Simmons CORPORATE FINANCE

Martin Aircraft Company Limited

Independent Adviser's Report

In Respect of the Proposed Investment by KuangChi Science Limited

January 2015

Statement of Independence

Simmons Corporate Finance Limited confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report
- has no direct or indirect pecuniary or other interest in the proposed transactions considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Simmons Corporate Finance Limited has satisfied the Takeovers Panel, on the basis of the material provided to the Takeovers Panel, that it is independent under the Takeovers Code for the purposes of preparing this Independent Adviser's Report.

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1. Introduction

1.1 Background

Martin Aircraft Company Limited (**Martin Aircraft** or the **Company**) has developed a practical jetpack that can be flown manned or unmanned (the **Jetpack**). It is currently in the final design stage to build several pre-production Jetpacks for further testing and demonstrations to potential customers, leading to the commercialisation of the Jetpack. The first Jetpacks are planned to be produced and delivered to first responder customers (such as the fire service and the ambulance service) in 2016. The Company also plans to make new versions of the Jetpack for different markets and sell services related to the Jetpack.

Martin Aircraft currently has 120,106,738 fully paid ordinary shares on issue held by 159 shareholders (the **Ordinary Shareholders**) and 55,172,370 convertible preference shares held by 5 shareholders (the **Convertible Preference Shareholders**). We refer to the Ordinary Shareholders and the Convertible Preference Shareholders collectively as the **Existing Shareholders.**

The Company's shares are not currently listed on any equities security market. However, the Company is planning to list its shares on the Australian Securities Exchange operated by ASX Limited (**ASX**) in February 2015 following the completion of an initial public offering (**IPO**) and the transactions with KuangChi Science Limited (**KCS**) discussed in section 1.2.

A profile of Martin Aircraft is set out in section 3.

1.2 KCS Investment

Overview

Martin Aircraft and KCS entered into a conditional investment agreement on 19 December 2014 (the **KCS Investment Agreement**) whereby KCS will acquire existing ordinary shares in Martin Aircraft and KCS, along with its financial adviser REORIENT Group Limited (**REORIENT**) (together the **KCS Associates**) will be allotted new ordinary shares in the Company, thereby potentially resulting in the KCS Associates holding up to 55.00% of the ordinary shares in the Company (of which KCS may hold up to 52.24%) (the **KCS Investment**).

The KCS Investment consists of a series of transactions whereby KCS will:

- immediately provide an interest free unsecured loan of A$1 million to the Company (the **Loan**) to pay the Company's expenses incurred in the IPO and in connection with the KCS Investment
- acquire up to 15,000,000 ordinary shares in the Company (the **Sale Shares**) from certain Ordinary Shareholders at a price of A$0.40 per share (the **KCS Share Acquisition**)
- subscribe for 52,500,000 new fully paid ordinary shares under the IPO at an issue price of A$0.40 per share (the **Subscription Shares**), representing an investment of A$21 million
- subscribe for a zero coupon convertible bond of between A$23 million and A$29 million (the **Convertible Bond**) that is convertible into between 46,812,477 and 83,208,743 new fully paid ordinary shares in the Company (the **Conversion Shares**)

- establish a joint venture limited liability company in Hong Kong (**HKCo**), owned 49% by the Company and 51% by KCS. KCS will have the right to sell its entire shareholding in HKCo to Martin Aircraft (the **HKCo Option**) in exchange for up to 96,854,612 new fully paid ordinary shares in the Company (the **Option Shares**).

The KCS Associates currently hold no shares in the Company. The KCS Investment will result in KCS providing between A$44 million and A$50 million of capital to Martin Aircraft and could result in the KCS Associates holding up to 55.00% of the Company's ordinary shares within 30 months of the Company listing on the ASX in February 2015.

KCS Share Acquisition

KCS intends to acquire up to 15,000,000 Sale Shares from certain Ordinary Shareholders at a price of A$0.40 per share. The Existing Shareholders who intend to sell some of their shares are the Company's founder Glenn Martin, the Company's largest shareholder, No 8 Ventures Nominees Limited (**No 8 Ventures**) and 8 other shareholders who have been long term shareholders in the Company and whose shares are likely to be escrowed on listing on the ASX.

The Sale Shares are intended be acquired within the 5 business days period prior to the issue of the Subscription Shares.

KCS has agreed that it will not offer for sale, sell, agree to sell, grant an option over or otherwise dispose of, directly or indirectly, any of the Sale Shares it acquires for a period of 2 years without the prior written approval of ASX and the Company's board of directors (the **Board**). It is likely that ASX will impose mandatory escrow in relation to the Sale Shares for periods between 12 and 24 months following the listing of the Company.

Subscription for 52,500,000 Ordinary Shares Under the IPO

KCS has subscribed for 52,500,000 Subscription Shares at an issue price of A$0.40 per share as part of the IPO, totalling A$21 million. The allotment of the Subscription Shares is subject to the Existing Shareholders' approval.

KCS will direct that 11,686,364 of the 52,500,000 Subscription Shares be issued to its financial adviser, REORIENT. The aggregate issue price for the 11,686,364 Subscription Shares issued to REORIENT amounts to A$4.7 million.

KCS was required to subscribe for the Subscription Shares within 7 business days of signing the KCS Investment Agreement on 19 December 2014. The A$21 million subscription price has been paid into an escrow account held by an independent escrow agent in Sydney, which will be released to the Company immediately prior to the Company's shares listing on the ASX.

Subscription for Convertible Bond

Subject to the Existing Shareholders' approval and the completion of the issue of the Subscription Shares, KCS will subscribe for the Convertible Bond:

- at such time as the Company and KCS agree that the subscription proceeds are needed for the Company's working capital requirements or
- when the volume weighted average share price (**VWAP**) of the Company's shares on the ASX for any 30 day period is A$1.20 or above or
- 7 days prior to 30 months from the date on which the Company lists on the ASX (which must be no later than 30 April 2015) (the **ASX Listing Date**).

The Convertible Bond will be for between A$23 million (the **Minimum Bond Amount**) and A$29 million (the **Maximum Bond Amount**). The difference of A$6 million equates to the amount that KCS may pay to acquire the maximum 15,000,000 Sale Shares from certain Ordinary Shareholders.

The final amount which will be paid in exchange for the Convertible Bond will be determined based on the number of Sale Shares that KCS acquires:

- if KCS acquires less than 15,000,000 Sale Shares, then the difference between 15,000,000 and the number of Sale Shares acquired 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 acquire any Sale Shares, then the final amount to be paid for the Convertible Bond will be Maximum Bond Amount of A$29 million.

Repayment of the Loan will be made by offsetting the Loan amount of A$1 million against the subscription price of the Convertible Bond.

The Convertible Bond does not bear interest, has no entitlement to dividends and does not entitle KCS to cast a vote on any shareholder resolution.

Martin Aircraft cannot redeem the Convertible Bond once it is issued.

In the event of the insolvency of the Company, the holder of the Convertible 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 Convertible Bond.

KCS will have the right to convert the bond into Conversion Shares upon the earlier of:

- when the VWAP of the Company's shares on the ASX for any 30 day period is A$1.20 or above and
- 30 months from the ASX Listing Date.

On conversion of the Convertible Bond, KCS will be allotted between 46,812,477 and 83,208,743 Conversion Shares, with the final number calculated by dividing the amount paid for the Convertible Bond by the Conversion Price. The Conversion Price will be:

- A$0.40 (unless the Conversion Price is adjusted for any restructure of the Company's capital (eg a consolidation or sub-division of the ordinary shares or a bonus issue)) or
- such other amount per ordinary share as agreed by the Company and KCS to ensure that the KCS Associates hold 41.63% of the shares in the Company following the issue of the Conversion Shares.

Put Option Over KCS's HKCo Shares

HKCo

Subject to the completion of the issue of the Subscription Shares, Martin Aircraft has agreed to set up HKCo as a joint venture company with KCS as soon as possible following the Company listing on the ASX.

HKCo will be a limited liability company incorporated in Hong Kong with 49% of its share capital owned by the Company and 51% owned by KCS.

Each shareholder will contribute A$2 million to HKCo upon its incorporation.

It is intended that HKCo will establish a wholly foreign owned enterprise (**WFOE**) in China to engage in research and development (**R&D**) and the sale and distribution of the Jetpack in China and Hong Kong.

Martin Aircraft will grant to the WFOE the exclusive right to undertake R&D in China and Hong Kong and the exclusive right to sell and distribute Jetpacks in China and Hong Kong.

Put Option

Subject to the Existing Shareholders' approval, the Company will grant the HKCo Option to KCS, allowing KCS to, at any time prior to the date 30 months after the ASX Listing Date, require the Company to acquire KCS's entire 51% shareholding in HKCo in exchange for the issue of up to 96,854,612 Option Shares at the Swap Price. The Swap Price will be:

- A$0.40 (unless the Swap Price is adjusted for any restructure of the Company's capital (eg a consolidation or sub-division of the ordinary shares or a bonus issue)) or
- such other amount per ordinary share as agreed by the Company and KCS to ensure that the KCS Associates hold 55.00% of the shares in the Company following the issue of the Option Shares.

The HKCo Option is granted to KCS in consideration for the benefits that the Company believes HKCo will deliver.

The HKCo Option provides KCS with the right to sell its HKCo shares by 10 equal tranches to the Company, with each tranche representing 10% of the total number of HKCo shares held by KCS:

- each tranche shall take place at every 3 months interval, commencing from the ASX Listing Date
- KCS is not obliged to sell a tranche at every 3 months interval
- if KCS does not exercise its option to sell any tranche at any 3 months interval, it shall have the option sell all such unsold tranches together with the regular tranche at the next interval
- if the Company's VWAP for any 30 day period is A$1.20 or above, KCS shall have the right to exercise its option to sell all the remaining unsold HKCo shares to the Company at any time.

The consideration for KCS's 51% shareholding in HKCo will be satisfied by the issue of up to 96,854,612 Option Shares to KCS at the Swap Price.

Conditions and Completion Date

The Company has agreed that up to when it lists on the ASX, it will operate the business in the ordinary course, not dispose of any assets and not materially alter any existing commitments or agreements, other than in connection with progressing the IPO.

The KCS Investment Agreement may be terminated by KCS at any time before the Company lists on the ASX if:

- the Company suffers an insolvency event
- the Company threatens or ceases to carry on business or suspends all or substantially all of its activities
- the Company breaches any of its obligations to issue shares to KCS
- any of the conditions or approvals are not satisfied or waived in writing by KCS by 31 March 2015.

If the KCS Investment Agreement is terminated, the A$1 million Loan will become immediately due and repayable.

1.3 KuangChi Science Limited

KCS is a company incorporated in Bermuda with its shares quoted on the main board of the Stock Exchange of Hong Kong (**HKEx**). Its market capitalisation was HK$17.2 billion (NZ$3.0 billion) as at 26 January 2015.

The business initially focussed on the design, development, production and marketing of paper poducts. KCS's business operations now encompass:

- a novel space services and other innovative technology business
- the manufacture and sale of paper packaging products and paper gift items and the printing of paper promotional materials
- property investment.

A profile of KCS is set out in section 4.

REORIENT is a boutique investment firm established in 1985. REORIENT provides institutional equity sales and trading, investment banking, asset management, corporate finance and macro economic research analysis and strategy advice.

REORIENT has provided financial advisory services to KCS in respect of the KCS Investment.

1.4 Initial Public Offering

Martin Aircraft announced on 27 October 2014 that it would undertake an IPO to raise between A$10 million (the **Minimum Subscription**) and A$25 million (the **Maximum Subscription**) and subsequently have its shares quoted on the ASX.

The Company lodged a prospectus in respect of the IPO on 27 October 2014 (the **Prospectus**). The key terms of the IPO set out in the Prospectus were:

- the Company offered up to 50,000,000 ordinary shares at A$0.50 or NZ$0.55 each to raise up to A$25 million
- the Minimum Subscription was 20,000,000 shares to raise A$10 million
- the IPO closing date was 28 November 2014
- the allotment of shares was to be on 4 December 2014
- trading of the Company's shares on the ASX was expected to commence on 8 December 2014
- Axstra Capital Pty Limited (**Axstra**) was appointed lead advisor
- Ord Minnett Limited (**Ord Minnett**) was appointed lead manager.

A supplementary prospectus was lodged on 12 December 2014, extending the closing date of the IPO to 19 December 2014 and disclosing that the engagement of Ord Minnett as lead manager had been terminated by agreement.

A second supplementary prospectus was lodged on 19 December 2014. This disclosed:

- that the Company and KCS had entered into the KCS Investment Agreement
- details of the KCS Investment
- an extension of the IPO closing date to 19 January 2015
- a reduction in the IPO issue price from A$0.50 / NZ$0.55 to A$0.40 / NZ$0.43 per share. All previous applicants to the IPO will participate at the reduced issue price, unless they opt to withdraw their application
- an increase in the Maximum Subscription from A$25 million to A$27 million to accommodate some of the funds already raised under the IPO, subject to the Existing Shareholders' approval
- the allotment of shares will be on 13 February 2015
- the ASX Listing Date is expected to be 20 February 2015
- previous subscribers to the IPO may withdraw their investment.

The increase in the Maximum Subscription to A$27 million will result in KCS subscribing for A$21 million (through the subscription for 52,500,000 shares) and other shareholders (the **IPO Shareholders**) subscribing for up to A$6 million (through the subscription for up to 15,000,000 shares).

A third supplementary prospectus was lodged on 14 January 2015, incorporating information from the previous 2 supplementary prospectuses as well as providing further disclosure for investors, including:

- further details regarding KCS
- details as to the directors proposed by KCS
- an extension of the IPO closing date to 13 February 2015
- the allotment of shares will be on 16 February 2015
- the ASX Listing Date is expected to be 23 February 2015.

A term of listing on the ASX is that ASX requires that all or part of the shares held by approximately 70 Existing Shareholders following the IPO be subject to restrictions contained in escrow arrangements with the ASX (the **Restrictions Agreements**):

- approximately 5.5 million shares are restricted for 12 months from their date of issue and these shares will be progressively released from escrow over the next 12 months
- approximately 70.6 million shares will be restricted for 24 months from the ASX Listing Date and these shares will be released from escrow at the end of that period.

In addition, No 8 Ventures has entered into a voluntary escrow arrangement that ends on 1 December 2015.

1.5 Impact on Shareholding Levels

The Ordinary Shareholders currently collectively hold 100% of the 120,106,738 ordinary shares on issue and the Convertible Preference Shareholders currently collectively hold 100% of the 55,172,370 convertible preference shares on issue.

On the ASX Listing Date, the 55,172,370 convertible preference shares will convert into 55,172,370 ordinary shares, resulting in there being 175,279,108 ordinary shares on issue before the issue of any new ordinary shares under the IPO.

At the completion of the IPO and the KCS Investment, the KCS Associates will hold 55.00% of the Company’s ordinary shares and the Existing Shareholders and the IPO Shareholders will collectively hold 45.00% of the Company’s ordinary shares.

The number of Conversion Shares and Option Shares issued will depend on the number of Sale Shares acquired by KCS and the number of shares subscribed for by the IPO Shareholders under the IPO and assuming no options and warrants currently on issue are exercised.

The table on the following page shows the potential number of Conversion Shares and Option Shares that will be issued under the various scenarios.

KCS Associates' Potential Shareholding Levels

	KCS Associates Shares	KCS Associates %	Existing Shareholders and IPO Shareholders Shares	Existing Shareholders and IPO Shareholders %	Total Shares
Acquisition of no Sale Shares / 15,000,000 IPO Shares					
Current[1]	-	-%	175,279,108	100%	175,279,108
KCS Share Acquisition	-		-		-
Post the KCS Share Acquisition	-	-%	175,279,108	100%	175,279,108
Subscription Shares	52,500,000		15,000,000		67,500,000
	52,500,000	21.62%	190,279,108	78.38%	242,779,108
Conversion Shares	83,208,743		-		83,208,743
	135,708,743	41.63%	190,279,108	58.37%	325,987,851
Option Shares	96,854,612		-		96,854,612
Post the KCS Investment	232,563,355	55.00%	190,279,108	45.00%	422,842,463
Acquisition of no Sale Shares / No IPO Shares					
Current[1]	-	-%	175,279,108	100%	175,279,108
KCS Share Acquisition	-		-		-
Post the KCS Share Acquisition	-	-%	175,279,108	100%	175,279,108
Subscription Shares	52,500,000		-		52,500,000
	52,500,000	23.05%	175,279,108	76.95%	227,779,108
Conversion Shares	72,500,000		-		72,500,000
	125,000,000	41.63%	175,279,108	58.37%	300,279,108
Option Shares	89,250,000		-		89,250,000
Post the KCS Investment	214,250,000	55.00%	175,279,108	45.00%	389,529,108
Acquisition of 15,000,000 Sale Shares / 15,000,000 IPO Shares					
Current[1]	-	-%	175,279,108	100%	175,279,108
KCS Share Acquisition	15,000,000		(15,000,000)		-
Post the KCS Share Acquisition	15,000,000	8.56%	160,279,108	91.44%	175,279,108
Subscription Shares	52,500,000		15,000,000		67,500,000
	67,500,000	27.80%	175,279,108	72.20%	242,779,108
Conversion Shares	57,500,000		-		57,500,000
	125,000,000	41.63%	175,279,108	58.37%	300,279,108
Option Shares	89,250,000		-		89,250,000
Post the KCS Investment	214,250,000	55.00%	175,279,108	45.00%	389,529,108
Acquisition of 15,000,000 Sale Shares / No IPO Shares					
Current[1]	-	-%	175,279,108	100%	175,279,108
KCS Share Acquisition	15,000,000		(15,000,000)		-
Post the KCS Share Acquisition	15,000,000	8.56%	160,279,108	91.44%	175,279,108
Subscription Shares	52,500,000		-		52,500,000
	67,500,000	29.63%	160,279,108	70.37%	227,779,108
Conversion Shares	46,812,477		-		46,812,477
	114,312,477	41.63%	160,279,108	58.37%	274,591,585
Option Shares	81,584,211		-		81,584,211
Post the KCS Investment	195,896,688	55.00%	160,279,108	45.00%	356,175,796

1 After the conversion of 55,172,370 convertible preference shares into ordinary shares on the ASX Listing Date

The terms of the KCS Investment are designed to ensure that the KCS Associates will hold 41.63% of the Company's ordinary shares after the issue of the Conversion Shares and 55.00% the Company's ordinary shares after the issue of the Option Shares.

1.6 Special Meeting

The Ordinary Shareholders and the Convertible Preference Shareholders will separately vote on a special resolution in respect of the KCS Investment at the Company's special meeting of shareholders on 12 February 2015 (resolution 2 - the **KCS Resolution**). The KCS Resolution covers:

- the allotment of the Subscription Shares to KCS and REORIENT
- the issue of the Convertible Bond
- the allotment of the Convesion Shares
- the grant of the HKCo Option and the allotment of the Option Shares.

We refer to the allotment of the Subscription Shares, the Conversion Shares and the Option Shares collectively as the **KCS Allotments**.

Any Existing Shareholder who is deemed to be an associate of KCS is not permitted to vote on the KCS Resolution.

The Ordinary Shareholders and the Convertible Preference Shareholders will also separately vote on a special resolution in respect of the IPO at the special meeting, authorising the Board to issue up to 67,500,000 fully paid ordinary shares at A$0.40 per share under the IPO by 30 April 2015 to raise up to A$27 million (resolution 1).

This resolution is required to comply with the provisions of the Company's constitution. Where the total number of equity securities issued by the Company in any 12 month period exceeds 10% of the number of 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 equity securities if the issue has been approved by a special resolution of each class of shares.

The Existing Shareholders had previously approved the issue of up to 60,000,000 fully paid ordinary shares at a price of not less than A$0.40 per share under the IPO by 31 March 2015 at the Company's annual meeting on 30 September 2014.

1.7 Regulatory Requirements

Martin Aircraft is a code company as defined by the Takeovers Code (the **Code**) as it has 50 or more shareholders and 50 or more share parcels. Accordingly the Company is subject to the provisions of the Code.

Rule 6 of the Code prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its holding or control of voting rights beyond 20%
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The KCS Allotments may result in the KCS Associates increasing their control of the voting rights in Martin Aircraft to up to 55.00%.

Accordingly, the Ordinary Shareholders and the Convertible Preference Shareholders will separately vote at the Company's special meeting on the KCS Resolution in respect of the KCS Allotments in accordance with the Code. The resolution is a special resolution rather than an ordinary resolution due to the requirements of the Company's constitution.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser's Report is to be included in, or accompany, the notice of meeting pursuant to Rule 16(h).

1.8 Purpose of the Report

The Board has engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser's Report on the merits of the KCS Allotments in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 22 December 2014 to prepare the Independent Adviser's Report.

Simmons Corporate Finance issues this Independent Adviser's Report to the Board for the benefit of the Existing Shareholders to assist them in forming their own opinion on whether to vote for or against the KCS Resolution.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the KCS Allotments in relation to each shareholder. This report on the merits of the KCS Allotments is therefore necessarily general in nature.

This Independent Adviser's Report is not to be used for any other purpose without our prior written consent.

1.9 Currencies

All currency references are to New Zealand dollars (**NZ$**), Australian dollars (**A$**) or Hong Kong dollars (**HK$**).

Conversions to NZ$ are undertaken at the following exchange rates:

- NZ$1.00 = A$0.94
- NZ$1.00 = HK$5.74.

2. Evaluation of the Merits of the KCS Allotments

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the KCS Allotments having regard to the interests of the Existing Shareholders.

There is no legal definition of the term *merits* in New Zealand in either the Code or in any statute dealing with securities or commercial law.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel *Guidance Note on Independent Advisers and the Takeovers Code* dated May 2014
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the KCS Allotments should focus on:

- the requirement for the KCS Investment
- the prospects for Martin Aircraft without the KCS Investment
- the terms and conditions of the KCS Investment
- the impact of the KCS Investment on Martin Aircraft's financial position
- the impact of the KCS Investment on the control of the Company
- the impact of the KCS Investment on Martin Aircraft's share price
- the benefits and disadvantages for KCS of the KCS Investment
- the benefits and disadvantages for the Existing Shareholders of the KCS Investment
- the implications if the KCS Resolution is not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Summary of the Evaluation of the Merits of the KCS Allotments

Our evaluation of the merits of the KCS Allotments is set out in detail in sections 2.3 to 2.15.

The KCS Investment will result in:

- KCS providing between A$44 million and A$50 million of capital to the Company
- KCS and Martin Aircraft forming a strategic partnership which will include forming a joint venture company in Hong Kong
- the KCS Associates holding up to 55.00% of the Company's ordinary shares within 30 months of the Company listing on the ASX in February 2015.

In summary, the key positive aspects of the KCS Investment are:

- the KCS Investment will result in Martin Aircraft receiving between A$44 million and A$56 million of new capital:
  - it will ensure that the IPO will be successful and that the Company will raise the Minimum Subscription of A$21 million, which will be contributed by KCS
  - the Company may raise up to a further A$6 million under the IPO from the IPO Shareholders
  - in addition, it will ensure that the Company raises a further A$23 million to A$29 million through the issue of the Convertible Bond to KCS at a later date
- the KCS Investment will enable Martin Aircraft to develop a strategic partnership with KCS:
  - they will form HKCo as a joint venture company in Hong Kong, which will enhance the Company's ability to access R&D grants in China and gain access to the China and Hong Kong markets to sell the Jetpack
  - KCS will be able to share its advance technologies to support the development of the Jetpack. The Company has identified a number of R&D benefits that KCS will be able to contribute to Martin Aircraft
  - KCS will benefit from the aviation and flying technology from the Jetpack for the development of its civil near space flying apparatus and Wi-Fi broadcasting technology
- the terms of the KCS Investment are reasonable:
  - KCS will immediately provide the A$1 million Loan to the Company on an unsecured interest free basis to assist with the payment of the Company's capital raising costs
  - all shares will be issued to KCS at or around A$0.40 per share. This is the same price as the IPO Shareholders are subscribing for shares under the IPO. The price is 42% higher than the NZ$0.30 issue price of the Company's most recent share issues
  - the Convertible Bond carries a zero coupon, thus alleviating the Company of any interest expense on the A$23 million to A$29 million principal amount

- the KCS Investment will have a significant positive impact on the Company's financial position as it will receive between A$44 million and A$56 million of new capital (before costs) (including potentially up to A$6 million from the IPO Shareholders)
- the KCS Investment will significantly improve the liquidity of Martin Aircraft's ordinary shares as it will guarantee the Minimum Subscription being reached under the IPO, leading to the quotation of the Company's shares on the ASX in February 2015 (subject to the approval of ASX). Existing Shareholders who are not subject to the Restrictions Agreements will then be able to freely trade their shares on a recognised securities market. However, it is uncertain as to what price range the shares may trade at
- the implications of the KCS Resolution not being approved by the Existing Shareholders are significant in that the Minimum Subscription is unlikely to be reached, meaning the IPO will not proceed and therefore the Company's ability to fund the commercialisation of the Jetpack will be seriously impacted. The Company will need to seek alternative sources of capital in a relatively short timeframe to continue its operations. If Martin Aircraft cannot raise sufficient capital in the required timeframe to meet its financial obligations, then, in a worst case scenario, it may need to cease operating.

In summary, the key negative aspects of the KCS Investment are:

- the KCS Associates will control up to 55.00% of the Company's voting rights following the KCS Allotments some 30 months after the ASX Listing Date:
  - KCS will hold significant influence over the outcome of shareholding voting and exert a high level of influence over the Board and the Company's operations
  - KCS will potentially hold between 51.72% and 52.24% of the Company's ordinary shares, thereby enabling it to utilise the *creep* provisions of Rule 7(e) of the Code to buy up to a further 5% of the Company's shares per annum without the need for shareholder approval
- the dilutionary impact of the KCS Investment on the Existing Shareholders will result in their shareholdings in the Company reducing by up to 59% following the KCS Investment
- the attraction of Martin Aircraft as a takeover target may diminish.

We note that at the maximum shareholding level of 55.00%, KCS will have invested A$44 million in the Company and paid A$6 million to the Existing Shareholders for 15,000,000 Sale Shares, resulting in it holding 214,250,000 shares in the Company. This equates to an average cash price paid per share of A$0.2334 (NZ$0.2483), which is significantly below the IPO issue price of A$0.40 / NZ$0.43. However, the calculation does not attribute any value to the benefits that KCS will contribute to the Company through the strategic partnership and the establishment and operation of HKCo. While it is not possible to accurately quantify the value of these benefits, they are likely to be significant and cannot be ignored when evaluating the consideration paid by KCS for its shareholding in the Company.

There are a number of positive and negative features associated with the KCS Investment. In our view, when the Existing Shareholders are evaluating the merits of the KCS Investment, they need to carefully consider whether the negative aspects of the KCS Investment, including the level of control that KCS will hold over the Company and the dilutionary impact could justify voting against the KCS Resolution with the outcome that the Company will be severely undercapitalised and will need to seek alternative sources of capital within a relatively short timeframe in order to continue operating.

In our opinion, after having regard to all relevant factors, the positive aspects of the KCS Investment significantly outweigh the negative aspects from the perspective of the Existing Shareholders.

2.3 Rationale for the KCS Investment

Background

We understand that the Company first entered into discussions with KCS in late November 2014 when KCS executives visited New Zealand following the G20 meeting in Brisbane.

As discussions took place, the strategic fit between the 2 entities quickly became apparent. At the time, the Company was considering whether the (then) Minimum Subscription of A$10 million could be difficult to raise under the (then) pricing of the shares due to a softening of the Australian capital markets and thus an alternative source of capital to the IPO and / or a re-pricing of the IPO may be required.

KCS's approach to the potential investment was that it was preferable for the Company to raise a larger amount of capital than originally sought in the IPO and to do so in one capital raising round so as to alleviate the need to return to the market for further capital within a relatively short timeframe. KCS was prepared to provide the capital on the basis that it would eventually hold a controlling shareholding in the Company.

Certain Board members visited KCS to view its capabilities and were highly impressed. Negotiations with KCS and REORIENT developed at a quick pace, culminating in the signing of the KCS Investment Agreement on 19 December 2014.

Purpose

The purpose of the KCS Investment is to raise funds to strengthen the Company's financial position and to accelerate the commercialisation of the Company's products. The KCS Investment will ensure that the Minimum Subscription under the IPO is reached, leading to the Company's shares being quoted on the ASX in February 2015 (subject to the approval of ASX).

Equally as important, the KCS Investment will enable Martin Aircraft to develop a strategic partnership with KCS. The Company and KCS believe that this will have mutual benefits to both companies:

- KCS will be able to share with Martin Aircraft its advance technologies including advanced materials technology and computational simulation technology to support the development of the Jetpack. The Company has identified that some of the proposed R&D benefits that KCS will be able to contribute to Martin Aircraft include:
  - access to computational power in the form of KCS's supercomputer suite, allowing the Company to significantly refine the Jetpack through advanced simulation and virtual testing
  - access to stronger and lighter-weight carbon fibre technology developed by KCS
  - access to KCS's specialist acoustic engineers leading to a reduction in the noise of the Jetpack
  - access to meta material technology allowing modification of the engine cooling system of the Jetpack
- KCS will benefit from Martin Aircraft's aviation and flying technology for the development of its civil near space flying apparatus (the *Traveller*) and its Wi-Fi broadcasting technology (the *Cloud*). The *Cloud* is a large balloon that is tethered 2 to 3 kilometres above the earth to transmit Wi-Fi signals over a wide area. KCS recently signed an agreement with Airways Corporation of New Zealand Limited (**Airways Corp**) to trial one of these in New Zealand
- the formation of the joint venture company HKCo will enhance the ability of the Company to access R&D grants in China and to gain access to the China and Hong Kong markets to sell the Jetpack.

2.4 The Requirement for the KCS Investment

The Company originally sought to raise a minimum of A$10 million from the IPO by issuing a minimum of 20,000,000 shares at A$0.50 / NZ$0.55.

A number of potential investors indicated to the Company that they believed that the offer was over-priced at A$0.50. Based on this feedback and the limited demand under the ASX Bookbuild Facility and broker placements, the IPO Minimum Subscription amount of A$10 million may have proven difficult to raise.

Accordingly, the Company needed to seek additional capital from an alternative source in order to complete the IPO and to fund the commercialisation of the Jetpack.

2.5 The Prospects for Martin Aircraft Without the KCS Investment

The carrying value of Martin Aircraft's equity was NZ$0.7 million as at 30 June 2014. Cash at bank amounted to NZ$0.7 million and current liabilities amounted to NZ$0.5 million at that date.

The Company raised a further NZ$4.0 million between July and October 2014 as part of a pre IPO capital raising round managed by Axstra (the **Pre IPO Capital Raising**). A significant portion of this cash has since been expended on R&D and operating costs, as well as costs associated with the IPO.

Martin Aircraft's operating losses have averaged NZ$2.3 million per annum over the 39 month period from April 2011 to June 2014. As set out in section 4.3 of the third supplementary prospectus, cash flows from operations are not expected until the Jetpack is commercialised in the third quarter of 2016. Accordingly, the prospects for Martin Aircraft continuing as a going concern without additional capital are extremely limited.

The KCS Investment and the IPO will collectively raise between A$44 million and A$56 million (before costs of up to A$2.7 million). However, if the KCS Investment is not approved, then the IPO as currently structured is unlikely to proceed as the Minimum Subscription is unlikely to be raised. In such circumstances, the Company will need to seek capital from alternative sources in a relatively short timeframe. This may prove to be difficult for the Company, especially given the potential negative sentiment towards the Company due to a failed IPO.

The Company may be able to slow down its cash burn in the short term by reducing its R&D activities. However, this is likely to require a reduction in personnel with the resultant loss of capabilities. This is not an ideal scenario for the Company.

In the event that sufficient capital cannot be raised in the required timeframe to meet the Company's financial obligations, then, in a worst case scenario, it may need to cease operating.

2.6 Structure of the KCS Investment

Size of the KCS Investment

The Company initially sought to raise between A$10 million and A$25 million under the IPO. The KCS Investment and the IPO will raise between A$50 million to A$56 million (before A$2.7 million of costs).

The significant increase in the level of capital raised is to reduce the risk of the Company being undercapitalised in the event of R&D cost escalation and / or slippage in the commercialisation process. It will minimise the possibility of the Company needing to return to the capital markets in the near term to raise further capital.

Issue Price of Shares

The KCS Share Acquisition and the KCS Allotments will all be transacted at or around A$0.40 per share. This is the same price as the IPO issue price.

Since 31 March 2013, the Company has issued a total of 22,357,898 ordinary shares (excluding issues arising from the exercise of options and warrants) at NZ$0.30 per share.

The A$0.40 issue price represents a 42% premium over the NZ$0.30 issue price.

Loan and Convertible Bond

Both the Loan and the Convertible Bond are being provided to the Company on an interest free basis. Therefore the Company will not face any interest expense on the A$23 million to A$29 million of debt finance provided to it (before the Conversion Shares are issued).

2.7 HKCo

As part of the KCS Investment, Martin Aircraft and KCS will set up HKCo as a joint venture company as soon as possible following the ASX Listing Date.

HKCo will be a limited liability company incorporated in Hong Kong and based in Shenzen, China. 49% of its share capital will be owned by the Company and 51% will be owned by KCS.

HKCo will establish a WFOE in China which is intended to undertake the following principal activities in connection with the commercialisation of the Jetpack:

- apply for appropriate early-stage and R&D grants from appropriate Chinese authorities
- access R&D capabilities developed by KCS and share technological developments
- access new materials developed by KCS that may benefit the development of the Jetpack
- access appropriate and state of the art test facilities to assist with the development of the Jetpack
- following production of the Jetpack, access the substantial potential Chinese customer base and become the sole distributor of the Jetpack in China and Hong Kong.

The Company and KCS will each contribute A$2 million to HKCo as paid up share capital as soon as reasonably practicable upon the incorporation of HKCo.

HKCo Option

In consideration for the above, the Company has granted KCS the HKCo Option, providing KCS with the right to sell its 51% shareholding in HKCo to the Company over the 30 month period from the ASX Listing Date in exchange for up to 96,854,612 Option Shares issued at the Swap Price.

The HKCo Option is effectively consideration for the benefits that the Company believes HKCo will deliver. It recognises the value of the intellectual property and know how contributed by KCS to HKCo specifically and to Martin Aircraft overall.

Assuming the HKCo Option is exercised and the Option Shares are issued, KCS will have invested A$44 million in the Company, paid A$6 million to the Existing Shareholders for 15,000,000 Sale Shares and will hold 214,250,000 shares in the Company (along with REORIENT), representing 55.00% of the Company's total shares on issue. This equates to an average cash price paid per share of A$0.2334 (NZ$0.2483).

While the cash price of A$0.2334 per share is significantly below the IPO issue price of A$0.40, the calculation does not attribute any value to the benefits that KCS will contribute to the Company through the strategic partnership and the establishment and operation of HKCo. A summary of the benefits from the strategic partnership is set out in section 2.3.

It is not possible to accurately quantify the value of these benefits. However, they are likely to be significant and should not be ignored when evaluating the consideration paid by KCS for its shareholding in the Company. KCS and the Company have negotiated (on an arms-length basis) a notional value of A$35.7 million for these benefits, signifying the high value they place on KCS's contribution to the strategic partnership.

2.8 Impact on Financial Position

A summary of Martin Aircraft's recent financial position is set out in section 3.8.

Martin Aircraft's unaudited total equity as at 30 June 2014 was NZ$0.7 million (NZ$0.0041 per share). Subsequent to 30 June 2014, the Pre IPO Capital Raising raised NZ$3.7 million (net of costs).

The KCS Investment and the IPO will raise cash of A$41.3 million to A$53.3 million (after costs). This equates to NZ$43.9 million to NZ$56.7 million:

- the KCS Investment will raise A$44 million to A$50 million (NZ$46.8 million to NZ$53.2 million)
- up to a further A$6 million (NZ$6.4 million) will be raised from the IPO Shareholders
- the Company will incur IPO costs of up to A$2.7 million (NZ$2.9 million).

For illustrative purposes, if the cash proceeds from the Pre IPO Capital Raising, the KCS Investment and the IPO (including A$6 million from the IPO Shareholders) were to have been received on 30 June 2014 and the Conversion Shares and Option Shares were issued on that date, Martin Aircraft's total equity would increase to NZ$92.7 million and equity per share would increase to NZ$0.2379 per share.

Illustrative Effect of the KCS Investment and the IPO on Martin Aircraft's Financial Position

	Equity (NZ$000)	No. of Shares (000)	Equity / Share (NZ$)
30 June 2014	710	161,984[1]	0.0041
Pre IPO Capital Raising since 30 June 2014	3,988	13,295	0.3000
Capital raising costs	(319)		
Net proceeds	3,669	13,295	
Current notional position	4,379[2]	175,279[1]	0.0250
IPO			
Subscription Shares	22,340[3]	52,500	0.4255[3]
IPO Shareholders	6,383[3]	15,000	0.4255[3]
IPO costs	(2,870)[4]		
Net proceeds	25,853	67,500	
Conversion Shares	24,468	57,500[5]	0.4255[3]
Option Shares	37,979	89,250	0.4255[3]
Post the KCS Investment and the IPO	92,679	389,529	0.2379

1 Based on the 55,172,370 convertible preference shares converting into ordinary shares at the ASX Listing Date
2 Ignores operating losses incurred since 30 June 2014
3 A$0.40 issue price and A$ proceeds converted at NZ$1 = A$0.94
4 IPO costs of A$2.698 million converted at NZ$1 = A$0.94
5 Assumes that KCS acquires 15,000,000 Sale Shares and the Convertible Note is issued for A$23 million

2.9 Impact on Control

Share Capital and Shareholders

Martin Aircraft currently has 120,106,738 fully paid ordinary shares on issue held by 159 Ordinary Shareholders and 55,172,370 convertible preference shares (which convert to ordinary shares on the ASX Listing Date) held by 5 Convertible Preference Shareholders. The names, number of shares and percentage holding of the Company's 10 largest Ordinary Shareholders and 5 Convertible Preference Shareholders as at 27 October 2014 are set out in section 3.4.

Martin Aircraft will have 4 Existing Shareholders holding more than 5% of the Company shares after the convertible preference shares convert to ordinary shares:

- No 8 Ventures – 29.6%
- Glenn Martin – 24.20%
- Paul Matthews – 8.00%
- David Hunter Superannuation Fund – 7.33%.

The 4 shareholders collectively hold 68.87% of the Company's shares after the convertible preference shares convert to ordinary shares.

The 10 largest Existing Shareholders collectively hold 80.06% of the Company's shares after the convertible preference shares convert to ordinary shares.

KCS Associates' Potential Shareholding Level

The KCS Associates' maximum shareholding levels during the various stages of the KCS Investment will be as follows:

- immediately following the issue of the Subscription Shares and the IPO – 29.63%
- following the issue of the Conversion Shares – 41.63%
- following the issue of the Option Shares – 55.00%.

The KCS Investment will enable the KCS Associates to hold up to 55.00% of the voting rights in the Company without having to make a formal offer to all shareholders in accordance with Rules 7(a) or 7(b) of the Code. This is the reason why the Code requires the Existing Shareholders to have the opportunity to vote for or against the KCS Resolution.

Shareholding Voting

The KCS Associates' ability to influence the outcome of shareholder voting will be significant. The KCS Associates' potential control of up to 55.00% of the Company's voting rights will enable them to pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders) and to block special resolutions (which require the approval of 75% of the votes cast by shareholders). However, they will not be able to singlehandedly pass a special resolution.

Schedule 8 of the KCS Investment Agreement confers upon KCS certain veto rights. As long as KCS holds at least 20% of the Company's ordinary shares, Martin Aircraft requires the approval of KCS to do, or commit to do, the following:

- amend its constitution
- sell its main operating subsidiaries or all or a substantial part of the Company's business or its assets
- dissolve or windup a material member of the Company
- materially alter the scale of the Company's operations, cease the business of the Company or commence any new business or operational activity
- enter into any material transaction
- issue any equity securities or any securities convertible into equity securities.

Accordingly, immediately after the completion of the IPO, KCS will hold significant control via these veto rights even though the KCS Associates may not hold 55.00% of the Company's shares at that point.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the Code, the ASX Listing Rules and the Companies Act 1993.

Ability to Creep

At the completion of the KCS Investment, the KCS Associates will hold 55.00% of the Company's ordinary shares:

- KCS will hold between 51.72% and 52.24%
- REORIENT will hold between 2.76% and 3.28%.

If KCS controls more than 50% of the voting rights in the Company, then it will be able to utilise the *creep* provisions of Rule 7(e) of the Code. The *creep* provisions enable entities that hold more than 50% and less than 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares per annum without the need for shareholder approval.

Board Control

As set out in section 3.3, the Company currently has 6 directors, none of whom are deemed to be associates of KCS.

The KCS Investment Agreement stipulates that on the ASX Listing Date, KCS will have the right to appoint 2 directors to the Board and the maximum number of directors on the Board will be increased to 8.

KCS proposes that 2 of its directors - Dr Liu Ruopeng (KCS's chair) and Dr Zhang Yangyang (KCS's chief executive officer and executive director) - join the Board.

Furthermore, in the event that one of the Company's existing directors resigns, KCS will have the right to appoint a director to fill the casual vacancy.

KCS has agreed that it will not use its shareholding to materially alter the composition of the Board for a minimum period of 30 months from the ASX Listing Date.

Operations

We are advised by the Company that at this point in time, it is uncertain as to the level of input that KCS will have over the operations of the Company. Given the strong desire of both companies to share their respective R&D capabilities, it is expected that KCS will have some input into Martin Aircraft's operations.

In any event, KCS will have a high degree of influence over the Company's operations through its Board representation and its shareholding voting control (including its veto rights).

2.10 Dilutionary Impact

The KCS Investment will result in the Existing Shareholders' shareholdings in the Company being significantly diluted.

If the KCS Associates' shareholding increases to 55.00%, then each Existing Shareholder's interest in the Company will be diluted by up to 59% (assuming they do not sell any Sale Shares and do not subscribe for any shares under the IPO).

2.11 Impact on Share Price and Liquidity

Share Price

A summary of Martin Aircraft's recent issues of ordinary shares is set out in section 3.10. The analysis shows that since 31 March 2013, the Company has issued a total of 22,087,898 ordinary shares (excluding issues arising from the exercise of options and warrants). The shares have all been issued at NZ$0.30 per share.

The KCS Share Acquisition and the KCS Allotments will all be transacted at A$0.40 per share. This is the same price as the IPO issue price.

It is uncertain as to what price range the Company's shares will trade at on the ASX following their proposed listing. Share prices are largely a function of supply and demand, general economic conditions and sentiment in the capital markets. While the macro environment is generally positive at present, Martin Aircraft has not provided any guidance as to its future financial performance and has not, at this stage, received much broker coverage. Accordingly, there is limited financial information available regarding the Company's future prospects and this may restrict potential demand for the Company's shares in the near term.

Liquidity

As the Company's shares are not currently listed on any equities security market, there is very limited liquidity in the shares. The KCS Investment will ensure that the Minimum Subscription is reached under the IPO, leading to the Company's shares being quoted on the ASX in February 2015 (subject to the approval of ASX). This should have a positive effect on the liquidity of the shares. Existing Shareholders will be able to offer their shares for sale on the ASX (subject to complying with the terms of the Restriction Agreements). The ability for any Existing Shareholder to sell their shares will however be dependent on the level of demand for the shares and the price purchasers are prepared to pay for the shares.

2.12 Key Benefits to KCS

The KCS Investment provides KCS with the opportunity to acquire a controlling shareholding in Martin Aircraft and to access the Company's aviation and flying technology, which will be beneficial to KCS in a number of ways including:

- the development of its *Traveller* and *Cloud* products
- supporting the launch of the *Traveller* in New Zealand in 2015
- providing a stepping stone to the establishment of an R&D centre in Australasia
- establishing the market for Jetpacks in China and Hong Kong
- providing a comprehensiveness to its novel space services and other innovative technology business.

2.13 Disadvantages to KCS

Significant Financial Commitment

KCS will provide between A$44 million and A$50 million of capital under the KCS Investment. This is more than double the NZ$22 million of capital that the Existing Shareholders have invested in the Company since its incorporation in 2008.

Significant Exposure to the Risks of Martin Aircraft

The key issues and risks that are likely to impact upon the business operations of Martin Aircraft are summarised in section 3.6. The Company is still at a pre-revenue stage and faces numerous risks commonly associated with early stage emerging businesses. As the KCS Associates' ownership in Martin Aircraft increases to up to 55.00%, so does their exposure to these risks.

2.14 Other Issues

Benefits to Martin Aircraft of KCS as a Cornerstone Shareholder

The major benefits to Martin Aircraft of the KCS Investment are:

- the Company is certain to obtain at least A$44 million to A$50 million of capital (before costs) and the IPO will be successful. This will enable the Company to accelerate the commercialisation of the Jetpack
- the KCS Investment will position KCS as an important cornerstone strategic investor in the Company, signalling its confidence in the future prospects of Martin Aircraft. The Company expects to derive significant benefits from the 2 companies sharing their respective intellect property and R&D capabilities.

Existing Shareholders have the Opportunity to Participate in the IPO

All eligible Existing Shareholders have the opportunity to subscribe for additional ordinary shares in the Company via the IPO at the same issue price of A$0.40 / NZ$0.43 per share as KCS is paying for the Sale Shares and the Subscription Shares and at which the Conversion Shares and the Options Shares are being issued.

Any shares subscribed for by the Existing Shareholders under the IPO will reduce to some degree the level of dilution they will face as a result of the KCS Investment.

Existing Shareholders Approval is Required

Pursuant to Rule 7(d) of the Code, the Ordinary Shareholders and the Convertible Preference Shareholders must separately approve by special resolution the KCS Investment.

The KCS Investment will not proceed unless the Ordinary Shareholders and the Convertible Preference Shareholders separately approve the KCS Resolution.

May Reduce the Likelihood of a Takeover Offer

Following the KCS Investment, the KCS Associates will not be able to increase the level of their shareholding unless they comply with the provisions of the Code. The KCS Associates will only be able to acquire more shares in the Company if:

- they make a full or partial takeover offer
- the acquisition is approved by way of an ordinary resolution of the Company's shareholders excluding the KCS Associates
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Company's shareholders excluding the KCS Associates
- the Company undertakes a share buyback that is approved by the Company's shareholders and the KCS Associates do not accept the offer of the buyback
- they comply with the *creep* provisions of Rule 7(e) of the Code.

If the KCS Associates hold 55.00% of the Company's shares, this may reduce the likelihood of a takeover offer for the Company from KCS as it may consider that it has sufficient control over the Company.

It is possible that if KCS did make a takeover offer for further shares in the Company, it may offer a control premium that is lower than would otherwise be expected as it may value its offer on the basis that it already has significant control of the Company and hence does not need to pay a control premium of any significance.

The KCS Associates' 55.00% shareholding may reduce the attraction of Martin Aircraft as a takeover target to other parties, as any bidder looking to fully or partially take over the Company would need to ensure that KCS would accept its offer.

2.15 Implications of the KCS Resolution not Being Approved

If the KCS Resolution is not approved, then the KCS Investment cannot proceed. The Minimum Subscription under the IPO is unlikely to be reached, resulting in the IPO not proceeding and the Company will not list on the ASX. In this event, all application monies will be returned to applicants.

Without the capital from the KCS Investment and the IPO, Martin Aircraft's ability to fund the commercialisation of the Jetpack will be seriously impacted. As stated in section 2.5, the prospects of the Company continuing as a going concern without the proceeds from the KCS Investment and the IPO will be limited unless alternative sources of capital could be accessed within a very short timeframe.

2.16 Voting For or Against the KCS Resolution

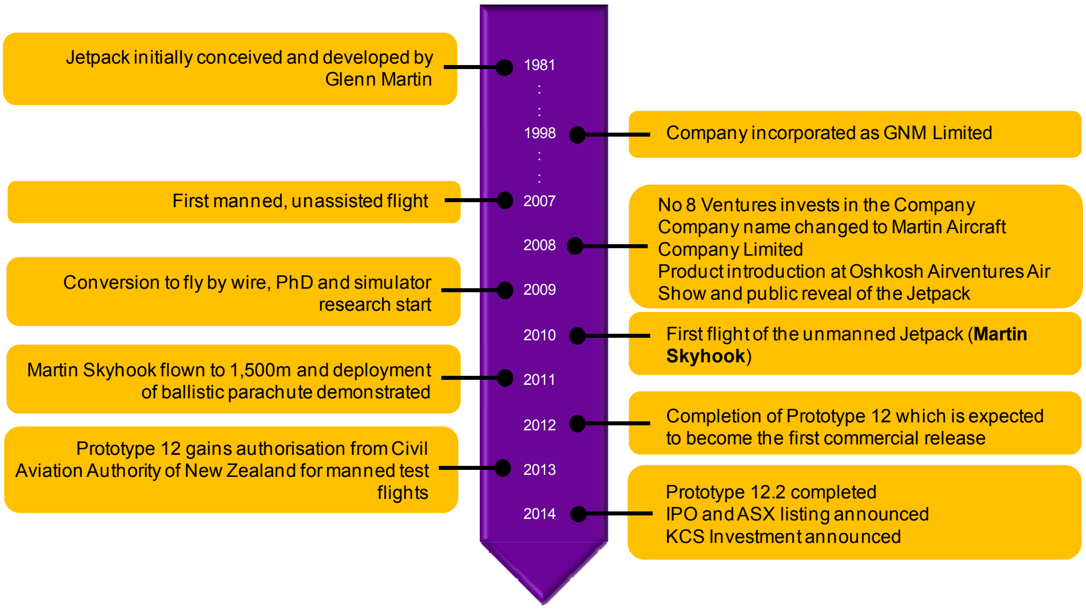
Voting for or against the KCS Resolution is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

3. Profile of Martin Aircraft

3.1 Background

The Company was incorporated on 2 April 1998 as GNM Limited. It changed its name to Martin Aircraft Company Limited on 7 April 2008.

The Company's key events are set out below.



3.2 Nature of Operations

Martin Aircraft is currently developing the Jetpack, with its potential usage spanning search and rescue, military, recreational and commercial applications, both manned and unmanned.

The Jetpack was initially conceived and developed by Glenn Martin in Dunedin in 1981 in response to seeing another jetpack that had a 25 second flight-time limit.

The Jetpack is a practical one person aircraft powered by a 2.0 litre, V4 200hp petrol engine driving 2 ducted fans which produce a straight jet stream of air. The ducted fans provide vertical thrust and special control vanes below the ducts re-direct the jet stream to control the aircraft's horizontal movement. The Jetpack is controlled by a fly-by-wire computer system which makes the aircraft easy to control and fly. The Jetpack can take off and land vertically (**VTOL**) and because of its small dimensions, it can operate in confined spaces such as close to or between buildings, near trees or in confined areas that other VTOL aircraft such as helicopters cannot access.

The Jetpack has undergone test flying and an earlier prototype was successfully flown unmanned to an altitude of around 1,500 metres above sea level. It has achieved forward flight speeds of up to 35 kilometres per hour (**km/h**) with computer modelling indicating it could fly at speeds of up to 100 km/h. The first product is anticipated to be limited to 1,000 metres in altitude and 74 km/h.

The Jetpack is registered as an experimental aircraft under the Civil Aviation Authority of New Zealand and is authorised to fly both manned and unmanned.

Martin Aircraft has yet to begin marketing the Jetpack but has fielded a number of sales inquiries from companies and government agencies around the world. The Company intends to deliver the first Jetpacks to customers in 2016. These are being designed for the first responder market, which includes fire service, police, ambulance and search and rescue including natural disaster recovery.

Initial production will be based on the current Prototype 12, with this version also to be used for the Company's own promotions and later for the Jetpack Experience recreation opportunity. The Prototype 12 has undergone extensive test flying.

Following this, Martin Aircraft will continue to develop the Jetpack for commercial and recreational purposes, as well as an unmanned model, the Martin Skyhook. The Martin Skyhook would have a lifting capacity of up to 105 kilograms, making it potentially useful in a wide variety of commercial and military applications, where applications could include access to and delivery of troops in difficult terrain as well as flying soldiers above mine fields.

The Company expects that resultant sales will be supplemented by further revenue from ongoing maintenance and support services. Other potential revenue streams include Jetpack pilot training, paid public flight demonstrations and the potential commercialisation of a Jetpack simulator.

3.3 Directors and Senior Management

The directors of Martin Aircraft are:

- Steve Bayliss – non executive director
- Peter Coker – chief executive officer and managing director
- John Diddams – non executive director
- Glenn Martin – non executive director, founder
- Jon Mayson – non executive chair
- Jenny Morel – non executive director, No 8 Ventures representative.

Martin Aircraft's senior management team consists of:

- Peter Coker – chief executive officer
- James West – chief financial officer and company secretary
- Ulrich Bergler – vice president engineering
- Mike Tournier – vice president sales and marketing.

3.4 Capital Structure and Securityholders

Martin Aircraft's capital structure currently consists of ordinary shares, convertible preference shares, options and warrants.

The Company undertook a 10:1 share split following shareholder approval on 18 July 2014 in preparation for the IPO.

Ordinary Shares

Martin Aircraft currently has 120,106,738 fully paid ordinary shares on issue held by 159 Ordinary Shareholders.

The names, number of shares and percentage holding of the 10 largest Ordinary Shareholders as at 27 October 2014 are set out below.

Martin Aircraft 10 Largest Ordinary Shareholders

Shareholder	No. of Shares Held	%
Glenn Martin	42,410,953	35.31%
David Hunter Superannuation Fund	12,843,740	10.69%
No 8 Ventures	9,379,130	7.81%
Paul Matthews	4,200,000	3.50%
Minto Global Limited	4,185,000	3.48%
Richard Lauder	3,733,100	3.11%
Oscar Time Limited	3,333,334	2.78%
Zdenek Ricar	2,683,340	2.23%
McConnell Superannuation Pty Limited	2,529,773	2.11%
Dianne Smith	1,500,000	1.25%
Subtotal	86,798,370	72.27%
Others (149 shareholders)	33,308,368	27.73%
Total	120,106,738	100.00%

Source: Martin Aircraft

Glenn Martin conceived and developed the Jetpack and founded the Company.

David Hunter and Richard Lauder are former directors of the Company. They resigned from the Board on 14 August 2014 and 8 October 2014 respectively.

No 8 Ventures is a New Zealand technology venture capital fund manager founded in 1999. It invests in early stage New Zealand technology companies which have the potential to be large and international. It first invested in Martin Aircraft in 2008.

Convertible Preference Shares

Martin Aircraft currently has 55,172,370 convertible preference shares on issue held by 5 Convertible Preference Shareholders as set out below.

Martin Aircraft Convertible Preference Shareholders

Shareholder	No. of Shares Held	%
No 8 Ventures	42,061,930	76.24%
Paul Matthews	9,819,780	17.80%
Richard Lauder	1,655,660	3.12%
Harry Devonish	1,000,000	1.81%
Com Investments Limited	635,000	1.15%
Total	55,172,370	100.00%

Source: Martin Aircraft

The convertible preference shares were issued between the 2006 and 2012 financial years at an average issue price of NZ$0.0834 per share (adjusted for the 10:1 share split in July 2014).

The key terms of the convertible preference shares are:

- the shares convert to ordinary shares upon the completion of the IPO
- the shares rank in priority to the ordinary shares in the event of the liquidation of the Company to the extent of their issue price.
- the shares are non-redeemable
- they qualify for dividends consistent with ordinary shares
- each share entitles the holder the right to cast one vote on a special resolution and to cast the number of votes per convertible preference shares on an ordinary resolution as may be cast for each ordinary share into which the convertible preference share is convertible. Accordingly a special resolution requires 75% approval of ordinary shareholders and convertible preference shareholders.

The convertible preference shares convert to ordinary shares on the ASX Listing Date.

Ordinary Shares Following the Conversion of the Convertible Preference Shares

If the convertible preference shares were converted to ordinary shares today, Martin Aircraft would have 175,279,108 fully paid ordinary shares on issue held by 161 Existing Shareholders.

The names, number of shares and percentage holding of the 10 largest Existing Shareholders following conversion of the convertible preference shares are set out below.

Martin Aircraft 10 Largest Existing Shareholders

Shareholder	No. of Shares Held	%
No 8 Ventures	51,441,060	29.35%
Glenn Martin	42,410,953	24.20%
Paul Matthews	14,019,780	8.00%
David Hunter Superannuation Fund	12,843,740	7.33%
Richard Lauder	5,388,760	3.07%
Minto Global Limited	4,185,000	2.39%
Oscar Time Limited	3,333,334	1.90%
Zdenek Ricar	2,683,340	1.53%
McConnell Superannuation Pty Limited	2,529,773	1.44%
Dianne Smith	1,500,000	0.86%
Subtotal	140,335,740	80.06%
Others (151 shareholders)	34,943,368	19.94%
Total	175,279,108	100.00%

Source: Martin Aircraft

Options

Martin Aircraft currently has granted 9,566,670 options to 12 optionholders as set out below.

Martin Aircraft Optionholders				
Optionholder	**Position**	**No. of Options Held**	**Exercise Price (NZ$)**	**Final Exercise Date**
Anthony Romano	Ex director	400,000	0.24	21 Dec 2015
Jenny Morel	Director	400,000	0.24	21 Dec 2015
Steve Bayliss	Director	316,670	0.24	25 Jan 2016
Bill Clemence	Contractor	450,000	0.24	11 Jul 2017
Peter Coker	Chief executive officer & managing director	3,000,000	0.24	15 Apr 2018
Jon Mayson	Director	360,000	0.43	30 Sep 2019
Steve Bayliss	Director	360,000	0.43	30 Sep 2019
John Diddams	Director	360,000	0.43	30 Sep 2019
Glenn Martin	Director	360,000	0.43	30 Sep 2019
Jenny Morel	Director	360,000	0.43	30 Sep 2019
James West	Chief financial officer	800,000	0.43	30 Sep 2019
Ulrich Bergler	Vice president engineering	800,000	0.43	30 Sep 2019
To be confirmed	Head of flight operations	800,000	0.43	30 Sep 2019
Mike Tournier	Vice president sales and marketing	800,000	0.43	30 Sep 2019
Total		9,566,670		

Source: Martin Aircraft

The Board initially established an option scheme in 2008 to grant options to selected staff, key partners and directors. The Board replaced this scheme in October 2014. The terms of the options vary from case to case. Each option entitles the optionholder to one ordinary share in the Company. The exercise price is determined by the Board as the fair value of the Company's share price at the time of the offer to participate. The vesting period of the options is normally over 3 years.

Warrants

Martin Aircraft currently has 500,000 warrants on issue, beneficially owned by Dennis Chapman and Andrew Lark who are associated with No 8 Ventures. The warrants were granted as part of the terms of a loan drawn down by the Company in 2012. 1,000,000 warrants were granted, of which 500,000 remain outstanding. The warrants are exercisable on or before 28 May 2015 at an exercise price of NZ$0.20 per warrant.

3.5 Strategic Direction

The Company's vision and mission is:

- To Fly the Dream
- To deliver a commercial Jetpack globally and support the:
  - Simulator
  - First Responder
  - Unmanned heavy lift
  - Jetpack Displays
  - Jetpack Experience
  - Personal Jetpack.

Martin Aircraft's strategic focus is on transitioning from an investor funded R&D company to the start of an internationally and commercially self supporting company by achieving the following:

- enabling a reliable engine
- integrating the safety system incrementally
- updating the flight software incrementally
- delivering a production simulator
- demonstrating the manned capability
- establishing a preproduction and production capability
- building its marketing and commercial team
- preparing to sell or deliver Jetpack capability to first responders
- developing further Jetpack capability (eg unmanned capabilities, establish the Jetpack experience and create a path to a personal Jetpack).

3.6 Key Issues Affecting the Company

The main industry and specific business factors and risks that the Company faces include:

- early stage development risk, particularly the development and commercialisation of the Jetpack
- competition from other jetpack manufacturers around the world
- reliance on board members and key management and the ability to recruit and retain key personnel
- the ability to successfully manage and execute the Company's growth strategy
- reliance on the supply of technical components to manufacture the Jetpack
- changes in government, fiscal, monetary, environmental and taxation policies and other laws or the regulatory framework may adversely affect the Company
- being granted international aviation permits to fly the Jetpack in jurisdictions other than New Zealand
- protection of the Company's intellectual property
- regulatory or legislative changes including those in respect of energy efficiency
- the Company's ability to finance its activities.

3.7 Financial Performance

A summary of Martin Aircraft's recent financial performance is set out below. The Company changed its balance date from 31 March 2014 to 30 June 2014 to match the normal reporting cycle of Australian listed companies.

Summary of Martin Aircraft Financial Performance

	Year to 31 Mar 12 (Audited) NZ$000	Year to 31 Mar 13 (Audited) NZ$000	Year to 31 Mar 14 (Audited) NZ$000	3 Mths to 30 Jun 14 (Audited) NZ$000
Revenue	3	5	-	-
Gross profit	3	(14)	(3)	-
EBIT	(1,794)	(1,774)	(2,980)	(929)
NPBT	(1,788)	(1,765)	(2,956)	(922)
NPAT	(1,788)	(1,765)	(2,956)	(922)

EBIT: Earnings before interest and tax
NPBT: Net profit before tax
NPAT: Net profit after tax

Source: Martin Aircraft audited financial statements

The Company has derived negligible revenue to date. Revenue has been derived from demonstrations and the sale of merchandise and images.

Expenses consist mainly of:

- R&D costs – R&D salaries, contractors, materials and other expenses related to the R&D of the Jetpack
- operating costs – administration costs, marketing costs and other expenses
- employment costs – non R&D salaries and wages (administration and management), share option costs, recruitment fees and on-costs.

As the Company has maintained positive cash balances over the period and has no interest bearing debt, its net financing costs each year represent interest received.

3.8 Financial Position

A summary of Martin Aircraft's recent financial position is set out below.

Summary of Martin Aircraft Financial Position

	As at 31 Mar12 (Audited) NZ$000	As at 31 Mar13 (Audited) NZ$000	As at 31 Mar 14 (Audited) NZ$000	As at 30 Jun 14 (Audited) NZ$000
Current assets	179	911	1,251	759
Non current assets	456	515	444	444
Total assets	635	1,426	1,695	1,203
Current liabilities	(349)	(174)	(458)	(493)
Non current liabilities	(600)	-	-	-
Total liabilities	(949)	(174)	(458)	(493)
Total equity	(314)	1,252	1,237	710

Source: Martin Aircraft audited financial statements

Martin Aircraft's main current asset is cash, which amounted to NZ$0.7 million as at 30 June 2014.

The Company's main non current assets are intangible assets in the form of patents and intellectual property ($0.3 million as at 30 June 2014) and plant and equipment ($0.1 million as at 30 June 2014).

Current liabilities consist mainly of trade and other payables. The Company has no interest bearing debt.

3.9 Cash Flows

A summary of Martin Aircraft's recent cash flows is set out below.

Summary of Martin Aircraft Cash Flows

	Year to 31 Mar 12 (Audited) NZ$000	Year to 31 Mar 13 (Audited) NZ$000	Year to 31 Mar 14 (Audited) NZ$000	3 Mths to 30 Jun 14 (Audited) NZ$000
Net cash outflow from operating activities	(1,569)	(1,472)	(2,249)	(847)
Net cash used in investing activities	(66)	(78)	(105)	(32)
Net cash from financing activities	1,273	2,328	2,636	398
Net increase / (decrease) in cash held	(362)	778	282	(481)
Opening cash balance	485	123	901	1,183
Closing cash balance	123	901	1,183	702

Source: Martin Aircraft audited financial statements

Net cash outflows from operating activities largely mirror operating losses incurred each period.

Net cash used in investing activities mainly represents expenditure on intangible assets.

Net cash from financing mainly represents capital raised from the issue of ordinary shares.

3.10 Recent Share Issues

The Company has raised NZ$21.8 million from the issue of shares since its incorporation to fund the R&D in respect of the Jetpack.

The Company's recent issues of ordinary shares are set out below. This excludes issues arising from the exercise of options or warrants

Recent Ordinary Share Issues (Excluding the Exercise of Options and Warrants)

Financial Year	Description	No Issued[1]	Issue Price[1] (NZ$)	Capital Raised[2] (NZ$000)
Jun 2015	Pre IPO Capital Raising (Jul – Oct 2014)	13,294,628	$0.30	3,988
Jun 2014	Issues during the year	1,259,250	$0.30	378
Mar 2014	Issues during the year	7,534,020	$0.30	2,260
Mar 2013	Issues during the year	12,018,370	$0.21[3]	2,484
Mar 2012	Issues during the year	4,484,770	$0.26[3]	1,173

1 Adjusted for the July 2014 10:1 share split
2 Before capital raising costs
3 Average issue price over the financial year

Source: Martin Aircraft

Since 31 March 2013, the Company has issued a total of 22,087,898 ordinary shares (excluding issues arising from the exercise of options and warrants). The shares have all been issued at NZ$0.30 per share, raising NZ$6.6 million (before costs).

The most recent capital raising was the Pre IPO Capital Raising between September 2013 and October 2014 managed by Axstra which raised NZ$5.4 million at an issue price of NZ$0.30 per share. Included in this amount was NZ$4.0 million raised post 30 June 2014 through the issue of 13,294,628 ordinary shares.

4. Profile of KCS

4.1 Background

KCS is a limited liability company incorporated in Bermuda and its shares are quoted on the main board of the HKEx (stock code 00439). The company was established in 1992 as Climax International Company Limited and changed its name to KuangChi Science Limited on 22 August 2014.

The company was initially engaged in the design, development, production and marketing of paper products. In 2009, the company established an electronic products trading business. That operation was discontinued during the year ended 31 March 2012. On 3 May 2012, KCS completed the acquisition of Sky Will Printing & Packaging (Holdings) Limited (**Sky Will**), which is engaged in the manufacturing and sale of paper products, paper gift items and the printing of paper promotional materials. In August and October 2012, KCS also acquired residential properties for property investment and rental purposes.

On 13 June 2014, the company announced that it had conditionally raised HK$348 million of capital in aggregate from a new cornerstone investor group headed by New Horizon Wireless Technology Limited (**New Horizon**) and that it would add the development of novel space and other innovative technology in China to its business focus. New Horizon is ultimately controlled by Shenzhen Dapeng Kuang-Chi Lianzhong Technology Limited Liability Partnership, whose controlling shareholder is KCS's chair Dr Liu Ruopeng. Dr Liu and his fellows have extensive experience and a wide business network in the innovative technology industry in China.

4.2 Nature of Operations

KCS's head office and the investment properties are located in Hong Kong. The innovative technology business and the paper business are based in Shenzhen City, China.

Innovative Technology

Following New Horizon's investment in the company, KCS established a novel space services and other innovative technology business segment. The focus of the business is currently primarily on the R&D of products relating to novel space services and near space and other innovative technology business based on meta materials.

Paper Business

Prior to the New Horizon investment, KCS was principally engaged in the manufacture and sale of paper packaging products and paper gift items and the printing of paper promotional materials. It sells its products primarily to distributors, manufacturers of consumer products and advertising agencies based in the United States, Europe and China.

Investment Property

KCS holds properties for investment in order to generate a stream of recurring rental income and capture possible future capital appreciation.

4.3 Other Investments in New Zealand

On 21 November 2014, KCS announced that a tri-party memorandum of understanding was entered into between KCS, Airways Corp and Shanghai Pengxin Group Company Limited to work together and undertake test launches of the near space flying apparatus the *Traveller* in New Zealand.

KCS also announced that it had entered into a space services technology consultation agreement with Pengxin International Mining Company Limited in relation to consultation projects in New Zealand for novel space services and innovative technology solutions.

4.4 Financial Performance

Summary of KCS Financial Performance

	Year to 31 Mar 12 (Audited) HK$000	Year to 31 Mar 13 (Audited) HK$000	Year to 31 Mar 14 (Audited) HK$000	6 Mths 30 Sep 14 (Unaudited) HK$000
Revenue	-	81,178	113,433	45,303
Gross profit	-	16,453	19,678	7,974
NPBT	(4,650)	3,480	(37,332)	(31,388)
NPAT	(4,790)	2,232	(37,908)	(31,880)

Source: KCS audited financial statements and 2014 interim report

KCS's historic financial performance to 30 September 2014 does not reflect its current business focus on novel space innovative technology.

Up to the 2011 financial year, KCS's operations consisted of trading electronic products. The electronic products business ceased operating in the 2012 financial year.

On 3 May 2012, KCS completed the acquisition of Sky Will and in August and October 2012, KCS also acquired residential properties for property investment and rental purposes. 99% of revenue in the 2013 financial year was attributable to the paper business.

99% of revenue in the 2014 financial year was attributable to the paper business. The HK$38 million loss was mainly due to a drop in operating profit (selling prices decreased slightly as a result of weakening global demand and fierce competition in the printing and packaging industry together with increased labour costs and other production costs) and a HK$36 million impairment loss in respect of goodwill arising from the Sky Will acquisition.

99% of revenue in the 6 months to 30 September 2014 was attributable to the paper business. The HK$32 million loss was mainly due to HK$20 million of R&D expenses and a HK$9 million goodwill impairment loss for the paper business.

4.5 Financial Position

Summary of KCS Financial Position				
	As at 31 Mar 12 (Audited) HK$000	**As at 31 Mar 13 (Audited) HK$000**	**As at 31 Mar 14 (Audited) HK$000**	**As at 30 Sep 14 (Unaudited) HK$000**
Current assets	67,112	114,086	78,789	1,821,205
Non current assets	627	154,285	110,926	83,243
Total assets	67,739	268,371	189,715	1,904,448
Current liabilities	(4,222)	(84,000)	(20,993)	(79,843)
Non current liabilities	(12)	(3,149)	(1,557)	(857)
Total liabilities	(4,234)	(87,149)	(22,550)	(80,700)
Total equity	63,505	181,222	167,165	1,823,748

Source: KCS audited financial statements and 2014 interim report

KCS's main investment in current assets is cash and cash equivalents, which totalled HK$1,773 million as at 30 September 2014, representing 97% of current assets at that date. KCS's main investment in non current assets is goodwill, which amounted to HK$39 million, representing 47% of non current assets as at 30 September 2014.

The main current liabilities as at 30 September 2014 were trade and other payables (HK$72 million) and the main non current liabilities were obligations under finance leases (HK$1 million).

4.6 Capital Structure and Shareholders

KCS currently has 3,406,067,793 ordinary shares and 2,683,333,332 preferred shares on issue.

On 29 May 2014, KCS entered into a share subscription agreement with a number of subscribers (including New Horizon) to conditionally raise HK$348 million in aggregate through the issue of 1,666,666,668 ordinary shares and 2,683,333,332 preferred shares.

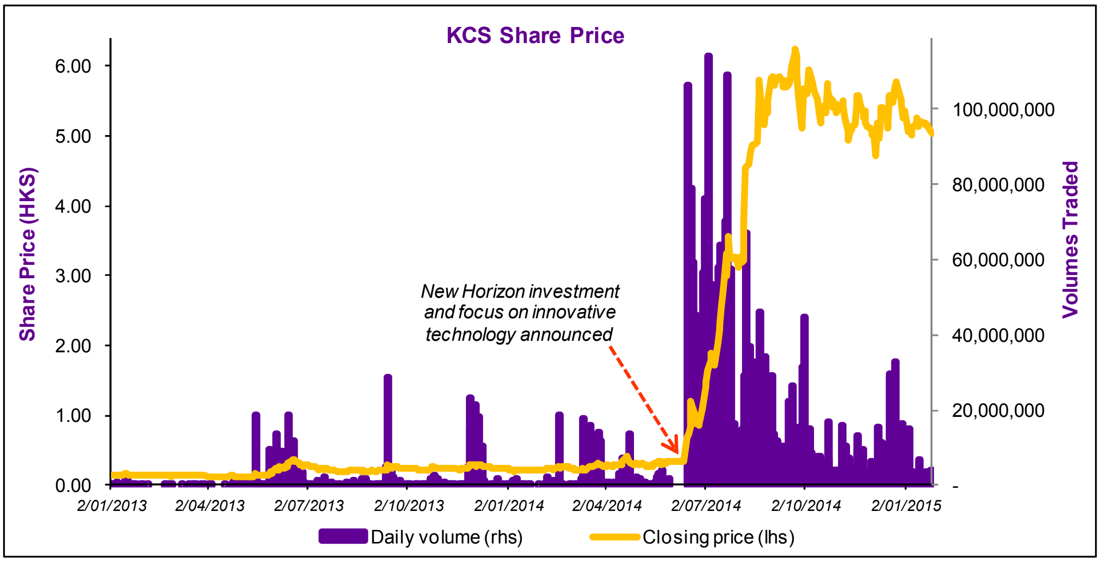
On 12, 14 and 15 September 2014, KCS entered into share subscription agreements with 26 subscribers to raise HK$1,561 million through the issue of 289,900,000 ordinary shares.

KCS’s major shareholder is New Horizon. New Horizon and other members of the cornerstone investor group controlled 48.93% of KCS’s ordinary shares as at 8 January 2015.

4.7 Share Price History

KCS's shares are quoted on the main board of the HKEx. Its market capitalisation was HK$17.2 billion (NZ$3.0 billion) as at 26 January 2015.

Set out below is a summary of KCS's daily closing share price and daily volumes of shares traded from 2 January 2012 to 26 January 2015.



Source: Capital IQ

Trading in KCS's shares was moderate up to May 2014, with the shares trading between HK$0.11 and HK$0.42 on modest volumes. Following the announcement on 13 June 2014 of the investment by New Horizon and the new business focus on developing novel space and other innovative technology in China, the company's share price has steadily increased on significantly higher volumes. The shares traded at their highest closing price of HK$6.23 on 23 September 2014.

5. Sources of Information, Reliance on Information, Disclaimer and Indemnity

5.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft notice of special meeting
- the KCS Investment Agreement
- the Martin Aircraft annual reports for the years ended 31 March, 2012 to 2014 and the 3 months to 30 June 2014
- the Martin Aircraft management accounts for the 5 months ended 30 November 2014
- the Prospectus and supplementary prospectuses
- the Martin Aircraft FY2015 Business Plan dated 30 September 2014
- data in respect of Martin Aircraft from the Company and publicly available sources
- equity research reports on Martin Aircraft prepared by Ord Minnett and Wise-owl
- data in respect of KCS and REORIENT from KCS, Capital IQ and publicly available sources.

During the course of preparing this report, we have had discussions with and / or received information from the Board and executive management of Martin Aircraft and Martin Aircraft's legal advisers.

The Board has confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the KCS Investment that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by Martin Aircraft to the Existing Shareholders is sufficient to enable the Board and the Existing Shareholders to understand all the relevant factors and to make an informed decision in respect of the KCS Investment.

5.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Martin Aircraft and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Martin Aircraft. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

5.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Martin Aircraft will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Martin Aircraft and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit, provided that this shall not absolve Simmons Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update our report.

We have had no involvement in the preparation of the notice of special meeting issued by Martin Aircraft and have not verified or approved the contents of the notice of special meeting. We do not accept any responsibility for the contents of the notice of special meeting except for this report.

5.4 Indemnity

Martin Aircraft has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Martin Aircraft has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

6. Qualifications and Expertise, Independence, Declarations and Consents

6.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), INFINZ (Cert).

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

6.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Martin Aircraft or the KCS Associates or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to these transactions.

Simmons Corporate Finance has not had any part in the formulation of the KCS Investment or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the KCS Resolution. We will receive no other benefit from the preparation of this report.

6.3 Declarations

An advance draft of this report was provided to the Board for its comments as to the factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

6.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of special meeting to be sent to the Existing Shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

Peter Simmons
Director
Simmons Corporate Finance Limited
27 January 2015