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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)

**(I) SUPPLEMENTAL AGREEMENT
FOR DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION –
PROVISION OF FINANCIAL ASSISTANCE TO ARI
AND
(II) REVISED ANNUAL CAPS**

Reference is made to the announcement of the Company dated 6 April 2016 and the Previous Circular in relation to, among other things, the entering into the ARI Agreements. The ARI Agreements and the transactions contemplated thereunder (including the Existing Annual Caps) were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 30 June 2016.

In view of the continued development of the ARI Business, ARI, ARI Holdings, China Aero, Sky Cheer and Neo Modern entered into the Supplemental Agreement on 14 November 2016 to revise the terms governing the repayment of the Shareholders' Loan under the Shareholders' Loan and Guarantee Agreement.

As the Board expects that the Existing Annual Caps for the years ending 31 December 2016, 2017 and 2018 will no longer be sufficient, the Board therefore proposes to revise the Existing Annual Caps for the years ending 31 December 2016, 2017 and 2018 to HK\$1,300 million, HK\$1,300 million and HK\$1,300 million respectively.

LISTING RULES IMPLICATIONS

As at the date of this announcement, ARI is a commonly held entity (has the meaning ascribed to it in Rule 14A.27 of the Listing Rules) of the Company, the Revised Annual Caps and the transactions contemplated under the Shareholders' Loan and Guarantee Agreement (as supplemented by the Supplemental Agreement) constitute continuing connected transactions of the Company under Rule 14A.26 of the Listing Rules. Furthermore, pursuant to Rule 14.04(1)(e) of the Listing Rules, the provision of financial assistance to ARI constitutes a discloseable transaction under Chapter 14 of the Listing Rules.

As the highest of the applicable percentage ratios in respect of the Revised Annual Caps is expected to be less than 25% on an annual basis and the total value of the financial assistance is expected to be more than HK\$10,000,000, such Revised Annual Caps and the transactions contemplated under the Shareholders' Loan and Guarantee Agreement (as supplemented by the Supplemental Agreement) are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements for continuing connected transactions under Chapter 14A of the Listing Rules.

EGM AND APPROVAL

The EGM will be convened to consider and, if thought fit, pass a resolution to approve the Supplemental Agreement and the transactions contemplated thereunder (including the Revised Annual Caps). FPAM together with its associates; and CE Aerospace together with its associates, which are interested in 192,012,589 Shares and 216,519,479 Shares as at the date of this announcement, respectively, and any shareholders who are required by the Listing Rules to abstain from voting, will abstain from voting at the EGM regarding the Supplemental Agreement and the transactions contemplated thereunder (including the Revised Annual Caps).

GENERAL

A circular containing, among other information, (i) details on the Supplemental Agreement and the transactions contemplated thereunder (including the Revised 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, is expected to be despatched to the Shareholders within 15 business days from the date of this announcement.

The Supplemental Agreement is conditional on the condition precedent which is more particularly described in the sub-section headed “Condition Precedent” of this announcement. There is no assurance that the condition precedent will be fulfilled. Therefore the Supplemental Agreement and the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares.

I. BACKGROUND

Reference is made to the announcement of the Company dated 6 April 2016 and the Previous Circular in relation to, among other things, the entering into the ARI Agreements. The ARI Agreements and the transactions contemplated thereunder (including the Existing Annual Caps) were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 30 June 2016.

In view of the continued development of the ARI Business, ARI, ARI Holdings, China Aero, Sky Cheer and Neo Modern entered into the Supplemental Agreement on 14 November 2016 to revise the terms governing the repayment of the Shareholders' Loan under the Shareholders' Loan and Guarantee Agreement.

As the Board expects that the Existing Annual Caps for the years ending 31 December 2016, 2017 and 2018 will no longer be sufficient, the Board therefore proposes to revise the Existing Annual Caps for the years ending 31 December 2016, 2017 and 2018 to HK\$1,300 million, HK\$1,300 million and HK\$1,300 million respectively.

II. SUPPLEMENTAL AGREEMENT

Date: 14 November 2016

Parties:

- (i) ARI;
- (ii) ARI Holdings;
- (iii) China Aero;
- (iv) Sky Cheer; and
- (v) Neo Modern.

Subject matter

Pursuant to the Supplemental Agreement, the parties thereto have agreed to revise the terms governing the repayment of the Shareholders' Loan under the Shareholders' Loan and Guarantee Agreement to the extent that repayment of any Loan Note shall be made by ARI, and be made (a) pro rata to each of the ARI Shareholders in proportion to the principal amount of their respective Loan Notes; or (b) in such other proportion as such ARI Shareholders and ARI may agree in writing from time to time.

Save and except for the revision of the repayment terms, all other terms and conditions under the Shareholders' Loan and Guarantee Agreement shall remain unchanged.

Condition Precedent

The Supplemental Agreement is conditional upon the approval of the Supplemental Agreement by the Independent Shareholders at the EGM.

III. REVISION OF THE EXISTING ANNUAL CAP

Historical Figures, Existing Annual Cap and Revised Annual Cap

For the period commencing from 29 July 2016 to 31 October 2016, the amount of principal loan outstanding and interest is approximately HK\$435 million.

The following table sets out the Existing Annual Caps of 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>
Existing Annual Caps amounts	480	600	720

The following table sets out the Revised Annual Caps of the continuing connected transactions contemplated under the Shareholders' Loan and Guarantee Agreement (as supplemented by the Supplemental Agreement) for the three years ending 31 December 2018:

	For the year ending 31 December		
	2016	2017	2018
	<i><u>HK\$ million</u></i>	<i><u>HK\$ million</u></i>	<i><u>HK\$ million</u></i>
Revised Annual Caps amounts	1,300	1,300	1,300

Basis for the Revised Annual Caps contemplated under the Shareholders' Loan and Guarantee Agreement

The Revised Annual Caps represent the maximum principal loans outstanding (including the principal loans guaranteed by the Group) together with interest and Guarantee Fee amounts. The Revised Annual Caps were determined with reference to factors including (i) the proposed acquisition of a number of aged aircraft and used aircraft engines by the end of 2016 and in 2017; (ii) the estimated construction costs of the CADC Project; (iii) the ongoing business development and operational expenses as well as other financial needs of ARI; and (iv) potential expansion of the existing ARI Business through organic growth and/or acquisitions, 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 bank borrowings; and (b) the Company will provide full amount of the Shareholders' Loan and/or guarantee required by ARI if other ARI Shareholders and their respective group companies do not provide any amount out of their respective pro rata portion of such Shareholders' Loan and/or 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 Revised Annual Caps may not be fully utilised.

IV. REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL AGREEMENT

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 ARI Business. With a view to facilitate the continued development of the ARI Business and to increase the flexibility for ARI Shareholders to cater for special repayment arrangements as agreed between ARI and such ARI Shareholders with Loan Notes issued in their favour from time to time, the parties thereto have agreed to revise the terms governing the repayment of the Shareholders' Loan under the Shareholders' Loan and Guarantee Agreement.

Since the completion of the subscription under the Investment Agreement in July 2016, the management of ARI has identified a number of potential business opportunities to facilitate and expedite the development of the ARI Business, including (i) used aircraft acquisitions; (ii) aircraft component acquisitions; and (iii) other business expansion opportunities.

In the long run, the intention is for ARI to obtain financial independence, and that ARI's management is currently in negotiation with a number of financial institutions for external financing. Notwithstanding the above, as ARI is still in its infancy and the Directors consider that ARI may require more time to finalise its financing arrangements with these external financial institutions, which is intended by ARI to be one of its main medium to long term financing solutions. Having considered the above, the Directors believe that the Supplemental Agreement together with the Revised Annual Caps would be an interim financing solution for ARI to facilitate its continued development and seize the aforementioned potential business opportunities in a timely manner.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice of the Independent Financial Adviser) are of the view that (i) the continuing connected transactions contemplated under the Supplemental Agreement will be carried out in the ordinary and usual course of business of the Company; (ii) the terms of the Supplemental Agreement are on nominal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and (iii) the Revised Annual Caps of the transactions contemplated under the Supplemental Agreement are fair and reasonable, in the interests of the Company and the Shareholders as a whole.

V. LISTING RULES IMPLICATIONS

As at the date of this announcement, ARI is a commonly held entity (has the meaning ascribed to it in Rule 14A.27 of the Listing Rules) of the Company, the Revised Annual Caps and the transactions contemplated under the Shareholders' Loan and Guarantee Agreement (as supplemented by the Supplemental Agreement) constitute continuing connected transactions of the Company under Rule 14A.26 of the Listing Rules. Furthermore, pursuant to Rule 14.04(1)(e) of the Listing Rules, the provision of financial assistance to ARI constitutes a discloseable transaction under Chapter 14 of the Listing Rules.

As the highest of the applicable percentage ratios in respect of the Revised Annual Caps is expected to be less than 25% on an annual basis and the total value of the financial assistance is expected to be more than HK\$10,000,000, such Revised Annual Caps and the transactions contemplated under the Shareholders' Loan and Guarantee Agreement (as supplemented by the Supplemental Agreement) are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements for continuing connected transactions under Chapter 14A of the Listing Rules.

VI. EGM AND APPROVAL

The EGM will be convened to consider and, if thought fit, pass a resolution to approve the Supplemental Agreement and the transactions contemplated thereunder (including the Revised Annual Caps). FPAM together with its associates; and CE Aerospace together with its associates, which are interested in 192,012,589 Shares and 216,519,479 Shares as at the date of this announcement, respectively, and any shareholders who are required by the Listing Rules to abstain from voting, will abstain from voting at the EGM regarding the Supplemental Agreement and the transactions contemplated thereunder (including the Revised Annual Caps).

VII. GENERAL

A circular containing, among other information, (i) details on the Supplemental Agreement and the transactions contemplated thereunder (including the Revised 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 Independent Shareholders, together with a notice convening the EGM, is expected to be despatched to the Shareholders within 15 business days from the date of this announcement.

The Supplemental Agreement is conditional on the condition precedent which is more particularly described in the sub-section headed "Condition Precedent" of this announcement. There is no assurance that the condition precedent will be fulfilled. Therefore the Supplemental Agreement and the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares.

VIII. DEFINITIONS

In this announcement, unless otherwise defined, terms used shall have the following meanings:

- “ARI”** Aircraft Recycling International Limited, a company incorporated in the Cayman Islands on 22 August 2014 and held by the Company (through ARI Holdings) as to 48% as at the date of this announcement
- “ARI Agreements”** collectively, the Investment Agreement, the Option Agreement, the Shareholders’ Agreement, the Shareholders’ Loan and Guarantee Agreement and the Share Mortgage
- “ARI Business”** the business model of ARI broadly includes 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 relevant authority before they are stored as inventory and priced; and
 - (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
- “ARI Holdings”** Aircraft Recycling International Holdings Limited, a company incorporated in the BVI and a wholly-owned subsidiary of the Company
- “ARI Shareholder(s)”** holder(s) of the ordinary share(s) of US\$1.0 each in the share capital of ARI
- “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
“CADC”	China Aircraft Disassembly Centre Limited, a company incorporated in the BVI whose entire issued share capital is wholly-owned by ARI
“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 ARI which principally involved the establishment of an aircraft disassembly center in the PRC for carrying out the ARI Business, please refer to the Previous Circular for details
“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 substantial 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 substantial shareholders of the Company
“China Aero”	China Aero Investments Limited, a company incorporated in the Cayman Islands on 30 January 2012 and is wholly and beneficially owned by FPAM
“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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company

“EGM”	extraordinary general meeting of the Company to be convened for considering, and if thought fit, approving the Supplemental Agreement and the transactions contemplated thereunder and the Revised Annual Caps
“Existing Annual Caps”	the existing annual caps for the transactions contemplated under the Shareholders’ Loan and Guarantee Agreement
“FPAM”	Friedmann Pacific Asset Management Limited, a company incorporated in the BVI and one of the substantial 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
“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 the Supplemental Agreement and the transactions contemplated thereunder and the Revised Annual Caps
“Independent Financial Adviser”	an independent financial adviser to be appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Supplemental Agreement and the transactions contemplated thereunder and the Revised 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 the Supplemental Agreement and the transactions contemplated thereunder and the Revised Annual Caps at the EGM
“Investment Agreement”	the investment agreement entered into between the Company, ARI, ARI Holdings, China Aero, Sky Cheer and Neo Modern on 6 April 2016, please refer to the Previous Circular for details

“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, a company incorporated in the BVI on 22 January 2016 and is a wholly-owned subsidiary of CEL
“Option Agreement”	the option agreement entered into between ARI Holdings and ARI on 6 April 2016, please refer to the Previous Circular for details
“PRC”	the People’s Republic of China, but for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Previous Circular”	the circular of the Company dated 10 June 2016
“Revised Annual Caps”	the proposed revised annual caps for the years ending 31 December 2016, 2017 and 2018 for the transactions contemplated under the Supplemental Agreement
“Share(s)”	shares 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 entered into between ARI, ARI Holdings, China Aero, Sky Cheer and Neo Modern on 6 April 2016, please refer to the Previous Circular for details
“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 entered into between ARI, ARI Holdings, China Aero, Sky Cheer and Neo Modern on 6 April 2016, please refer to the Previous Circular for details
“Share Mortgage”	the share mortgage entered into between ARI and ARI Holdings, as security trustee for and on behalf of the ARI Shareholders and their respective group companies who have provided Shareholders’ Loan and/or guarantee to ARI pursuant to the Shareholders’ Loan and Guarantee Agreement on 6 April 2016, please refer to the Previous Circular for details

“Sky Cheer”	Sky Cheer International Limited, a company incorporated in Hong Kong on 4 July 2008 and is owned by LI Yuze William and LIU Liyi
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholders”	has the meaning ascribed to it under the Listing Rules
“Supplemental Agreement”	the supplemental agreement to the Shareholders’ Loan and Guarantee Agreement entered into between ARI, ARI Holdings, China Aero, Sky Cheer and Neo Modern on 14 November 2016
“%”	per cent.

** for identification purposes only*

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

Hong Kong, 14 November 2016

As at the date of this announcement, (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, Mr. CHEOK Albert Saychuan and Mr. CHOW Kwong Fai, Edward, JP.