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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)

DISCLOSEABLE TRANSACTION IN RELATION TO THE ESTABLISHMENT OF CAG

Reference is made to the announcement of the Company dated 28 December 2017 and the Circular in relation to the proposed disposal of the Initial Aircraft Portfolio by the Company to the aircraft investment vehicle to be established by the Company and other independent third parties, and the Aircraft Disposal Mandate.

THE SUBSCRIPTION AGREEMENT AND THE SHAREHOLDERS' AGREEMENT

The Board is pleased to announce that on 26 June 2018, the Mezzanine Financiers entered into the Subscription Agreement with the aircraft investment vehicle, CAG, to subscribe for an aggregate of 800 ordinary shares in CAG. As at the date of this announcement, CALC already holds 200 ordinary shares in CAG, which used to constitute the entire issued share capital of CAG. Upon completion of the Subscription Agreement which is expected to take place on or before 27 June 2018, CALC and the Mezzanine Financiers will own 20% and 80% of the ordinary shares in CAG respectively.

The portfolio of CAG is expected to grow to a target of US\$1,150 million (equivalent to approximately HK\$8,970 million) to US\$1,400 million (equivalent to approximately HK\$10,920 million) of aircraft assets during the Initial Investment Period. The final size of the target portfolio shall be determined by the board of CAG after taking into account the then Aggregate Capital Commitment of the shareholders of CAG and the size of the senior loan facilities from banks.

Upon completion of the Subscription Agreement, CALC, the Mezzanine Financiers and CAG shall also enter into the Shareholders' Agreement which sets out the rights and obligations of each party with respect to CAG, in its capacity as a shareholder of CAG. There are certain mechanisms under the Shareholders' Agreement to ensure that CALC's shareholding in CAG will always remain at 20%.

THE SHAREHOLDER LOAN AGREEMENT

On the same day, CALC and two of the Mezzanine Financiers as lenders entered into the Shareholder Loan Agreement with CAG as borrower, pursuant to which the lenders agreed to make available to CAG a loan of an aggregate amount of approximately US\$365 million (equivalent to approximately HK\$2,847 million) initially which is subject to increment adjustment, out of which 20% will be contributed by CALC as A Loan. There are certain mechanisms under the Shareholder Loan Agreement to ensure that CALC's commitment will always remain at 20%.

The aggregate investment amount of CALC in CAG (including the equity contribution in CAG and the provision of A Loan by CALC under the Shareholder Loan Agreement) is approximately US\$73 million (equivalent to approximately HK\$569.4 million) initially.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 14.22 of the Listing Rules, the equity contribution in CAG and the provision of A Loan by CALC under the Shareholder Loan Agreement will be aggregated as a single series of transaction.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the aggregate investment amount of CALC in CAG (including the equity contribution in CAG and the provision of A Loan by CALC under the Shareholder Loan Agreement) exceed 5% but are less than 25%, the equity contribution in CAG and the provision of A Loan by CALC under the Shareholder Loan Agreement, when aggregated, constitute a disclosable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 28 December 2017 and the Circular in relation to the proposed disposal of the Initial Aircraft Portfolio by the Company to the aircraft investment vehicle to be established by the Company and other independent third parties, and the Aircraft Disposal Mandate. Capitalized terms used in the Circular shall have the same meanings herein unless otherwise defined.

As described in the Circular, in order to support the continuing expansion of the Company's business operations, it is proposed to establish the aircraft investment vehicle with independent third parties for investing in a portfolio of lease-attached aircraft. The aircraft investment vehicle will be held as to 20% by the Company and 80% by the independent third parties and will be funded by way of shareholders' loan.

As at the date of this announcement, CALC already holds 200 ordinary shares in CAG, which used to constitute the entire issued share capital of CAG. On 26 June 2018, Mezzanine Financier 1, Mezzanine Financier 2 and Mezzanine Financier 3 entered into the Subscription Agreement with CAG to subscribe for 242, 466 and 92 ordinary shares in CAG for a subscription price of US\$24.20, US\$46.60 and US\$9.20 respectively. As at the date of this announcement, the consent of the Bermuda Monetary Authority to the issuance of the 800 ordinary shares, which is the only condition precedent to completion under the Subscription Agreement, has already been obtained. Upon completion of the Subscription Agreement which is expected to take place on or before 27 June 2018, CALC will own 20% of the ordinary shares in CAG and the Mezzanine Financiers will own 80% of the ordinary shares in CAG, and CAG will not be consolidated into the financial statements of the Company.

Furthermore, upon completion of the Subscription Agreement, CALC, the Mezzanine Financiers and CAG shall also enter into the Shareholders' Agreement.

MAJOR TERMS OF THE SHAREHOLDERS' AGREEMENT

The Shareholders' Agreement between each of CALC, Mezzanine Financier 1, Mezzanine Financier 2, Mezzanine Financier 3 and CAG will set out the rights and obligations of each party with respect to CAG, in its capacity as a shareholder of CAG. It has a duration of six years unless extended with the approval of all shareholders in CAG or terminated earlier in accordance with its terms. There are certain mechanisms under the Shareholders' Agreement to ensure that CALC's shareholding in CAG will always remain at 20%, which may involve automatic transfer of shares, allotment of new shares and/or repurchase of shares.

Business development of CAG: The business of CAG Group shall be to invest in passenger commercial jet aircraft and dispose of such passenger commercial jet aircraft.

The CAG Group shall be seeded with the Initial Aircraft Portfolio as described in the Circular. Further announcement will be made by the Company in relation to the disposal of the Initial Aircraft Portfolio as and when appropriate.

The parties acknowledge that the portfolio is expected to grow to a target of US\$1,150 million (equivalent to approximately HK\$8,970 million) to US\$1,400 million (equivalent to approximately HK\$10,920 million) of aircraft assets during the Initial Investment Period. The final size of the target portfolio shall be determined by the board of CAG after taking into account the Aggregate Capital Commitment of the shareholders of CAG (including those who become shareholders or assume commitments under the Shareholder Loan Agreement at a later stage) and the size of the senior loan facilities from banks.

Funding for CAG: CAG may at any time, for the purposes of pursuing aircraft acquisition opportunities, or for the purposes of meeting any ongoing expenses of the CAG Group, draw down from the Aggregate Capital Commitment from the shareholders of CAG on the terms set out in the Shareholders Loan Agreement. The rest of the funding shall come from the senior loan facilities from banks which will be put in place on or around the date of the Shareholder Agreement.

Board composition and board resolutions: The board of CAG will consist of four directors; CALC will be entitled to appoint one director (the "**CALC Director**") and the Mezzanine Financiers will be entitled to appoint two directors (together, the "**Mezzanine Financier Directors**").

In addition to the CALC Director and the Mezzanine Financier Directors, the CALC Director and the Mezzanine Financier Directors shall jointly appoint one individual as an independent director.

The quorum at a board meeting shall be three directors. There are certain board reserved matters which require different levels of consents from the directors.

Transfer restrictions: Each of CALC, Mezzanine Financier 1, Mezzanine Financier 2 and Mezzanine Financier 3 has granted to each other a right of first refusal in respect of its shares in CAG.

SHAREHOLDER LOAN AGREEMENT

In order to support the business development of CAG, on 26 June 2018, CALC, Mezzanine Financier 1 and Mezzanine Financier 2 as lenders entered into the Shareholder Loan Agreement (which has a duration of six years, unless terminated earlier) with CAG as borrower, pursuant to which the lenders agreed to make available to CAG a loan of an aggregate amount of approximately US\$365 million (equivalent to approximately HK\$2,847 million) initially which is subject to increment adjustment.

The principal terms of the Shareholder Loan Agreement are summarized below:

Loan amount: In relation to CALC, the amount of approximately US\$73 million (equivalent to approximately HK\$569.4 million) (**the “A Loan”**) initially, representing 20% of the initial total loan amount.

In relation to Mezzanine Financier 1 and Mezzanine Financier 2, the amount of US\$100 million (equivalent to approximately HK\$780 million) and the amount of US\$192 million (equivalent to approximately HK\$1,497.6 million) respectively (together, the **“B Loan”**) initially, representing 80% of the initial total loan amount.

The total loan amount will be increased if new commitments are assumed by existing or eligible new lenders (including Mezzanine Financier 3). Please see the section headed “Accordion Increase” below.

Interest rate: 5% per annum

Repayment: The Loans will be subordinated to the senior loan facilities from banks. Subject to there being available cash, the accrued interest and principal on the Loans will be repaid only after paying the operating expenses of the CAG Group and repaying the accrued interest and principal on the senior loan facilities from banks.

Repayment of the accrued interest and principal on the A Loan will be subordinated to the repayment of the accrued interest and principal on the B Loan.

Lastly, any residual cash after full repayment of aircraft loan shall be shared among CALC and the Mezzanine Financiers at the agreed ratio.

If the remaining assets of CAG are insufficient to fully repay the relevant then-outstanding aircraft loan(s) advanced by the B Lenders, all repayments of principal on the A Loan made to the A Lender shall be subject to claw-back for the purpose of repayment of such shortfall.

Accordion Increase At any time after the date of the Shareholder Loan Agreement but in any event by no later than 30 September 2018, CAG may increase the commitments by an aggregate amount that is not greater than US\$200 million (equivalent to approximately HK\$1,560 million) and such commitments shall be assumed by one or more existing lenders and/or eligible new lenders. Each such lender shall subscribe for such number of new shares in CAG so that its shareholding in CAG will be proportionate to its commitment. The board of CAG shall also allot such number of shares to CALC and/or make such adjustments to the capital commitment of CALC such that the shareholder loan amount contributed by CALC and its shareholding in CAG will both remain at 20%. As at the

date of this announcement, Mezzanine Financier 3 intends to assume a commitment under the Shareholder Loan Agreement in the amount of approximately US\$38 million (equivalent to approximately HK\$296.4 million) by no later than 30 September 2018. Since it is intended that the shareholding of each of CALC and the Mezzanine Financiers is proportionate to its commitment under the Shareholder Loan Agreement, in the event that Mezzanine Financier 3's actual commitment under the Shareholder Loan Agreement turns out to be higher or lower than US\$38 million (equivalent to approximately HK\$296.4 million), its shareholding in CAG will be adjusted to reflect such actual commitment.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than the shareholding interest in CAG by the Company, CAG is a third party independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

CALC will finance the loan amount by its internal resources and the available banking facilities.

REASONS FOR AND BENEFITS OF THE ESTABLISHMENT OF CAG

The Directors are of the view that the establishment of CAG supports the Group's strategy of developing an asset light business model that provides vast capacity for its continuing business expansion. By providing aircraft and leasing management service to CAG, the Group further expands its asset management capabilities, hence strengthens its position as an aircraft full value-chain solutions provider for the global aviation industry. CAG also enables the Group to tap into the strong demand for quality aircraft assets with stable and long-term cash flow from investors, and to pull in resources to support the national Aviation Silk Road Initiative. The Group owns a fleet of 114 aircraft as at the date of this announcement.

Set out below is the business rationale of the Company for establishing CAG:

- 1** Lease portfolio management – the Group can allot the geographical risk by right aircraft type, age and mix of its aircraft lease portfolio as well as CAG;
- 2** Asset value management – the Group can create value to its Shareholders as well as to the Mezzanine Financiers for building CAG to invest in quality aircraft assets with stable and long term cash flow;
- 3** Aircraft portfolio adjustment – the Group can undergo fleet management by allocating the right aircraft type, age and mix (e.g. the combination of single-aisle aircraft and twin-aisle aircraft) of its aircraft portfolio as well as CAG;
- 4** Gaining market share through aircraft trading – the Group can increase its bargaining power for better pricing on OEM purchasing and aircraft leasing against airline customers/aircraft manufacturers and promoting the Group's reputation in the market. Meanwhile, CAG will benefit as well from buying the portfolio from the Group;

- 5 Supporting continued expansion – disposal of aircraft by the Group to CAG allows the Group to (a) gain resources for its continuing expansion through acquisition of aircraft from OEM or airline customers (through sale-and-lease back transactions) or secondary market trading; and (b) increase the fleet size managed by the Group to meet strong market demand in the aviation industry;
- 6 Continuing servicing and administration arrangements – the Group will provide management and administration services to CAG, ensuring that the aircraft assets owned by CAG are properly serviced. The Group will receive new source of the recurring income with respect to the servicing fees for providing such services; and
- 7 Gaining flexibility and access to capital – as the Group holds minor equity interest in CAG, the financial position of the Vehicle will not be consolidated into the Company's accounts. This means that the borrowing/credit of CAG will be separated from that of the Group, allowing better flexibility and easier access of capital for the Group when it seeks lending from financial institutions.

CAG will also be funded by other debt financing from banks. The Company will dispose of the Initial Aircraft Portfolio to CAG with a view to facilitating the establishment and to initiating the operations of CAG once the funding of CAG is in place.

While the Group is establishing CAG as one of the financing models which have been developed recently, the core business and the business model of the Group, being aircraft leasing and trading, will remain the key focus of the Group going forward.

The Directors confirm that the equity contribution in CAG and the provision of A Loan by CALC under the Shareholder Loan Agreement were made by the Company on arm's length basis in accordance with the Group's customary business practices and the terms of the equity contribution in CAG and the Shareholder Loan Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 14.22 of the Listing Rules, the equity contribution in CAG and the provision of A Loan by CALC under the Shareholder Loan Agreement will be aggregated as a single series of transaction.

As the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the aggregate investment amount of CALC in CAG (including the equity contribution in CAG and the provision of A Loan by CALC under the Shareholder Loan Agreement) exceed 5% but are less than 25%, the equity contribution in CAG and the provision of A Loan by CALC under the Shareholder Loan Agreement, when aggregated, constitute a disclosable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

INFORMATION ON THE GROUP, THE MEZZANINE FINANCIERS AND CAG

The Group is a one-stop aircraft full-life cycle solutions provider for global airlines. The scope of business of the Group includes regular operations such as aircraft operating leases through OEM orders or aircraft sale and leaseback transactions, structured financing, and other value-added services such as fleet planning, fleet replacement package deals, aircraft disassembling and component sales.

To the best of the Directors' knowledge, Mezzanine Financier 1 is an investment holding company and its parent company is a Chinese state-owned enterprise principally engaged in the insurance business.

To the best of the Directors' knowledge, Mezzanine Financier 2 is an investment holding company and its parent company is a Chinese state-owned enterprise principally engaged in the assets management business.

To the best of the Directors' knowledge, Mezzanine Financier 3 is an investment holding company and its parent company is a Chinese state-owned aviation conglomerate providing a wide range of services to customers in sectors from research and development to operation, manufacturing and financing.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, each of the Mezzanine Financiers and its respective ultimate beneficial owners are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

CAG is a company incorporated in Bermuda with limited liability and principally engaged in the business of investment in passenger commercial jet aircraft and disposal of such passenger commercial jet aircraft.

DEFINITIONS

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

"Aggregate Capital Commitment"	the aggregate committed amount of the shareholders of CAG from time to time, such amount being the sum of the total issued share capital of CAG and the aggregate drawn and undrawn amounts under the Shareholder Loan Agreement at such time
"A Lender"	CALC or any of its successors in title, permitted assigns and permitted transferees to, or of, its rights and/or obligations under the Shareholder Loan Agreement
"B Lender"	all Lenders under the Shareholder Loan Agreement, other than the A Lender
"Board"	the board of Directors
"CAG"	CAG Bermuda 1 Limited, a company incorporated in Bermuda with limited liability
"CAG Group"	CAG and its subsidiaries from time to time
"CALC"	CALC Bermuda Holdings Limited, a company incorporated in Bermuda with limited liability and an indirect wholly owned subsidiary of the Company
"Circular"	the circular of the Company dated 29 December 2017 relating to the disposal of the Initial Aircraft Portfolio and the specific mandated granted to the Directors by the Shareholders in the extraordinary general meeting of the Company on 18 January 2018

“Company”	China Aircraft Leasing Group Holdings Limited (中國飛機租賃集團控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Initial Aircraft Portfolio”	the portfolio of aircraft proposed to be disposed by the Company to CAG by the Company and the Mezzanine Financiers
“Initial Investment Period”	the period beginning on the date of the Shareholders’ Agreement and ending on the second anniversary of the later of (i) the date of the Shareholders’ Agreement and (ii) the date of the senior facilities agreement with banks
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan”	an A Loan or a B Loan
“Mezzanine Financier 1”	a company incorporated in the Cayman Islands with limited liability
“Mezzanine Financier 2”	a company incorporated in the British Virgin Islands with limited liability
“Mezzanine Financier 3”	a company incorporated in Hong Kong with limited liability
“Mezzanine Financiers”	Mezzanine Financier 1, Mezzanine Financier 2 and Mezzanine Financier 3
“PRC”	The People’s Republic of China
“Shareholders”	shareholders of the Company
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into among CALC, CAG, Mezzanine Financier 1, Mezzanine Financier 2 and Mezzanine Financier 3 upon completion of the Subscription Agreement
“Shareholder Loan Agreement”	the shareholder loan agreement dated 26 June 2018 entered into among CALC, Mezzanine Financier 1 and Mezzanine Financier 2 as lenders and CAG as borrower
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 26 June 2018 entered into between CAG, Mezzanine Financier 1, Mezzanine Financier 2 and Mezzanine Financier 3 in relation to the subscription of ordinary shares in CAG
“%”	per cent.

In this announcement, certain amounts denominated in US\$ are translated into HK\$ at the exchange rate shown below, but such conversions shall not be construed as representations that amounts in US\$ were or may have been converted into HK\$ at such rate or any other exchange rates or at all: US\$1 = HK\$7.80.

By order of the Board of
China Aircraft Leasing Group Holdings Limited
POON HO MAN
Executive Director and Chief Executive Officer

Hong Kong, 26 June 2018

As at the date of this announcement, (i) the Executive Directors are Mr. CHEN Shuang, JP, Mr. POON Ho Man and Ms. LIU Wanting; (ii) the Non-executive Director is Mr. TANG Chi Chun; 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.