to 58.55% by the Company), the details of which are as follows:

Portion	Land Use	Issue Date	Land Use Term	Gross Floor	
				Area (sq.m.)	Site Area (sq.m.)
Hangar Phase I	Industrial	2007-8-30	1993-7-3 to 2043-7-2	36,990.15	29,002.86
Hangar Phase II	Industrial	2007-7-10	1993-7-3 to 2043-7-2	54,775.58	122,345.61
Hangar Phase III	Industrial	2007-9-5	2001-4-30 to 2051-4-29	31,926.55	71,150.99
Hangar Phase IV	Industrial	2007-9-12	2004-6-17 to 2054-6-17	32,693.73	37,790.38
Hangar Phase V	Industrial	2011-1-5	2006-2-19 to 2056-2-19	34,831.21	46,314.61
Hangar Phase VI	Industrial	Various dates	2007-6-29 to 2057-6-29	37,937.08	104,000.15
Assembly Workshop	Industrial	2007-5-15	2001-11-14 to 2051-11-13	13,948.16	13,710.85
Living Zone	Residential	Various dates	1995-1-25 to 2045-1-25	126,846.46	94,971.69
Training Base	Industrial	2017-1-18	2006-9-27 to 2056-9-27	81,284.30	43,603.73
Total:				451,233.22	562,890.87

- (2) According to 2 Certificates for the Use of State-owned Land issued by the People's Government of Xiamen Municipality, the land use rights of part of the property located at 20 Dailiao Road, comprising a total site area of 29,608.06 sq.m., have been vested in Taikoo (Xiamen) Aircraft Engineering Company Limited (廈門太古飛機工程有限公司), the details of which are as follows:

Portion	Certificate No.	Use	Issue Date	Land Use Term	Site Area (sq.m.)
Aircraft parking apron inside	00001462	Industrial	2005-5-24	2004-11-12 to 2054-11-12	9,629.58
Aircraft parking apron outside	00004504	Industrial	2006-5-12	2005-9-7 to 2055-9-6	19,978.48
Total:					29,608.06

- (3) According to 2 Grant Contracts of Land Use Rights all issued by Xiamen State-owned Land Resources and Housing Bureau, the land use rights of part of the property, comprising a total site area of 29,908.12 sq.m., have been vested in Taikoo (Xiamen) Aircraft Engineering Company Limited (廈門太古飛機工程有限公司), the details of which are as follows:

Portion	Contract No.	Use	Issue Date	Site Area (sq.m.)	Consideration (US\$)
Aircraft parking apron inside	(2004) Xiadihezi (Xie) 060	Industrial	2005-2-1	9,629.58	385,183.12
Aircraft parking apron outside	(2006) Xiadihezi (Xie) 002	Industrial	2005-12-30	19,978.54	799,141.48
Total:				29,608.12	1,184,324.60

- (4) According to Business Licence No. 350200400007969 dated 14 October 2015 issued by the Market Supervision Commission of Xiamen Municipality, Taikoo (Xiamen) Aircraft Engineering Company Limited (廈門太古飛機工程有限公司) was established as a limited liability company with a registered capital of US\$41,500,000.

- (5) We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser on 14 September 2018 which contains, inter alia, the following information:

- (a) Taikoo (Xiamen) Aircraft Engineering Company Limited (廈門太古飛機工程有限公司) has lawfully obtained the land use rights and building ownership and is the sole legal owner of the property.

- (b) Other than the portion of the property in the south side of Xiamen Gaoqi International Airport of a total site area of 155,116.413 sq.m of which the land use rights have been transferred to Taikoo (Xiamen) Aircraft Engineering Company Limited (廈門太古飛機工程有限公司) as an investment from a PRC state-owned enterprise such that Taikoo (Xiamen) Aircraft Engineering Company Limited (廈門太古飛機工程有限公司) is not obliged to pay for the corresponding land premium, Taikoo (Xiamen) Aircraft Engineering Company Limited (廈門太古飛機工程有限公司) has settled the land premium for the rest of the property in full.
- (c) Taikoo (Xiamen) Aircraft Engineering Company Limited (廈門太古飛機工程有限公司) is entitled to occupy and use the property. It has the legal possession of and is entitled to lawfully transfer, let, mortgage and dispose of the authorised constructions erected thereon.
- (d) The property is free from any seizure, mortgage or any other encumbrances.
- (6) In accordance with the PRC legal opinion and the information provided by the HAECO Group, the status of title and grant of major approvals and licences are as follows:

Real Estate Title Certificate	Yes
Certificate for the Use of State-owned Land	Yes
Planning Permit for Construction Use of Land	Yes
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Grant Contract of Land Use Rights	Yes
Business Licence	Yes

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
5. The engine repair and overhaul workshop and facilities at 5 Gaoqi South Third Road, Xiamen, Fujian Province, the PRC	<p>The site area of the property is 40,190.93 sq.m.</p> <p>The property is developed in phases. Phase I of the property has 4 blocks, comprising a gas station, a compressor house, an industrial waste treatment facility and an engine repair workshop, which were completed in 2001. Phase I of the property has a total gross floor area of 8,364.16 sq.m. with title ownership.</p> <p>Phase II of the property has 3 blocks, comprising an engine and component repair workshop, a chemical distribution room and a canteen, which were completed in 2012. Phase II of the property has a total gross floor area of 20,993.73 sq.m. with title ownership.</p> <p>The property is located in Huli District of Xiamen, about 1 km from Xiamen Gaoqi International Airport. The surrounding area comprises industrial and commercial developments such as SCE Building, Aviation Business Plaza, and Shuili Building.</p> <p>The property is held with land use rights for terms of 50 years for industrial use from 14 May 1999.</p>	<p>The property is currently occupied by the HAECO Group mainly for aero-engine repair and ancillary uses.</p>	<p>RMB232,000,000</p> <p>(RENMINBI TWO HUNDRED AND THIRTY TWO MILLION)</p> <p>(72.86% interest attributable to the HAECO Group: RMB169,035,200)</p> <p>(See Note (1))</p>

Notes:-

- (1) Portions of the property (Phase I workshop extension, and engine storage room of a total gross floor area of 484.63 sq.m.) have not been granted with any Completion Certificate or Real Estate Title Certificate and therefore no commercial value has been assigned to such building portions.

- (2) According to 7 Real Estate Title Certificates all issued by Xiamen State-owned Land Resources and Housing Bureau, the land use rights and building ownership of the property located at 5 Gaoqi South Third Road, in respect of a total gross floor area of 29,357.89 sq.m. situated on various plots of land with a total site area of 40,190.93 sq.m. for industrial use, have been vested in Taikoo Engine Services (Xiamen) Company Limited (廈門太古發動機服務有限公司) (a subsidiary of the Company owned as to 67.58% by the Company and as to 9.01% by Taikoo (Xiamen) Aircraft Engineering Company Limited, i.e. 72.86% interest attributable to the HAECO Group) for terms from 14 May 1999 to 13 May 2049, the details of which are as follows:

Portion	Certificate No.	Use	Issue Date	Gross Floor Area (sq.m.)
Phase I				
No. 3 gas station	00713207	Industrial	2009-9-28	383.39
No. 4 compressor house	00713208	Industrial	2009-9-28	79.28
No. 1 workshop	00713210	Industrial	2009-9-28	7,466.24
No. 2 workshop	00713211	Industrial	2009-9-28	435.25
Sub-total of Phase I:				8,364.16
Phase II				
Engine and component repair workshop	01070239	Industrial	2013-5-21	19,636.12
Chemical distribution room	01070241	Industrial	2013-5-21	468.36
Staff canteen	01070242	Industrial	2013-5-21	889.25
Sub-total of Phase II:				20,993.73

- (3) According to Business Licence No. 350200400005947 dated 14 October 2015 issued by the Market Supervision Commission of Xiamen Municipality, Taikoo Engine Services (Xiamen) Company Limited (廈門太古發動機服務有限公司) was established as a limited liability company with a registered capital of US\$113,000,000.
- (4) We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser on 14 September 2018 which contains, inter alia, the following information:
- Taikoo Engine Services (Xiamen) Company Limited (廈門太古發動機服務有限公司) has obtained the land use rights and building ownership, and is the sole legal owner of Phase I and Phase II of the property.
 - Taikoo Engine Services (Xiamen) Company Limited (廈門太古發動機服務有限公司) has settled the land premium for the property in full.
 - Taikoo Engine Services (Xiamen) Company Limited (廈門太古發動機服務有限公司) is entitled to occupy and use such part of the property. It has the legal possession of and is entitled to lawfully transfer, let, mortgage and dispose of the authorised constructions erected thereon.
 - The property is free from any seizure, mortgage or any other encumbrances.

- (5) In accordance with the PRC legal opinion and the information provided by the HAECO Group, the status of title and grant of major approvals and licences are as follows:

Real Estate Title Certificate	Yes
Planning Permit for Construction Use of Land	Yes
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Grant Contract of Land Use Rights	Yes
Business Licence	Yes

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
6. The landing gear services workshops and facilities at 280 Gaoqi South Fifth Road, Xiamen, Fujian Province, the PRC	<p>The site area of the property is 18,204.02 sq.m.</p> <p>The property comprises a landing gear overhaul workshop, a water pump house, a chemical distribution room, an air compressor station, a switchboard house and a firehouse completed in 2008.</p> <p>The existing buildings of property have a total gross floor area of 14,549.42 sq.m.</p> <p>The property is located in Huli District of Xiamen, about 1 km from Xiamen Gaoqi International Airport. The surrounding area comprises industrial and commercial developments such as SCE Building, Aviation Business Plaza, and Shuili Building.</p> <p>The property is held with land use rights for terms of 50 years for industrial use from 29 June 2007.</p>	The property is occupied by the HAECO Group for aircraft landing gear overhaul and ancillary uses.	<p>RMB114,000,000</p> <p>(RENMINBI ONE HUNDRED AND FOURTEEN MILLION)</p> <p>(86.53% interest attributable to the HAECO Group: RMB98,644,200)</p>

Notes:-

- (1) According to 5 Real Estate Title Certificates all issued by Xiamen State-owned Land Resources and Housing Bureau on 30 March 2012, the land use rights and building ownership of the property located at 280 Gaoqi South Fifth Road, in respect of a total gross floor area of 14,549.42 sq.m. situated on various plots of land with a total site area of 18,204.02 sq.m. for industrial use, have been vested in Taikoo (Xiamen) Landing Gear Services Company Limited (廈門太古起落架維修服務有限公司) (a subsidiary of the Company owned as to 83.93% by the Company and as to 4.44% by Taikoo (Xiamen) Aircraft Engineering Company Limited, i.e. 86.53% interest attributable to the HAECO Group) for terms from 29 June 2007 to 29 June 2057, the details of which are as follows:

Portion	Certificate No.	Land Use	Gross Floor Area (sq.m.)
Water pump house	00910114	Industrial	69.01
Chemical distribution room	00910115	Industrial	43.91
Air compressor station	00910116	Industrial	56.15
Switchboard house and firehouse	00910117	Industrial	478.12
Landing gear overhaul workshop	00910161	Industrial	13,902.23
	Total:		14,549.42

- (2) According to Business Licence No. 350200400004569 dated 18 September 2017 issued by the Market Supervision Commission of Xiamen Municipality, Taikoo (Xiamen) Landing Gear Services Company Limited (廈門太古起落架維修服務有限公司) was established as a limited liability company with a registered capital of US\$83,090,000.
- (3) We have been provided with a legal opinion on the title to the property issued by the Company's PRC legal adviser on 14 September 2018 which contains, inter alia, the following information:
- (a) Taikoo (Xiamen) Landing Gear Services Company Limited (廈門太古起落架維修服務有限公司) has obtained the land use rights and building ownership, and is the sole legal owner of the property.
- (b) Taikoo (Xiamen) Landing Gear Services Company Limited (廈門太古起落架維修服務有限公司) has settled the land premium for the property in full.
- (c) Taikoo (Xiamen) Landing Gear Services Company Limited (廈門太古起落架維修服務有限公司) is entitled to occupy and use such part of the property. It has the legal possession of and is entitled to lawfully transfer, let, mortgage and dispose of the authorised constructions erected thereon.
- (d) The property is free from any seizure, mortgage or any other encumbrances.
- (4) In accordance with the PRC legal opinion and the information provided by the HAECO Group, the status of title and grant of major approvals and licences are as follows:

Real Estate Title Certificate	Yes
Planning Permit for Construction Use of Land	Yes
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Grant Contract of Land Use Rights	Yes
Business Licence	Yes

VALUATION REPORT

Group III — Properties occupied by the HAECO Group in the US

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
7. Manufacturing facility at 8010 Piedmont Triad Parkway, High Point, Guilford County, North Carolina 27409, the US	<p>The property comprises a manufacturing facility, a warehouse and office space. The original building was completed in 1995, and the former tenant constructed two additions in 2007. The property was renovated in 2015.</p> <p>The property has a total site area of approximately 135,244.80 sq.m. (1,455,775 sq.ft.).</p> <p>The property has a total gross floor area of approximately 23,488.11 sq.m. (252,826 sq.ft.). The property is located in High Point of North Carolina. The property is located in an industrial park with a short distance south of Interstate 40, the primary commuter roadway for the three Triad cities of Greensboro, Winston-Salem and High Point. The property is surrounded by Frito-Lay's distribution warehouse, Clarke Power's service manufacturing facility, Volvo Truck's North American headquarter, TE Connectivity' warehouse, and vacant industrial land.</p> <p>The property is held by TIMCO Aerosystems, LLC (a wholly owned subsidiary of the Company, hereinafter referred to as "HAECO Cabin Solutions") under fee simple ownership (i.e. freehold ownership).</p>	<p>The property is currently occupied by the HAECO Group for manufacturing of cabin parts and ancillary uses.</p>	<p>US\$11,400,000</p> <p>(UNITED STATES DOLLARS ELEVEN MILLION AND FOUR HUNDRED THOUSAND)</p>

Notes:-

- (1) HAECO Cabin Solutions purchased the property on 10 August 2015 at a consideration of US\$7,600,000.
- (2) The property is zoned LI, Light Industrial by the Guilford County.

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
8. Hangars 1, 2 and 3 at 623 Radar Road, Greensboro, Guilford County, North Carolina 27410, the US	<p>The whole development comprises 3 aircraft hangars, shops, an office building and mezzanines situated on Piedmont Triad International Airport. The property was completed in between 1990 and 1996.</p> <p>The property has a total site area of approximately 193,911.74 sq.m. (2,087,266 sq.ft.). The property has a total gross floor area of approximately 39,995.35 sq.m. (430,510 sq.ft.).</p> <p>The property is located in Greensboro of North Carolina. The surrounding area is a mixture of the airport, open land, industrial, commercial and residential developments.</p> <p>The property has good regional accessibility relying on Interstate 40, which is the primary commuter roadway for the three Triad cities of Greensboro, Winston-Salem and High Point.</p> <p>The property is leased to Triad International Maintenance Corporation (a wholly owned subsidiary of the Company, hereinafter referred to as "HAECO Airframe Services") for a term due to expire on 31 October 2029 at a current annual rent of US\$192,864 with annual CPI increases. There is no reversion at the end of the lease term, as the improvements will revert to the airport authority.</p>	<p>The property is currently occupied by the HAECO Group for aircraft overhauling, maintenance and ancillary uses.</p>	<p>US\$9,500,000</p> <p>(UNITED STATES DOLLARS NINE MILLION AND FIVE HUNDRED THOUSAND)</p>

Notes:-

- (1) The property is located on Piedmont Triad International Airport in Greensboro, North Carolina. Generally, the boundaries of the immediate area are considered to be US Highway 73 to the north and east, NC Highway 68 to the west, and Market Street to the south. Piedmont Triad International Airport is located in the Piedmont Triad region of North Carolina that includes the cities of Greensboro, High Point and Winston-Salem.

(2) The property has a total gross floor area of approximately 39,995.35 sq.m. (430,510 sq.ft.). The property comprises the following aircraft maintenance facilities:

Property	Year of Completion	Brief Description	Gross floor area (sq.m.)
Hangar 1	1990	Hangar 1 comprises a single storey maintenance facility with multiple bays. The facility also includes shop and office space and lean-to shops.	18,896.32 (203,400 sq.ft.)
Hangar 2	1995	Hangar 2 comprises a single storey maintenance facility with multiple bays. The facility also includes 2 mezzanines.	7,714.60 (83,040 sq.ft.)
Hangar 2/3 Connector	1996	Hangar 2/3 Connector comprises common area including shop and storage space.	2,101.45 (22,620 sq.ft.)
Hangar 3	1996	Hangar 3 comprises a single storey maintenance facility with multiple bays. The facility also includes a mezzanine.	11,282.98 (121,450 sq.ft.)
Total:			39,995.35

(3) The property is zoned AO, Airport Overlay District by the City of Greensboro.

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
9. Hangar 4 at 801 Radar Road, Greensboro, Guilford County, North Carolina 27410, the US	<p>The property comprises a maintenance repair and overhaul facility and an office situated on Piedmont Triad International Airport. The property was completed in 2018.</p> <p>The property has a total site area of approximately 98,175.96 sq.m. (1,056,766 sq.ft.).</p> <p>The property has a total gross floor area of approximately 22,705.31 sq.m. (244,400 sq.ft.).</p> <p>The property is located in Greensboro of North Carolina. The surrounding area is a mixture of the airport, open land, industrial, commercial and residential developments. The property has good regional accessibility relying on Interstate 40, which is the primary commuter roadway for the three Triad cities of Greensboro, Winston-Salem and High Point.</p> <p>The property is leased to HAECO Airframe Services for an initial term of 40 years commencing in 2016 at an annual rent of US\$97,645 payable (subject to inflation adjustments) for the land portion of the property. Upon expiry of the initial term, HAECO Airframe Services has an option to extend for a period of 10 years at a fair market rent for the land and building portions of the property. There is no reversion at the end of the lease term, as the improvements will revert to the airport authority.</p>	<p>The property is currently occupied by the HAECO Group for aircraft overhauling, maintenance and ancillary uses.</p>	<p>US\$60,000,000</p> <p>(UNITED STATES DOLLARS SIXTY MILLION)</p>

Notes:-

- (1) The property is located on Piedmont Triad International Airport in Greensboro, North Carolina. Generally, the boundaries of the immediate area are considered to be US Highway 73 to the north and east, NC Highway 68 to the west, and Market Street to the south. Piedmont Triad International Airport is located in the Piedmont Triad region of North Carolina that includes the cities of Greensboro, High Point and Winston-Salem.
- (2) The property is zoned AO, Airport Overlay District by the City of Greensboro.

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
10. Hangar 5 at 815 Radar Road, Greensboro, Guilford County, North Carolina 27410, the US	<p>The whole development comprises a maintenance repair and overhaul facility, a facility building, a pump house, a hazardous material building, a composite shop, and a fuel farm situated on Piedmont Triad International Airport. The property was completed in between 1984 and 1989.</p> <p>The property has a total site area of approximately 118,045.52 sq.m. (1,270,642 sq.ft.).</p> <p>The property has a total gross floor area of approximately 26,073.95 sq.m. (280,660 sq.ft.).</p> <p>The property is located in Greensboro of North Carolina. The surrounding area is a mixture of the airport, open land, industrial, commercial and residential developments. The property has good regional accessibility relying on Interstate 40, which is the primary commuter roadway for the three Triad cities of Greensboro, Winston-Salem and High Point.</p> <p>The property is leased to HAECO Airframe Services for a term commencing on 1 January 2017 and expiring on 31 October 2029 at a current annual rent of US\$568,176, subject to inflation adjustments in 2021 and 2027.</p>	<p>The property is currently occupied by the HAECO Group for aircraft overhauling, maintenance and ancillary uses.</p>	<p>US\$4,500,000</p> <p>(UNITED STATES DOLLARS FOUR MILLION AND FIVE HUNDRED THOUSAND)</p>

Notes:-

- (1) The property is located on Piedmont Triad International Airport in Greensboro, North Carolina. Generally, the boundaries of the immediate area are considered to be US Highway 73 to the north and east, NC Highway 68 to the west, and Market Street to the south. Piedmont Triad International Airport is located in the Piedmont Triad region of North Carolina that includes the cities of Greensboro, High Point and Winston-Salem.
- (2) The property is zoned AO, Airport Overlay District by the City of Greensboro.

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
11. Manufacturing facility at 5568 Gumtree Road, Wallburg, Davidson County, North Carolina 27107, the US	<p>The property is a manufacturing facility. The property was completed in between 1973 and 1980.</p> <p>The property has a total site area of approximately 228,084.08 sq.m. (2,455,097 sq.ft.).</p> <p>The property has a total gross floor area of approximately 11,235.23 sq.m. (120,936 sq.ft.).</p> <p>The property is located at the primary intersection of Wallburg of North Carolina. The property does not have a traditional industrial location and is surrounded by single-family residential development. The property is connected to Interstate 40, which is the primary commuter roadway for the three Triad cities of Greensboro, Winston-Salem and High Point, via NC Highway 109.</p> <p>The property is leased to HAECO Cabin Solutions for a term commencing on 21 March 2011 and expiring on 21 March 2031 at a current annual contract rent of US\$75,000. HAECO Cabin Solutions has the option to purchase the property during the lease term for the amount of all remaining rent payments. Unless HAECO Cabin Solutions gives notice, the option to purchase is automatically exercised at the end of the lease term.</p>	<p>The property is currently occupied by the HAECO Group for manufacturing of cabin parts and ancillary uses.</p>	<p>US\$1,825,000</p> <p>(UNITED STATES DOLLARS ONE MILLION EIGHT HUNDRED AND TWENTY FIVE THOUSAND)</p>

Notes:-

- (1) The property is located at the southeast corner of the intersection of Gumtree Road and NC Highway 109. This is the primary intersection in the Town of Wallburg. The other three corners of the intersection are developed with retail uses including the First National Bank, a Sheetz gas station and a Food Lion-anchored shopping centre.
- (2) The property is zoned LI, Light Industrial by the Town of Wallburg.

VALUATION REPORT

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 June 2018
12. Hangar, maintenance repair and overhaul facilities at 102 SE Academic Avenue, Lake City, Columbia County, Florida 32025, the US	<p>The whole development comprises 8 hangars, and office and shop space. The property was completed in between 1942 and 1979.</p> <p>The property has a total site area of approximately 463,604.05 sq.m. (4,990,234 sq.ft.).</p> <p>The property has a total gross floor area of approximately 58,661.46 sq.m. (631,432 sq.ft.).</p> <p>The property is located in Lake City of Florida. The surrounding area is a mixture of residential, commercial and industrial uses plus some undeveloped land. The area is served by 2 regional highways — US Highway 90 north of the property, and FL Highway 100 along the southwestern border of the airport.</p> <p>The property is leased to HAECO Airframe Services for a term commencing on 1 January 1993 and expiring on 31 December 2022 at a current annual contract rent of US\$125,460. There are no renewal options nor purchase options at the end of the lease term.</p>	The property is currently occupied by the HAECO Group for aircraft overhauling, maintenance and ancillary uses.	<p>US\$3,700,000</p> <p>(UNITED STATES DOLLARS THREE MILLION AND SEVEN HUNDRED THOUSAND)</p>

Notes:-

- (1) The property is located on Lake City Gateway Airport in Lake City, Florida. Generally, the boundaries of the immediate area are considered to be US Highway 90 to the north, Road 227 to the south, Road 363 to the east, and Price Creek Drive to the west. Lake City, a central north Florida's Columbia County, is located between Jacksonville, Tallahassee, and Gainesville near the intersection of Interstate 10 and Interstate 75 and has been the gateway to Florida since 1832.
- (2) The property is understood to be zoned industrial by the City of Lake City. The use of the property is primarily governed by airport use restrictions.

1. RESPONSIBILITY STATEMENT

This Scheme Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information with regard to the Proposal, Swire Pacific and HAECO.

The issue of this Scheme Document has been approved by the Swire Pacific Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than any information relating to HAECO) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by HAECO) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any statements in this Scheme Document misleading.

The issue of this Scheme Document has been approved by the HAECO Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than any information relating to Swire Pacific) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document (other than those expressed by Swire Pacific) have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document the omission of which would make any statements in this Scheme Document misleading.

2. SHARE CAPITAL OF HAECO

- (a) As at the Latest Practicable Date, the issued and paid-up capital of HAECO comprised 166,324,850 HAECO Shares.
- (b) All of the HAECO Shares currently in issue rank *pari passu* in all respects including as to capital, dividends and voting.
- (c) As at the Latest Practicable Date, no new HAECO Shares had been issued by HAECO since 31 December 2017 (being the end of the last financial year of HAECO).
- (d) As at the Latest Practicable Date, there were no outstanding options, warrants or conversion rights affecting HAECO Shares.

3. MARKET PRICES

- (a) The table below shows the closing market prices of the HAECO Shares as quoted on the Stock Exchange (i) on the Latest Practicable Date; (ii) on the Last Trading Date and (iii) at the end of each month during the Relevant Period:

Date	Closing price per HAECO Share HK\$
(i) 12 September 2018, being the Latest Practicable Date	68.60
(ii) 8 June 2018, being the Last Trading Date	44.00
(iii) at the end of each calendar month during the Relevant Period:	
(A) 29 December 2017	50.05
(B) 31 January 2018	48.45
(C) 28 February 2018	47.60
(D) 29 March 2018	45.60
(E) 30 April 2018	45.00
(F) 31 May 2018	42.30
(G) 29 June 2018	68.30
(H) 31 July 2018	69.25
(I) 31 August 2018	69.00

- (b) During the Relevant Period, the highest closing price of the HAECO Shares was HK\$69.45 per HAECO Share as quoted on the Stock Exchange on 28 August 2018 and the lowest closing price of the HAECO Shares was HK\$42.30 per HAECO Share as quoted on the Stock Exchange on 30 and 31 May 2018.
- (c) The Cancellation Price of HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment) represents a premium of approximately 63.2% over the closing price of HK\$44.00 per HAECO Share as quoted on the Stock Exchange on the Last Trading Date.

4. DISCLOSURE OF INTERESTS IN HAECO SHARES

- (a) As at the Latest Practicable Date, none of the HAECO Directors were interested within the meaning of Part XV of the SFO in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.
- (b) As at the Latest Practicable Date, no subsidiary of HAECO, no pension fund of HAECO or of a subsidiary of HAECO and no person who is presumed to be acting in concert with HAECO by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of HAECO by virtue of class (2) of

the definition of “associate” under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) owned or controlled any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.

- (c) As at the Latest Practicable Date, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between HAECO, or any person who is presumed to be acting in concert with HAECO by virtue of classes (1), (2), (3) or (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of HAECO by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code, and any other person.
- (d) As at the Latest Practicable Date, no fund manager (other than exempt fund managers) connected with HAECO managed any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares on a discretionary basis.
- (e) As at the Latest Practicable Date, neither HAECO nor any HAECO Directors had borrowed or lent any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.
- (f) As at the Latest Practicable Date, save as disclosed below, Swire Pacific did not own or control any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares:

Name of HAECO Shareholder	Capacity	Number of HAECO Shares	Total interest in HAECO Shares	Approximate percentage of HAECO’s issued share capital (%)
Swire Pacific	Beneficial Owner	124,723,637	124,723,637	74.99

- (g) As at the Latest Practicable Date, none of the Swire Pacific Directors were interested within the meaning of Part XV of the SFO in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.
- (h) As at the Latest Practicable Date, no Swire Pacific Concert Parties owned or controlled any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of HAECO Shares.

- (i) As at the Latest Practicable Date, (i) other than the Irrevocable Undertakings, neither Swire Pacific nor any of the Swire Pacific Concert Parties had received any irrevocable commitment to vote for or against the Proposal, and (ii) the IU Shareholders owned or controlled 5,223,811 HAECO Shares in total, representing 3.14% of the issued share capital of HAECO, 12.56% of the Scheme Shares, 12.56% of the Independent HAECO Shares and 12.56% of the Disinterested Shares.
- (j) As at the Latest Practicable Date, other than the Irrevocable Undertakings, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and Swire Pacific or any of the Swire Pacific Concert Parties.
- (k) As at the Latest Practicable Date, none of Swire Pacific or the Swire Pacific Concert Parties had borrowed or lent any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of HAECO Shares.

5. DEALINGS IN HAECO SHARES

- (a) During the Relevant Period, no HAECO Director had dealt for value in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of HAECO Shares.
- (b) During the period commencing on 10 June 2018 (being the date of the Joint Announcement) and ending on the Latest Practicable Date, no subsidiary of HAECO, no pension fund of HAECO or of a subsidiary of HAECO and no person who is presumed to be acting in concert with HAECO by virtue of class (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of HAECO by virtue of class (2) of the definition of “associate” under the Takeovers Code (but excluding any exempt principal traders and exempt fund managers) had dealt for value in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.
- (c) During the period commencing on 10 June 2018 (being the date of the Joint Announcement) and ending on the Latest Practicable Date, no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with HAECO, or any person who is presumed to be acting in concert with HAECO by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert” under the Takeovers Code or who is an associate of HAECO by virtue of classes (2), (3) and (4) of the definition of “associate” under the Takeovers Code had dealt for value in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.

- (d) During the period commencing on 10 June 2018 (being the date of the Joint Announcement) and ending on the Latest Practicable Date, no fund manager (other than exempt fund managers) connected with HAECO who managed any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares on a discretionary basis had dealt for value in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.
- (e) During the Relevant Period, none of Swire Pacific, the Swire Pacific Directors or the Swire Pacific Concert Parties had dealt for value in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.
- (f) During the Relevant Period, the IU Shareholders had not dealt for value in any HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.
- (g) During the Relevant Period, no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with Swire Pacific or any of the Swire Pacific Concert Parties had dealt for value in HAECO Shares or any convertible securities, warrants, options or derivatives in respect of any HAECO Shares.

6. DISCLOSURE OF INTERESTS IN SWIRE PACIFIC SHARES

- (a) As at the Latest Practicable Date, HAECO did not own any Swire Pacific Shares or any convertible securities, warrants, options or derivatives in respect of Swire Pacific Shares.
- (b) As at the Latest Practicable Date, save that Merlin B. Swire, a director and the chairman of HAECO, was interested within the meaning of Part XV of the SFO in 1,353,585 Swire Pacific 'B' Shares (representing approximately 0.05% of the total number of Swire Pacific 'B' Shares in issue), none of the HAECO Directors were interested within the meaning of Part XV of the SFO in any Swire Pacific Shares or any convertible securities, warrants, options or derivatives in respect of Swire Pacific Shares.

7. DEALINGS IN SWIRE PACIFIC SHARES

During the Relevant Period, neither HAECO nor any HAECO Directors had dealt for value in any Swire Pacific Shares or any convertible securities, warrants, options or derivatives in respect of any Swire Pacific Shares.

8. ARRANGEMENTS IN CONNECTION WITH THE PROPOSAL

As at the Latest Practicable Date:

- (a) there was no agreement, arrangement or understanding between Swire Pacific and any other person in relation to the transfer, charge or pledge of the HAECO Shares to be acquired pursuant to the Proposal and Swire Pacific had no intention to transfer, charge or pledge any HAECO Shares acquired pursuant to the Proposal to any other person;
- (b) save for the Irrevocable Undertakings, there was no agreement, arrangement or understanding (including any compensation arrangement) existing between Swire Pacific or any of the Swire Pacific Concert Parties and any HAECO Director, recent HAECO Director, HAECO Shareholders or recent HAECO Shareholders having any connection with or being dependent upon the Proposal; and
- (c) there was no agreement or arrangement to which Swire Pacific is a party which relates to circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

9. ARRANGEMENTS AFFECTING HAECO DIRECTORS

As at the Latest Practicable Date:

- (a) no benefit (other than statutory compensation required under appropriate laws) would be given to any HAECO Director as compensation for loss of office or otherwise in connection with the Proposal;
- (b) there were no agreements or arrangements between any HAECO Director and any other person which are conditional on or dependent upon the outcome of the Proposal or otherwise connected with the Proposal; and
- (c) there were no material contracts entered into by Swire Pacific in which any HAECO Director has a material personal interest.

10. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the HAECO Directors had entered into any service contract with HAECO or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contracts) had been entered into or amended within the Relevant Period; (ii) which were continuous contracts with a notice period of 12 months or more; or (iii) which were fixed term contracts with more than 12 months to run irrespective of the notice period.

11. LITIGATION

As at the Latest Practicable Date, neither HAECO nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the HAECO Directors to be pending or threatened by or against HAECO or any of its subsidiaries.

12. MATERIAL CONTRACTS

There were no material contracts entered into by HAECO or any of its subsidiaries after the date which was two years before 10 June 2018 (being the date of the Joint Announcement) up to and including the Latest Practicable Date, other than contracts entered into in the ordinary course of business carried on or intended to be carried on by HAECO or any of its subsidiaries.

13. EXPERTS AND CONSENTS

The following are the qualifications of the experts which have given advice which is contained in this Scheme Document:

Name	Qualification
Moelis	a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
Somerley	a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activity under the SFO
Cushman & Wakefield Limited	Independent professional property valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions, reports and/or letters and/or the references to its name and/or opinions, reports and/or letters in the form and context in which they respectively appear.

14. NON-STATUTORY ACCOUNTS OF THE HAECO GROUP

The financial information of HAECO Group relating to the years ended 31st December 2015, 31st December 2016 and 31st December 2017 that is disclosed in or incorporated by reference into this Scheme Document does not constitute HAECO's statutory annual consolidated financial statements for those years but was derived from those statutory financial statements. The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance) disclosed in, or incorporated by reference into, this Scheme Document

are not specified financial statements (within such meaning). Further information relating to HAECO's statutory annual consolidated financial statements for the years ended 31st December 2015, 31st December 2016 and 31st December 2017, required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The statutory annual consolidated financial statements of the HAECO Group for the years ended 31st December 2015, 31st December 2016 and 31st December 2017 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. An auditor's report has been prepared on each of those financial statements. The auditor's reports were not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Companies Ordinance.

15. MISCELLANEOUS

- (a) The registered office of Swire Pacific is at 33rd Floor, One Pacific Place, 88 Queensway, Hong Kong.
- (b) The registered office of the principal member of Swire Pacific's concert group, being Swire Pacific itself, is at 33rd Floor, One Pacific Place, 88 Queensway, Hong Kong.
- (c) The registered office of HAECO is at 33rd Floor, One Pacific Place, 88 Queensway, Hong Kong.
- (d) The registered office of Moelis is at Suite 1203 — 1210, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from the date of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is the earlier (1) at the registered office of HAECO at 33rd Floor, One Pacific Place, 88 Queensway, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and public holidays in Hong Kong) (Hong Kong time), (2) on the website of HAECO at www.haeco.com, (3) on the website of Swire Pacific at www.swirepacific.com, and (4) on the website of the SFC at www.sfc.hk:

- (a) the articles of association of Swire Pacific;
- (b) the articles of association of HAECO;

- (c) the annual reports of Swire Pacific for each of the years ended 31 December 2016 and 31 December 2017;
- (d) the interim report of Swire Pacific for the six months ended 30 June 2018;
- (e) the annual reports of HAECO for each of the years ended 31 December 2016 and 31 December 2017;
- (f) the interim report of HAECO for the six months ended 30 June 2018;
- (g) the letter from the HAECO Board, the text of which is set out on pages 16 to 25 of this Scheme Document;
- (h) the letter from the HAECO Independent Board Committee, the text of which is set out on pages 26 to 27 of this Scheme Document;
- (i) the letter from the HAECO Independent Financial Adviser, the text of which is set out on pages 28 to 58 of this Scheme Document;
- (j) the letter, summary of valuations and valuation report from Cushman & Wakefield Limited, the text of which is set out on pages 83 to 111 of this Scheme Document;
- (k) the written consents referred to in the section headed “13. Experts and Consents” in Appendix III — General Information;
- (l) the Irrevocable Undertakings; and
- (m) this Scheme Document.

THE SCHEME

HCMP No. 1065 of 2018

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 1065 OF 2018**

**IN THE MATTER OF
HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
香港飛機工程有限公司**

AND

**IN THE MATTER OF
THE COMPANIES ORDINANCE,
CHAPTER 622 OF THE LAWS OF THE HONG KONG SPECIAL
ADMINISTRATIVE REGION**

**SCHEME OF ARRANGEMENT
Under Section 673 of the Companies Ordinance
Chapter 622 of the Laws of the Hong Kong Special Administrative Region**

PRELIMINARY

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

acting in concert	has the meaning ascribed to it in the Takeovers Code, and “persons acting in concert” shall be construed accordingly
Cancellation Price	the cancellation price of HK\$72 (less the Dividend Adjustment) per Scheme Share payable in cash by Swire Pacific to the Scheme Shareholders pursuant to the Scheme. The HAECO Directors have declared a first interim dividend of HK\$0.72 per HAECO Share for the financial year ending 31 December 2018. HAECO does not expect to declare any further dividend on or before the Effective Date. The Dividend Adjustment is HK\$0.19 and the Cancellation Price is therefore HK\$71.81 per Scheme Share (assuming that there will be no further Dividend Adjustment)
Companies Ordinance	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Dividend Adjustment	has the meaning given to it in the section headed “The Scheme” in the Explanatory Statement in the Scheme Document

THE SCHEME

Effective Date	the date on which the Scheme becomes effective pursuant to paragraph 5 of this Scheme
Executive	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
Explanatory Statement	the explanatory statement in relation to the Scheme, the text of which is set out on pages 59 to 78 of the Scheme Document
HAECO	Hong Kong Aircraft Engineering Company Limited, a company incorporated in Hong Kong and listed on the Stock Exchange
HAECO Independent Board Committee	an independent board committee of the directors of HAECO comprising B.Y.C. Cha, Y.K. Leung and P.P.W. Tse
HAECO 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 activity under the SFO, being the independent financial adviser to the HAECO Independent Board Committee
HAECO Shares	shares in the capital of HAECO
HAECO Shareholders	registered holders of HAECO Shares
High Court	the High Court of Hong Kong
HK\$	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	the Hong Kong Special Administrative Region of the People's Republic of China
Independent HAECO Shareholders	HAECO Shareholders other than persons acting in concert with Swire Pacific
Latest Practicable Date	12 September 2018, being the latest practicable date prior to the date of the Scheme Document for the purpose of ascertaining certain information contained in the Scheme Document
Long Stop Date	means 28 February 2019 or such other date as may be agreed between Swire Pacific and HAECO or, to the extent applicable, as the Executive may consent and the High Court may direct

THE SCHEME

Moelis	Moelis & Company Asia Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to Swire Pacific in connection with the Proposal
Proposal	the proposal for the privatisation of HAECO by Swire Pacific by way of the Scheme
Register	the register of members of HAECO
Registrar of Companies	the Registrar of Companies appointed under the Companies Ordinance
Scheme	this scheme of arrangement under section 673 of the Companies Ordinance in its present form, with or subject to any modification thereof or addition thereof or condition approved or imposed by the High Court
Scheme Document	the composite scheme document dated 14 September 2018 issued jointly by HAECO and Swire Pacific, which includes this Scheme
Scheme Record Date	Wednesday, 28 November 2018, or such other date as shall have been announced to the HAECO Shareholders, being the record date for the purpose of determining the entitlements of the Scheme Shareholders to the Cancellation Price under the Scheme
Scheme Shares	HAECO Shares other than those held by Swire Pacific and its subsidiaries
Scheme Shareholders	registered holders of the Scheme Shares at the Scheme Record Date
SFC	Securities and Futures Commission of Hong Kong
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Stock Exchange	The Stock Exchange of Hong Kong Limited
Swire Pacific	Swire Pacific Limited, a company incorporated in Hong Kong and listed on the Stock Exchange
Takeovers Code	the Hong Kong Code on Takeovers and Mergers

(B) As at the Latest Practicable Date, the issued share capital of HAECO comprised 166,324,850 HAECO Shares.

THE SCHEME

- (C) As at the Latest Practicable Date, Swire Pacific owned or controlled 124,723,637 HAECO Shares, representing approximately 74.99% of the issued share capital of HAECO.
- (D) As at the Latest Practicable Date, no parties acting in concert with Swire Pacific owned or controlled any HAECO Shares.
- (E) As at the Latest Practicable Date, there were 41,601,213 Scheme Shares.
- (F) The primary purpose of this Scheme is to privatise HAECO by cancelling and extinguishing all of the Scheme Shares in consideration of the Cancellation Price so that HAECO shall thereafter become wholly owned by Swire Pacific. Immediately after the cancellation and extinction of the Scheme Shares, the share capital of HAECO will be increased to its former amount by the issue to Swire Pacific credited as fully paid of such number of HAECO Shares as is equal to the number of Scheme Shares cancelled and extinguished.
- (G) Swire Pacific has agreed to undertake to the High Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme.

THE SCHEME

PART I

CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On the Effective Date:
 - (a) the share capital of HAECO shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon such reduction of capital taking effect, the share capital of HAECO shall be increased to its former amount by the creation of such number of HAECO Shares as is equal to the number of Scheme Shares cancelled and extinguished; and
 - (c) HAECO shall apply the credit arising in its books of account as a result of the reduction of capital referred to in paragraph (a) above in paying up in full the HAECO Shares created pursuant to paragraph (b) above, which shall be allotted and issued, credited as fully paid, to Swire Pacific.

THE SCHEME

PART II CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares, Swire Pacific shall pay or cause to be paid to each Scheme Shareholder the Cancellation Price.

PART III GENERAL

3. (a) As soon as possible and but in any event within seven business days (as defined in the Takeovers Code) following the Effective Date, Swire Pacific shall post or cause to be posted to the Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2 of this Scheme.
- (b) All such cheques shall be sent by ordinary post in postage pre-paid envelopes addressed to such Scheme Shareholders at their respective registered addresses as appearing in the Register as at the Scheme Record Date, or in the case of joint holders, at the address appearing in the Register as at the Scheme Record Date of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
- (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to Swire Pacific for the moneys represented thereby.
- (d) All cheques shall be posted at the risk of the addressees and none of Swire Pacific, HAECO, Moelis, the HAECO Independent Financial Adviser and the share registrar of HAECO and their respective directors, employees, officers, agents, advisers, associates and affiliates and any other persons involved in the Proposal shall be liable for any loss or delay in transmission.
- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme, Swire Pacific shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in Swire Pacific's name with a licensed bank in Hong Kong selected by Swire Pacific. Swire Pacific shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy Swire Pacific that they are respectively entitled thereto and the cheques referred to in paragraph 3(b) of this Scheme of which they are payees have not been cashed. Any payments made by Swire Pacific shall not include any interest accrued on the sums

THE SCHEME

to which the respective persons are entitled pursuant to this Scheme. Swire Pacific shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of Swire Pacific to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

- (f) On the expiry of six years from the Effective Date, Swire Pacific shall be released from any further obligation to make any payments under this Scheme and Swire Pacific shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit account referred to in paragraph 3(e) of this Scheme, including accrued interest subject to any deduction required by law and expenses incurred.
 - (g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.
4. As from and including the Effective Date:
- (a) all certificates for the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of HAECO, to deliver up such certificates to HAECO or to any person appointed by HAECO to receive the same for cancellation;
 - (b) all instruments of transfer validly subsisting as at the Scheme Record Date in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and
 - (c) all mandates or other instructions to HAECO in force as at the Scheme Record Date in relation to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.
5. This Scheme shall become effective as soon as an office copy of the order of the High Court sanctioning this Scheme and confirming the reduction of the share capital of HAECO involved in the scheme shall have been registered by the Registrar of Companies under Part 2 of the Companies Ordinance.
6. Unless this Scheme shall have become effective on or before the Long Stop Date, this Scheme shall lapse.
7. HAECO and Swire Pacific may jointly consent for and on behalf of all parties concerned to any modification of or addition to this Scheme or to any condition which the High Court may see fit to approve or impose.

THE SCHEME

8. All costs, charges and expenses of the advisers and counsels appointed by HAECO, including the HAECO Independent Financial Adviser, will be borne by HAECO, whereas all costs, charges and expenses of the advisers and counsels appointed by Swire Pacific will be borne by Swire Pacific, and other costs, charges and expenses of the Scheme and the Proposal will be shared between Swire Pacific and HAECO equally.

14 September 2018

NOTICE OF COURT MEETING

HCMP 1065/2018

IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE

MISCELLANEOUS PROCEEDINGS NO. 1065 OF 2018

IN THE MATTER OF

HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED
香港飛機工程有限公司

AND

IN THE MATTER OF

THE COMPANIES ORDINANCE,
CHAPTER 622 OF THE LAWS OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated the 10th day of September 2018 (the “**Order**”) made in the above matters, the High Court of the Hong Kong Special Administrative Region (the “**High Court**”) has directed a meeting (the “**Meeting**”) to be convened of the registered holders of the shares (“**HAECO Shares**”) in the capital of Hong Kong Aircraft Engineering Company Limited (“**HAECO**” or the “**Company**”) (other than those held by Swire Pacific Limited and its subsidiaries) (the “**Scheme Shares**”) for the purpose of considering and, if thought fit, approving, with or without modification, a scheme of arrangement (the “**Scheme**”) proposed to be made between HAECO and the holders of the Scheme Shares as at Scheme Record Date (as defined in the Scheme), and that such Meeting will be held at 10:00 a.m. on Wednesday, 10 October 2018 at the Ballroom, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong at which place and time all holders of Scheme Shares are requested to attend.

A copy of the Scheme and a copy of the explanatory statement (the “**Explanatory Statement**”) explaining the effect of the Scheme, required to be furnished pursuant to section 671 of the abovementioned Ordinance, are incorporated in the scheme document of which this Notice forms part (the “**Scheme Document**”), which has been despatched by post to holders of the Scheme Shares. A copy of the Scheme Document can also be obtained by any person entitled to attend the Meeting during usual business hours on any day prior to the day appointed for the said meeting (other than a Saturday, a Sunday or a public holiday in Hong

NOTICE OF COURT MEETING

Kong) (a) from the share registrar of HAECO, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and (b) at the office of HAECO's solicitors at 5th Floor, Alexandra House, 18 Chater Road, Central, Hong Kong. The Scheme Document is also available at www.haeco.com.

In compliance with the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"), HAECO Shares held by Swire Pacific Limited and parties acting in concert (as defined in the Takeovers Code) with it may not be voted at the Meeting. Only HAECO Shares held by holders of Scheme Shares are eligible for voting thereat.

The above-mentioned holders of Scheme Shares may vote in person at the Meeting or they may appoint one or more persons, whether a member of HAECO or not, as their proxy to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed with the Scheme Document.

In the case of joint holders of a HAECO Share, the vote of the most senior holder who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members of HAECO in respect of the HAECO Share.

It is requested that forms appointing proxies, together with the letter or power of attorney or other authority (if any) under which they are signed or a notarially certified copy thereof (in the case of a corporation either under its common seal or under the hand of an attorney or a duly authorised officer on its behalf and to the satisfaction of the directors of the Company), be lodged at HAECO's share registrar as stated above no later than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

Completion and return of the form of proxy will not preclude a holder of Scheme Shares from attending and voting in person at the Meeting or any adjournment thereof. In the event that a holder of Scheme Shares attends and votes at the Meeting or any adjournment thereof after having lodged his form of proxy, his form of proxy shall be deemed to be revoked by operation of law.

For the purpose of determining the entitlement to attend and vote at the Meeting, the register of members of HAECO will be closed from Thursday, 4 October 2018 to Wednesday, 10 October 2018, both days inclusive, and during such period, no transfer of HAECO Shares will be effected. In order to qualify to vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with HAECO's share registrar as stated above no later than 4:30 p.m. (Hong Kong time) on Wednesday, 3 October 2018.

By the same order, the High Court has appointed Mr. Merlin Bingham SWIRE, or failing him, Mr. Kin Wing Augustus TANG, or failing him, any other available director of HAECO to act as chairman of the Meeting and has directed the chairman of the Meeting to report the result thereof to the High Court.

NOTICE OF COURT MEETING

The Scheme will be subject to the subsequent sanction of the High Court as set out in the Explanatory Statement contained in the Scheme Document.

Dated the 14th day of September 2018.

Deacons
Solicitors for the Company

5th Floor
Alexandra House
18 Chater Road
Central, Hong Kong

As at the date of this notice, the directors of the Company are:

*Executive Directors: M.B. Swire (Chairman), W.E.J. Barrington, C.P. Gibbs, R.J. Sharpe, A.K.W. Tang;
Non-Executive Director: G.T.F. Hughes; and
Independent Non-Executive Directors: B.Y.C. Cha, Y.K. Leung, J.L. Lewis and P.P.W. Tse.*

NOTICE OF GENERAL MEETING



HONG KONG AIRCRAFT ENGINEERING COMPANY LIMITED

香港飛機工程有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 44)

NOTICE IS HEREBY GIVEN that a general meeting (the “**General Meeting**”) of Hong Kong Aircraft Engineering Company Limited (“**HAECO**” or the “**Company**”) will be held at 10:30 a.m. (or if later immediately after the conclusion or adjournment of the meeting of the registered holders of the shares in the capital of HAECO (“**HAECO Shares**”) (other than those held by Swire Pacific Limited and its subsidiaries) (the “**Scheme Shares**”) convened at the direction of the High Court of the Hong Kong Special Administrative Region for the same day and place) on Wednesday, 10 October 2018 at the Ballroom, Level 5, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong for the purpose of considering and, if thought fit, passing, the following as a special resolution:

SPECIAL RESOLUTION

“THAT:

- (A) the scheme of arrangement dated 14 September 2018 (the “**Scheme**”) between HAECO and the holders of the Scheme Shares as at the Scheme Record Date (as defined in the Scheme), in the form of the print contained in the scheme document dated 14 September 2018 (the “**Scheme Document**”) which has been produced to this Meeting and for the purpose of identification signed by the chairman of this Meeting, with any modification of or addition to it, or any condition, as may be approved or imposed by the High Court, be and is hereby approved;
- (B) for the purpose of giving effect to the Scheme, on the date on which the Scheme becomes effective in accordance with the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**Effective Date**”):
 - (i) the share capital of HAECO be reduced by cancelling and extinguishing the Scheme Shares;
 - (ii) subject to and forthwith upon such reduction of capital taking effect, the share capital of HAECO be increased to its former amount by the creation of such number of new shares in the capital of HAECO as is equal to the number of Scheme Shares cancelled and extinguished; and

NOTICE OF GENERAL MEETING

- (iii) HAECO shall apply the credit arising in its books of account as a result of the said reduction of capital in paying up in full the HAECO Shares to be created as aforesaid, which new HAECO Shares shall be allotted and issued, credited as fully paid, to Swire Pacific Limited and the directors of HAECO be and are hereby unconditionally authorised to allot and issue the same accordingly;
- (C) the listing of HAECO Shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) be withdrawn, subject to the Scheme taking effect; and
- (D) the directors of HAECO be and are hereby unconditionally authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) (i) the making of an application to the Stock Exchange for the withdrawal of the listing of HAECO Shares on the Stock Exchange, subject to the Scheme taking effect; (ii) the reduction of capital, (iii) the allotment and issue of the HAECO Shares referred to above and (iv) the giving, on behalf of HAECO, of consent to any modification of, or addition to, the Scheme, which the High Court may see fit to impose and to do all other acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme.”

By order of the board
Hong Kong Aircraft Engineering Company Limited
David Fu
Company Secretary

Hong Kong, 14 September 2018

As at the date of this notice, the directors of the Company are:

Executive Directors: M.B. Swire (Chairman), W.E.J. Barrington, C.P. Gibbs, R.J. Sharpe, A.K.W. Tang;
Non-Executive Director: G.T.F. Hughes; and
Independent Non-Executive Directors: B.Y.C. Cha, Y.K. Leung, J.L. Lewis and P.P.W. Tse.

Notes:

- (i) Unless otherwise defined in this notice or the context otherwise requires, terms defined in the Scheme Document shall have the same meanings when used in this notice.
- (ii) At the General Meeting, the chairman of the General Meeting will put forward the above resolution to be voted on by way of poll.
- (iii) A white form of proxy for use at the General Meeting is enclosed with the Scheme Document.
- (iv) A member entitled to attend and vote at the General Meeting is entitled to appoint one or more persons, whether a member of HAECO or not, as his proxy to attend, speak and vote instead of him/her. If more than one proxy is appointed, the number of HAECO Shares in respect of which each such proxy is so appointed must be specified in the relevant form of proxy.

NOTICE OF GENERAL MEETING

- (v) In order to be valid, the white form of proxy, together with the letter or power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof (in the case of a corporation, either under its common seal or under the hand of an attorney or a duly authorised officer on its behalf and to the satisfaction of the directors of the Company), must be lodged at HAECO's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 48 hours before the time appointed for holding the General Meeting or any adjournment thereof. Completion and return of the white form of proxy will not preclude a member from attending and voting in person at the General Meeting or any adjournment thereof. In the event that a member attends and votes at the General Meeting after having lodged his form of proxy, his form of proxy shall be deemed to be revoked by operation of law.
- (vi) In the case of joint holders of a HAECO Share, the vote of the most senior holder who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members of HAECO in respect of the HAECO Share.
- (vii) For the purpose of determining the entitlement to attend and vote at the General Meeting, the register of members of HAECO will be closed from Thursday, 4 October 2018 to Wednesday, 10 October 2018, both days inclusive, and during such period, no transfer of HAECO Shares will be effected. In order to qualify to attend and vote at the General Meeting, all transfers accompanied by the relevant share certificates must be lodged with HAECO's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. (Hong Kong time) on Wednesday, 3 October 2018.
- (viii) If a tropical cyclone warning signal No.8 or above is or is expected to be hoisted or a black rainstorm warning signal is or is expected to be in force at any time after 7:00 a.m. on the date of the General Meeting, the General Meeting will be postponed. HAECO will post an announcement on the respective websites of the Hong Kong Exchanges and Clearing Limited and HAECO to notify members of the date, time and venue of the rescheduled meeting.
- (ix) In case of any inconsistency, the English version of this notice shall prevail.