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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in **China Aircraft Leasing Group Holdings Limited**, you should hand this circular together with the accompanying form of proxy at once to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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***CALC***

**CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED**

**中國飛機租賃集團控股有限公司**

*(Incorporated under the laws of the Cayman Islands with limited liability)*

**(Stock code: 1848)**

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION –  
DISPOSAL OF SHARES OF ARI AND THE CADC PROJECT  
AND**

**(2) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL ASSISTANCE TO ARI  
AND**

**(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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A letter from the Board is set out on pages 8 to 27 of this circular. A letter from the Independent Board Committee is set out on pages 28 to 29 of this circular. A letter from Investec Capital Asia Limited is set out on pages 30 to 65 of this circular.

A notice convening the EGM to be held at Cliftons Hong Kong, 508-520 Hutchison House, 10 Harcourt Road, Central, Hong Kong on Thursday, 30 June 2016 at 10:00 a.m. is set out on pages 81 to 83 of this circular. A form of proxy for use at the EGM is also enclosed. Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Tricor Investor Services Limited, the branch share registrar and transfer office of the Company in Hong Kong, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

10 June 2016

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the meanings set out below:*

“Aircraft Disassembly Business”	aircraft dismantling, sale and distribution of disassembled parts to commercial airlines and cargo airlines, maintenance, repair and operation and aircraft on ground services
“ARI”	Aircraft Recycling International Limited, which is more particularly described in the section headed “Information on the parties – ARI” of this circular
“ARI Agreements”	collectively, the Investment Agreement, the Option Agreement, the Shareholders’ Agreement, the Shareholders’ Loan and Guarantee Agreement and the Share Mortgage
“ARI Disposal”	the deemed disposal of ARI by the Group pursuant to Rule 14.29 of the Listing Rules
“ARI Group”	collectively ARI and its subsidiaries
“ARI Holdings”	Aircraft Recycling International Holdings Limited, which is more particularly described in the section headed “Information on the parties – ARI Holdings’ of this circular
“ARI Share(s)”	ordinary share(s) of US\$1.0 each in the share capital of ARI
“ARI Shareholder(s)”	holder(s) of ARI Share(s)
“associate”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“Business Day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for banking business in Hong Kong and excluding any day on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon
“BVI”	the British Virgin Islands

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## DEFINITIONS

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“CADC”	China Aircraft Disassembly Centre Limited, a company incorporated in the BVI whose entire issued share capital is wholly-owned by ARI
“CADC Disposal”	the transfer of the CADC Project from the Group to Zhong Long
“CADC HK”	China Aircraft Disassembly Centre (HK) Limited, a company incorporated in Hong Kong whose issued share capital is wholly-owned by CADC
“CADC Project”	the project of the Group as at the Latest Practicable Date which principally involved the establishment of an aircraft disassembly center in the PRC on the Land for carrying out the Aircraft Disassembly Business, which is more particularly described in the section headed “Investment Agreement – CADC Project” of this circular
“CE Aerospace”	China Everbright Aerospace Holdings Limited, a company incorporated in the Cayman Islands on 13 January 2009, a wholly-owned subsidiary of CEL and one of the controlling shareholders of the Company
“CEL”	China Everbright Limited, a company incorporated in Hong Kong on 25 August 1972 and listed on the Stock Exchange (Stock code: 165) and one of the controlling shareholders of the Company
“China Aero”	China Aero Investments Limited, which is more particularly described in the section headed “Information on the parties – China Aero” of this circular
“Company”	China Aircraft Leasing Group Holdings Limited (中國飛機租賃集團控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange

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## DEFINITIONS

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“Condition Precedent”	the condition precedent of the ARI Agreements, which is more particularly described in the section headed “Condition Precedent” of this circular
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal Completion”	completion of CADC Disposal pursuant to the Investment Agreement
“Disposal Consideration”	consideration of the CADC Disposal, which is more particularly described in the section headed “Investment Agreement – Disposal Consideration” of this circular
“EGM”	extraordinary general meeting of the Company to be convened and held on 30 June 2016, the notice of which is set out on pages 81 to 83 of this circular, and any adjournment thereof for the purpose of considering, and if thought fit, approving each of the ARI Agreements and the respective transactions contemplated thereunder and the Proposed Annual Caps
“FPAM”	Friedmann Pacific Asset Management Limited, a company incorporated in the BVI and one of the controlling shareholders of the Company
“Group”	the Company and its subsidiaries
“Guarantee Fee”	the guarantee fee payable by ARI to the Guarantor pursuant to the Shareholders’ Loan and Guarantee Agreement
“Guarantor”	an ARI Shareholder or any member of its group of companies which has provided guarantee for the loan of ARI
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Board comprising all independent non-executive Directors to be established to advise the Independent Shareholders on each of the ARI Agreements and the respective transactions contemplated thereunder and the Proposed Annual Caps
“Independent Shareholders”	Shareholders other than (i) FPAM together with its associates; and (ii) CE Aerospace together with its associates; and (iii) any other Shareholders who are required by the Listing Rules to abstain from voting in respect of the resolution(s) relating to each of the ARI Agreements and the respective transactions contemplated thereunder and the Proposed Annual Caps at the EGM
“Independent Third Party”	a party which is independent of and not connected with the Company and any connected person of the Company and not a connected person of the Company
“Investec” or “Independent Financial Adviser”	Investec Capital Asia Limited, a wholly-owned subsidiary of Investec Bank PLC, a corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under SFO, and is the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on each of the ARI Agreements and the respective transactions contemplated thereunder and the Proposed Annual Caps
“Investment Agreement”	the Investment Agreement dated 6 April 2016, which is more particularly described in the section headed “Investment Agreement” of this circular

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## DEFINITIONS

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“Land”	a parcel of land located adjacent to Harbin Taiping International Airport in Harbin, Heilongjiang Province, the PRC with a site area of approximately 299,000 sq.m. granted to the Company under the State-owned Land Use Rights Grant Contract (國有建設用地使用權出讓合同) dated 16 July 2015 entered into between the Harbin State-owned Resources Bureau (哈爾濱國土資源局) and the Company
“Land Deposit”	the deposit in the sum of approximately RMB157.4 million paid by the Group regarding the Land
“Latest Practicable Date”	6 June 2016, being the latest practicable date before printing of this circular for ascertaining information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Note(s)”	the Loan Note(s) to be issued by ARI to any ARI Shareholder which has advanced the Shareholders’ Loan to ARI pursuant to the Shareholders’ Loan and Guarantee Agreement
“Neo Modern”	Neo Modern Limited, which is more particularly described in the section headed “Information on the parties – Neo Modern” of this circular
“Option”	the option granted by ARI to ARI Holdings pursuant to the Option Agreement
“Option Agreement”	the Option Agreement dated 6 April 2016, which is more particularly described in the section headed “Option Agreement” of this circular
“PRC”	the People’s Republic of China, but for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan

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## DEFINITIONS

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“Proposed Annual Caps”	the proposed annual caps of the continuing connected transactions contemplated under the Shareholders’ Loan and Guarantee Agreement as set out in the section headed “Proposed Annual Caps” of this circular
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	share(s) with par value of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shareholders’ Agreement”	the Shareholders’ Agreement dated 6 April 2016, which is more particularly described in the section headed “The Shareholders’ Agreement” of this circular
“Shareholders’ Loan”	the shareholders’ loan advanced by any ARI Shareholder to ARI pursuant to the Shareholders’ Loan and Guarantee Agreement
“Shareholders’ Loan and Guarantee Agreement”	the Shareholders’ Loan and Guarantee Agreement dated 6 April 2016, which is more particularly described in the section headed “Shareholders’ Loan and Guarantee Agreement” of this circular
“Share Mortgage”	the Share Mortgage dated 6 April 2016, which is more particularly described in the section headed “Share Mortgage” of this circular
“Sky Cheer”	Sky Cheer International Limited, which is more particularly described in the section headed “Information on the parties – Sky Cheer” of this circular
“sq.m”	square metre
“Stock Exchange”	The Stock Exchange of Hong Kong Limited



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## DEFINITIONS

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“Subscribers”	collectively, ARI Holdings, Sky Cheer, China Aero and Neo Modern
“Subscription”	the subscription of the ARI Shares pursuant to the Investment Agreement
“Subscription Completion”	completion of the Subscription pursuant to the Investment Agreement
“Subscription Price”	price for the Subscription, being US\$1.0 per ARI Share
“US\$”	United States dollars, the lawful currency of the United States of America
“Zhong Long”	Zhong Long Aircraft Disassembly Base Limited* (中龍飛機拆解基地有限公司), a company established in the PRC on 17 March 2016 whose beneficial interest is wholly-owned by the Company as at the Latest Practicable Date and has been transferred to CADC HK pursuant to the Investment Agreement
“%”	per cent.

*For illustration purpose only, certain amounts denominated in US\$ and RMB are translated into HK\$ at the exchange rate shown below, but such conversions shall not be construed as representations that amounts in US\$ and RMB were or may have been converted into HK\$ at such rate or any other exchange rates or at all: US\$1 = HK\$7.75 and HK\$1=RMB0.84*

\* For identification purpose only

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LETTER FROM THE BOARD

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**CALC**

**CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED**

**中國飛機租賃集團控股有限公司**

*(Incorporated under the laws of the Cayman Islands with limited liability)*

**(Stock code: 1848)**

*Executive Directors:*

Mr. Chen Shuang

*(Chairman and Chief Executive Officer)*

Ms. Liu Wanting

*Non-executive Directors:*

Mr. Tang Chi Chun

Mr. Guo Zibin

Ms. Chen Chia-Ling

*Independent non-executive Directors:*

Mr. Fan Yan Hok, Philip

Mr. Nien Van Jin, Robert

Mr. Cheok Albert Saychuan

*Registered office:*

Maples Corporate Services Limited

PO Box 309, Ugland House

Grand Cayman, KY1-1104

Cayman Islands

*Principal Place of Business in China:*

Room 6026-14, 6/F

Joint Inspection Service Centre of Closed Area

1 American Road

Dongjiang Free Trade Port Zone

Tianjin, China

*Principal Place of Business in Hong Kong:*

28th Floor, Far East Finance Centre

16 Harcourt Road

Hong Kong

10 June 2016

*Dear Shareholders,*

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION –  
DISPOSAL OF SHARES OF ARI AND THE CADC PROJECT  
AND**

**(2) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL ASSISTANCE TO ARI  
AND**

**(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**I. INTRODUCTION**

The Board refers to the announcement of the Company dated 6 April 2016 in relation to, among other things, the entering into the ARI Agreements.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) details on each of the ARI Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps); (ii) the recommendation and advice of the Independent Board Committee; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders together with a notice convening the EGM.

### ARI AGREEMENTS

The Group has entered into the ARI Agreements on 6 April 2016 in order to, among other things, reduce its investment in the CADC Project.

### CONDITION PRECEDENT

Each of the ARI Agreements is conditional upon the approval of each of the ARI Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps) by the Independent Shareholders at the EGM.

If the Condition Precedent is not satisfied on or before 30 June 2016 (or such other date as may be agreed in writing by the parties to the Investment Agreement), each of the ARI Agreements shall be terminated and, save for any antecedent breach, the rights and obligations of each of the parties to each of the ARI Agreements shall cease and determine.

### OPTION AGREEMENT

**Date:** 6 April 2016

**Parties:** (i) ARI Holdings; and  
(ii) ARI.

### The Option

ARI has agreed to grant ARI Holdings the Option at the cash consideration of HK\$10. Pursuant to the Option, ARI Holdings has the right at any time during the period of six years from the date of grant of the Option to require ARI to allot and issue to ARI Holdings (and/or its nominee(s)) 612,245 ARI Shares, representing approximately 5.77% of the issued share capital of ARI as enlarged by the Subscription, in whole or in part at the price of US\$1.0 per ARI Share. ARI Holdings shall not exercise the Option, and ARI shall not allot and issue any ARI Share, if the number of ARI Shares to be allotted and issued pursuant to the exercise of the Option, together with the ARI Shares then held by ARI Holdings, would exceed 50% of the enlarged issued share capital of ARI.

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## LETTER FROM THE BOARD

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### INVESTMENT AGREEMENT

- Date:** 6 April 2016
- Parties:** (i) the Company;
- (ii) ARI;
- (iii) ARI Holdings;
- (iv) China Aero;
- (v) Sky Cheer; and
- (vi) Neo Modern.

### Subscription of ARI Shares

ARI shall issue, and each Subscriber shall subscribe for, the number of ARI Shares as set out below:

	<b>Number of ARI Shares</b>	<b>Shareholding in ARI immediately after the Subscription Completion</b>
ARI Holdings	4,799,999	48%
Sky Cheer	2,000,000	20%
China Aero	1,800,000	18%
Neo Modern	1,400,000	14%

### Subscription Price

The Subscription Price shall be US\$1.0 per ARI Share, which equal to the par value of ARI Share. The Subscription Price shall be payable in full by the Subscribers in cash on Subscription Completion.

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## LETTER FROM THE BOARD

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### **Subscription Completion**

Subscription Completion shall take place on the seventh Business Day following the satisfaction of the Condition Precedent (or such other date as may be agreed in writing by the parties to the Investment Agreement).

### **CADC Disposal**

At the request of ARI, the Company shall as soon as practicable and not later than 30 June 2016 (or such other date as may be agreed in writing by the parties to the Investment Agreement):

- (a) firstly, transfer or procure the transfer of the entire beneficial interest in Zhong Long to CADC HK; and
- (b) secondly, transfer or procure the transfer of the CADC Project (including the right to acquire the Land) to Zhong Long.

### **Disposal Completion**

The transfer of the CADC Project (including the right to acquire the Land) shall be regarded as completed when the right to acquire the Land and the Land Deposit are transferred to Zhong Long, notwithstanding that the Disposal Consideration has not been satisfied.

### **Disposal Consideration**

The Disposal Consideration shall equal to the aggregate of:

- (a) the higher of (i) market value of the Land together with the construction-in-progress thereon as at 31 March 2016 as assessed by an independent valuer appointed by the Company and (ii) the Land Deposit in the amount of approximately RMB157.4 million and construction-in-progress thereon in the amount of approximately RMB12.7 million paid by the Group as at 31 March 2016;
- (b) total payment made by the Group in relation to the CADC Project (including but not limited to construction costs, all the costs in the ordinary course of business at early stage of the CADC Project, capital contribution, payment and advance made to the ARI Group but excluding the amounts referred to in sub-paragraph (a)(ii) above) up to and including the later of the date of the Disposal Completion and the date of the Subscription Completion; and

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## LETTER FROM THE BOARD

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- (c) an interest calculated at the rate of 9% per annum on the aggregate of the amount referred to in sub-paragraph (a)(ii) above and the total amount referred to in sub-paragraph (b) from 16 July 2015, being the date when the Company entered into a Land Use Right Transfer Contract regarding the Land with Harbin Municipal Bureau of the Land and Resources, up to and including the date of payment of the Disposal Consideration.

As at the Latest Practicable Date, the amount of total payment made by Group as referred to in sub-paragraph (b) above is approximately HK\$42.5 million.

The Disposal Consideration shall be payable by ARI to the Company in cash within 30 Business Days from the later of the date of the Disposal Completion and the date of Subscription Completion (or such other dates as may be agreed by the parties to the Investment Agreement).

The Disposal Consideration was agreed after arm's length negotiations between the Company, ARI and the Subscribers. Based on the valuation report as set out in Appendix I to this circular, the market value of the Land together with the construction-in-progress thereon as at 31 March 2016 is approximately RMB170.1 million. It is expected that the Disposal Consideration shall not exceed HK\$350 million.

### **CADC Project**

The CADC Project principally involves the establishment of an aircraft disassembly center in the PRC on the Land for carrying out the Aircraft Disassembly Business. The Company has entered into a Land Use Right Transfer Contract regarding the Land with Harbin Municipal Bureau of Land and Resources on 16 July 2015. The Land has a site area of approximately 299,000 sq.m. As at 31 March 2016, the Land Deposit in the amount of RMB157.4 million and construction-in-progress in the amount of approximately RMB12.7 million have been paid by the Group. As at the Latest Practicable Date, the construction-in-process is at the leveling stage and the Company targets to submit the architectural plans and anticipate to obtain the construction commencement permit by end of 2016. It is expected that when the CADC Project completes in 2018, it will have a capacity of dismantling 20 aircraft per annum.

### **Financial Information**

Based on the unaudited financial statements of ARI, ARI had not incurred any net (loss)/profit before and after tax for the period from its date of incorporation on 22 August 2014 to 31 December 2014 and the financial year ended 31 December 2015. As at 31 December 2015, the unaudited net assets of ARI was US\$1.0.

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## LETTER FROM THE BOARD

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Based on the unaudited financial statements of CADC, the unaudited net liabilities as at 31 December 2015 of CADC is HK\$1,290,100 and the unaudited net loss before and after tax of CADC for the period ended 31 December 2014 and 31 December 2015 are approximately HK\$919,000 and HK\$371,100 respectively.

Based on the unaudited financial statements of CADC HK, the unaudited net liabilities as at 31 December 2015 of CADC HK is HK\$474,400 and the unaudited net loss before and after tax of CADC for the period ended 31 December 2014 and 31 December 2015 are approximately HK\$8,000 and HK\$446,400 respectively.

Given that Zhong Long is a newly incorporated company, information in relation to the net profits of Zhong Long for the period ended 31 December 2014 and 31 December 2015 is not available.

### **Effect on net asset value and earning**

Upon Subscription Completion and assuming that the Company does not exercise the Option, ARI will be owned as to 48% by the Group, 20% by Sky Cheer, 18% by China Aero and 14% by Neo Modern. It is intended that ARI will cease to be a subsidiary of the Company and that the Company will account for the results of ARI as a commonly held entity (has the meaning ascribed to it in Rule 14A.27 of the Listing Rules) in its consolidated financial statements using the equity method. As a result, its financial information will not be consolidated in the financial statements of the Company on a line-by-line basis.

The Group expects to record upon Subscription Completion and Disposal Completion a decrease in non-current assets of approximately HK\$224 million with reference to the book value of the CADC Project as at 31 March 2016.

It is estimated that the Subscription and the ARI Disposal will result in a profit of approximately HK\$5.0 million (before tax and cost of fund of the Group) for the financial year ending 31 December 2016. The estimated gain from the ARI Disposal is an estimation of the difference between the total consideration received by the Group and the net carrying amounts of the assets and liabilities to be disposed of in the amount of approximately HK\$224 million as at 31 March 2016.

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## LETTER FROM THE BOARD

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### Application of proceeds from the Subscription and the CADC Disposal

The proceeds from the Subscription of US\$9,999,999 will be used by ARI for satisfaction of part of the Disposal Consideration. It is expected that ARI will settle the balance of the Disposal Consideration by the Shareholders' Loan to be advanced by ARI Shareholders. The estimated proceeds from the Disposal of the CADC Project will not exceed HK\$350 million and will be used for general working capital of the Group and/or as Shareholders' Loan which the Group may advance to ARI pursuant to the Shareholders' Loan and Guarantee Agreement. The Company intends to finance the payment of the Subscription Price and the Shareholders' Loan out of internal resources and/or external financing sources.

### SHAREHOLDERS' AGREEMENT

- Date:** 6 April 2016
- Parties:**
- (i) ARI;
  - (ii) ARI Holdings;
  - (iii) China Aero;
  - (iv) Sky Cheer; and
  - (v) Neo Modern.

The principal terms of the Shareholders' Agreement, which is entered into for the purpose of regulating the relationship of ARI and the ARI Shareholders, are as follows:

- (a) the board of directors of ARI shall comprise of five directors, of which ARI Holdings shall nominate 2 directors and each of Sky Cheer, China Aero and Neo Modern shall nominate 1 director;
- (b) except certain shareholders' resolutions of ARI as set out under the Shareholders' Agreement are to be approved by ARI Shareholders with not less than 75% equity interest, shareholders' resolutions of ARI shall be approved by majority vote of ARI Shareholders;
- (c) in the event that a shareholder of ARI proposes to transfer any ARI Shares, the other shareholders of ARI shall have a right of first refusal and right of co-sale with respect to such ARI Shares;
- (d) cash flow available for ARI shall be utilized according to the priorities as agreed by the parties in the Shareholders' Agreement; and



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## LETTER FROM THE BOARD

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- (e) ARI Shareholders shall use their respective best endeavours to assist ARI Group to develop its business and implement its business plan. In particular, the responsibility of each ARI Shareholder is set out below:

ARI Holdings: Leveraging on its experience, track records and network in the aircraft leasing industry to assist ARI Group to develop its business and implement its business plan; and procure the Group to assist ARI Group to apply for aircraft leasing license in the PRC.

China Aero: Leveraging on its extensive experience in the domestic and global aviation industry to assist ARI Group to formulate its domestic and global business strategies (including used-aircraft purchases and leasing, and sale and distribution of components of used aircraft).

Sky Cheer: Assist ARI Group in its communication with the related government authorities so as to obtain the necessary approvals, permissions and licenses for the smooth construction and operation of Zhong Long and for the development of the Aircraft Disassembly Business, including the establishment of entities in the PRC for ARI Group, the transfer of the Land and the Land Deposit to Zhong Long; the application for tax concessions and other government subsidies in the PRC; the application and obtaining of the government approvals, permissions and licenses for the CADC Project and related business; and assist ARI Group to apply for aircraft leasing license in the PRC.

Neo Modern: Liaise with ARI Group and the banking and other financial institutions to obtain financing for ARI Group; and provide advice and assistance in financing plan and the issuance of financial products by the ARI Group.

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## LETTER FROM THE BOARD

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### SHAREHOLDERS' LOAN AND GUARANTEE AGREEMENT

- Date:** 6 April 2016
- Parties:** (i) ARI;
- (ii) ARI Holdings;
- (iii) China Aero;
- (iv) Sky Cheer; and
- (v) Neo Modern.

#### Shareholders' Loan

In the event ARI proposes to raise additional capital by way of shareholders' loan from the ARI Shareholders, each ARI Shareholder shall have a right (but not the obligation) to advance a principal amount of the Shareholders' Loan to ARI pro rata to its shareholding in ARI. If one or more ARI Shareholders decline to advance its respective pro rata portion of the Shareholders' Loan, then the unaccepted participation of such ARI Shareholders shall automatically be deemed to be accepted by ARI Shareholders who have indicated to ARI a desire to advance the whole or part of such unaccepted participation.

#### Loan Note

Against receipt of the payment for an advance under a Shareholders' Loan, ARI shall issue the Loan Note to each of the relevant ARI Shareholders, which principal terms are as follows:

- (a) all Loan Notes as and when issued shall rank pari passu and ratably without discrimination or preference as between the holders of the Loan Notes except to the extent provided by the applicable laws;
- (b) the principal amount of a Loan Note, together with the accrued interest, shall be repayable on demand or on the occurrence of certain insolvency event including a court of competent jurisdiction makes an order or a resolution is passed for the dissolution or administration of ARI;

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## LETTER FROM THE BOARD

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- (c) the principal amount set forth in a Loan Note shall be subject to interest at the rate of 4% per annum above the prime lending rate quoted by The Bank of China (Hong Kong) Limited from time to time, which is accrued from day to day and be calculated on the basis of the actual number of days elapsed in a year of 365 days and payable in cash in arrears by ARI at six-month intervals from the date of issue of the Loan Note;
- (d) interest will be charged (both before and after judgment) on amounts due under a Loan Note but unpaid at a rate which is 3% per annum above the rate specified in subparagraph (c) above and shall be compounded (both before and after judgement) daily; and
- (e) the Loan Note is not transferable.

### **Guarantee**

In the event ARI proposes to raise additional capital by way of loans from banks, financial or other institutions and guarantee is required to be provided to the lender of the loans, each ARI Shareholder or any of its group of companies shall have a right (but not the obligation), subject to the acceptance and approval of the lender, to provide guarantee for the loans.

### **Guarantee Fee**

If an ARI Shareholder or any member of its group of companies, whose consolidated net asset value is not less than HK\$500 million, has provided guarantee for the loan of ARI, ARI shall pay the Guarantor a guarantee fee equal to 4% per annum of the principal amount of the loans guaranteed by such Guarantor. On the other hand, if an ARI Shareholder or any member of its group of companies, whose consolidated net asset value is less than HK\$500 million, has provided guarantee for the loan of ARI, such ARI Shareholder or member of its group of companies will not be entitled to the guarantee fee arrangement. The Guarantee Fee is accrued from day to day and is calculated on the basis of the actual number of days elapsed in a year of 365 days and payable in arrears by ARI at six-month intervals from the provision of the guarantee. If the Guarantor is a member of an ARI Shareholder's group of companies, ARI shall enter into an agreement with such Guarantor setting out the payment of the Guarantee Fee by ARI to such Guarantor.

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## LETTER FROM THE BOARD

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### Payment of interest accrued on the Loan Notes, payment of the Guarantee Fee and repayment of the Loan Notes

No payment of the interest accrued on the Loan Notes and payment of the Guarantee Fee shall be made by ARI unless (a) payment is made pro rata to each of the ARI Shareholders in proportion to the amount of their respective interest accrued on the Loan Notes and Guarantee Fee; and (b) payment shall be made to each such ARI Shareholder at the same time and in the same currency. No repayment of the Loan Notes shall be made by ARI unless (a) repayment is made pro rata to each of the ARI Shareholders in proportion to the principal amount of their respective Loan Notes; and (b) repayment shall be made to each such ARI Shareholder at the same time and in the same currency.

### PROPOSED ANNUAL CAPS

The following table sets out the Proposed Annual Caps amounts of the Group regarding the continuing connected transactions contemplated under the Shareholders' Loan and Guarantee Agreement for the three years ending 31 December 2018:

	For the year ending 31 December		
	2016	2017	2018
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Proposed Annual Caps amounts	480	600	720

The Proposed Annual Caps represent the maximum principal loans outstanding (including the principal loans guaranteed by the Group), interest and Guarantee Fee amounts. The Proposed Annual Caps were determined with reference to factors including (i) the Land Deposit in the amount of RMB157.4 million as at 31 March 2016 and the construction costs of the CADC Project paid in the amount of RMB12.7 million as at 31 March 2016 and/or to be paid by ARI; and (ii) the business development plan including the establishment of an aircraft disassembly centre with a capacity to disassemble 20 aircraft annually scheduled for completion in 2018 and other financial needs of ARI including the funding requirements of the establishment of the centre, and based on the assumptions that (i) part of financial needs of ARI for the three years ending 31 December 2018 will be financed by limited recourse bank borrowings; and (ii) the Company provides full amount of the shareholders' loan and guarantee required by ARI and no ARI Shareholders and their respective group companies provide any amount of such shareholders' loan and guarantee. In the event any ARI Shareholder and their respective group companies, other than the Company, provides the shareholders' loan and/or guarantee required by ARI, the Proposed Annual Caps may not be fully utilised.

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## LETTER FROM THE BOARD

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### SHARE MORTGAGE

**Date:** 6 April 2016

**Parties:** (i) ARI; and

(ii) ARI Holdings, as security trustee for and on behalf of the ARI Shareholders and their respective group companies who has provided shareholders' loan and/or guarantee to ARI pursuant to the Shareholders' Loan and Guarantee Agreement

Pursuant to the Share Mortgage, ARI charges the entire issued share capital in CADC, a company incorporated in the BVI and a wholly-owned subsidiary of ARI, as a continuing security for the payment and discharge in full of all monies, debts and liabilities due, owing or incurred by ARI under or in connection with the Shareholders' Loan and Guarantee Agreement. Upon the Disposal Completion, the principal assets of CADC will be 100% equity interest in CADC HK, which in turn will own 100% equity interest in Zhong Long and Zhong Long will own the CADC Project and the Land.

### INFORMATION ON THE PARTIES

#### The Company

The Company is an investment holding company incorporated in Cayman Islands on 21 December 2012. The Group is principally engaged in the provision of aircraft leasing services, focusing on long-term aircraft purchase and lease transactions and long-term aircraft sale and leaseback transactions with airline operators in the PRC and overseas. It also provides other advisory services on fleet management.

#### ARI Holdings

ARI Holdings is incorporated in the BVI on 24 February 2016 and a wholly-owned subsidiary of the Company. It is an investment holding company.

#### ARI

ARI is a company incorporated in the Cayman Islands on 22 August 2014 and a wholly-owned subsidiary of the Company (through ARI Holdings) as at the Latest Practicable Date. It is incorporated as the holding company of the CADC Project.

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## LETTER FROM THE BOARD

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### **Sky Cheer**

Sky Cheer is incorporated in Hong Kong on 4 July 2008 and is owned by Li Yuze William and Liu Liyi. It is an investment holding company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Sky Cheer and its ultimate shareholders are Independent Third Party.

### **China Aero**

China Aero is incorporated in the Cayman Islands on 30 January 2012 and is wholly and beneficially owned by FPAM. It is an investment holding company.

As at the Latest Practicable Date, FPAM together with its associates are interested in 187,062,589 Shares, representing approximately 30.28% of the issued share capital of the Company, and hence a controlling shareholder of the Company. Accordingly, China Aero is a connected person of the Company.

### **Neo Modern**

Neo Modern is incorporated in the BVI on 22 January 2016 and a wholly-owned subsidiary of CEL. CEL is a member of China Everbright Group, a state-owned diversified financial services enterprise operating in Hong Kong and the PRC. It is an investment holding company. As at the Latest Practicable Date, CEL is interested in 216,519,479 Shares, representing approximately 35.05% of the issued share capital of the Company, and hence a controlling shareholder of the Company. Accordingly, Neo Modern is a connected person of the Company.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE ARI AGREEMENTS**

### **The Investment Agreement, the Shareholders' Agreement and the Option Agreement**

In 2014, the Group identified an opportunity in the PRC end-of-life aviation market where there were no known sizeable operators carry out the Aircraft Disassembly Business in the PRC. With a view to exploring the Aircraft Disassembly Business, the Group formulated a detailed business plan for developing the Aircraft Disassembly Business. The Group entered into a memorandum of understanding with the Municipal Government of Harbin in December 2014 regarding the CADC Project. By the CADC Project, the Group intends to maintain its leading position in the aircraft leasing market by helping airline operators to resolve their aged aircraft disposal issue by an aged aircraft sale and leaseback programme. The CADC Project is expected to support the development of the aviation market in the PRC by extending and realising the aviation industry value chain, supporting and promoting resources recycling in line with the national policy of the PRC on aviation development and meeting the strong demand for disposal of aged aircraft.

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## LETTER FROM THE BOARD

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The Company signed the State-owned Land Use Rights Grant Contract (國有建設用地使用權出讓合同) with the Harbin State-owned Resources Bureau (哈爾濱國土資源局) regarding the Land in July 2015 and commenced the construction of the facilities thereon. With a view to accelerating the CADC Project into operation as soon as possible to seize first-mover advantage in the end-of-life aviation market, the Group started discussing with FPAM, Sky Cheer and Neo Modern the possibility for a joint investment in the CADC Project.

As at the Latest Practicable Date, the CADC Project is still in its development stage and needs considerable external support, including financial, local and global network and expertise and operational support, among others, in order to achieve a sustainable development. The Group believes that the collaboration with the Subscribers, each of them having own strength and contributions as more particularly described in the section headed “The Shareholders’ Agreement” of this circular, in the CADC Project will provide the required external support for the continuing development of the Aircraft Disassembly Business and facilitate the commencement of its operation as soon as practicable so as to capture first-mover advantages.

It has been the Group’s intention that the Aircraft Disassembly Business shall be operated on a standalone basis as there are substantial differences with the existing aircraft leasing business of the Group. Following the Disposal Completion and the Subscription Completion, the Group shall remain as the single largest shareholder holding 48% interest of ARI and has the right to subscribe for 612,245 ARI Shares, representing approximately 5.77% of the issued share capital of ARI as enlarged by the Subscription pursuant to the Option Agreement. The reduction of the Group’s investment in the CADC Project will enable the Group to focus its efforts and resources on its core aircraft leasing business, while maintaining a sizeable equity interest in the CADC Project which would enable the Group to share the results should it become mature and profitable.

Following the Subscription Completion, it is intended that ARI will cease to be a subsidiary of the Group. The assets and liabilities recorded in the consolidated financial statements of ARI will not be consolidated into the Group’s financial statements on a line-by-line basis. As it is expected that the CADC Project, which is in its early development stage, needs substantial financial support including bank and other borrowings, any future debt raised by ARI Group would not be included in gearing ratio calculation and thus shall not have material effects on the Group’s gearing ratio.

### **The Shareholders’ Loan and Guarantee Agreement and the Share Mortgage**

The Shareholders’ Loan and Guarantee Agreement and the Share Mortgage is an arrangement to facilitate ARI in meeting the funding requirements by way of raising Shareholders’ Loan and/or bank loans for the development of the CADC Project and the Aircraft Disassembly Business, which is considered beneficial to the Group as an ARI Shareholder.

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## LETTER FROM THE BOARD

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Each ARI Shareholder has the same right to offer to advance a portion of the Shareholders' Loan pro rata to its shareholding in ARI, while each ARI Shareholder and its group company has the same right to provide guarantee for the bank loans of ARI. Besides, each ARI Shareholder who has advanced the Shareholders' Loan or each ARI Shareholder and/or its group company who have provided guarantee for the bank loans of ARI is entitled to the same rate of interest and guarantee fee. On this basis, the continuing connected transactions contemplated under the Shareholders' Loan and Guarantee Agreement are considered to be on terms no less favourable to the Group than terms available to the other ARI Shareholders comprising connected persons of the Company (i.e., China Aero and Neo Modern) and an Independent Third Party (Sky Cheer). Each ARI Shareholder also has full discretion to decide whether or not to provide the Shareholders' Loan and the guarantee as well as the amount thereof at the time when ARI conducts fund raising exercise.

The Shareholders' Loan and Guarantee Agreement and the Share Mortgage allow the Group to secure a return at 4% per annum above the prime lending rate (being 5% per annum as at the Latest Practicable Date) on the Shareholders' Loan and guarantee provided to ARI. The payment obligations of ARI under the Shareholders' Loan and Guarantee Agreement are secured by the Share Mortgage. The Guarantee Fee is 4% per annum.

### **INTERNAL CONTROL MEASURES FOR THE CONTINUING CONNECTED TRANSACTIONS**

To safeguard the interest of the Group, the Group will adopt the following internal control measures in respect of the transactions contemplated under the Shareholders' Loan and Guarantee Agreement.

The Company will adopt the following review process and assessment criteria when providing shareholders' loan and guarantee pursuant to the Shareholders' Loan and Guarantee Agreement:

- (1) the designated staff from the accounting department of the Company will closely monitor the amount of the shareholders' loan and guarantee required by ARI to be provide by the Company on a monthly basis to ensure that it does not exceed the proposed annual monetary caps;
- (2) each shareholders' loan and/or guarantee to be provided by the Company pursuant to the Shareholders' Loan and Guarantee Agreement must be decided and approved by the disinterested Directors (all interested Directors shall abstain from voting for such approval); and



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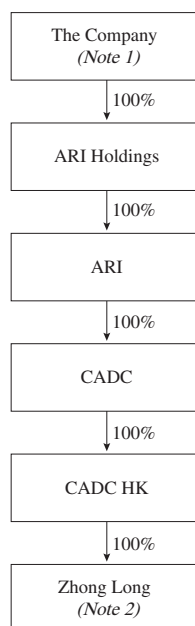
## LETTER FROM THE BOARD

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- (3) the independent non-executive Directors and the risk management department of the Company will review at least every six months the status of the shareholders' loan and/or guarantee provided by the Company to ensure that the Company has complied with the internal approval process, the terms of the Shareholders' Loan and Guarantee Agreement and the relevant Listing Rules.

### SHAREHOLDING CHART BEFORE AND AFTER THE SUBSCRIPTION AND THE CADC DISPOSAL

#### Before the Subscription and the CADC Disposal as at the Latest Practicable Date



*Notes:*

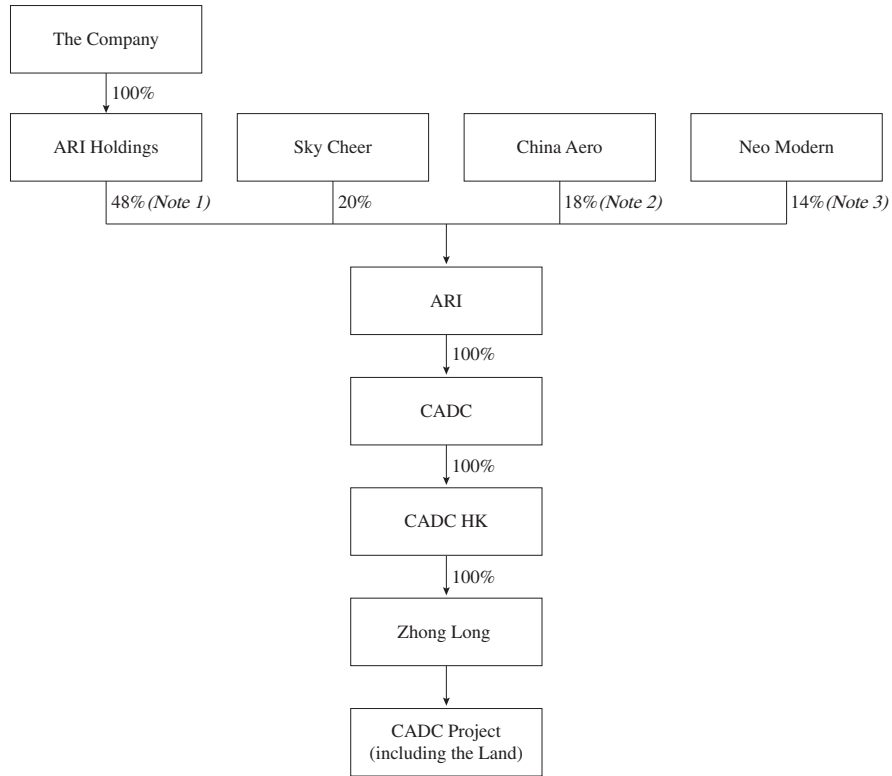
- (1) The Company owned the right to acquire the Land as at the Latest Practicable Date.
- (2) The Company has transferred the entire beneficial interest in Zhong Long to CADC HK, and after which will transfer or procure the transfer of the CADC Project (including the right to acquire the Land) to Zhong Long. Zhong Long was established on 17 March 2016 whose beneficial interest is wholly owned by the Company as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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**Immediately upon completion of the Subscription and the completion of the CADC Disposal  
(assuming the Option has not been exercised)**



*Notes:*

- (1) The Company, which owns 100% of ARI Holdings, has an Option for 612,245 ARI Option Shares which represents 5.77% of the issued share capital of ARI as enlarged by the Subscription (subject to certain restrictions) as set out under the paragraph headed “The Option”.
- (2) China Aero is 100% wholly and beneficially owned by FPAM, which together with its associates, were interested in approximately 30.28% of the issued share capital of the Company as at the Latest Practicable Date.
- (3) Neo Modern was a wholly-owned subsidiary of CEL as at the Latest Practicable Date, which is in turn interested in approximately 35.05% of the issued share capital of the Company as at the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### LISTING RULES IMPLICATIONS

#### **The Investment Agreement**

Following the Subscription Completion, the share interest of the Group in ARI will be diluted from 100% to 48%, and therefore the Subscription constitutes a deemed disposal of the Group's share interest in ARI under Rule 14.29 of the Listing Rules.

As the highest of the applicable percentage ratios for the ARI Disposal together with the CADC Disposal is more than 5% but less than 25%, the ARI Disposal together with the CADC Disposal constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements thereunder.

The Investment Agreement is entered into amongst the Company, ARI, ARI Holdings, China Aero, Sky Cheer and Neo Modern. As China Aero and Neo Modern are connected persons of the Company, the Investment Agreement and the transactions contemplated thereunder constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements thereunder.

#### **The Shareholders' Loan and Guarantee Agreement**

The Company has a general disclosure obligation in respect of the transactions contemplated under the Shareholders' Loan and Guarantee Agreement pursuant to Rule 13.13 of the Listing Rules.

As the highest of the applicable percentage ratios based on the Proposed Annual Caps is more than 5% but less than 25%, the transactions contemplated under the Shareholders' Loan and Guarantee Agreement constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements thereunder.

As ARI will be a commonly held entity (has the meaning ascribed to it in Rule 14A.27 of the Listing Rules) of the Company, the transactions contemplated under the Shareholders' Loan and Guarantee Agreement will constitute continuing connected transactions for the Company under Rule 14A.26 of the Listing Rules. The Shareholders' Loan and Guarantee Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### EGM

The EGM will be held at 10:00 a.m. on Thursday, 30 June 2016 at Cliftons Hong Kong, 508-520 Hutchison House, 10 Harcourt Road, Central, Hong Kong. A notice to convene the EGM is set out on pages 81 to 83 of this circular.

At the EGM, ordinary resolutions will be proposed to approve each of the ARI Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps). FPAM together with its associates; and CE Aerospace together with its associates, which are interested in 187,062,589 Shares, representing approximately 30.28% of the issued share capital of the Company and 216,519,479 Shares, representing approximately 35.05% of the issued share capital of the Company as at the Latest Practicable Date, respectively, will abstain from voting at the EGM regarding each of the ARI Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps).

### RECOMMENDATION

Mr. Chen Shuang (being the executive director and chief executive officer of CEL and the executive Director) and Mr. Tang Chi Chun (being executive director of CEL and the non-executive Director) have abstained from voting on the relevant resolutions of the Board.

Based on the foregoing, the Directors recommends that the Independent Shareholders vote in favour of the resolutions as set out in the notice of EGM.

Your attention is drawn to the letter from the Independent Board Committee to the Shareholders set out on pages 28 to 29 of this circular. The Independent Board Committee, having taken into account the advice of Investec are of the view that (i) each of the ARI Agreements and the respective transactions contemplated thereunder is fair and reasonable, though not entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole; (ii) the continuing connected transactions contemplated under the Shareholders' Loan and Guarantee Agreement will be carried out in the ordinary and usual course of business of the Company; and (iii) the Proposed Annual Caps are fair and reasonable, and in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution as set out in the notice of EGM.

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## LETTER FROM THE BOARD

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In order to determine the list of Shareholders who are entitled to attend and vote at the EGM, the register of the Shareholders of the Company will be closed from Wednesday, 29 June 2016 to Thursday, 30 June 2016 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of the Shareholders of the Company as on Thursday, 30 June 2016 are entitled to attend and vote at the EGM.

### FURTHER INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

By Order of the Board  
**China Aircraft Leasing Group Holdings Limited**  
**CHEN SHUANG**  
*Chairman, Executive Director  
and Chief Executive Officer*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders:*

# ***CALC***

**CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED**

**中國飛機租賃集團控股有限公司**

*(Incorporated under the laws of the Cayman Islands with limited liability)*

**(Stock code: 1848)**

10 June 2016

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION –  
DISPOSAL OF SHARES OF ARI AND THE CADC PROJECT  
AND  
(2) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL ASSISTANCE TO ARI  
AND  
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

We refer to the circular of the Company (the “Circular”) dated 10 June 2016 and despatched to the Shareholders which this letter forms part. Unless the context requires otherwise, terms and expressions defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the Independent Shareholders in respect of each of the ARI Agreements and the respective transactions contemplated thereunder and the Proposed Annual Caps, details of which are set out in the section headed “Letter from the Board” in the Circular. Investec has been appointed to advise the Independent Shareholders and us in this regard.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Details of the advice and the principal factors and reasons Investec has taken into consideration in rendering its advice, are set out in the section headed “Letter from Investec” in the Circular. Your attention is also drawn to the additional information set out in the Circular. Having taken into account the terms of each of the ARI Agreements and the advice of Investec, we are of the opinion that (i) each of the ARI Agreements and the respective transactions contemplated thereunder is fair and reasonable, though not entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole; (ii) the continuing connected transactions contemplated under the Shareholders’ Loan and Guarantee Agreement will be carried out in the ordinary and usual course of business of the Company; and (iii) the Proposed Annual Caps are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

We, therefore, recommend that you vote in favour of the resolutions to be proposed at the EGM to approve each of the ARI Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,

For and on behalf of

**Independent Board Committee**

**Fan Yan Hok, Philip,**

**Nien Van Jin, Robert,**

**Cheok Albert Saychuan**

*Independent non-executive Directors*

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## LETTER FROM INVESTEC

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*The following is the text of the letter of advice from Investec to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the ARI Agreements and the Proposed Annual Caps, which has been prepared for the purpose of inclusion in this Circular.*



Investec Capital Asia Ltd  
Room 3609-3613, 36/F, Two International Finance Centre  
8 Finance Street, Central, Hong Kong  
香港中環金融街8號國際金融中心二期36樓3609-3613室  
Tel/電話: (852) 3187 5000  
Fax/傳真: (852) 2501 0171  
www.investec.com

10 June 2016

*To: The Independent Board Committee and the Independent Shareholders of China Aircraft Leasing Group Holdings Limited*

Dear Sirs/Madams,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION –  
DISPOSAL OF SHARES OF ARI AND THE CADC PROJECT  
AND  
(2) DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION –  
PROVISION OF FINANCIAL ASSISTANCE TO ARI**

**I. INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with regards to (i) the transactions contemplated under the ARI Agreements which consisted of the Investment Agreement, the Option Agreement, the Shareholders' Agreement, the Shareholders' Loan and Guarantee Agreement and Share Mortgage; and (ii) the Proposed Annual Caps in relation to the continuing connected transactions under the Shareholders' Loan and Guarantee Agreement (the "**Continuing Connected Transactions**").

Details of the ARI Agreements, the CADC Disposal and the Continuing Connected Transactions are contained in the letter from the Board ("**Letter from the Board**") of the circular to the Shareholders dated 10 June 2016 (the "**Circular**"), of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.



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## LETTER FROM INVESTEC

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On 6 April 2016, the Group has entered into the Investment Agreement, pursuant to which the Subscribers shall subscribe a total of 9,999,999 ARI Shares at a price of US\$1 per ARI Share. As at the Latest Practicable Date, ARI Holdings is a wholly-owned subsidiary of the Company. Upon completion of the Subscription, ARI will be owned as to 48%, 20%, 18% and 14% by ARI Holdings, Sky Cheer, China Aero and Neo Modern, respectively. Notwithstanding the above, ARI has also granted ARI Holdings an option for additional ARI Shares, details of which are further set out below.

At the request of ARI, the Company shall as soon as practicable and not later than 30 June 2016 (or such other date as may be agreed) to transfer the CADC Project (including the right to acquire the Land) to Zhong Long. It is expected that the Disposal Consideration shall not exceed HK\$350 million.

In addition, pursuant to the Option Agreement dated 6 April 2016, ARI has granted ARI Holdings an option at any time during the period of six years from the date of the Option Agreement to require the ARI to allot and issue to ARI Holdings (and/or its nominee(s)) 612,245 ARI Shares in whole or in part at the price of US\$1.0 per ARI Share. Notwithstanding the above, ARI Holdings shall not exercise any option, and ARI shall not allot and issue any ARI Share, if the number of ARI Shares to be allotted and issued under the option, together with the ARI Shares held by ARI Holdings, would exceed 50% of the enlarged issued share capital of ARI.

On the same date, the Group also enter into the Shareholders' Agreement, the Shareholders' Loan and Guarantee Agreement and the Share Mortgage with a view to restructure its investment in the CADC Project. The Shareholders' Loan and Guarantee Agreement sets out terms and conditions, including those related to Loan Note and guarantees which may be provided by the ARI Shareholders to financial or other institutions for raising additional capital from time to time. In addition, ARI will execute a share mortgage pursuant to which ARI charges the entire issued share capital in CADC, a company incorporated in BVI and a wholly-owned subsidiary of ARI, as a continuing security for the payment and discharge in full of all moneys, debts and liabilities due, owing or incurred by ARI under or in connection with any of the Shareholders Loan and Guarantee Agreement, the Loan Note and the Guarantee Fee.

As set out in the Letter from the Board, China Aero and Neo Modern are connected persons of the Company. On this basis, the Investment Agreement and the transactions contemplated thereunder constitute a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements thereunder.

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## LETTER FROM INVESTEC

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As ARI will be a commonly held entity (has the meaning ascribed to it in Rule 14A.27 of the Listing Rules) of the Company, the transactions contemplated under the Shareholders' Loan and Guarantee Agreement will constitute continuing connected transactions for the Company under Rule 14A.26 of the Listing Rules. The Shareholders' Loan and Guarantee Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps) are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board currently consists of eight Directors, namely Mr. Chen Shuang and Ms. Liu Wanting as executive Directors, Mr. Tang Chi Chun, Mr. Guo Zibin and Ms. Chen Chia-Ling as non-executive Directors, Mr. Fan Yan Hok, Philip, Mr. Nien Van Jin, Robert and Mr. Cheok Albert Saychuan as independent non-executive Directors.

The Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Fan Yan Hok, Philip, Mr. Nien Van Jin, Robert and Mr. Cheok Albert Saychuan, has been established to advise the Independent Shareholders as to whether the terms of the ARI Agreements and the respective transactions contemplated thereunder as well as the Proposed Annual Caps are fair and reasonable, and whether the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

We have been appointed to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion in relation to the ARI Agreements and the respective transactions contemplated thereunder as well as the Proposed Annual Caps for the Independent Board Committee's consideration when making their recommendation to the Independent Shareholders.

As at the Latest Practicable Date, we were independent from and not connected to the Group, China Aero, Neo Modern and Sky Cheer pursuant to Rule 13.84 of the Listing Rules, and accordingly, qualified to give independent advice to the Independent Board Committee and Independent Shareholders regarding the ARI Agreements and the respective transactions contemplated thereunder as well as the Proposed Annual Caps. In addition to our appointment as the Independent Financial Adviser, Investec in the last two years has also acted as the independent financial adviser to the then independent board committee and then Shareholders in respect of continuing connected transactions in April 2016 and June 2015, respectively, as well as in respect of a connected transaction pursuant to a subscription agreement in relation to a proposed issue of convertible bonds under a specific mandate in April 2015. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser, no arrangement exists whereby we shall receive any other fees and benefits from the Company.

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## LETTER FROM INVESTEC

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### II. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group, China Aero, Neo Modern, Sky Cheer and their respective shareholders and management contained in the Circular and the information and representations provided to us by the Group and/or its senior management staff (the “**Management**”) and/or the Directors. We have assumed that all such statements, information, opinions, beliefs and representations contained or referred to in the Circular (including this Letter) or otherwise provided or made or given by the Group and/or the Management and/or the Directors and for which it is/they are solely responsible were true and accurate, and valid and complete in all material respects at the time they were made and given and continue to be true and accurate, and valid and complete in all material respects as at the date of the Circular. We have assumed that all the opinions, beliefs and representations for matters relating to the Group and the New ARI Investors (defined hereafter) made or provided by the Management and/or the Directors contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have been provided with sufficient information and documents to enable us to reach an informed view and the Management has assured us no material information has been withheld from us to allow us to reasonably rely on the information provided so as to provide a reasonable basis for our advice. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions, beliefs and representations provided to us by the Group and/or the Management and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company, ARI Holdings, ARI, CADC Project, China Aero, Sky Cheer, Neo Modern and Zhong Long and their respective shareholder(s) and subsidiaries or affiliates, and their respective histories, experience and track records, or the prospects of the markets in which they respectively operate.

### III. PRINCIPAL FACTORS CONSIDERED

In formulating our opinion in terms of the transactions contemplated under the ARI Agreements and the Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons, including the background information of the parties and principal assets under the ARI Agreements and the Continuing Connected Transactions as well as an overview of the aviation industry in the PRC.

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# LETTER FROM INVESTEC

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## 1. Background information

### 1.1 Background information of the Group

As set out in the 2015 Annual Report (defined hereafter), the Group is principally engaged in the provision of aircraft leasing services, focusing on long-term aircraft purchase and lease transactions and long-term aircraft sale and leaseback transactions with airline operators in the PRC. It also provides other value-added services, including trading and marketing of used aircraft and other advisory services on fleet management. The Group has a single reporting segment, which engages in the provision of aircraft leasing services to airline companies in the PRC and other countries and regions in Asia, as well as Turkey.

Set out below is the summary of the Group's (i) audited consolidated statement of income and consolidated balance sheet as extracted from the Company's annual report for the year ended 31 December 2014 (the "2014 Annual Report"); and (ii) consolidated statement of income and consolidated balance sheet as extracted from the Company's annual report for the year ended 31 December 2015 (the "2015 Annual Report"):

#### *Summary of consolidated statement of income*

	<b>For the year ended 31 December</b>	
	<b>2014</b>	<b>2015</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
	(Audited)	(Audited)
<b>Revenue and other income</b>	1,145.0	1,549.3
<b>Profit before tax</b>	380.7	480.2
<b>Profit for the year</b>		
– attributable to owners		
of the Company	302.8	380.2
– attributable to non-controlling interests	(0.1)	0.0

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## LETTER FROM INVESTEC

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For the year ended 31 December 2015, the Group recorded total revenue of approximately HK\$1,549.3 million compared to approximately HK\$1,145.0 million for the year ended 31 December 2014, representing an increase of approximately 35.3%. The Group generated profit for the year attributable to owners of the Company of approximately HK\$380.2 million for the year ended 31 December 2015, representing an increase of approximately 25.6% from that of the year ended 31 December 2014. Such increase was largely attributable to the increase in finance lease income of approximately HK\$300.7 million.

For the year ended 31 December 2014, the Group recorded revenue and profit for the year attributable to owners of the Company of approximately HK\$1,145.0 million and HK\$302.8 million respectively, representing an increase of approximately 66.7% and 75.5% respectively, from that of the year ended 31 December 2013. As set out in the 2014 Annual Report, the increase in revenue was mainly due to an increase in finance lease income as the Group's fleet of aircraft continued to expand. In particular, 19 new aircraft were delivered during the year ended 31 December 2014. The increase in profit for the year ended 31 December 2014 was mainly attributable to an increase in the Group's revenue and a stable operating and net profit margin.

### *Summary of consolidated balance sheet*

	<b>As at 31 December 2014</b> <i>HK\$ million</i> (Audited)	<b>As at 31 December 2015</b> <i>HK\$ million</i> (Audited)
<b>Total assets</b>	18,313.0	23,947.0
– Finance lease receivables – net	11,443.5	16,473.0
– Cash and cash equivalents	1,425.6	1,389.3
<b>Total liabilities</b>	16,532.3	21,739.0
– Bank borrowings	15,342.6	18,775.2
– Convertible bonds	–	796.5
<b>Total Equity</b>	1,780.7	2,208.0
– attributable to owners of the Company	1,761.3	2,188.5
– attributable to non-controlling interests	19.4	19.5

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## LETTER FROM INVESTEC

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The Group's total assets increased by approximately HK\$5,634.0 million, from approximately HK\$18,313.0 million as at 31 December 2014 to approximately HK\$23,947.0 million as at 31 December 2015. As set out in the 2015 Annual Report, this was mainly attributable to the combined effect of an increase in finance lease receivables – net of approximately HK\$5,029.5 million.

The Group's total liabilities increased by approximately HK\$5,206.7 million, from approximately HK\$16,532.3 million as at 31 December 2014 to approximately HK\$21,739.0 million as at 31 December 2015. As set out in the 2015 Annual Report, this was mainly attributable the combined effect of (i) an increase in bank borrowings of approximately HK\$3,432.6 million; and (ii) an increase in convertible bonds of approximately HK\$796.5 million.

As of 31 December 2015, the Group had a fleet of 63 aircraft and was projected to have a fleet of some 170 aircraft by 2022.

As set out in the announcement of the Company dated 28 April 2016, a wholly-owned subsidiary of the Company entered into an agreement with certain financial institutions to issue US\$300,000,000 5.90% guaranteed bonds which will mature in May 2019. The Company currently intends to use the net proceeds received from the issuance of bonds towards (i) refinancing of its PDP financing; (ii) financing new aircraft acquisitions; (iii) financing the aircraft disassembly centre, business expansion in aircraft and related businesses; and (iv) general corporate purposes. Management has advised that the proceeds from the bond issuance have been received.

### ***1.2 Background information on the aviation industry in the PRC***

According to publication by the Civil Aviation Administration of China (“CAAC”), the PRC's main aviation regulator, the aviation industry recorded total profit of in excess of RMB50 billion in the first 11 months of 2015, representing a period-on-period increase of approximately 76.2%. CAAC published statistics showed that total revenue passenger kilometres (“**RPKs**”)<sup>1</sup> and passenger traffic for the same period was approximately 666.3 million passenger-kilometers and 400.4 million passengers, respectively, representing a year-on-year increase of approximately 14.8% and 11.2%, respectively. Meanwhile, domestic RPKs and passenger traffic for the same period was approximately 510.5 million passenger-kilometers and 362.1 million passengers, respectively, representing a year-on-year increase of approximately 10.8% and 9.3%, respectively.

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<sup>1</sup> RPKs are calculated by multiplying the number of revenue-paying passengers aboard the aircraft by the distance travelled.

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## LETTER FROM INVESTEC

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Over the past five years, passenger traffic has increased by a compound annual growth rate of approximately 10.4%, as China's commercial aircraft fleet increased by 1,047 aircraft to 2,645 aircraft, with the number of airlines growing from 45 to 54, according to information published by CAAC.

Regulatory policies have been one of the contributing factors in the recent growth of the PRC's aviation industry. The Thirteenth Five-Year Plan for National Economic and Social Development of the PRC (2016-2020) included a focus on developing the aviation industry, in tandem with the "One Belt One Road" policy, and envisages developing and improving a total of over 260 airports by 2020 which, within a 100-kilometre radius of each, will collectively serve 91% of the national population. This includes over 20 large-scale airports located at main air transport hubs, which will be supplemented by smaller regional airports that serve regions which currently have low airport densities but high demand potential. Furthermore, in 2013, the CAAC lifted a seven-year-long moratorium on aircraft licensing applications. As the license review process takes two years, more new airlines are expected to commence operations in 2016.

As the Chinese economy continues to develop, the rising affluence of Chinese people and commerce is expected to continue to boost tourism and hence demand for leisure- and business-related travel. Accordingly, CAAC has set 2016 passenger and cargo traffic targets to be 485 million passenger and 6.8 million tonnes, respectively, up approximately 10.7% and 8.3% from 2015, respectively. Additionally, since 2015, the Group has also expanded beyond the PRC by offering leasing services to airlines in the Asia-Pacific region, as well as Turkey, which is expected to grow strongly by the Management. According to a publication on market outlook (2015-2034) by an international aircraft manufacturer, the Asia (including the PRC) in-service fleet consisted of 5,850 aircraft in 2014, with a 20-year forecast delivery total of 14,330 aircraft – both figures are the largest of any region globally. The global aircraft in-service fleet in 2014 consisted of 21,600 aircraft, with a 20-year forecast delivery total of 38,050 aircraft. Within the next 20 years, the aircraft delivery value for Asia (including the PRC) is estimated to be in the region of US\$2,200 billion, or approximately 39% of the global total. The PRC alone is estimated to account for some 17% (approximately US\$950 billion) of the global total, which is estimated to be approximately US\$5,570 billion.

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## LETTER FROM INVESTEC

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On the back of the aforesaid growth, the expected demand for aircraft maintenance services (and hence spare aircraft parts) and the number of aircraft reaching retirement will increase. Management estimates that every year, around 100 retired aircraft from China are moved to Europe or America, to be dismantled or converted into freighter aircraft. According to the Aircraft Fleet Recycling Association, 60%-70% of dismantled aircraft parts can be restored and reintroduced to the market. This figure may be as high as 90% in the future with new recycling technologies and adequate investment.

Additionally, Management advised us that as the prices of second-hand components are generally at a notable discount to those of brand-new components, the dismantling of retired aircraft and subsequent reuse of the high-value second-hand components such as engines, auxiliary power units, landing gear and certain avionics equipment after undergoing appropriate inspection and restoration procedures is already commonplace amongst major, reputable airlines. This enables airlines' maintenance costs to be reduced and accordingly, the lower prices result in intense competition in the used aircraft components market. Aircraft dismantling and recycling/reusing of restored parts also provide environmental benefits by reducing waste, and maximise the value extracted from retired aircraft. Hence, the used aircraft components market in the PRC is sizeable and will continue to grow significantly as the Chinese aircraft fleet continues to expand.

Management further advised us that there are currently only a limited number of small-scale aircraft disassembly operators in the PRC market, and that as a result of a current lack of end-of-life aviation solutions in the PRC, some 100 aircraft retired in the PRC (out of approximately 1,000 aircraft retired worldwide) are moved to Europe or America annually, where there are a number of end-of-life aviation solution providers, to be dismantled or converted into freighter aircraft.

Given the relatively higher cost of transporting such retired aircraft overseas to be disassembled and the increasing demand for aircraft components in the PRC, it is making increasing sense for such operations to be conducted in the PRC instead, and hence benefitting Chinese airlines and aircraft component suppliers, as well as the local economy and labour force.



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## LETTER FROM INVESTEC

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Considering the above factors and given the Group's strong presence in the PRC aircraft leasing market, Management considers it strategically relevant to extend its business and participate in the potentially lucrative end of life aviation solution business in the PRC. Management also considers that given the capital intensive nature of this new business area, it would be important for the Group to manage any additional financial exposure judiciously. In this regard, Management considers it financially prudent to admit outside partners and to maintain a significant (but not majority) equity interest in the CADC Project, for reasons to be further elaborated on in this letter. Management considers through the proposed participation in the CADC Project, it will position the Group to strategically extend its services along the aircraft value chain to offer "one-stop" solution covering the full aircraft life cycle, comprising a comprehensive range of services from leasing to end-of-life aviation solutions, to its customers and thereby extracting further value from the aircraft life cycle and enhancing the overall competitiveness of the Group in the market.

### **2. Reasons for and benefits of entering into the ARI Agreements**

#### ***2.1 History and business rationale of the CADC Project***

We understand from the Management that in or around 2014, the management team identified an opportunity in the PRC end-of-life aviation market whereby there were no known sizeable aircraft disassembly, recycling and parts operators in the PRC. With a view to explore the PRC end-of-life aviation market, the management team originated a detailed business plan for establishing and developing an aircraft disassembly, recycling and parts business (i.e. the CADC Project). In addition, they also managed the execution of the business plan, which included but not limited to, (i) identified suitable land sites to build the required facilities; (ii) worked towards the grant of land, relevant permissions for construction by the relevant PRC government authorities; (iii) contributed notably towards the entering into of the memorandum of understanding with the Municipal Government of Harbin in December 2014 regarding the CADC Project; (iv) negotiated with the PRC local government on subsidies, incentives and tax breaks; and (v) initiated the application for the relevant business licence and permits required for the CADC Project.

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## LETTER FROM INVESTEC

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The Management also advised that since 2014 the Group has explored the possibility of entering the end-of-life aviation market by acquiring existing market participants, including potential overseas targets. However, having considered (i) the potential demand for aircraft end-of-life solutions in the PRC; (ii) the possible difficulties in integrating existing overseas management and operations into the Group's ongoing business; (iii) the greater competition in the more mature overseas market; (iv) the lack of known sizeable direct competition in the PRC; and (v) the Group's strong presence in the PRC aircraft leasing market, the Management concluded that developing such business organically in the PRC (i.e. the CADC Project) should strategically be the Group's preferred option to enter the end-of-life aviation market.

We also understand from the Management that notwithstanding there has been some development in the CADC Project, including the entering into of the State-owned Land Use Rights Grant Contract\* (國有建設用地使用權出讓合同) with the Harbin State-owned Resources Bureau\* (哈爾濱國土資源局) regarding the Land in July 2015, the commencement of the construction of the facilities on the Land and preliminary negotiations with certain financial institutions to explore the possibility of debt financing, the Management considered it necessary to accelerate the CADC Project into commercial operation as soon as possible with the view to capture first-mover advantage in the PRC.

Since the Company was listed on the Stock Exchange in 2014, it has substantially expanded its own new aircraft fleet which has been partly funded by increased borrowings. As disclosed in the 2015 Annual Report, the Company has a pipeline of 107 aircraft on order as at 22 March 2016 to be delivered in the future, which would require continuing financial support from banks and the capital markets. Consequently, in order for the Company to achieve a balance of prudent financial management so as to sustainably fund the expansion of its aircraft leasing business, as well as to capture the lucrative end-of-life aviation industry in a timely manner so as to preserve first mover advantage, Management considers it necessary to seek like-minded business partners to co-invest in and to expedite the progress of the CADC Project, and leverage on the business partners' respective capabilities, in an investment structure that would not compromise the Group's ability to seek future funding to support its core business in aircraft leasing.

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## LETTER FROM INVESTEC

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As a result, the Group commenced discussion with FPAM as well as Sky Cheer and Neo Modern to explore the possibility of joining forces to accelerate the development of the CADC Project. To the best knowledge of the Management, there is, hitherto, no known sizeable aircraft disassembly, recycling and parts operators in the PRC. As such, the Management remained keen for the CADC Project to commence its operation as soon as practicable with a view to install the CADC Project to a strong strategic position with significant access to the end-of-life aviation market with little or no expected local competition, thereby securing notable bargaining power against its suppliers and customers.

### ***2.2 Status of the CADC Project and its envisaged new ownership***

As at the Latest Practicable Date, the CADC Project is still in its development stage and requires considerable on-the-ground support (as further detailed in this letter and the Letter from the Board) in order to bring the CADC Project into a viable commercial enterprise. Such support includes financial, local expertise and operational support. We understand from the Management that the primary reason for the introduction of the Subscribers (save for ARI Holdings), the “**New ARI Investors**”, each of whom will bring their respective strengths and contributions towards the CADC Project, and to expedite the development of the CADC Project and realise the intended benefits in this potentially lucrative business area. For further details on the background of the New ARI Investors, please refer to section headed under “3.4 Background information on the New ARI Investors” in this letter below.

### ***2.3 Strategic intention of the Group***

The Group shall remain as the single largest shareholder of ARI immediately upon completion of the Subscription and has an Option granted under the Option Agreement for 612,245 ARI Shares, representing approximately 5.77% of the issued share capital of ARI as enlarged by the Subscription, further details of which are described in the section headed “4.3 Analysis on the terms of the Option Agreement”. Upon full exercise of the Option, the Group’s shareholding in ARI shall not exceed 50% of the fully enlarged share capital.

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## LETTER FROM INVESTEC

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As advised by the Management, it is the intention for ARI to operate on a standalone basis in the long term. The Management is of the view that the reduction in the Group's equity interest in the CADC Project should not detract the focus of management time and resources from the Group's core aircraft leasing business. The Management expects that the Company will, under the proposed new ownership structure as set out in the ARI Agreements, account for the financial results of ARI as an investment in an associate in its consolidated financial statements using the equity method. As such, the assets and liabilities recorded in the consolidated financial statements of ARI will not be consolidated into that of the Group's financial statements on a line-by-line basis. Therefore, any future debt raised by ARI and/or its subsidiaries after the completion of the Subscription would not be included in the Group's debt-to-equity ratio calculation, and thus would not have a direct impact on the Group's gearing ratio. Up to the Latest Practicable Date, the Group has yet to derive any material profit from the CADC Project.

### ***2.4 Secured return on the investment from the Company***

The Management advised that the Company's investment on the CADC Project up to 31 March 2016 (the "ARI Investment") mainly comprised of (i) the payment of Land Deposit of approximately RMB157.4 million; and (ii) construction costs and costs in the ordinary course of business at early stage of the CADC Project (excluding the Land Deposit) incurred up to and including the valuation date of the valuation report (i.e. 31 March 2016), amounted to approximately RMB12.7 million which have been financed by the Company by way of non-interest bearing shareholders' loan.

As set out from the Letter from the Board, it is proposed that the Disposal Consideration shall be partly funded by loan from ARI Shareholders in the form of Loan Notes (to be first offered to all ARI Shareholders on a pro rata basis to their respective shareholding in ARI, whilst allowing any relevant ARI Shareholders to take up any entitlements that are not assumed by the other ARI Shareholders as further set out under paragraph headed "6.1 Analysis on the Shareholders' Loan and Guarantee Agreement and Share Mortgage" in this letter below).

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## LETTER FROM INVESTEC

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Under the arrangements, any ARI Shareholder(s) who provide loan to ARI under the Shareholders' Loan and Guarantee Agreement shall receive an annuity return at the rate of 4% above the prime lending rate (being approximately 9.0% based on the prime rate of 5.0% per annum as at the Latest Practicable Date) on the outstanding principal amount of a Loan Note. For reference, as set out in the 2015 Annual Report, the effective interest rate or the interest rate of the Group's debt financing (without convertible features) are as follows (i) the average effective interest rate of the Group's bank borrowings, which totalled to approximately HK\$18,775.2 million as at 31 December 2015, was approximately 4.7%; (ii) the annual interest rate for 5-year medium-term notes in the aggregate principal amount of RMB340.0 million issued by a subsidiary of the Company in July 2015 was 6.5%; and (iii) the effective interest rates of long-term borrowings from trust plans, which amounted to approximately HK\$794.2 million as at 31 December 2015, ranged from approximately 6.2% to 7.8%.

The Loan Note is repayable on demand and that the interest arising from such loan has priority over other obligations of ARI such as dividends (as set out under the section headed "4.2 Analysis on terms of the Shareholders' Agreement"). The servicing and repayment of the Loan Note and the Guarantee Fee of 4% per annum, shall rank above dividend payment by ARI in priority, the relevant holders of the Loan Notes (including the Company as appropriate) would be able to extract an annuity income as a charge to ARI's future profit over the Land and CADC Project, which is presently non-income generating pending its full development.

Pursuant to the Share Mortgage, ARI shall pledge the entire issued share capital in CADC, a wholly-owned subsidiary of ARI, as a continuing security for the payment and discharge in full of all moneys, debts and liabilities due, owing or incurred by ARI under or in connection with any of the Shareholders Loan and Guarantee Agreement. Upon the Disposal Completion, the principal assets of CADC will be the CADC Project and the Land.

### ***2.5 Contribution by New ARI Investors in further developing the CADC Project***

As advised by Management, the New ARI Investors, in particular, representatives of China Aero and Sky Cheer have extensive business network, expertise and local experience in Harbin which Management considers to be crucial in working as ARI's local partner.

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## LETTER FROM INVESTEC

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As at the Latest Practicable Date, China Aero was wholly and beneficially owned by FPAM, a substantial shareholder of the Company, which is in turn owned by Mr. Poon, the former chief executive officer of the Company. As set out under the section headed “3.4 Background information on the New ARI Investors”, FPAM was established in 1998, with a team which has extensive experience in the aviation industry, including a project in April 2015 whereby it led a consortium to acquire a significant interest in Toulouse-Blagnac airport in France, as well as another project in April 2016 whereby a joint venture between FPAM and CEL entered into an agreement to acquire Tirana International Airport in Albania.

Sky Cheer has in the past assisted, and is expected to continue assisting, ARI Group to obtain the necessary approvals, permissions and licenses for the construction and operation of Zhong Long and for the development of the Aircraft Disassembly Business regarding (i) the establishment of entities in the PRC for the ARI Group; (ii) the transfer of the Land and the Land Deposit to Zhong Long; (iii) the application for tax concessions and other government subsidies in the PRC; (iv) the application and obtaining of the government approvals, permissions and licenses for the CADC Project and related business; and (v) ARI Group’s application for aircraft leasing license in the PRC.

Neo Modern is a subsidiary of CEL, which is listed on the Main Board of the Stock Exchange with extensive networks and business interests in the financial industry in both Hong Kong and the PRC. As part of the China Everbright Group and with the ongoing financial support and business relationship that the Group has with CEL, the Management believes that the admission of Neo Modern as one of the New ARI Investors would well position the Group in accessing future financing needs, either through CEL and/or its business networks.

For further details on the background of the New ARI Investors, information are set out under the paragraph headed “3.4 Background information on the New ARI Investors”. Taking into account of the foregoing background and attributes of the New ARI Investors, the Management is of the view that their combined resources and participation would help de-risking the implementation and execution risks of the CADC Project.

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## LETTER FROM INVESTEC

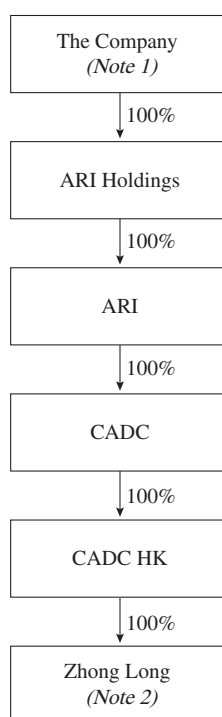
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### 3. Background information of the ARI Agreements and the CADC Disposal

#### 3.1 Shareholding structure of ARI as at the Latest Practicable Date and immediately upon the completion of the Subscription and the CADC Disposal

Set out below is the simplified group structure of ARI (i) before the Subscription and the CADC Disposal as at the Latest Practicable Date; and (ii) immediately upon completion of the Subscription and the CADC Disposal (assuming the Option has not been exercised), as extracted from the Letter from the Board.

(i) *before the Subscription and the CADC Disposal as at the Latest Practicable Date*



*Notes:*

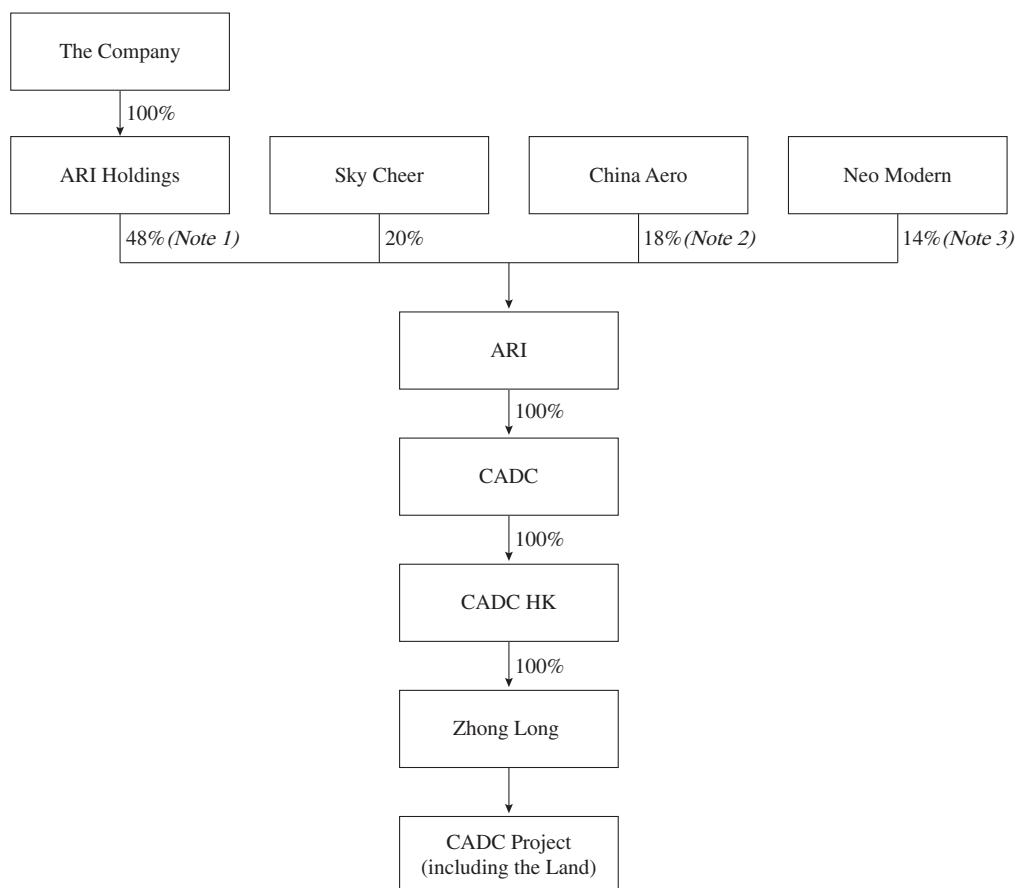
- (1) The Company owned the right to acquire the Land as at the Latest Practicable Date.
- (2) The Company has transferred the entire beneficial interest in Zhong Long to CADC HK, and after which will transfer or procure the transfer of the CADC Project (including the right to acquire the Land) to Zhong Long. Zhong Long was established on 17 March 2016 whose beneficial interest is wholly owned by the Company as at the Latest Practicable Date.

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## LETTER FROM INVESTEC

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(ii) *Immediately upon completion of the Subscription and the completion of the CADC Disposal (assuming the Option has not been exercised)*



*Notes:*

- (1) The Company, which owns 100% of ARI Holdings, has an Option for 612,245 ARI Option Shares, which represents 5.77% of the issued share capital of ARI as enlarged by the Subscription (subject to certain restrictions) as set out under the paragraph headed “4.3 Analysis on the terms of the Option Agreement”.
- (2) China Aero is 100% wholly and beneficially owned by FPAM, which together with its associates, were interested in approximately 30.28% of the issued share capital of the Company as at Latest Practicable Date.
- (3) Neo Modern was a wholly-owned subsidiary of CEL as at the Latest Practicable Date, which is in turn interested in approximately 35.05% of the issued share capital of the Company as at Latest Practicable Date.



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## LETTER FROM INVESTEC

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### ***3.2 Background of ARI, CADC Project and the Land***

Upon the Disposal Completion, Zhong Long will assume ownership of the Land. The Land is approximately 299,000 square metres in area and located adjacent to Harbin Taiping International Airport in Harbin, Heilongjiang Province, PRC. The Company entered into a Land Use Right Transfer Contract\* (土地使用權出讓合同) with the Harbin Municipal Bureau of Land and Resources\* (哈爾濱市國土資源局) on 16 July 2015. The Land Deposit paid by the Group was approximately RMB157.4 million.

The Group commenced the construction of certain facilities on the Land for the purpose of its aircraft disassembly, recycling and parts business (i.e. the CADC Project) in second half of 2015. The Management advised that additional investment in the region of RMB1.0 billion will be required to complete the CADC Project in or around 2018, it will have a capacity of dismantling 20 aircraft per annum with a target capacity increasing to around 100 aircraft per annum by 2025, subject to demand.

The Management believes that the CADC Project represents a unique opportunity for vertical value chain expansion of the Group's core business of leasing aircraft. The Land is strategically located in Harbin, due to, amongst other factors, transportation, non-humid weather conditions and human resources.

### ***3.3 Background information on the business of ARI, the CADC Project and the Group's fleet of aircraft***

We understand from Management that the business model of ARI and the CADC Project will broadly involve the following:

- (i) aircraft sourcing: used aircraft are identified and purchased from time to time. Where appropriate, such aircraft may be offered for leasing for a period before they are decommissioned and ready for disassembly;
- (ii) aircraft disassembly: the acquired aircraft is then dismantled and the various components and materials (from the airframe) are sorted. The components and materials that have no reuse potential are then scrapped. The components and materials that can be reused then undergo, where required, repairs and restoration procedures to obtain re-airworthiness certification\* (飛機零件再適航認證) from the CAAC before they are stored as inventory and priced; and

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## LETTER FROM INVESTEC

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- (iii) aircraft components and materials sales and leasing: through various distribution channels, the re-certified components and materials are then sold or leased to customers that include aircraft maintenance, repair and overhaul (MRO) firms, airlines, metal smelters and materials processing companies.

To commence operation, ARI would require a number of relevant operational certifications required including ISO 9000, FAA 145 (to conduct repairs in accordance with FAA regulations in the US), CCAR 145 (to conduct repairs in accordance with CAAC regulations in China), and EASA Part M (airworthiness requirement regulations in the EU). The Management believes that ARI meets all the criteria required to obtain these certifications and applications are currently in progress.

Going forward, the Group existing fleet of aircrafts may provide a stable source of used aircraft to be disassembled in the future. The Group had a fleet of 63 aircraft as at 31 December 2015 and has a projected fleet size of some 170 aircraft by 2022.

### ***3.4 Background information on the New ARI Investors***

Set out below are brief descriptions of the background of the New ARI Investors, as well as the relevant considerations taken into account by the Management in accepting each of them as working partners in the CADC Project.

#### *3.4.1 China Aero and FPAM*

China Aero is 100% beneficially owned by FPAM. Through its investment arm China Airport Synergy Investment Limited, FPAM led a Chinese consortium to purchase a 49.99% stake in Toulouse-Blagnac Airport in Toulouse, France, which is located close to Airbus's headquarters and is the largest airport in southwestern France, handling over 7.5 million passengers in 2014. The transaction, which was the first airport privatisation project in France and the first overseas airport acquisition by a Chinese consortium, closed in April 2015. Additionally, in April 2016, Keen Dynamics Limited, a joint venture between FPAM and CEL, signed an agreement to acquire Tirana International Airport in Albania. The closure of the deal is subject to the approval of the Albanian government.

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## LETTER FROM INVESTEC

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According to its website, FPAM has been established since 1998 with a long track record and a focus on, among others, the aviation industry. As advised by the Management, FPAM and its group have not less than 49 employees located in the PRC and Hong Kong, including a number of senior management members with over 20 years of experience in the aviation industry whom the Management considers to provide support to the ARI Group going forward.

As set out in the Letter from the Board, it is expected that ARI Group shall leverage on FPAM's experience in the domestic and global aviation industry to assist the ARI Group to formulate its domestic and global strategies.

As at the Latest Practicable Date, FPAM together with its associates, were interested in approximately 30.3% equity interest in the Company.

### *3.4.2 Background information on CEL and Neo Modern*

CEL (stock code: 165.HK) is a member of China Everbright Group, a state-owned enterprise, and is a diversified financial services enterprise operating in Hong Kong and the PRC. CEL, through its wholly-owned subsidiaries, was interested in approximately 35.05% equity interest in the Company as at the Latest Practicable Date.

According to the annual reports for the year ended 31 December 2014 and 2015 of CEL (together the “**CEL Annual Reports**”), CEL pursues its “Macro Asset Management” strategy, with specific focuses being placed on fund management and investment businesses, namely primary market investment, secondary market investment and structured financing and investment. Moreover, through its substantial shareholding interest in the Group, CEL is also interested in aircraft leasing business in the PRC and emerging markets. In addition, by leveraging the advantages in cross-border fee-based business of an associate, Everbright Securities, CEL also participates in the development of investment banking (corporate financing) and brokerage services (wealth management) businesses in Hong Kong.

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## LETTER FROM INVESTEC

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As per the CEL Published Reports, CEL has developed solid bases in various sector markets over the years. It manages series of private equity funds, venture capital funds, sector funds and hedge funds as operated via an international management platform, and provides overseas investors with opportunities to explore and invest in companies with fast growing potential in the PRC. On the other hand, CEL also seeks investment opportunities from overseas and provides diversified financial services for its clients in the PRC.

Neo Modern is expected to liaise with ARI Group and the banking and other financial institutions to obtain financing for ARI Group as well as provide advice and assistance in financing plan and the issuance of financial products by the ARI Group.

### *3.4.3 Background information on Sky Cheer*

As set out in the Letter from the Board, Sky Cheer is incorporated in July 2008 and is owned as to Li Yuze William and Liu Liyi, each being an Independent Third Party.

Based on information provided by the Management, Sky Cheer has been working with the Group in the development of the CADC Project from time to time since 2014. It has been and is expected to continue to be instrumental in assisting the Group in obtaining the necessary approvals, permissions and licenses for the operation of Zhong Long and for the development of the CADC Project regarding (i) the establishment of entities in the PRC for the ARI Group; (ii) the transfer of the Land and the Land Deposit to Zhong Long; (iii) the application for tax concessions and other government subsidies in the PRC; (iv) the application and obtaining of the government approvals, permissions and licenses for the CADC Project and related business; and (v) ARI Group's application for aircraft leasing license in the PRC.

We were advised by the Management that the Group considers Sky Cheer as a partner for the CADC Project since the bidding of the Land as Sky Cheer was the Group's agent for the CADC Project to carry out the work as described above.

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## LETTER FROM INVESTEC

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In view of Sky Cheer's past participation and contribution to the initial development of the CADC Project, Management considers it necessary to formalise the working relationship with Sky Cheer and align their interest with that of the Group and to secure Sky Cheer's ongoing support and commitment. Management believes that Sky Cheer would contribute considerable value to ARI Group in providing on-the-ground coordination and advice, which shall ultimately help to drive and accelerate the CADC Project to full commercialisation.

Having considered the existing relationships amongst the parties and their experience of working together in the past, the Management believes that the New ARI Investors would each bring their unique contribution and value proposition to the CADC Project, and the Company will be able to effectively collaborate with each of them as long-term business partners, in order to realise the strategic benefits and objectives that the Group intends to achieve from the CADC Project.

Accordingly, the Group proceeded to negotiate with the New ARI Investors in developing the framework of the ARI Agreements to facilitate the New ARI Investors' objectives to substantially participate in the CADC Project, with built in measures to allow the Group to manage its financial exposure to this new business activity as it may deem fit and commercially appropriate.

#### **4. Analysis and work performed on the ARI Agreements**

##### ***4.1 Analysis on terms of the Investment Agreement***

Pursuant to the Investment Agreement, the Subscribers shall subscribe a total of 9,999,999 ARI Shares at a price of US\$1 per ARI Share. Upon completion of the Investment Agreement, ARI shall have a paid-up capital of US\$10,000,000 and will be owned as to 48%, 20%, 18% and 14% by the Company, Sky Cheer, China Aero and Neo Modern, respectively. Notwithstanding the above, ARI has also granted ARI Holdings an option for additional ARI Shares, details of which are further set out under paragraph headed "4.3 Analysis on the terms of the Option Agreement" below.

The terms of the Investment Agreement, including the Subscription Price, is materially the same for all Subscribers, which include connected persons to the Company, an independent third party as well as the Company.

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## LETTER FROM INVESTEC

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As set out in the Letter from the Board, based on the unaudited financial statements of ARI, ARI had not incurred any net (loss)/profit before and after tax for the period from its date of incorporation on 22 August 2014 to 31 December 2014 and the financial year ended 31 December 2015. As at 31 December 2015, the unaudited net asset value of ARI was US\$1.0. For further selected unaudited financial information, including net asset value, net profit before and after tax, for CADC, CADC HK and Zhong Long, please refer to the section headed “Financial Information” set out in the Letter from the Board.

### ***4.2 Analysis on terms of the Shareholders’ Agreement***

The principal terms of the Shareholders’ Agreement are as follows:

- the board of directors of ARI (the “**ARI Board**”) shall consist of five directors, of which the Company (through ARI Holdings) is entitled to nominate two directors, while each of China Aero, Sky Cheer and Neo Modern is entitled to nominate one member each;
- except certain shareholders’ resolutions of ARI as set out under the Shareholders’ Agreement are to be approved by ARI Shareholders with not less than 75% equity interest, shareholders’ resolutions of ARI shall be approved by majority vote of ARI Shareholders;
- cash flow available for ARI for a given financial year shall be utilised according to the following order, in decreasing priority: (a) tax payment; (b) operating expenses; (c) repayment of interests arising from loans provided by bank and financial institutions; (d) principal of any loans from bank and financial institutions as it falls due; (e) working capital for operations and development; (f) repay any interest arising from Loan Notes and guarantee fee payable to ARI Shareholders as it falls due; (g) repay outstanding principal amounts of Loan Notes; (h) transfer funds to ARI’s reserve according to the general requirement of the businesses with similar nature to that of ARI’s operations; and (i) distribution of dividend to ARI Shareholders after the fulfilment of the above.

Having considered that the terms of the Shareholders’ Agreement apply to all ARI Shareholders and the rights and obligation of ARI Shareholders are materially the same for all ARI Shareholders (save for the Company, which can nominate two ARI Board members while the other ARI Shareholders can nominate one ARI Board member each), we concur with the Management that the terms of the Shareholders’ Agreement is typical for joint ventures of a new business and is thus considered to be reasonable and in the interests of the Shareholders as a whole.

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## LETTER FROM INVESTEC

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### ***4.3 Analysis on the terms of the Option Agreement***

The principal terms of the Option Agreement are as follows:

- ARI will grant ARI Holdings the Option for HK\$10;
- 612,245 ARI Shares shall be issued upon the exercise of Option in full, which represents 5.77% of the issued share capital of ARI as enlarged by the Subscription, in whole or in part;
- exercise price is US\$1.0 per ARI Share;
- ARI Holdings shall not exercise the Option, and ARI shall not allot and issue any ARI Share, if the number of ARI Shares to be allotted and issued pursuant to the exercise of the Option, together with the ARI Shares held by ARI Holdings, would exceed 50% of the issued share capital of ARI; and
- exercise period is six years from date of grant.

The Option gives the Group the right but not an obligation to increase its shareholding in ARI by 612,245 ARI Shares. Upon exercise of the Option, the Group shall increase (i) its equity interest in ARI from 48% to not more than 50% (assuming the number of issued ARI Shares only increase by the issue of ARI Shares); and (ii) its pro rata entitlement to any future ARI dividend and its share of ARI's financial results thereafter.

We understand from Management that the Company will consider, amongst others, the then prospects of the aircraft disassembly and recycling parts industry, the then financial results and position of ARI and the Group, and the costs and benefits of exercising the Option, prior to the exercise of the Option.

Having considered (i) the prospects of the aircraft disassembly and recycling parts industry as detailed under section headed "1.2 Background information on the aviation industry in the PRC"; (ii) the nominal Option Consideration of HK\$10; (iii) the Call Option gives the Group the right but not an obligation to increase its shareholding in ARI by 612,245 ARI Shares; and (iv) the exercise price at the value of US\$1.0 per ARI Share, being the same as the Subscription Price per ARI Share to be paid by all the New ARI Investors pursuant to the Investment Agreement, we concur with the Management that the terms of the Option to be reasonable and in the interests of the Shareholders as a whole.

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## LETTER FROM INVESTEC

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### **4.4 Analysis on the Disposal Consideration and the Shareholders' Loan**

As set out in the Letter from the Board, the Disposal Consideration (subject to adjustment) was agreed after arm's length negotiations between the Company, ARI and the Subscribers and shall be equal to the aggregate of:

- (i) the higher of (a) market value of the Land and the construction-in-progress thereon as at 31 March 2016 as assessed by an independent valuer appointed by the Company; and (b) the Land Deposit and construction-in-progress thereon for the amount of approximately RMB12.7 million paid by the Group;
- (ii) total payment made by the Group in the CADC Project (including but not limited to all the costs in the ordinary course of business at early stage of the CADC Project, capital contribution, payment and advance made to the ARI Group but excluding sub-paragraph (i)(b) above) up to and including the later of the date of the Disposal Completion and the date of the Subscription Completion; and
- (iii) an interest at 9% per annum on the aggregate of sub-paragraph (i)(b) above and the total amount described in sub-paragraph (ii) from 16 July 2015, being the date when the Company entered into a Land Use Right Transfer Contract regarding the Land with Harbin Municipal Bureau of the Land and Resources, up to and including the date of payment of the Disposal Consideration.

As at the Latest Practicable Date, the amount of total payment made by Group as referred to in sub-paragraph (ii) above is approximately HK\$42.5 million.

Based the valuation report by an independent valuer as set out in Appendix I of the Circular (the "**Valuation Report**"), the market value of the Land and the construction-in-progress thereon as at 31 March 2016 is approximately RMB170.1 million (equivalent to approximately HK\$202.5 million). As set out in the Valuation Report and for the purpose of the valuation, the independent valuer has adopted the direct comparison method by making reference to actual sales or market price information of comparable properties of similar size, character and location. We understand from the independent valuer that (i) the direct comparison approach is



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## LETTER FROM INVESTEC

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a commonly adopted approach for valuation of the Land and the construction-in-progress thereon; and (ii) such approach is considered to be more appropriate than the costs approach which would rely on historical costs data, and the discounted cash flow approach which is subject to the accuracies of assumptions applied. We consider that the methodology used is generally in line with market practice which has taken into consideration recent transacted price of properties in similar areas to the asset under valuation.

It is expected that the Disposal Consideration shall not exceed HK\$350.0 million. The Disposal Consideration shall be payable by ARI to the Company in cash within 30 Business Days from the later of the date of the Disposal Completion and the date of Subscription Completion (or such other dates as may be agreed by the parties to the Investment Agreement). The Management advised that the term of settlement of the Disposal Consideration was to facilitate and provide ARI with sufficient time to organise the settlement of the Disposal Consideration.

As set out in the Letter from the Board, the proceeds from the Subscription of US\$9,999,999 will be used for satisfaction of part of the Disposal Consideration. It is expected that ARI will settle the balance of the Disposal Consideration by the Shareholders' Loan to be advanced by ARI Shareholders. The Management advised that the Group, as an ARI Shareholder, intends to take up its proportion of the Shareholders' Loan. However, as at the Latest Practicable Date, the Management advised that each of Sky Cheer, China Aero and Neo Modern has not yet indicated the amount of the Shareholders' Loan each of them intends to take up, if at all.

In the event that there are any entitlements of the Shareholders' Loan not being taken up by the New ARI Shareholders (other than the Group), the Management advised that the Group would be prepared to consider to take up any such unsubscribed entitlements. The Management advised that the take up of any such unsubscribed entitlements will be decided and approved by the disinterested Directors (all interested Directors shall abstain from voting for such approval). Given the annuity interest income of prime lending rate plus 4% (being approximately 9% per annum) as explained earlier in this letter, with the relevant interest and principal repayment obligations ranking ahead of future dividend payments, the Management considers the return to be attractive when compared with the relative current position that the Group's investment in the Land yields no income to the Group as well as the strategic reason that the CADC Project enables the Group to offer a "one-stop" solution.

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## LETTER FROM INVESTEC

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Having considered (i) the Group intends to reduce its equity interest in the CADC Project; (ii) the Disposal Consideration, which is based on the aggregate of, among others, (a) the higher of market value of the Land and the construction-in-progress thereon as at 31 March 2016 as assessed by an independent valuer appointed by the Company; and the Land Deposit and construction-in-progress thereon for the amount of approximately RMB12.7 million paid by the Group; (b) the total payment made by the Group in the CADC Project; and (c) an interest at 9% per annum on certain amount incurred, shall be not less than total investment incurred by the Group up to the date of the Disposal Completion as advised by the Management; (iii) up to the Latest Practicable Date, notwithstanding that the Group has yet to derive any material profit from the CADC Project and that the operations of the CADC Project has not commenced, the Management advised that the Disposal Consideration is in excess of the market value of the Land and construction-in-progress thereon as well as other relevant costs incurred by the Group on the CADC Project as described under (ii)(b) above, in addition, the Group would receive as part of the Disposal Consideration a return on certain costs incurred (as previously mentioned), which means that the Disposal Consideration represents a premium to the valuation of Land and the construction-in-progress thereon as at 31 March 2016 as assessed by an independent valuer; and (iv) based on Management's estimation, that upon Subscription Completion and ARI Disposal, the Group shall realise a profit of approximately HK\$5.0 million (before tax and cost of funds), we concur with the Management that the Disposal Consideration and the contemplated arrangements to be reasonable.

### **5. Possible financial effects of the Subscription and the ARI Disposal**

#### ***(i) Subscription***

Upon completion of the Subscription, the Company's equity interest in ARI will be diluted from 100% to 48%, before the exercise of the Option. ARI shall then cease to be a subsidiary of the Company. On this basis, the Management advised that the financial statements of ARI shall be de-consolidated from the consolidated financial statements of the Group thereafter and shall be accounted for as an associate of the Group under the equity accounting method. As the exercise of the Option is restricted to the Group's shareholding in ARI not exceeding 50% upon exercise, ARI shall be accounted for as an associate under the equity accounting method by the Group after the exercise of the Option.

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## LETTER FROM INVESTEC

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**(ii) ARI Disposal**

Upon completion of the ARI Disposal, Zhong Long shall cease to be a subsidiary of the Company. On this basis, the financial statements of ARI shall be de-consolidated from the consolidated financial statements of the Group thereafter. Notwithstanding the above, the Company shall have 48% beneficial interest in Zhong Long through its shareholding in ARI.

**(iii) Overall**

As set out in the Letter from the Board, upon Subscription Completion and Disposal Completion, without taking into account the funding of the Disposal Consideration, the Group expects to record a decrease of non-current assets of approximately HK\$224 million with reference to the book value of the CADC Project as at 31 March 2016.

As set out in the Letter from the Board, the Management estimated that the completion of the Subscription and the ARI Disposal will result in a profit of approximately HK\$5.0 million (before tax and cost of fund of the Group) for the financial year ending 31 December 2016. The estimated gain from the ARI Disposal is an estimation of the difference between the total consideration received by the Group and the net carrying amounts of the assets and liabilities to be disposed of in the amount of approximately HK\$224 million as at 31 March 2016.

As set out in the Letter from the Board, the proceeds from the Subscription of US\$9,999,999 (of which US\$4,799,999 were from ARI Holdings pursuant to the Investment Agreement) will be used by ARI for satisfaction of part of the Disposal Consideration and that it is expected that ARI will settle the balance of the Disposal Consideration by the Shareholders' Loan to be advanced by ARI Shareholders.

As previously set out in this letter, the Management advised that (i) the Group, as an ARI Shareholder, intends to take up its proportion of the Shareholders' Loan to fund the Disposal Consideration; and (ii) each of Sky Cheer, China Aero and Neo Modern has not yet indicated the amount of the Shareholders' Loan each of them intends to take up, if at all. In the event that ARI Holdings were to take up any such unsubscribed entitlements, which is subject to approval by the disinterested Directors, the cash outflow of the Group will increase by such amount accordingly.

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## LETTER FROM INVESTEC

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Shareholders should note that the actual financial effects as a result of the transactions contemplated under the Subscription and the CADC Disposal to be recorded by the Group is subject to audit and will depend on, among others, the costs incurred in connection with the CADC Project up to the payment date of CADC Disposal.

### **6. Continuing Connected Transactions contemplated under the Shareholders' Loan and Guarantee Agreement**

On 6 April 2016, the Subscribers and ARI entered into the Shareholders' Loan and Guarantee Agreement, which sets out terms and conditions, including those related to the Loan Notes and guarantees, which may be provided by ARI Shareholders or their respective group companies to financial or other institutions for raising additional capital from time to time. As set out in the Letter from the Board, the transactions contemplated under the Shareholders' Loan and Guarantee Agreement (together with the Proposed Annual Caps) constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

#### ***6.1 Analysis on the Shareholders' Loan and Guarantee Agreement and Share Mortgage***

The principal terms of the Shareholders' Loan and Guarantee Agreement are as follows:

- ARI may raise additional capital by way of Shareholders' Loan, where each ARI Shareholder shall have a right (but not the obligation) of first offer to advance its pro rata portion of the Shareholders' Loan to ARI;
- if one or more ARI Shareholders decline to advance its respective pro rata portion of the proposed loan by ARI, then the participation entitlement attributable to such ARI Shareholders (the "Excess Loan") shall be allocated to any of the remaining ARI Shareholders who have indicated their desire to participate in the advancement of the whole or part of the Excess Loan;
- the holder of the Shareholders' Loan is entitled to an interest at the rate of 4% above the prime lending rate per annum, and interest will be charged;

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## LETTER FROM INVESTEC

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- ARI may from time to time proposes to raise additional capital by way of loans from banks, financial or other institutions (the “**ARI Bank Loans**”) and guarantee is required to be provided to the lender of such loans, each ARI Shareholder shall have a right (but not the obligation), subject to the acceptance and approval of the lender, to provide guarantee for such loans;
- if an ARI Shareholder or any members of its group companies, subject to certain condition, has provided guarantee for the loan of ARI the “**Guarantor**”), ARI shall pay the Guarantor a guarantee fee (the “**Guarantee Fee**”) equal to 4% per annum of the principal amount of the loans guaranteed by such Guarantor; and
- to the extent that any ARI Shareholders declined to bear its pro rata loan or guarantee, the attributable guarantee would then be offered to the remaining ARI Shareholders accordingly, and the relevant Guarantor shall charge the Guarantee Fee on the amount of ARI Bank Loan they may opt to guarantee.

Pursuant to the Share Mortgage, ARI charges the entire issued share capital in CADC, a company incorporated in BVI and a wholly-owned subsidiary of ARI, as a continuing security for the payment and discharge in full of all moneys, debts and liabilities due, owing or incurred by ARI under or in connection with the Shareholders’ Loan and Guarantee Agreement. Upon the Disposal Completion, the principal assets of CADC will be 100% equity interest in CADC HK, which in turn will own the 100% equity interest in Zhong Long and Zhong Long will own the CADC Project and the Land.

### ***6.2 Reasons for an benefits of entering into the Shareholders’ Loan and Guarantee Agreement and the Share Mortgage***

Management advised that the Shareholders’ Loan and Guarantee Agreement and the Share Mortgage is a transitional post completion arrangement to facilitate ARI in meeting the funding requirements by way of raising bank loans and/or Shareholders’ Loan for the use of continued development of the CADC Project and the Aircraft Disassembly Business. Going forward, the Management expects the Aircraft Disassembly Business to operate and seek financing on a standalone basis in the longer term.

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## LETTER FROM INVESTEC

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Each ARI Shareholder has the same right to offer to advance its pro rata portion of the Shareholders' Loan, while each ARI Shareholder and its group company has the same right to provide guarantee for the ARI Bank Loan. Furthermore, each ARI Shareholder who has advanced Shareholders' Loan and each ARI Shareholder and/or its group company who have provided guarantee for the ARI Bank Loan shall be entitled to the same rate of interest (i.e. 4% above the prime lending rate per annum) or guarantee fee (i.e. 4% per annum).

On this basis, the potential continuing connected transactions (i.e. the provision of ARI Shareholders' Loan or guarantee) are on terms no less favourable to the Company than terms available to the New ARI Investors, which consist of independent third party and connected persons. Moreover, the Management advised that the Group is neither obliged nor committed to provide the Shareholders' Loan and/or guarantee for ARI Bank Loans under the Shareholders' Loan and Guarantee Agreement and the Company has the full discretion to decide whether or not to provide the Shareholders' Loan and/or guarantee for ARI Bank Loans at the time ARI conducts the relevant fund raising exercise. However, any decision on whether or not to take up any entitlements under the Shareholders' Loan and/or guarantee for ARI Bank Loans would be subject to the circumstances at the relevant time, including factors such as the Group's then financial commitments and other investment opportunities available, and the expected benefits from the CADC Project to the overall business of the Group.

Shareholders should note that the liabilities of ARI arising under or in connection with the Shareholders' Loan and Guarantee Agreement are charged against the entire issued share capital in CADC (i.e. the Share Mortgage). Upon the Disposal Completion, the principal assets of CADC will be its beneficial interest in Zhong Long, which in turn will own the CADC Project and the Land. As set out in the Letter from the Board, the valuation of the Land and construction-in-progress thereon is approximately RMB170.1 million (equivalent to approximately HK\$202.5 million) as at 31 March 2016 according to independent valuation report issued by American Appraisal China Limited. On this basis, the Share Charge provides a degree of security to the lender(s) of the ARI Shareholder Loan and/or the providers of guarantee for the bank loans of ARI. Moreover, the principal amount of a Loan Note (to be issued against the receipt of the payment for an advancement under a Shareholders' Loan), together with the accrued interest, shall be repayable on demand.

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## LETTER FROM INVESTEC

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As mentioned earlier, (i) repayment of interest outstanding from ARI Shareholders' Loans and guarantee fees; and (ii) repayment of outstanding principal amounts of ARI Shareholders' Loans, has priority above, among others, distribution of dividend to ARI Shareholders.

In summary, the Shareholders' Loan and Guarantee Agreement forms part of the ARI Agreements which was entered into by the Company to reduce its equity interest in the CADC Project. On this basis, Shareholders should also consider the reasons for and benefits of the ARI Agreements as set out under section headed "2. Reasons for and benefits of entering into the ARI Agreements" in this letter above, including:

- (i) the status of the CADC Project, which is still in its development stage and requires considerable external support in order to bring the CADC Project into a viable commercial project;
- (ii) the strategic intention of the Group, including for ARI to operate on a standalone basis in the long term, reduce the Group's equity interest in the CADC Project which enables the Board and the Management to focus its time and resources on the core aircraft leasing business while maintaining a sizeable equity investment in ARI which would enable the Group to share the results of ARI once the CADC Project becomes more mature and profitable;
- (iii) the secured return on the investment from the Company from the Disposal Consideration and the provision of the Shareholders' Loan and guarantee under the Continuing Connected Transactions; and
- (iv) the expected contribution by each of the Subscribers in further developing the CADC Project, which the Management expects the New ARI Investors to contribute significantly towards resolving key operational and financing issues.

Having considered the above, we concur with the Management that the terms and related arrangements of the Shareholders' Loan and Guarantee Agreement to be reasonable.

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## LETTER FROM INVESTEC

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### **6.3 Basis for determining the Proposed Annual Caps**

As set out in the Letter from the Board, the Proposed Annual Caps regarding the continuing connected transactions contemplated under the Shareholders' Loan and Guarantee Agreement for the three years ending 31 December 2018 are as follows:

	Year ending 31 December		
	2016	2017	2018
Proposed Annual Caps	HK\$480 million	HK\$600 million	HK\$720 million

As set out from the Letter from the Board, the Proposed Annual Caps, which represent the maximum principal loans outstanding (including the principal loans guaranteed by the Group), interest and Guarantee Fee amounts, were determined with reference to factors including (i) the Land Deposit in the amount of RMB157.4 million as at 31 March 2016 and the construction costs of the CADC Project paid in the amount of RMB12.7 million as at 31 March 2016 and/or to be paid by ARI; and (ii) the business development plan and other financial needs of ARI, and based on the assumptions that (a) part of financial needs of ARI for the three years ending 31 December 2018 will be financed by limited recourse bank borrowings; and (b) the Company provides full amount of the shareholders' loan and guarantee required by ARI and no ARI Shareholders and their respective group companies provide any amount of such shareholders loan and guarantee. In the event any ARI Shareholder and their respective group companies, other than the Company, provides the shareholders' loan and/or guarantee required by ARI, the Proposed Annual Caps may not be fully utilised.

In assessing the fairness and reasonableness of the Proposed Annual Caps, we have discussed with the Management of the underlying bases and assumptions related thereto and considered the following:

- (i) the Shareholders' Loan and Guarantee Agreement and the Share Mortgage is an arrangement to facilitate ARI in meeting the funding requirements by way of raising Shareholders' Loan and/or bank loans for the development of the CADC Project and the Aircraft Disassembly Business, which is considered by the Management to be beneficial to the Group as an ARI Shareholder;



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## LETTER FROM INVESTEC

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- (ii) ARI shall raise Shareholders' Loan by (a) offering to all ARI Shareholders to advance their respective pro rata portion; and (b) where applicable, allow ARI Shareholders to take up any entitlements that are not assumed by the other ARI Shareholders, as further set out under paragraph headed "6.1 Analysis on the Shareholders' Loan and Guarantee Agreement and Share Mortgage" above;
  
- (iii) the expected funding requirements of ARI including but not limited to construction costs for the facilities on the Land, funding for the purchase of plant and equipment, end-of-life aircraft and parts, operational and administrative expenses such as staff costs, working capital and funding for possible expansion for the three years ending 31 December 2018. In this connection, we have obtained from Management the business plan related to the CADC Project and a schedule setting out the funding requirements of ARI breakdown by nature of expenses which we have discussed with Management the key assumptions and basis applied, including but not limited, the level of funding to be satisfied by external financing and Shareholders' Loan; and
  
- (iv) the Management advised that the Group is neither obliged nor committed to provide the Shareholders' Loan and/or guarantee for ARI Bank Loans under the Shareholders' Loan and Guarantee Agreement and the Company has the full discretion to decide whether or not to provide the Shareholders' Loan and/or guarantee for ARI Bank Loans at the time. Moreover, the Management advised that any decision on whether or not to take up any entitlements under the Shareholders' Loan and/or guarantee for ARI Bank Loans would be subject to the circumstances at the relevant time, including factors such as the Group's then financial commitments and other investment opportunities available, and the expected benefits from the CADC Project to the overall business of the Group.

In consideration of the above factors, we concur with the Management that the Proposed Annual Caps to be reasonable.

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## LETTER FROM INVESTEC

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### IV. RECOMMENDATION

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the above principal factors and reasons, in particular:

- (i) the ARI Agreements and the CADC Disposal form part of the arrangements to meet the Group's objective to (a) participate in the potentially lucrative end-of-life aircraft solution business; and (b) mitigate the Group's financial exposure to this new business by not having to consolidate any associated borrowings which may be incurred in future;
- (ii) the background of the New ARI Investors, each of whom has its own strength and contribution towards the CADC Project, is considered by the Management to be able to expedite the CADC Project initiative into a viable commercial enterprise and facilitate the commencement of its operation as soon as practicable to capture first-mover advantage;
- (iii) the terms of the Subscription under the Investment Agreement, the Shareholders' Agreement, the Share Mortgage, the Shareholders' Loan and Guarantee Agreement are no less favourable to the Company than terms available to the New ARI Investors, which consist of independent third party and/or connected persons;
- (iv) the Disposal Consideration is higher than the independent valuation of the Land together with the construction-in-progress thereon as at 31 March 2016;
- (v) the financial effects of the transactions under the ARI Agreements and the ARI Disposal as set out under paragraph headed "5. Possible financial effects of the Subscription and the ARI Disposal"; and
- (vi) in connection with the Continuing Connected Transactions (including the Proposed Annual Caps), while terms of the Shareholders' Loan and Guarantee Agreement are no less favourable to the Company than terms available to the New ARI Investors, the Company has no obligation nor committed to provide the Shareholders' Loan and/or guarantee for ARI Bank Loans and the Company has the full discretion to decide whether or not to provide the Shareholders' Loan and/or guarantee for the ARI Bank Loans in the future,

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## LETTER FROM INVESTEC

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we conclude that the transactions contemplated under the ARI Agreements (including the Proposed Annual Caps) to be on normal commercial terms which are fair and reasonable, though not entered into in the ordinary and usual course of business of the Group, the implementation of the ARI Agreements (including the Proposed Annual Caps) is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to approve the transactions contemplated under the ARI Agreements (including the Proposed Annual Caps) at the EGM.

Yours faithfully

For and on behalf of

**Investec Capital Asia Limited**

**Lewis Lai**

*Director*

*Corporate Finance*

*Mr. Lewis Lai is a licensed person registered with the SFC and a responsible officer of Investec Capital Asia Limited. He has over nine years of experience in the corporate finance industry.*

\* *for identification purposes only*

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10 June 2016

The Directors  
China Aircraft Leasing Group Holdings Limited  
28/F, Far East Finance Centre,  
16 Harbour Road,  
Admiralty,  
Hong Kong

Dear Sirs,

In accordance with the instruction of China Aircraft Leasing Group Holdings Limited (“中國飛機租賃集團控股有限公司”) (the “Company” or “China Aircraft”) to estimate the market value of a land parcel and construction-in-progress (“CIP”) works located at South of Harbin Taiping International Airport, Airport Economic Zone, Harbin City, Heilongjiang Province, the People's Republic of China (the “PRC”) (the “Property”) held by China Aircraft, we confirm that we have inspected the Property, made relevant enquiries and obtained such further information as we consider necessary for providing the market value of such property interests as at 31 March 2016 (referred to as the “valuation date”).

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, title investigation of property and the limiting conditions.

#### **BASIS OF VALUATION**

Our valuation is our opinion of the Market Value which is defined in accordance with the HKIS Valuation Standards of the Hong Kong Institute of Surveyors to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

Market Value is understood as the value of an asset and liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

This estimate specifically excludes an estimated price inflated or deflated by special considerations or concessions granted by anyone associated with the sale, or any element of special value.

#### **VALUATION METHODOLOGY**

In the course of our valuations, the Property is valued by the direct comparison method where comparison based on prices realized on actual sales or market price information of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of the Property in order to arrive at a fair comparison.

Regarding the Construction-in-progress portion of the Property, we have also taken into account the incurred construction costs and the costs that will be incurred to complete the development to reflect the quality of the completed development.

#### **TITLE INVESTIGATION**

We have been provided with copies of documents in relation to the title of the property interests. However, due to the current registration system of the PRC, no investigation has been made for the legal title or any liabilities attached to the Property. We have also not scrutinized the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us.

We have relied to a considerable extent on the information provided by the Company and the PRC legal opinion provided by the PRC legal adviser, 黑龍江劉洪朴律師事務所 (Heilongjiang Liu Hong Pu Law Offices\*), on the PRC Law regarding the Property located in the PRC.

All legal documents disclosed in this letter and valuation certificate are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this letter and valuation certificate.

**ASSUMPTIONS**

Our valuation has been made on the assumption that the owner sells the property interests on the market in its existing state without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the values of the property interests.

No allowance has been in our valuations for any charges, mortgages or amounts owing on the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, all the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

We have assumed that the owner of the property interests have free and uninterrupted rights to use, lease or mortgage the property interests for the whole of the unexpired term of its respective land use rights. We have also assumed that the property interests are freely disposable and transferable.

We have valued the property interests on the assumption that it is developed in accordance with the development proposals or building plans given to us. We have assumed that all consents, approvals and licences from relevant government authorities for the buildings and structures erected or to be erected thereon have been granted. Also, we have assumed that unless otherwise stated, all buildings and structures erected on the land parcels are held by the owner or permitted to be occupied by the owner.

It is assumed that all applicable zoning, land use regulations and other restrictions have been complied with unless a non-conformity has been stated, defined and considered in the valuation certificate. Further, it is assumed that the utilization of the land and improvements is within the boundaries of the property interests described and that no encroachment or trespass exists unless noted in the valuation certificate.

Other special assumptions of the Property, if any, have been stated in the footnotes of the valuation certificate.

**LIMITING CONDITIONS**

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on such matters as statutory notices, easements, tenure, occupancy, construction cost, site areas and floor areas and all other relevant matters. Dimensions and areas included in the valuation certificate are based on information contained in the documents provided to us and are only approximations.

Having examined all relevant documentation, we have had no reason to doubt the truth and accuracy of the information provided to us. We have assumed that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have not carried out detailed site measurements to verify the land or building areas in respect of the property but have assumed that the areas provided to us are correct. All dimensions and areas are approximations only.

Our Ms. Kathy Li has inspected the property included in the attached valuation certificate on 1 March 2016. No structural survey has been made and we are therefore unable to report as to whether the Property is or is not free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

No site investigations have been carried out to determine the suitability of the ground conditions or the services for the development site. Our valuation is made on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative, or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

**REMARKS**

In valuing the property interests, we have complied with all the requirements contained in Paragraph 34(2), (3) of Schedule 3 of the Companies Ordinance (Cap. 32), Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

We hereby certify that we have neither present nor a prospective interest in the real properties or the value reported. This valuation report is issued subject to our Assumptions and Limiting Conditions.

Unless otherwise stated, all monetary amount stated in this report is in Renminbi (RMB).

We enclose herewith our valuation certificate.

Yours faithfully,  
For and on behalf of  
**AMERICAN APPRAISAL CHINA LIMITED**  
**Calvin K.C. Chan**  
*CFA, MRICS, MHKIS, MCIREA, RPS (GP)*  
*Director*

*Notes:*

Mr. Calvin K. C. Chan, who is a Chartered Surveyor and Registered Professional Surveyor, has over 18 years' experience in valuation of properties in Hong Kong and the PRC. Mr. Chan has been admitted to the Hong Kong Institute of Surveyors' approved List of Property Valuers to undertake valuation for incorporation or reference in Listing Particulars and Circulars and valuation in connection with takeovers and mergers.

Ms. Kathy Li, who is a Chinese Registered Real Estate Appraiser and Accredited Senior Appraiser-American Society of Appraiser, has over 11 years' experience in valuation of properties in the PRC.

\* *For identification purpose only*



## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value
			In existing state as at March 31, 2016
A land parcel (Lot No:1-22-9-198) and construction-in-progress (“CIP”) works located at South of Harbin Taiping International Airport, Airport Economic Zone, Harbin City, Heilongjiang Province, the PRC  中國黑龍江省哈爾濱市臨空經濟區哈爾濱太平國際機場南側之土地及其上之在建工程 (宗地編號為：1-22-9-198)	<p>The Property comprises a land parcel and construction-in-progress (“CIP”) works of a dismantling base (“拆解基地”) erected thereon. The CIP works is scheduled to be completed within 2016.</p> <p>The Property has a site area of approximately 299,149.6 square metres with a plot ratio not less than 0.7.</p> <p>The land use rights of the Property has been granted for industrial use for a term of 50 years commencing on the initial day of land premium settlement as agreed in the respective State-owned Land Use Grant Contract.</p>	As advised, the Property was under construction as of the valuation date.	RMB170,101,900

*Notes:*

- (1) Pursuant to State-owned Land Use Rights Grant Contract (國有建設用地使用權出讓合同) (the “Contract”) entered into between the Harbin State-owned Resources Bureau (“哈爾濱國土資源局”) (“Party A”) and China Aircraft Leasing Group Holdings Limited (“中國飛機租賃集團控股有限公司”) (“Party B”) dated 16 July 2015, Party A has granted the Property with a site area of 299,149.6 square metres to Party B at a consideration of RMB157,400,000 for a term of 50 years for industrial use.
- (2) As advised, the Company has settle all the land premium in accordance to the agreed terms as set in the captioned Contract.

- (3) As advised by the Company, there are some CIP works of a dismantling base (“拆解基地”) erected on the Property, the initial stage of the CIP works are expected to be completed in 2016. As of the valuation date, the total construction costs incurred is about RMB12,701,900, which was counted in the course of our valuation. The valuation breakdowns are as follows:

<b>Components</b>	<b>Cost incurred</b>	<b>Market Value</b>
Land Value	157,400,000	157,400,000
Construction-in-progress Works	<u>12,701,900</u>	<u>12,701,900</u>
Total	<u><u>170,101,900</u></u>	<u><u>170,101,900</u></u>

- (4) As advised, the remaining cost-to-incur of the CIP works is about RMB339,098,100, while the capital value of the Property after completion is about RMB509,200,000.
- (5) The PRC legal opinion states, inter alias, that:
- a. China Aircraft Leasing Group Holdings Limited possesses the proper land use rights of the Property with all premium and costs fully settled and is entitled to use, transfer, lease and mortgage the Property or dispose of the Property by other lawful means in accordance with the laws of the PRC during the term of the land use rights.
  - b. The existing use of the Property has not violated the relevant Laws in the PRC.
  - c. The Property is not subject to any mortgages, encumbrances, litigations or disputes.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange were as follows:

Name	Capacity/ Nature of interest	Number of Shares held (L) <i>(Note 1)</i>	Number of underlying shares held (L) <i>(Note 1)</i>	Total Interests (L) <i>(Note 1)</i>	Approximate percentage of shareholding
Mr. Chen Shuang	beneficial owner	200,000	200,000 <i>(Note 3)</i>	400,000	0.06%
Ms. Liu Wanting	interest of controlled corporation	10,000,000 <i>(Note 2)</i>	–	10,000,000	1.62%
Mr. Tang Chi Chun	beneficial owner	–	200,000 <i>(Note 3)</i>	200,000	0.03%
Mr. Guo Zibin	beneficial owner	–	200,000 <i>(Note 3)</i>	200,000	0.03%

Name	Capacity/ Nature of interest	Number of Shares held (L) <i>(Note 1)</i>	Number of underlying shares		Approximate percentage of shareholding
			held (L) <i>(Note 1)</i>	Total Interests (L) <i>(Note 1)</i>	
Mr. Fan Yan Hok, Philip	beneficial owner	66,000	134,000 <i>(Note 3)</i>	200,000	0.03%
Mr. Nien Van Jin, Robert	beneficial owner	100,000	134,000 <i>(Note 3)</i>	234,000	0.04%
Mr. Cheok Albert Saychuan	beneficial owner	5,000	–	5,000	Below 0.01%

*Notes:*

- (1) The letter “L” denotes the entity/person’s long position in the securities.
- (2) These Shares were held by Smart Vintage Investments Limited, a company wholly-owned by Ms. Liu Wanting.
- (3) These interests represented the interests in the underlying shares in respect of the share options granted by the Company to Directors pursuant to the post-IPO share option scheme of the Company

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company under Section 352 of the SFO; or to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, Mr. Chen Shuang and Mr. Tang Chi Chun are directors of CE Aerospace. Both FPAM and CE Aerospace are companies having an interest in the Company’s Shares and underlying shares required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. SUBSTANTIAL SHAREHOLDER' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS

As at the Latest Practicable Date, so far as was known to the Directors, the interests and short positions of the persons (other than the interests and short positions of the Directors or chief executive of the Company as disclosed above) in the shares and/or underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company are set out below:

Name of shareholders	Capacity/ Nature of interest	Number of ordinary Shares held (L) <i>(Note 1)</i>	Number of underlying shares held (L) <i>(Note 1)</i>	Approximate percentage of interest
CE Aerospace	Beneficial owner	208,299,479 <i>(Note 4)</i>		33.72%
	Beneficial owner		680,000 <i>(Note 2)</i>	0.11%
China Everbright Financial Investments Limited ("CE Financial")	Beneficial owner	8,220,000 <i>(Note 4)</i>		1.33%
	Beneficial owner		34,388,297 <i>(Note 3)</i>	5.57%
CEL	Interest of controlled corporation	216,519,479 <i>(Note 4)</i>		35.05%
	Interest of controlled corporation		34,388,297 <i>(Note 3)</i>	5.57%
	Interest of controlled corporation		680,000 <i>(Note 2)</i>	0.11%
China Everbright Holdings Company Limited ("CE Hong Kong")	Interest of controlled corporation	216,519,479 <i>(Note 5)</i>		35.05%
	Interest of controlled corporation		34,388,297 <i>(Note 3)</i>	5.57%
	Interest of controlled corporation		680,000 <i>(Note 2)</i>	0.11%
China Everbright Group Ltd.* ("CE Group")	Interest of controlled corporation	216,519,479 <i>(Note 5)</i>		35.05%
	Interest of controlled corporation		34,388,297 <i>(Note 3)</i>	5.57%
	Interest of controlled corporation		680,000 <i>(Note 2)</i>	0.11%
Central Huijin Investment Limited* ("Huijin Limited")	Interest of controlled corporation	216,519,479 <i>(Note 6)</i>		35.05%
	Interest of controlled corporation		34,388,297 <i>(Note 3)</i>	5.57%
	Interest of controlled corporation		680,000 <i>(Note 2)</i>	0.11%

\* For identification purpose only

## APPENDIX II

## GENERAL INFORMATION

Name of shareholders	Capacity/ Nature of interest	Number of ordinary Shares held (L) <i>(Note 1)</i>	Number of underlying shares held (L) <i>(Note 1)</i>	Approximate percentage of interest
FPAM	Beneficial owner	182,112,589 <i>(Note 9)</i>		29.48%
	Beneficial owner		442,000 <i>(Note 7)</i>	0.07%
Capella Capital Limited ("Capella")	Interest of controlled corporation	182,112,589 <i>(Note 9)</i>		29.48%
	Interest of controlled corporation		442,000 <i>(Note 7)</i>	0.07%
POON Ho Man	Interest of controlled corporation	187,062,589 <i>(Note 10)</i>		30.28%
	Interest of controlled corporation		442,000 <i>(Note 7)</i>	0.07%
	Interest of controlled corporation		10,050,000 <i>(Note 8)</i>	1.63%
Christina NG	Interest of spouse	187,062,589 <i>(Note 11)</i>		30.28%
	Interest of spouse		442,000 <i>(Note 7)</i>	0.07%
	Interest of spouse		10,050,000 <i>(Note 8)</i>	1.63%
Huarong (HK) International Holdings Limited ("HK Huarong")	Beneficial owner		34,388,297 <i>(Note 12)</i>	5.57%
China Huarong Asset Management Co., Ltd. ("China Huarong")	Interest of controlled corporation		34,388,297 <i>(Note 13)</i>	5.57%

*Notes:*

- (1) The letter "L" denotes the entity/person's long position in the securities.
- (2) These interests represented the interests in underlying shares in respect of the share options granted by the Company to CE Aerospace pursuant to the pre-IPO share option scheme of the Company.
- (3) These interests represented the interests in underlying shares in respect of the convertible bonds issued by the Company to CE Financial pursuant to a subscription agreement with CE Financial dated 26 March 2015.
- (4) Each of the entire issued share capital of CE Aerospace and CE Financial is wholly-owned by CEL. Accordingly, CEL is deemed to be interested in all Shares and underlying shares held by CE Aerospace and CE Financial.

- (5) CE Hong Kong indirectly holds more than one-third of the voting power at general meetings of CEL. Accordingly, CE Hong Kong is deemed to be interested in all Shares and underlying shares mentioned in notes (2) to (4) above.
- (6) According to the Company's announcements in respect of the restructuring dated 10 November 2014, 25 November 2014, 8 December 2014 and 14 May 2015, CE Group and Huijin Limited are deemed to be interested in all Shares and underlying shares mentioned in notes (2) to (4) above.
- (7) These interests represented the interests in underlying shares in respect of the share options granted by the Company to FPAM pursuant to the pre-IPO share option scheme of the Company.
- (8) These interests represented the interests in underlying shares in respect of the share options granted by the Company to Equal Honour Holdings Limited ("Equal Honour"), a company wholly-owned by Mr. Poon Ho Man, pursuant to the pre-IPO share option scheme of the Company.
- (9) The issued share capital of FPAM is owned as to 0.000001% by Ms. Christina Ng and 99.999999% by Capella. Accordingly, Capella is deemed to be interested in all Shares and underlying shares held by FPAM.
- (10) The issued share capital of Capella is owned as to 10% by Ms. Christina Ng and 90% by Mr. Poon Ho Man. Accordingly, Mr. Poon is deemed to be interested in all Shares and underlying shares mentioned in notes (7) and (9) above. Mr. Poon is also interested in 4,950,000 Shares held by Equal Honour.
- (11) Ms. Christina Ng is the spouse of Mr. Poon Ho Man.
- (12) These interests represented the interests in underlying shares in respect of the convertible bonds issued by the Company to HK Huarong pursuant to a subscription agreement with HK Huarong dated 26 March 2015.
- (13) The entire issued share capital of HK Huarong is indirectly wholly-owned by China Huarong. Accordingly, China Huarong is deemed to be interested in all underlying shares held by HK Huarong.

As at the Latest Practicable Date, Mr. Poon Ho Man is a director of FPAM, and Mr. Chen Shuang and Mr. Tang Chi Chun are directors of CE Aerospace. Both FPAM and CE Aerospace are companies having an interest in the Company's shares and underlying shares required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Company was not notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

**4. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors, was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or any conflict of interest which any such person has or may have with the Group other than those businesses to which the Directors and their respective associates were appointed to represent the interests of the Company and/or the Group.

**5. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, there was no existing or proposed service agreement between any Director and any member of the Group (excluding agreements expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

**6. DIRECTORS' INTERESTS CONTRACTS OR ARRANGEMENTS OF SIGNIFICANCE AND ASSETS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2015, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of, by or leased to any member of the Company or are proposed to be acquired or disposed of, by or leased to any member of the Company.

No contracts or arrangements of significance to which the Company or its subsidiaries was a party and in which a Director had a material interest, either directly or indirectly, subsisted as at the Latest Practicable Date.

**7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest audited financial statements of the Company were made up.



**8. EXPERTS AND CONSENTS**

The following are the qualifications of the experts who had given opinion contained in this circular:

<b>Name</b>	<b>Qualifications</b>
American Appraisal China Limited	Property Valuer
Investec Capital Asia Limited	A corporation licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
黑龍江劉洪朴律師事務所 (Heilongjiang Liu Hong Pu Law Office)*	PRC Legal Advisors

As at the Latest Practicable Date, none of the experts above had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor had any interest, either direct or indirect, in any assets which had been since 31 December 2015 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

The experts above have given and have not withdrawn its written consents to the issue of this circular with the inclusion of their reports and the reference to their names in the form and context in which it appears.

**9. DOCUMENTS FOR INSPECTION**

Copies of the following documents are available for inspection during normal office hours at 28th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong on the date of this circular and up to and including 30 June 2016:

- (a) the Investment Agreement, the Option Agreement, the Shareholders' Agreement, the Shareholders' Loan and Guarantee Agreement and the Share Mortgage;
- (b) the Valuation Report from American Appraisal China Limited as set out in Appendix I to this circular;
- (c) the legal opinion issued by 黑龍江劉洪朴律師事務所 (Heilongjiang Liu Hong Pu Law Office)\*; and
- (d) the letters of consents referred to under the section headed "Experts and Consents" in this appendix.

\* *For identification purpose only*

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## NOTICE OF EGM

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# ***CALC***

**CHINA AIRCRAFT LEASING GROUP HOLDINGS LIMITED**

**中國飛機租賃集團控股有限公司**

*(Incorporated under the laws of the Cayman Islands with limited liability)*

**(Stock code: 1848)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of China Aircraft Leasing Group Holdings Limited will be held at Cliftons Hong Kong, 508-520 Hutchison House, 10 Harcourt Road, Central, Hong Kong at 10:00 a.m. on Thursday, 30 June 2016 for the purpose of considering and, if thought fit, passing with or without modifications, the following proposed ordinary resolutions of the Company. Unless otherwise defined, capitalised terms used herein shall have the same meanings as ascribed to them in the circular of the Company dated 10 June 2016.

### **ORDINARY RESOLUTIONS**

**1. THAT:**

- “(a) the Investment Agreement dated 6 April 2016 entered into between the Company, ARI, ARI Holdings, China Aero, Sky Cheer and Neo Modern in relation to the subscription of ARI Shares and the CADC Disposal (a copy of which is produced to the EGM marked “A” and signed by the Chairman of the EGM for purpose of identification) be and is hereby approved, confirmed and ratified; and
- (b) the Option Agreement dated 6 April 2016 entered into between ARI Holdings and ARI in relation to the grant of option to require ARI to allot and issue to ARI Holdings ARI shares (a copy of which is produced to the EGM marked “B” and signed by the Chairman of the EGM for purpose of identification) be and is hereby approved, confirmed and ratified; and
- (c) the Shareholders’ Agreement dated 6 April 2016 entered into between ARI, ARI Holdings, China Aero, Sky Cheer and Neo Modern to regulate the relationship of ARI and the ARI Shareholders (a copy of which is produced to the EGM marked “C” and signed by the Chairman of the EGM for purpose of identification) be and is hereby approved, confirmed and ratified; and

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## NOTICE OF EGM

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- (d) the Shareholders' Loan and Guarantee Agreement dated 6 April 2016 entered into between ARI, ARI Holdings, China Aero, Sky Cheer and Neo Modern in relation to the provision of shareholders' loan from the ARI Shareholders and to provide guarantee for loans from banks, financial or other institutions (a copy of which is produced to the EGM marked "D" and signed by the Chairman of the EGM for purpose of identification), and the Proposed Annual Caps for the transactions contemplated thereunder for the years of 2016, 2017 and 2018 be and are hereby approved, confirmed and ratified; and
- (e) the Share Mortgage dated 6 April 2016 entered into between ARI and ARI Holdings, by which ARI is to charge the entire issued share capital in CADC (a copy of which is produced to the EGM marked "E" and signed by the Chairman of the EGM for purpose of identification) be and is hereby approved, confirmed and ratified; and
- (f) any one Director of the Company be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider as necessary, expedient or desirable for the purpose of or in connection with the implementation of the Investment Agreement, Option Agreement, Shareholders' Agreement, Shareholders' Loan and Guarantee Agreement and the Share Mortgage (collectively be referred to as the "ARI Agreements"), including but not limited to the execution of all such documents under seal where applicable, as he/she considers necessary or expedient in his/her opinion to implement and/or give effect to each of the ARI Agreements and the transactions thereunder, and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole."

By Order of the Board

**China Aircraft Leasing Group Holdings Limited**

**CHEN SHUANG**

*Chairman, Executive Director  
and Chief Executive Officer*

Hong Kong, 10 June 2016

*As at the date of this notice, (i) the executive directors are Mr. Chen Shuang and Ms. Liu Wanting; (ii) the non-executive Directors are Mr. Tang Chi Chun, Mr. Guo Zibin and Ms. Chen Chia-Ling; and (iii) the independent non-executive Directors are Mr. Fan Yan Hok, Philip, Mr. Nien Van Jin, Robert and Mr. Cheok Albert Saychuan.*

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## NOTICE OF EGM

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*Notes:*

1. In order to determine the list of Shareholders who are entitled to attend and vote at the EGM, the register of the Shareholders of the Company will be closed from Wednesday, 29 June 2016 to Thursday, 30 June 2016 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of the Shareholders of the Company as on Thursday, 30 June 2016 are entitled to attend and vote at the EGM. In order to attend the EGM, any Shareholder whose transfer has not been registered shall lodge the transfer documents together with the relevant share certificate with Tricor Investor Services Limited, the Company's Hong Kong branch share registrar, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30p.m. on Tuesday, 28 June 2016.
2. A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or if he/she is the holder of two or more shares, more than one proxy to attend and, subject to the provisions of the memorandum of association and articles of association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
3. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the EGM or any adjournment thereof, should he/she so wish.
4. Completion and return of an instrument appointing a proxy will not preclude a member of the Company from attending and voting in person at the meeting and/or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolutions will be decided by way of poll.
6. In case the EGM is anticipated to be affected by black rainstorms or tropical cyclone with warning signal no. 8 or above, please refer to the website of Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk> and the Company's website at <http://www.calc.com.hk> for announcement on bad weather arrangement for the EGM.
7. The form of proxy in connection with the EGM is enclosed herewith.