

# Martin Aircraft Company Limited

## Notice of Special Meeting

Notice is hereby given that a special meeting of shareholders of Martin Aircraft Company Limited (the **Company**) will be held at Martin Aircraft Company Limited, 39 Ballarat Way, Wigram, Christchurch on Thursday, 12 February 2015 commencing at 4.00pm.

The following business will be considered at the special meeting.

### Special Business

1. To consider and, if thought fit, to pass the following resolution as a special resolution by, respectively, the ordinary shareholders and the convertible preference shareholders:

That the Board may issue up to 67,500,000 fully paid ordinary shares, at a price of A\$0.40 per share, for the initial public offer (and no later than 30 April 2015), in excess of the 10% limit set out in clause 11.2 of the Constitution.

2. To consider and, if thought fit, to pass the following resolution as a special resolution by, respectively, the ordinary shareholders and the convertible preference shareholders:

That, for all purposes including any requirements of Rule 7(d) of the Takeovers Code and listing rules 7.1, 10.1 and 10.11 of the listing rules of ASX Limited, the Company:

- (a) issue 40,813,636 ordinary shares of the Company to KuangChi Science Limited (**KCS**) at a price of A\$0.40 per share pursuant to the initial public offer;
- (b) issue 11,686,364 ordinary shares of the Company to REORIENT Group Limited at a price of A\$0.40 per share (paid by KCS) pursuant to the initial public offer;
- (c) issue a convertible bond to KCS in accordance with the terms of a convertible bond agreement to be entered into between KCS and the Company on the terms set out in Appendix 2 to the notice of special meeting dated 27 January 2015;
- (d) on conversion of the convertible bond referred to in (c) above, issue such number of ordinary shares of the Company to the holder of the convertible bond as may be required by the terms of the convertible bond agreement; and
- (e) grant KCS an option to sell its entire shareholding in the Hong Kong joint venture (to be established by KCS and the Company) to the Company in accordance with the terms set out in Appendix 3 to the notice of special meeting dated 27 January 2015 and, on exercise of such option, issue such number of ordinary shares of the Company to the holder of the option as may be required by the terms of the option.

Please see the Explanatory Notes on page 3 for further information.

## **Important information**

### ***Record Date***

Any person who is registered as a shareholder of the Company at 4.00pm on 10 February 2015 is entitled to attend and vote at the meeting or to appoint a proxy to attend and vote in their place.

### ***Proxies***

All shareholders are entitled to attend and vote at the meeting or to appoint a proxy to attend and vote in their place.

Enclosed with this notice of meeting is a proxy form. For the appointment of a proxy to be valid, the form must be received by James West either by post (39 Ballarat Way, Wigram, Christchurch 8042), facsimile (03 982 4614) or email ([james.west@martinaircraft.co.nz](mailto:james.west@martinaircraft.co.nz)) at least **48 hours** before the start of the meeting (that is by **4.00pm on 10 February 2015**).

Any shareholder of the Company entitled to attend and vote at the meeting may appoint another person or persons as proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. If the proxy form is returned without direction as to how the proxy should vote on the resolution then the proxy may vote as he or she thinks fit on that resolution.

All joint holders of a share must sign the proxy form.

Companies may sign under the hand of a duly authorised officer or by power of attorney. If the proxy form has been signed under a power of attorney, a copy of the power of attorney (unless already deposited with the Company) and a signed certificate of non-revocation of the power of attorney must be delivered to the Company with the proxy form.

### **Corporate Representatives**

A corporation that is a shareholder may appoint a representative to attend the meeting on its behalf in the same manner as that which it could appoint a proxy. Corporate representatives should bring along to the meeting evidence of their authority to act for the relevant corporation.

### ***Powers of attorney***

Any person representing a shareholder(s) by virtue of a power of attorney must bring a copy of the power of attorney (unless already deposited with the Company) and a signed certificate of non-revocation of the power of attorney must be produced to the Company.

### ***Postal Voting***

Pursuant to the Company's constitution, a shareholder may not exercise his/her right to vote at the meeting by casting a postal vote.

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**By Order of the Board of Directors**

**27 January 2015**

## Explanatory notes

These explanatory notes set out the details of the transactions which are the subject of the resolutions and the approvals required by the shareholders of the Company under the Companies Act 1993 (the **Companies Act**), the constitution of the Company (the **Constitution**) and the Takeovers Code Approval Order 2000 (the **Takeovers Code**).

### Special Resolutions

The resolutions set out in this notice of meeting are special resolutions which require approval by not less than 75% of the votes of those shareholders entitled to vote and voting on the resolution.

#### **Resolution 1 – initial public offer**

1. Where the total number of shares and/or other equity securities issued by the Company in any 12 month period exceeds 10% of the number of shares and other equity securities on issue as at the commencement of that period, clause 11.2(b) of the Constitution only permits the Board to issue such shares or other equity securities if the issue has been approved by a special resolution of each class of Shares.
2. In accordance with clause 11.2(b) of the Constitution, the shareholders of the Company have previously approved the issue of up to 60,000,000 fully paid ordinary shares under the initial public offer (by no later than 31 March 2015) at a price not less than A\$0.40 per share.
3. The Board is now seeking approval to issue 67,500,000 fully paid ordinary shares (an increase of 7,500,000 shares from the previous resolution) under the initial public offer (by no later than 3 April 2015), at a price of A\$0.40 per share. As this will exceed the 10% limit set out in clause 11.2 of the Constitution the Board is seeking shareholder approval by way of special resolution of each class of shareholders in accordance with clause 11.2(b) of the Constitution.

#### **Resolution 2 – Issue of shares and convertible bond**

4. If Resolution 2 is passed, the issues of shares and convertible bond referred to in Resolution 2 will be approved in terms of clause 11.2(b) of the Constitution and rule 7(d) of the Takeovers Code as an exception to rule 6 of the Takeovers Code.

#### *Subscription for shares*

5. KCS has subscribed for 52,500,000 ordinary shares (**Subscription Shares**) of the Company subject to the passing of the resolutions set out in this notice of meeting. The aggregate issue price for such shares is A\$21 million at an issue price of A\$0.40 per share. The Subscription Shares will be issued immediately following the acquisition of the Sale Shares. While KCS will pay the aggregate issue price in full, only 40,813,636 of the Subscription Shares (**KCS Subscription Shares**) will be issued to KCS and 11,686,364 of the Subscription Shares (**Reorient Subscription Shares**) will be issued to REORIENT Group Limited (an associate of KCS' financial advisers).

#### *Convertible bond*

6. The Company has agreed to enter into a convertible bond agreement with KCS on the terms set out in Appendix 2. Subject to the approval of the shareholders of the Company being obtained, the Company will issue a convertible bond (**Convertible Bond**) to KCS pursuant to the convertible bond agreement in exchange for at least A\$23 million (**Minimum Bond Amount**). The final amount which will be paid in exchange for the Convertible Bond will be determined as a result of KCS's success or otherwise in obtaining up to 15,000,000 ordinary shares (**Sale Shares**) of the Company from certain current shareholders at a price of A\$0.40

per share. The Sale Shares are intended to be acquired within the five business day period prior to the issue of the Subscription Shares. If KCS obtains less than 15,000,000 Sale Shares, then the difference between the number obtained and 15,000,000 will be multiplied by A\$0.40 and added to the Minimum Bond Amount to obtain the final amount to be paid. If KCS does not obtain any Sale Shares, then the final amount to be paid for the Convertible Bond will be A\$29 million.

7. On conversion of the Convertible Bond, KCS will receive up to 83,208,742 ordinary shares of the Company (**Conversion Shares**) with the final number calculated by dividing the amount paid for the Convertible Bond by the Conversion Price (as defined in Appendix 2). The Conversion Shares will be issued on the date determined in accordance with the terms set out in Appendix 2.

#### *Joint venture*

8. The Company has agreed to set up a joint venture company with KCS as soon as possible following the Company listing on the Australian Securities Exchange (**ASX**).
9. The joint venture company will be registered in Hong Kong, and will be 49% owned by the Company and 51% owned by KCS, with each contributing A\$2 million to the joint venture company upon incorporation.
10. The joint venture company is intended to establish a wholly foreign owned enterprise in China to engage in research and development, and sale and distribution, of the Martin Jetpack in China and Hong Kong.
11. The Company is seeking shareholder approval to grant an option to KCS (**Option**), which would allow KCS to, at any time prior to the date 30 months after the Company lists on the ASX, require the Company to acquire KCS's shares in the joint venture company in consideration for the issue of up to 96,854,612 ordinary shares in the Company to KCS (**Option Shares**). The number of Option Shares to be issued will be determined in accordance with the terms of the option set out in Appendix 3. The Company is also seeking approval for the issue of the Option Shares should the option be exercised by KCS.
12. All other terms of the option are set out in Appendix 3.

#### *Agreement with KCS*

13. The Company has entered into an investment agreement with KCS dated 19 December 2014, which provides for the investments contemplated by paragraphs 5 to 11 above. In addition to the approvals proposed to be provided as set out in this notice of meeting, other regulatory approvals may be required for some or all of these investments.
14. As part of the investments contemplated by paragraphs 5 to 11 above, the Company has agreed that:
  - (a) KCS will have the right to appoint two directors to the Board and any material subsidiary of the Company;
  - (b) the Board will have a maximum of eight directors;
  - (c) in the event that one of the directors of the Company or a material subsidiary of the Company as at the date of the investment agreement resigns, KCS will be entitled to appoint a director to fill the casual vacancy that results;

(d) subject to any applicable law, until the date that is 30 months from the date on which the Company lists on the ASX, KCS will be entitled to participate, on a pro-rata basis based on the number of shares held as if the Conversion Shares had already been issued to KCS, in:

- (i) any issue by the Company of new equity securities; or
- (ii) securities convertible into, or exchangeable for, equity securities in the Company,

provided that this entitlement does not apply to:

- (iii) issues made to employees of the Company under an employee share plan approved by the Board after the date on which the Company lists on the ASX;
- (iv) issues made under a dividend reinvestment plan or similar scheme; or
- (v) issues made under a pro rata entitlement offer to existing shareholders of the Company in which KCS is entitled to participate on a pro rata basis;

(e) provided that KCS holds at least 20% of the ordinary shares in the Company, KCS's approval will be required for:

- (i) any amendments to the Constitution;
- (ii) the sale of:
  - the main operating subsidiaries of the Company;
  - all or a substantial part of the business of the **Group** (being the Company and its subsidiaries); or
  - all or substantially all of the assets of the Group;
- (iii) commencing the dissolution or winding up of a material member of the Group;
- (iv) materially altering the scale of operations of, or ceasing entirely, the business of the Group or commencing any business or operational activity except the business as carried on as at the date of the investment agreement or contemplated by the investment agreement (being the joint venture described in paragraphs 8 to 12 above);
- (v) entry into a major transaction (as defined in section 129 of the Companies Act 1993) by a member of the Group; and
- (vi) the issue of equity securities by the Company or any securities convertible into equity securities otherwise than as contemplated by the investment agreement (see paragraphs 5, 6, 7, 11 and 14(d) above).

### *Constitution*

15. Where the total number of shares and/or other equity securities issued by the Company in any 12 month period exceeds 10% of the number of shares and other equity securities on issue as at the commencement of that period, clause 11.2(b) of the Constitution only permits the Board to issue such shares or other equity securities if the issue has been approved by a special resolution of each class of Shares.

16. In respect of each of the:

- (a) issue of the Subscription Shares;
- (b) issue of the Conversion Shares; and
- (c) issue of the Option Shares,

the number of shares/equity securities in the Company to be issued will exceed 10% of the total number of all shares and other equity securities on issue as at the commencement of the 12 month period prior to issue.

17. As such, approval of each class of shareholders is required (by special resolution) for each issue in accordance with clause 11.2(b) of the Constitution.

#### *Takeovers Code approval*

18. Under Rule 6 of the Takeovers Code, a person who holds or controls:

- (a) no voting rights, or less than 20% of the voting rights, in a code company may not become the holder or controller of an increased percentage of the voting rights in the code company unless, after that event, that person and the person's associates hold or control not more than 20% of the voting rights in the code company; or
- (b) 20% or more of the voting rights in a code company may not become a holder or controller of an increased percentage of the voting rights in the code company.

19. There are a number of exceptions to this rule. These include where a person becomes the holder or controller of voting rights in a code company by allotment of shares that have been approved by an ordinary resolution pursuant to Rule 7(d) of the Takeovers Code.

20. The Company is a code company as it has 50 or more shareholders and 50 or more share parcels.

21. KCS currently holds no shares in the Company. KCS currently has no associates who hold shares in the Company for the purposes of the Takeovers Code.

22. As a result of the proposed issues of shares referred to in paragraphs 5 to 11 above, KCS (both individually and in association with its associates) will hold more than 20% of the shares in the Company and, once it holds more than 20%, will increase its percentage voting rights.

23. The total percentage of the Company held by KCS (and its associates) after all of the share issues set out in paragraphs 5 to 11 above will be up to 55%. With certain scenarios resulting in KCS holding up to 52.24% (being 220,876,990 shares) and other scenarios resulting in REORIENT Group Limited holding up to 3.28% (being 11,686,364 shares).

24. Accordingly, under the Takeovers Code, each allotment of shares referred to in paragraphs 5 to 11 above requires the approval of shareholders by ordinary resolution.
25. If shareholders approve resolution 2, then they are approving the issues of the shares to KCS and REORIENT Group Limited for the purposes of rule 7(d) of the Takeovers Code.
26. The information required under rule 16 of the Takeovers Code is set out in Appendix 1 of this notice of meeting.

*Independent Adviser's Report*

27. As required by rule 18 of the Takeovers Code, the Company has commissioned an Independent Adviser's Report on the issues of the shares referred to in paragraphs 5 to 11 above.
28. The Independent Adviser's Report is required by the Takeovers Code because, as a result of the issue of the shares, KCS and its associates will hold or control more than 20% of the voting rights in the Company. The Takeovers Code requires that, where shareholders are being asked to give their approval under rule 7(d) of the Takeovers Code, the directors must obtain a report from an independent adviser on the merits of the proposed allotment having regard to the interests of those persons who may vote to approve the allotment, comprising all of the shareholders of the Company.
29. Simmons Corporate Finance Limited has prepared the Independent Adviser's Report and a copy of that report is attached to this notice of meeting.

*ASX Listing Rules*

30. As shareholders' are aware, the Company is presently seeking a listing on the ASX. While the listing rules of ASX Limited, the operator of ASX, do not currently apply to the Company, under the terms of Resolution 2 the Company is seeking approval now for the future issue of the shares to KCS that could, subject to a waiver being sought by the Company from ASX Limited, be subject to shareholder approval at a later date under the ASX listing rules. For these purposes it is noted as follows:
  - (a) the maximum number of ordinary shares to be issued in the Company on conversion of the Convertible Bond is 83,208,742 ordinary shares and for the exercise of the Option is 96,854,612 ordinary shares;
  - (b) the Company may issue the ordinary shares on conversion of the Convertible Bond and the exercise of the Option at any time prior to the date that is 30 months after the Company lists on ASX;
  - (c) the issue price of the Conversion Shares and the Option Shares is A\$0.40 (subject to adjustment under the terms of the Convertible Note or the Option);
  - (d) the Conversion Shares and the Option Shares will be issued to KCS, a company that would be at the time of the acquisition a substantial shareholder in the Company;
  - (e) the terms of the Convertible Note and the Option are contained in Appendix 2 and Appendix 3 respectively to this Notice of Meeting and the terms of the ordinary shares are set out in the constitution of the Company; and

- (f) the funds to be used under the Convertible Note subscription will be used to accelerate the commercialisation of the Martin Jetpack. The consideration for the Option Shares will be the benefits that KCS brings to the development of the Martin Jetpack through the joint venture company.

*Directors' recommendation*

It is proposed that the shareholders approve Resolutions 1 and 2.

The directors of the Company are of the view that the overall transaction represented by the issue of the Subscription Shares, convertible bond, Conversion Shares and Option Shares is an effective and efficient means of funding the Company's plans and recommend that the shareholders approve the resolutions.

## APPENDIX 1 - INFORMATION REQUIRED BY RULE 16 OF THE TAKEOVERS CODE

- (a) KCS and REORIENT Group Limited (**Reorient**) are the proposed allottees.
- (b) Particulars of the securities to be allotted are:
- (i) The maximum number of ordinary shares that could be allotted to:
- KCS pursuant to KCS' subscription is 40,813,636 (**KCS Subscription Shares**);
  - Reorient pursuant to KCS' subscription is 11,686,364 (**Reorient Subscription Shares**);
  - KCS pursuant to the conversion of the Convertible Bond is up to 83,208,743 (provided that such number will be reduced by the number of ordinary shares acquired from existing shareholders prior to KCS being allotted the Subscription Shares) (**Conversion Shares**); and
  - KCS pursuant to the Option is up to 96,854,612 (**Option Shares**).
- (ii) Following the allotment of the:
- KCS Subscription Shares (40,813,636) and the Reorient Subscription Shares (11,686,364) (together the **Subscription Shares**), the total number of shares on issue will be 227,779,108. The percentage of the aggregate of all existing voting securities and all voting securities that could be allotted that the maximum approved number (52,500,000) represents is 23.05%;
  - Conversion Shares, the total number of shares on issue will be between 274,591,585 and 325,987,850. The percentage of the aggregate of all existing voting securities and all voting securities that could be allotted that the maximum approved number (83,208,743) represents is up to 25.53%; and
  - Option Shares, the total number of shares on issue will be between 356,175,796 and 422,842,462. The percentage of the aggregate of all existing voting securities and all voting securities that could be allotted that the maximum approved number (96,854,612) represents is up to 22.91%.
- (iii) The maximum percentage of all voting securities that will be held or controlled by:
- KCS, after completion of the allotment of:
    - the Subscription Shares is 24.50%;
    - the Conversion Shares is up to 38.05%; and
    - the Option Shares is up to 52.24%; and
  - Reorient, after completion of the allotment of:
    - the Subscription Shares is 5.13%;

- the Conversion Shares is up to 4.26%; and
  - the Option Shares is up to 3.28%.
- (iv) The maximum percentage of all voting securities that will be held or controlled by:
- KCS and its associates (excluding Reorient as a “relying associate” i.e., an associate of KCS who is also relying on rule 7(d) in relation to the relevant allotment of shares), after completion of the allotment of:
    - the Subscription Shares is up to 24.50%;
    - the Conversion Shares is 38.05%; and
    - the Option Shares is 52.24%; and
  - Reorient and its associates (excluding KCS as a “relying associate”), after completion of the allotment of:
    - the Subscription Shares is up to 5.13%;
    - the Conversion Shares is 4.26%; and
    - the Option Shares is 3.28%.
- (v) Each of KCS and Reorient is a “relying associate” of each other in respect of the allotments. KCS and Reorient have no other associates in respect of the Company. The maximum percentage of all voting securities that will be held or controlled by KCS, Reorient and their associates, after completion of the allotment of:
- the Subscription Shares is up to 29.63%;
  - the Conversion Shares is 41.63%; and
  - the Option Shares is 55.00%.
- (vi) The above information was determined on 27 January 2015 (**Calculation Date**).
- (vii) the assumptions on which the particulars in this paragraph (b) are calculated, include:
1. that the number of shares is the number of shares on issue on the Calculation Date;
  2. that there is no change in the total number of shares on issue between the Calculation Date and the end of the allotment period (other than as a result of the allotment or allotments);

3. that, in relation to paragraphs (b)(i) to (iii), KCS is allotted the approved maximum number under the allotment or allotments and Reorient is allotted a total of 11,686,364 shares;
  4. that, in relation to paragraphs (b)(i) to (iii), KCS and its associates (excluding Reorient as a “relying associate”) are allotted the maximum number of voting securities;
  5. that, in relation to paragraphs (b)(v), KCS, Reorient and their associates are allotted the maximum number of voting securities; and
  6. that the initial public offer takes place but that no shares are issued to investors other than KCS and Reorient, notwithstanding that up to 15,000,000 shares may be issued to investors other than KCS and Reorient pursuant to the initial public offer.
- (c) Not applicable.
- (d) The issue price for:
- The Subscription Shares is A\$21 million (A\$0.40 per share), which is payable by KCS on the date the Company’s shares are listed on the ASX;
  - The Conversion Shares is up to A\$29 million (A\$0.40 per share, subject to adjustment in accordance with the terms of the convertible bond agreement the terms of which are set out in Appendix 2) which is payable on conversion of the Convertible Bond; and
  - The Option Shares is A\$35.7 million (A\$0.40 per share, subject to adjustment in accordance with the terms of the Option set out in Appendix 3), which is payable following exercise of the Option in accordance with the terms of the Option set out in Appendix 3.
- (e) The reasons the Company is issuing and allotting the Subscription Shares, Conversion Shares and Option Shares is to:
- provide sufficient capital to enable the Company to accelerate commercialisation of its products;
  - ensure the Company will be well funded with a strong balance sheet; and
  - develop a strategic partnership with KCS.
- (f) The allotments under Resolution 2, if approved, will be permitted under rule 7(d) of the Takeovers Code as an exception to rule 6 of the Takeovers Code.

- (g) KCS appointed REOREINT Financial Markets Limited as its financial adviser to provide financial advisory services in respect of the transactions contemplated under the investment agreement between the Company and KCS dated 19 December 2014. As remuneration for such services, KCS has agreed to pay for, and direct the Company to allot, the Reorient Subscription Shares to Reorient. There are no other agreements or arrangements between KCS and any other person relation to the allotments, holding or control of the shares to be allotted, or the exercise of voting rights in the Company.
- (h) The report from an independent adviser that complies with rule 18 of the Takeovers Code is attached to this notice of meeting.
- (i) The Directors make the following statement for the purposes of rule 19 of the Takeovers Code.

*The directors of the Company are pleased to unanimously recommend approval of the allotment of the Subscription Shares, Conversion Shares and Option Shares under rule 7(d) of the Takeovers Code. The directors' reasons for recommending this approval are that this will:*

- *provide sufficient capital to enable the Company to accelerate commercialisation of its products;*
- *ensure the Company will be well funded with a strong balance sheet; and*
- *enable the Company to develop a strategic partnership with KCS.*

## APPENDIX 2 – Terms of Issue of the Convertible Bond

### 1. Interpretation

In this Appendix, unless the context indicates otherwise:

**Accelerating Event** means when the volume weighed average market price (as defined in the ASX Listing Rules) of the shares of the Company for any period of 30 days is or above A\$1.20 per share.

**ASX Listing Date** means the date on which the Company is admitted to the official list of ASX.

**Board** means the board of directors of the Company.

**Completion Date** means the ASX Listing Date, which shall be a date not later than 30 April 2015.

**Conversion Price** means A\$0.40 per ordinary share or such other amount per ordinary share as agreed by the Company and KCS to ensure that KCS (together with Reorient in respect of the Reorient Subscription Shares) holds 41.63% of the shares in the Company following issue of the shares on conversion of the bond (subject to adjustment as set out in paragraph 6 of this Appendix 2).

**Maturity Date** means the date falling on the expiry of a period of 30 months from the Completion Date.

### 2. Votes

The bond shall not entitle the holder to cast a vote on any resolution of holders of shares in the Company.

### 3. Interest

The bond does not bear interest and has no entitlement to dividends from the Company.

### 4. Conversion

- (a) The holder of the bond shall have the right to convert the bond into ordinary shares in the Company by written notice to the Company upon the earlier of the occurrence of the Accelerating Event and the Maturity Date.
- (b) The number of ordinary shares to be issued upon conversion of the bond will be determined by dividing the total principal amount of the bond by the Conversion Price (and rounding that number up to the next higher whole number).

- (c) Each share created upon conversion of the bond will:
  - (i) be free of all encumbrances or other adverse interests; and
  - (ii) be on the same terms and have the same rights as all other ordinary shares.

**5. Non-redeemable**

The Company shall not have the right to redeem the bond once issued

**6. Anti-Dilution**

The Conversion Price shall be adjusted from time to time as follows:

- (a) if there is a consolidation and/or sub-division of ordinary shares of the Company, the Conversion Price shall be adjusted by an amount which, in the opinion of the directors, is fair and reasonable to maintain the right to convert so as to ensure that the holder of the bond is in no better or worse position as a result of such consolidation or sub-division; and
- (b) on an allotment of fully paid ordinary shares pursuant to a bonus issue, or a capitalisation of profits or reserves to holders of ordinary shares, the Conversion Price shall be adjusted to ensure that the holder of the bond is in no better or worse position as a result of such bonus issue or capitalisation of profits or reserves.

**7. Liquidation**

In the event of the insolvency of the Company, the holder of the bond will be entitled to be paid out of the Company's assets (in priority to any payment to be made to the holders of ordinary shares) an amount equal to the principal amount of the bond.

**8. Other Terms**

The Convertible Bond will otherwise be issued on such terms as the Board may determine.

## APPENDIX 3 – Joint Venture - Terms of Option

### 1. Interpretation

In this Appendix, unless the context indicates otherwise:

**Accelerating Event** means when the volume weighed average market price (as defined in the ASX Listing Rules) of the shares of the Company for any period of 30 days is or above A\$1.20 per share.

**ASX Listing Date** means the date on which the Company is admitted to the official list of ASX.

**Board** means the board of directors of the Company.

**Completion Date** means the ASX Listing Date, which shall be a date not later than 30 April 2015.

**HKCo** means a limited liability company to be incorporated in Hong Kong and the issued share capital of which will be held by the Company as to 49% and KCS as to 51%.

**HKCo Sale Consideration** means the consideration for the sale and purchase of the HKCo Sale Shares in the amount of A\$35,700,000.

**HKCo Sale Shares** means the entire interest to be held by KCS in HKCo, representing 51% of the entire issued share capital of HKCo.

**Maturity Date** means the date falling on the expiry of a period of 30 months from the Completion Date.

**Swap Price** means A\$0.40 per ordinary share or such other amount per ordinary share as agreed by KCS and the Company to ensure that KCS (together with Reorient in respect of the Reorient Subscription Shares) holds 55% of the shares in the Company following issue of the Option Shares (subject to adjustment as set out in paragraph 4 of this Appendix).

**Option Shares** means the new Ordinary Shares to be allotted and issued by the Company in satisfaction of payment of the HKCo Sale Consideration.

### 2. Sale of HKCo Sale Shares

- (a) Subject to 2(b) below, at any time prior to the Maturity Date, KCS shall have the option to sell the HKCo Sale Shares by 10 equal tranches to the Company at the HKCo Sale Consideration in the following manner:
  - (i) Subject to (iv) below, each tranche of HKCo Sale Shares shall represent 10% of the total number of HKCo Sale Shares (“**Tranche**”);
  - (ii) The consideration for the sale and purchase of a Tranche shall be 10% of the HKCo Sale Consideration;

- (iii) Subject to (iv) below, the sale and purchase of each Tranche shall take place at every three months interval (“**Interval**”) commencing from the Completion Date (“**Regular Tranche**”);
  - (iv) KCS is not obliged to sell a Regular Tranche at every Interval, if KCS does not exercise its option to sell any Regular Tranche(s) at any Interval(s) (“**Unsold Tranche(s)**”), KCS shall have the option sell all such Unsold Tranche(s) together with the Regular Tranche at the next Interval;
- (b) If an Accelerating Event occurs, KCS shall have the right to exercise its option to sell all the remaining unsold HKCo Sale Shares to the Company at any time.

### **3. Number of Option Shares**

- (a) The number of Option Shares to be issued upon KCS exercising its right under clause 6.4 and in accordance with paragraph 1 above will be determined by dividing the relevant amount of the HKCo Sale Consideration (representing the number of HKCo Sale Shares sold at any particular Interval) by the Swap Price (and rounding that number up to the next higher whole number).
- (b) Each Swap Share created will:
  - (i) be free of all encumbrances or other adverse interests; and
  - (ii) be on the same terms and have the same rights as all other ordinary shares.

### **4. Anti-Dilution**

The Swap Price shall be adjusted from time to time as follows:

- (a) if there is a consolidation and/or sub-division of ordinary shares, the Swap Price shall be adjusted by an amount which, in the opinion of the directors, is fair and reasonable to maintain the right to convert so as to ensure that KCS is in no better or worse position as a result of such consolidation or sub-division; and
- (b) on an allotment of fully paid ordinary shares pursuant to a bonus issue, or a capitalisation of profits or reserves to holders of ordinary shares, the Swap Price shall be adjusted to ensure that the holder of KCS is in no better or worse position as a result of such bonus issue, capitalisation of profits or reserves.

### **9. Other Terms**

The Option will otherwise be granted on such terms as the Board may determine.

**MARTIN AIRCRAFT COMPANY LIMITED**

**PROXY FORM**

I/We

\_\_\_\_\_ of \_\_\_\_\_  
*(full name of shareholder)* *(full address of shareholder)*

\_\_\_\_\_ of \_\_\_\_\_  
*(full name of shareholder)* *(full address of shareholder)*

\_\_\_\_\_ of \_\_\_\_\_  
*(full name of shareholder)* *(full address of shareholder)*

being a shareholder/joint shareholders of Martin Aircraft Company Limited hereby appoint:

\_\_\_\_\_ of \_\_\_\_\_  
*(full name of proxy)* *(full address of proxy)*

OR

The Chairman of the meeting *(please circle to select)*

as my/our proxy to exercise my vote at the Annual Shareholders' Meeting of the Company to be held on **12 February 2015 at 4.00pm**, and at any adjournment of that meeting. If the person I/we have appointed is unable to be my proxy then I/we appoint

\_\_\_\_\_ of \_\_\_\_\_  
*(full name of proxy)* *(full address of proxy)*

OR

The Chairman of the meeting *(please circle to select)*

## DIRECTIONS

I/We direct my/our proxy to vote in the following manner:

### Special Resolutions of Ordinary Shareholders

Please vote with a tick

1	That the Board may issue up to 67,500,000 fully paid ordinary shares, at a price of A\$0.40 per share, for the initial public offer (and no later than 30 April 2015), in excess of the 10% limit set out in clause 11.2 of the Constitution.	<table border="0"><tr><td style="text-align: center;">For</td><td style="text-align: center;">Against</td><td style="text-align: center;">Abstain</td></tr><tr><td style="text-align: center;"><input type="checkbox"/></td><td style="text-align: center;"><input type="checkbox"/></td><td style="text-align: center;"><input type="checkbox"/></td></tr></table>	For	Against	Abstain	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For	Against	Abstain						
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>						
2	<p>That, for all purposes including any requirements of Rule 7(d) of the Takeovers Code and listing rules 7.1, 10.1 and 10.11 of the listing rules of ASX Limited, the Company:</p> <ul style="list-style-type: none"><li>(a) issue 40,813,636 ordinary shares of the Company to KuangChi Science Limited (KCS) at a price of A\$0.40 per share pursuant to the initial public offer;</li><li>(b) issue 11,686,364 ordinary shares of the Company to REORIENT Group Limited at a price of A\$0.40 per share (paid by KCS) pursuant to the initial public offer;</li><li>(c) issue a convertible bond to KCS in accordance with the terms of a convertible bond agreement to be entered into between KCS and the Company on the terms set out in Appendix 2 to the notice of special meeting dated 27 January 2015;</li><li>(d) on conversion of the convertible bond referred to in (c) above, issue such number of ordinary shares of the Company to the holder of the convertible bond as may be required by the terms of the convertible bond agreement; and</li><li>(e) grant KCS an option to sell its entire shareholding in the Hong Kong joint venture (to be established by KCS and the Company) to the Company in accordance with the terms set out in Appendix 3 to the notice of special meeting dated 27 January 2015 and, on exercise of such option, issue such number of ordinary shares of the Company to the holder of the option as may be required by the terms of the option.</li></ul>	<table border="0"><tr><td style="text-align: center;">For</td><td style="text-align: center;">Against</td><td style="text-align: center;">Abstain</td></tr><tr><td style="text-align: center;"><input type="checkbox"/></td><td style="text-align: center;"><input type="checkbox"/></td><td style="text-align: center;"><input type="checkbox"/></td></tr></table>	For	Against	Abstain	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For	Against	Abstain						
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>						

## Special Resolutions of Convertible Preference Shareholders

Please vote with a tick

		For	Against	Abstain
1	That the Board may issue up to 67,500,000 fully paid ordinary shares, at a price of A\$0.40 per share, for the initial public offer (and no later than 30 April 2015), in excess of the 10% limit set out in clause 11.2 of the Constitution.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	That, for all purposes including any requirements of Rule 7(d) of the Takeovers Code and listing rules 7.1, 10.1 and 10.11 of the listing rules of ASX Limited, the Company: <ul style="list-style-type: none"> <li>(a) issue 40,813,636 ordinary shares of the Company to KuangChi Science Limited (KCS) at a price of A\$0.40 per share pursuant to the initial public offer;</li> <li>(b) issue 11,686,364 ordinary shares of the Company to REORIENT Group Limited at a price of A\$0.40 per share (paid by KCS) pursuant to the initial public offer;</li> <li>(c) issue a convertible bond to KCS in accordance with the terms of a convertible bond agreement to be entered into between KCS and the Company on the terms set out in Appendix 2 to the notice of special meeting dated 27 January 2015;</li> <li>(d) on conversion of the convertible bond referred to in (c) above, issue such number of ordinary shares of the Company to the holder of the convertible bond as may be required by the terms of the convertible bond agreement; and</li> <li>(e) grant KCS an option to sell its entire shareholding in the Hong Kong joint venture (to be established by KCS and the Company) to the Company in accordance with the terms set out in Appendix 3 to the notice of special meeting dated 27 January 2015 and, on exercise of such option, issue such number of ordinary shares of the Company to the holder of the option as may be required by the terms of the option.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

***The following is for BOTH ordinary shareholders and convertible preference shareholders:***

If none of the boxes above is ticked then I/we provide my/our proxy to exercise his/her/their discretion as to whether to vote for or against or abstain from voting for the relevant resolution.

If no proxy form is received by the Company at least 48 hours prior to the commencement of the meeting (being 4.00pm on 12 February 2015) then in the absence of the relevant shareholder(s) attending the meeting the votes attaching to such shares will not be voted at the meeting.

Signed by each shareholder

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Date:

Please return completed Proxy Form to: **39 Ballarat Way, Wigram, Christchurch 8042**, by fax to **03 982 4614** (Attention: James West) or by email to **james.west@martinaircraft.co.nz** at least 48 hours before the meeting (*being 4.00pm on 10 February 2015*).