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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 advisers.

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 transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)**

**CONTINUING CONNECTED TRANSACTIONS:**

**(I) RENEWAL OF THE EXISTING CE FRAMEWORK AGREEMENTS;  
AND**

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:**

**(II) THE SECOND ARI SUPPLEMENTAL SHAREHOLDERS' LOAN  
AND GUARANTEE AGREEMENT;**

**AND**

**(III) THE NEW ANNUAL CAPS FOR THE ARI SHAREHOLDERS'  
LOAN AND GUARANTEE AGREEMENT (AS SUPPLEMENTED BY  
THE SECOND ARI SUPPLEMENTAL SHAREHOLDERS' LOAN AND  
GUARANTEE AGREEMENT)**

**Independent Financial Adviser to  
the Independent Board Committee and the Shareholders**



**紅日資本有限公司**

**RED SUN CAPITAL LIMITED**

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A letter from the Board is set out on pages 9 to 33 of this circular. A letter from the Independent Board Committee is set out on pages 34 and 35 of this circular. A letter from Red Sun Capital Limited is set out on pages 36 to 69 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 Wednesday, 28 November 2018 at 9:30 a.m. is set out on pages 76 to 79 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.

6 November 2018

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“2015 First CE Announcement”	the announcement of the Company dated 14 May 2015 in relation to the continuing connected transactions between the Group and CE Group
“2015 Second CE Announcement”	the announcement of the Company dated 14 December 2015 in relation to the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement
“2016 ARI Circular”	the circular of the Company dated 10 June 2016 in relation to, among others, the entering into of the ARI Shareholders’ Loan and Guarantee Agreement and the continuing connected transactions contemplated thereunder
“2016 ARI Shareholders’ Loan and Guarantee Agreement Circular”	the circular of the Company dated 30 November 2016 in relation to, among others, the entering into of the First ARI Supplemental Shareholders’ Loan and Guarantee Agreement and the continuing connected transactions contemplated under the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the First ARI Supplemental Shareholders’ Loan and Guarantee Agreement)
“2016 Existing CE Framework Agreements Circular”	the circular of the Company dated 29 April 2016 in relation to the continuing connected transactions contemplated under the Existing CE Framework Agreements
“Aircraft Lessees”	airline operators which are lessees of aircraft under the relevant aircraft lease agreements entered into with members of the Group for the lease of aircraft legally owned by the Group
“Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement”	the agreement entered into between the Company and CE Group on 14 December 2015, which amended and restated the Original CE Assignment of Finance Lease Receivables Framework Agreement, and amended and supplemented by the First CE Supplemental Assignment of Finance Lease Receivables Framework Agreement. Please refer to the 2015 Second CE Announcement for details
“ARI”	Aircraft Recycling International Limited, a company incorporated in the Cayman Islands on 22 August 2014 and a commonly held entity (has the meaning ascribed to it in Rule 14A.27 of the Listing Rules) of the Company as at the Latest Practicable Date

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## DEFINITIONS

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“ARI Business”	<p>the business model of ARI broadly includes the following:</p> <ul style="list-style-type: none"><li>(i) purchasing, including direct purchase of aircraft, or purchase through portfolio trade with lease attached and purchase and leaseback arrangement;</li><li>(ii) selling, including direct sale, sale after re-certified and conditional sales lease;</li><li>(iii) leasing, including leasing of aircraft, engine and components;</li><li>(iv) disassembling, including disassembly and parting-out of aircraft and parts and components from the airframe;</li><li>(v) replacing, including replacing old components with new ones through the provision, exchange and sharing of serviceable components;</li><li>(vi) conversion, including conversion of passenger aircraft into a freighter and modification of aircraft components for other uses; and</li><li>(vii) maintenance repair and overhaul (MRO), including base maintenance, line maintenance, engine, auxiliary power unit and landing gear repair and management solutions and parts remanufacturing</li></ul>
“ARI Holdings”	Aircraft Recycling International Holdings Limited, a company incorporated in the British Virgin Islands on 24 February 2016 and a wholly-owned subsidiary of the Company
“ARI Shareholders”	ARI Holdings, China Aero, Sky Cheer and Neo Modern
“ARI Shareholders’ Loan and Guarantee Agreement”	the shareholders’ loan and guarantee agreement entered into between ARI and the ARI Shareholders on 6 April 2016, as supplemented and amended by the First ARI Supplemental Shareholders’ Loan and Guarantee Agreement, pursuant to which, among others, the ARI Shareholders will provide Shareholders’ Loan and guarantee to ARI. Please refer to the 2016 ARI Shareholders’ Loan and Guarantee Agreement Circular for details
“associate”	has the meaning ascribed thereto under Chapter 14A of the Listing Rules
“Board”	the board of Directors

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## DEFINITIONS

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“CE Aerospace”	China Everbright Aerospace Holdings Limited, a company incorporated in the Cayman Islands on 13 January 2009, a wholly-owned subsidiary of CE Limited and one of the substantial shareholders of the Company
“CE Bank”	China Everbright Bank Company Limited (中國光大銀行股份有限公司), a joint stock limited company incorporated in the PRC, and the H shares and the A shares of which are listed on the Stock Exchange (stock code: 6818) and the Shanghai Stock Exchange (stock code: SH601818) respectively, and is an associate of CE Group
“CE Group”	China Everbright Group Ltd.* (中國光大集團股份公司), a joint stock limited company incorporated in the PRC
“CE Hong Kong”	China Everbright Holdings Company Limited (中國光大集團有限公司), a company incorporated under the laws of Hong Kong with limited liability and a wholly-owned subsidiary of CE Group
“CE Limited”	China Everbright Limited (中國光大控股有限公司), a company incorporated under the laws of Hong Kong with limited liability, whose shares are listed on the Stock Exchange (stock code: 0165) and is indirectly owned as to approximately 49.7% by CE Hong Kong as at the Latest Practicable Date
“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 Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under Chapter 14A of the Listing Rules
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened and held on 28 November 2018, the notice of which is set out on pages 76 to 79 of this circular, and any adjournment thereof for the purpose of considering, and if thought fit, approving the Second CE Supplemental Agreements and the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement, and the New Annual Caps for the transactions contemplated under the Second CE Supplemental Agreements and the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement)
“Existing Annual Caps”	the existing annual caps for the transactions contemplated under the Existing CE Framework Agreements and the ARI Shareholders’ Loan and Guarantee Agreement
“Existing CE Deposit Services Framework Agreement”	the agreement entered into between the Company and CE Group on 14 May 2015, as supplemented and amended by the First CE Supplemental Deposit Services Framework Agreement, pursuant to which CE Group has agreed to provide, through CE Bank, deposit services to the Group in accordance with the terms thereunder. Please refer to the 2016 Existing CE Framework Agreements Circular for details
“Existing CE Framework Agreements”	the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement, the Existing CE Deposit Services Framework Agreement and the Existing CE Loan Services Framework Agreement
“Existing CE Loan Services Framework Agreement”	the agreement entered into between the Company and CE Group on 14 May 2015, as supplemented and amended by the First CE Supplemental Loan Services Framework Agreement, pursuant to which CE Group has agreed to provide, through CE Bank and/or the Trustee (as the case may be), loan services to the Group in accordance with the terms thereunder. Please refer to the 2016 Existing CE Framework Agreements Circular for details
“First ARI Supplemental Shareholders’ Loan and Guarantee Agreement”	the supplemental agreement to the shareholders’ loan and guarantee agreement entered into between ARI and ARI Shareholders on 14 November 2016
“First CE Supplemental Agreements”	the First CE Supplemental Assignment of Finance Lease Receivables Framework Agreement, the First CE Supplemental Deposit Services Framework Agreement and the First CE Supplemental Loan Services Framework Agreement

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## DEFINITIONS

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“First CE Supplemental Assignment of Finance Lease Receivables Framework Agreement”	the agreement entered into between the Company and CE Group on 8 April 2016 to amend certain terms of the agreement entered into between the Company and CE Group on 14 December 2015, which amended and restated the Original CE Assignment of Finance Lease Receivables Framework Agreement
“First CE Supplemental Deposit Services Framework Agreement”	the agreement entered into between the Company and CE Group on 8 April 2016 to amend certain terms of the Existing CE Deposit Services Framework Agreement
“First CE Supplemental Loan Services Framework Agreement”	the agreement entered into between the Company and CE Group on 8 April 2016 to amend certain terms of the Existing CE Loan Services Framework Agreement
“FLRs”	finance lease receivables under the relevant aircraft lease agreements entered into by members of the Group and Aircraft Lessees for the lease of aircraft legally owned by the Group
“FPAM”	Friedmann Pacific Asset Management Limited, a company incorporated in the British Virgin Islands and one of the substantial shareholders of the Company
“Guarantee Fee”	the guarantee fee payable by ARI to the Guarantor pursuant to the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental 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 pursuant to the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement)
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huijin Limited”	Central Huijin Investment Limited* (中央匯金投資有限責任公司), a company incorporated under the laws of the PRC with limited liability
“Independent Board Committee”	the independent committee of the Board comprising all of the independent non-executive Directors

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## DEFINITIONS

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“Independent Shareholders”	<p>(a) with respect to the Second CE Supplemental Agreements, Shareholders other than (i) CE Group and its associates; and (ii) any other Shareholders who are required by the Listing Rules to abstain from voting in respect of the resolution(s) relating to the Second CE Supplemental Agreements at the EGM; and</p> <p>(b) with respect to the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement), Shareholders other than (i) FPAM together with its associates; and (ii) CE Limited 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 Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement) at the EGM</p>
“Latest Practicable Date”	31 October 2018, 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
“MOF”	the Ministry of Finance of the PRC
“Neo Modern”	Neo Modern Limited, a company incorporated in the British Virgin Islands on 22 January 2016 and is a wholly-owned subsidiary of CE Limited
“New Annual Caps”	the proposed new annual caps for the years ending 31 December 2019, 2020 and 2021 for the transactions contemplated under the Second CE Supplemental Agreements and the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement)

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## DEFINITIONS

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“Original CE Assignment of Finance Lease Receivables Framework Agreement”	the agreement entered into between the Company and CE Group on 14 May 2015, pursuant to which the Group will assign to the Trustee the FLRs due from Aircraft Lessees related to aircraft leased by the Group to Aircraft Lessees in accordance with the terms thereunder for the years of 2015, 2016 and 2017. Please refer to the 2016 Existing CE Framework Agreements Circular for details
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC”	the People’s Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Red Sun” or “Independent Financial Adviser”	Red Sun Capital Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Shareholders in respect of the Second CE Supplemental Agreements and the transactions contemplated thereunder (including the New Annual Caps for the Second CE Supplemental Agreements), the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement)
“Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement”	the agreement entered into between ARI and ARI Shareholders on 15 October 2018 to amend certain terms of the ARI Shareholders’ Loan and Guarantee Agreement
“Second CE Supplemental Agreements”	the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement, the Second CE Supplemental Deposit Services Framework Agreement and the Second CE Supplemental Loan Services Framework Agreement
“Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement”	the agreement entered into between the Company and CE Group on 15 October 2018 to amend certain terms of the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement

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## DEFINITIONS

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“Second CE Supplemental Deposit Services Framework Agreement”	the agreement entered into between the Company and CE Group on 15 October 2018 to amend certain terms of the Existing CE Deposit Services Framework Agreement
“Second CE Supplemental Loan Services Framework Agreement”	the agreement entered into between the Company and CE Group on 15 October 2018 to amend certain terms of the Existing CE Loan Services Framework Agreement
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the Shares
“Shareholders’ Loan”	shareholders’ loan advanced by any of the ARI Shareholders to ARI pursuant to the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement)
“Shares”	share(s) with par value of HK\$0.10 each in the share capital of the Company
“Sky Cheer”	Sky Cheer International Limited, a company incorporated under the laws of Hong Kong with limited liability on 4 July 2008 and is owned by Li Yuze William and Li Weiwei Tony
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto under Chapter 1 of the Listing Rules
“Sun Life Everbright”	Sun Life Everbright Asset Management Co. Ltd.* (光大永明資產管理股份有限公司), a company incorporated under the laws of the PRC with limited liability
“Trustee”	the trustee of the relevant Trust Plans
“Trust Plans”	pooled investment funds trust plans of which the Trustee is a trustee and CE Group or any of its associates is a beneficiary of the trust plans
“%”	per cent

\* For identification purpose only



**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, *JP* (Chairman)  
Mr. Poon Ho Man (Chief Executive Officer)  
Ms. Liu Wanting  
(Deputy Chief Executive Officer)

*Registered office in the Cayman Islands:*

Maples Corporate Services Limited  
PO Box 309  
Ugland House  
Grand Cayman, KY1-1104  
Cayman Islands

*Non-executive Director:*

Mr. Tang Chi Chun

*Principal place of business in Hong Kong:*

28th Floor, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

*Independent non-executive Directors:*

Mr. Fan Yan Hok, Philip  
Mr. Nien Van Jin, Robert  
Mr. Cheok Albert Saychuan  
Mr. Chow Kwong Fai, Edward, *JP*

6 November 2018

*Dear Shareholders,*

**I. INTRODUCTION**

The Board refers to the announcement of the Company dated 15 October 2018 in relation to, among other things, (i) the Second CE Supplemental Agreements which renew the Existing CE Framework Agreements and the transactions contemplated thereunder (including the New Annual caps for the Second CE Supplemental Agreements), (ii) the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and (iii) the New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement).

The purpose of this circular is to provide you with information which will help you to make an informed decision on whether to vote for or against the resolutions to be proposed at the EGM in relation to (i) the Second CE Supplemental Agreements and the transactions contemplated thereunder (including the New Annual Caps for the Second CE Supplemental Agreements), (ii) the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and (iii) the New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement).

## II. CONTINUING CONNECTED TRANSACTIONS

### (1) Background Information

#### *The Second CE Supplemental Agreements*

Reference is made to the 2016 Existing CE Framework Agreements Circular in relation to the First CE Supplemental Agreements, pursuant to which, among others, the Company and CE Group extended the term of each of the Existing CE Framework Agreements to 31 December 2018. The transactions contemplated under the Existing CE Framework Agreements including the Existing Annual Caps were approved by the Shareholders at the extraordinary general meeting of the Company held on 17 May 2016. As the Existing CE Framework Agreements will expire on 31 December 2018, on 15 October 2018, the Company and CE Group entered into the Second CE Supplemental Agreements to extend the term of each of the Existing CE Framework Agreements to 31 December 2021.

#### *The Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement)*

Reference is also made to the 2016 ARI Circular and the 2016 ARI Shareholders' Loan and Guarantee Agreement Circular in relation to, among others, the entering into of the ARI Shareholders' Loan and Guarantee Agreement. In view of the continued development of the ARI business, the ARI Shareholders entered into the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement to revise the terms governing the Guarantee Fee and interest rate for the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement. Also, as the Board expects the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) will continue, the Board proposes that the New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) for each of the years ending 31 December 2019, 2020 and 2021 to be HK\$1,300 million respectively.

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## LETTER FROM THE BOARD

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### **(2) The Second CE Supplemental Deposit Services Framework Agreement**

The Company and CE Group have entered into the Second CE Supplemental Deposit Services Framework Agreement to extend the term of the Existing CE Deposit Services Framework Agreement. The principal terms of the Second CE Supplemental Deposit Services Framework Agreement are summarized below:

***Date***

15 October 2018

***Parties***

- (i) the Company; and
- (ii) CE Group

***Subject matter***

Pursuant to the Second CE Supplemental Deposit Services Framework Agreement, the parties have agreed to extend the term of the Existing CE Deposit Services Framework Agreement to 31 December 2021, subject to the Independent Shareholders' approval. Save as amended by the Second CE Supplemental Deposit Services Framework Agreement, all other terms of the Existing CE Deposit Services Framework Agreement (as disclosed below) shall remain unchanged.

***Transactions contemplated thereunder***

Provision of deposit services by CE Group, through CE Bank, to the Group.

***Payment***

The time and means of payment is to be agreed by the parties with reference to customary business terms through arm's-length negotiations, being normal commercial terms comparable to those for similar or comparable deposit services.

***Other terms***

The Existing CE Deposit Services Framework Agreement (as supplemented by the Second CE Supplemental Deposit Services Framework Agreement) shall be non-exclusive and the Company is at liberty to obtain deposit services from other third parties.

CE Group shall procure CE Bank to provide to the Group deposit services (including current and fixed term deposit) in accordance with rules and regulations prescribed by the PBOC and/or other relevant rules and regulations within or outside the PRC.

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**LETTER FROM THE BOARD**

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The deposit services to be provided by CE Group shall be on normal commercial terms which are arrived upon arm's-length negotiations and are no less favourable than:

- (i) terms available to the Group from independent third parties; and
- (ii) the most favourable terms offered by CE Bank to independent third party customers for similar or comparable deposit services.

***Historical figures, the Existing Annual Caps and the New Annual Caps***

The following table sets out the amount of historical transactions for deposit services provided by CE Bank to the Group:

	<b>For the year ended</b>		<b>For the nine months ended</b>
	<b>31 December 2016</b>	<b>31 December 2017</b>	<b>30 September 2018</b>
	<b>Actual Amount</b>	<b>Actual Amount</b>	<b>Actual Amount</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Maximum daily closing balance of deposits (including interests accrued thereon)</b>	1,974,000	3,043,000	2,926,000

The following table sets out the Existing Annual Caps for the continuing connected transactions contemplated under the Existing CE Deposit Services Framework Agreement:

	<b>For the year ended</b>		<b>For the year ending</b>
	<b>31 December 2016</b>	<b>31 December 2017</b>	<b>31 December 2018</b>
	<b>Annual Cap</b>	<b>Annual Cap</b>	<b>Annual Cap</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Maximum daily closing balance of deposits (including interests accrued thereon)</b>	2,741,000	3,182,000	3,843,000

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## LETTER FROM THE BOARD

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The following table sets out the New Annual Caps for the continuing connected transactions contemplated under the Existing CE Deposit Services Framework Agreement (as supplemented by the Second CE Supplemental Deposit Services Framework Agreement):

	For the year ending		
	31 December	31 December	31 December
	2019	2020	2021
	Annual Cap	Annual Cap	Annual Cap
	(Note)	(Note)	(Note)
	HK\$'000	HK\$'000	HK\$'000
<b>Maximum daily closing balance of deposits (including interests accrued thereon)</b>	3,843,000	3,843,000	3,843,000

*Note:* The New Annual Caps represent the maximum daily closing balance of deposits (including the annual interest accrued thereon).

### ***Pricing basis***

The interest rate for deposit services shall be based on normal commercial terms, agreed through arm's-length negotiations between the parties and is no less favourable than:

- (i) the terms available to the Group from independent third parties; and
- (ii) the most favorable terms (including but not limited to interest rate) offered by CE Bank to independent third party customers for similar or comparable deposit services.

### ***Basis for the New Annual Caps for the transactions contemplated under the Second CE Supplemental Deposit Services Framework Agreement***

The Directors consider that it is in the interests of the Company and the Shareholders as a whole to enter into the transactions under the terms and conditions set out in the Second CE Supplemental Deposit Services Framework Agreement. The Directors have determined the New Annual Caps for the deposit services with reference to a number of factors, including, among other things, (i) the historical figures of the maximum closing balance (including interest accrued thereon) of deposit in previous years, (ii) the expected interest income offered by CE Bank to the Group as compared with interest income that could otherwise be obtained by placing deposits with other commercial banks and (iii) the business development plans and financial needs of the Group.

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## LETTER FROM THE BOARD

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### **(3) The Second CE Supplemental Loan Services Framework Agreement**

The Company and CE Group have entered into the Second CE Supplemental Loan Services Framework Agreement to extend the term of the Existing CE Loan Services Framework Agreement. The principal terms of the Second CE Supplemental Loan Services Framework Agreement are summarized below:

***Date***

15 October 2018

***Parties***

- (i) the Company; and
- (ii) CE Group

***Subject matter***

Pursuant to the Second CE Supplemental Loan Services Framework Agreement the parties have agreed to extend the term of the Existing CE Loan Services Framework Agreement to 31 December 2021, subject to the Independent Shareholders' approval. Save as amended by the Second CE Supplemental Loan Services Framework Agreement, all other terms of the Existing CE Loan Services Framework Agreement (as disclosed below) shall remain unchanged.

***Transactions contemplated thereunder***

- (i) Provision of secured loan services and guarantees by CE Group, through CE Bank, to the Group; and
- (ii) Provision of secured loan services by CE Group, through the Trustee using funds of a Trust Plan of which CE Group or any of its associates is a beneficiary, to the Group.

***Payment***

The time and means of payment is to be agreed by the parties with reference to customary business terms through arm's-length negotiations, being normal commercial terms comparable to those for similar or comparable loan services or guarantees.

***Other terms***

The Existing CE Loan Services Framework Agreement (as supplemented by the Second CE Supplemental Loan Services Framework Agreement) shall be non-exclusive and the Company is at liberty to obtain loan services or guarantees from other third parties.

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## LETTER FROM THE BOARD

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CE Group shall procure CE Bank and/or the Trustee, as the case may be, to provide to the Group loans and guarantees (including revolving credit facility and fixed term loan), subject to security over the assets of the Group, in accordance with rules and regulations prescribed by the PBOC and/or other relevant rules and regulations within or outside the PRC.

The loan services and guarantees to be provided by CE Group shall be on normal commercial terms which are arrived upon arm's-length negotiations and are no less favourable than:

- (i) terms available to the Group from independent third parties of comparable credit standing; and
- (ii) the most favourable terms offered by CE Bank and/or the Trustee, as the case may be, to independent third party customers for similar or comparable loan services or guarantees.

### *Historical figures, the Existing Annual Caps and the New Annual Caps*

The following table sets out the amount of historical transactions for loan services and guarantee provided by CE Bank and the Trustee to the Group:

	For the year ended		For the nine
	31 December	31 December	months ended
	2016	2017	30 September
	Actual	Actual	Actual
	Amount	Amount	Amount
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Maximum daily closing balance of loans (including guarantee)</b>	3,164,000	4,052,000	4,594,000

The following table sets out the Existing Annual Caps for the continuing connected transactions contemplated under the Existing CE Loan Services Framework Agreement:

	For the year ended		For the
	31 December	31 December	year ending
	2016	2017	31 December
	Annual Cap	Annual Cap	Annual Cap
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Maximum daily closing balance of loans (including guarantee)</b>	8,146,000	14,082,000	18,214,000

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## LETTER FROM THE BOARD

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The following table sets out the New Annual Caps for the continuing connected transactions contemplated under the Existing CE Loan Services Framework Agreement (as supplemented by the Second CE Supplemental Loan Services Framework Agreement):

	For the year ending		
	31 December	31 December	31 December
	2019	2020	2021
	Annual Cap	Annual Cap	Annual Cap
	(Note)	(Note)	(Note)
	HK\$'000	HK\$'000	HK\$'000
<b>Maximum daily closing balance of loans (including guarantee)</b>	18,214,000	18,214,000	18,214,000

*Note:* The New Annual Caps represent the maximum daily closing balance of loans (including guarantee).

### ***Pricing basis***

The interest rate for loan services shall be based on normal commercial terms, agreed through arm's-length negotiations between the parties and is no less favourable than:

- (i) the terms available to the Group from independent third parties of comparable credit standing; and
- (ii) the most favorable terms (including but not limited to interest rate) offered by CE Bank and/or the Trustee, as the case may be, to independent third party customers for similar or comparable loan services.

### ***Basis for the New Annual Caps for the transactions contemplated under the Second CE Supplemental Loan Services Framework Agreement***

The Directors consider that it is in the interests of the Company and the Shareholders as a whole to enter into the transactions under the terms and conditions set out in the Second CE Supplemental Loan Services Framework Agreement. The Directors have determined the New Annual Caps for the loan services and guarantee with reference to a number of factors, including, among other things, (i) the historical figures of the maximum closing balance of loans (including the guarantees) in previous years, (ii) the business development plans and financial needs of the Group and (iii) the economic uncertainties in the coming few years that the Group may have more financing needs.

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## LETTER FROM THE BOARD

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The Group has continued to increase its financing flexibility by reaching out to diversified financing channels other than CE Group, including issuance of US\$1,100 million bonds and RMB330 million medium-term notes in the prior years. In the future, the Group may obtain more loans from CE Group if it offers greater financing flexibility for the Group to capture market opportunities. Based on the projected increase in fleet size with 189 aircraft in its order book as at 30 June 2018, there is an increase in needs for loan financing by the Group. As such, an expected increase from historical transaction amount was taken into account when determining the New Annual Caps in order to cater for potential business growth and to preserve the flexibility in using different financing channels.

#### **(4) The Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement**

The Company and CE Group have entered into the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement to extend the term of the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement. The principal terms of the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement are summarized below:

##### ***Date***

15 October 2018

##### ***Parties***

- (i) the Company; and
- (ii) CE Group

##### ***Subject matter***

Pursuant to the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement, the parties have agreed to extend the term of the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement to 31 December 2021, subject to the Independent Shareholders' approval. Save as amended by the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement, all other terms of the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement (as disclosed below) shall remain unchanged.

##### ***Transactions contemplated thereunder***

Assignment of the FLRs by the Group to associates of CE Group (including but not limited to CE Bank and the Trustee of a Trust Plan of which Sun Life Everbright is one of the beneficiaries).

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**LETTER FROM THE BOARD**

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***Payment***

The time and means of payment is to be agreed by the parties with reference to customary business terms through arm's-length negotiations, being normal commercial terms comparable to those for similar or comparable assignment of FLRs.

***Other terms***

The assignment of FLRs by the Group to CE Group shall be on normal commercial terms which is arrived upon arm's-length negotiations and is no less favourable than the terms offered by the Group to independent third parties for similar or comparable assignments.

***Historical figures, the Existing Annual Caps and the New Annual Caps***

The following table sets out the amount of historical transactions for assignment of FLRs by the Group to CE Group:

	<b>For the year ended</b>		<b>For the nine</b>
	<b>31 December</b>	<b>31 December</b>	<b>months ended</b>
	<b>2016</b>	<b>2017</b>	<b>30 September</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Total consideration</b>	3,937,000	2,529,000	Nil

The following table sets out the Existing Annual Caps for the continuing connected transactions contemplated under the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement:

	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>	<b>31 December</b>	<b>year ending</b>
	<b>2016</b>	<b>2017</b>	<b>31 December</b>
	<b>Annual Cap</b>	<b>Annual Cap</b>	<b>Annual Cap</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Total consideration</b>	7,020,000	7,020,000	7,020,000

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## LETTER FROM THE BOARD

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The following table sets out the New Annual Caps for the continuing connected transactions contemplated under the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement (as supplemented by the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement):

	For the year ending		
	31 December	31 December	31 December
	2019	2020	2021
	Annual Cap	Annual Cap	Annual Cap
	HK\$'000	HK\$'000	HK\$'000
<b>Total consideration</b>	7,020,000	7,020,000	7,020,000

### *Pricing basis*

The consideration in respect of the assignment of FLRs shall be based on normal commercial terms, agreed through arm's-length negotiations between the parties and is no less favourable than the terms offered by the Group to independent third parties for similar or comparable assignments.

### *Basis for the New Annual Caps for the transactions contemplated under the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement*

The Directors consider that it is in the interests of the Company and the Shareholders as a whole to enter into the transactions under the terms and conditions set out in the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement. The Directors have determined the New Annual Caps for the assignment of FLRs with reference to a number of factors, including, among other things, (i) the historical figures of the total consideration in respect of assignment of FLRs in previous years, which have taken into account the carrying value of the FLRs and (ii) the business development plans of the Group. In light of the economic uncertainties in the coming few years, the Directors consider that there may be a higher utilisation of the annual cap for transactions contemplated under the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement in order to allow the Group to maintain the Group's profitability amid the economic uncertainty by utilising this source of income.

The Group has increased the assignment of FLRs with independent third parties in prior years to expand the investor base. Although no FLR had been assigned to CE Group since 1 January 2018 and up to 30 September 2018 as terms offered by CE Group for assignment of FLRs during the period were not as favourable as those offered by independent third parties, the Group may enter into more assignment of FLRs with CE Group and its associates in the future if it permits greater financing flexibility for the Group to capture market opportunities. Based on the projected increase in fleet size with 189 aircraft in

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## LETTER FROM THE BOARD

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its order book as at 30 June 2018, there will be an increase in assignment of FLRs. As such, an expected increase from historical transaction amount was taken into account when determining the New Annual Caps in order to cater for potential business growth.

### **(5) The Second ARI Supplemental Shareholders' Loan and Guarantee Agreement**

On 6 April 2016, the Group entered into the ARI Shareholders' Loan and Guarantee Agreement, pursuant to which, among others, ARI Shareholders agreed to provide Shareholders' Loan to ARI on certain terms (as disclosed below). In view of the continued development of the ARI Business, ARI Shareholders entered into the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement to revise the terms governing the Guarantee Fee and interest rate for the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Shareholders' Loan and Guarantee Agreement).

#### *Date*

15 October 2018

#### *Parties*

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

#### *Subject matter*

Pursuant to the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement, the parties have agreed to revise (a) the interest rate of the Shareholders' Loan from 4% to 3% per annum above the Hong Kong dollar prime lending rate quoted by The Bank of China (Hong Kong) Limited from time to time; and (b) the Guarantee Fee from 4% to 3% per annum of the principal amount of the bank loan guaranteed by the Guarantor. Such revision is based on the improved financial background and stronger external fund raising abilities of ARI with lower borrowing cost.

Save as amended by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement, all other terms and conditions of the ARI Shareholders' Loan and Guarantee Agreement shall remain unchanged.

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## LETTER FROM THE BOARD

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### *Transactions contemplated thereunder*

Below are further details of the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement):

(i) *Shareholders' Loan*

In the event ARI raises Shareholders' Loan from ARI Shareholders, each ARI Shareholder shall have a right (but not the obligation) to advance 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 Shareholders' Loan shall automatically be deemed to be accepted by the ARI Shareholders who have indicated to ARI a desire to advance the whole or part of such unaccepted participation.

(ii) *Loan note*

Against receipt of the payment for an advance under a Shareholders' Loan, ARI shall issue a 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;
- (c) the principal amount set forth in a loan note shall be subject to interest at the rate of 3% per annum above the Hong Kong dollar 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.

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## LETTER FROM THE BOARD

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*(iii) Guarantee*

In the event ARI raises 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.

*(iv) 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 the Guarantee Fee equal to 3% per annum of the principal amount of the bank loans guaranteed by such Guarantor. 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 not an ARI Shareholder, ARI shall enter into an agreement with such Guarantor setting out the payment of the Guarantee Fee by ARI to such Guarantor.

*(v) 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. 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.

***Proposal of New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement***

As the Board expects the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement, details of which were mentioned above) will continue, the Board proposes that the New Annual Caps for each of the years ending 31 December 2019, 2020 and 2021 to be HK\$1,300 million, respectively.

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**LETTER FROM THE BOARD**

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*Historical figures, the Existing Annual Caps and the New Annual Caps*

The following table sets out the amount of historical transactions for the Shareholders' Loan advanced by any ARI Shareholder to ARI:

	<b>For the year ended</b>		<b>For the nine</b>
	<b>31 December</b>	<b>31 December</b>	<b>months ended</b>
	<b>2016</b>	<b>2017</b>	<b>30 September</b>
	<b>Actual</b>	<b>Actual</b>	<b>2018</b>
	<b>Amount</b>	<b>Amount</b>	<b>Actual</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Maximum daily closing balance of loans (including guarantee fee and interests accrued thereon)</b>	442,000	1,168,000	1,149,000

The following table sets out the Existing Annual Caps for the continuing connected transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement:

	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>	<b>31 December</b>	<b>year ending</b>
	<b>2016</b>	<b>2017</b>	<b>31 December</b>
	<b>Annual Cap</b>	<b>Annual Cap</b>	<b>2018</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<b>Annual Cap</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Maximum daily closing balance of loans (including guarantee fee and interests accrued thereon)</b>	1,300,000	1,300,000	1,300,000

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## LETTER FROM THE BOARD

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The following table sets out the New Annual Caps for the continuing connected transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement):

	For the year ending		
	31 December	31 December	31 December
	2019	2020	2021
	Annual Cap	Annual Cap	Annual Cap
	(Note)	(Note)	(Note)
	HK\$'000	HK\$'000	HK\$'000
<b>Maximum daily closing balance of loans (including guarantee fee and interests accrued thereon)</b>	1,300,000	1,300,000	1,300,000

*Note:* The New Annual Caps represent the maximum principal loans outstanding (including the principal loans guaranteed by the Group) together with annual interest and annual Guarantee Fee amount.

### ***Pricing basis***

The interest rate of the Shareholders' Loan and the rate of Guarantee Fee were determined after arm's length negotiation between ARI and ARI Shareholders, having taken into account the satisfactory financial background of ARI, the market terms from external banks for unsecured borrowings available to ARI and ARI's capital requirements in the future.

### ***Basis for the New Annual Caps for the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement)***

The New Annual Caps represent the maximum principal loans outstanding (including the principal loans guaranteed by the Group) together with annual interest and annual Guarantee Fee amount. The New Annual Caps were determined with reference to factors including (i) the ongoing business development and operational expenses as well as other financial needs of ARI and (ii) potential expansion of the existing business of ARI 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 2021 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, provide the Shareholders' Loan and/or guarantee required by ARI, the New Annual Caps may not be fully utilised.

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## LETTER FROM THE BOARD

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### (6) Reasons for and Benefits of the Continuing Connected Transactions

#### *The Second CE Supplemental Agreements*

In respect of the Second CE Supplemental Agreements, as mentioned in the 2015 First CE Announcement, the Existing CE Deposit Services Framework Agreement and the loans (including guarantees) from CE Bank under the Existing CE Loan Services Framework Agreement have allowed the Group to enjoy cost-efficient and expedient financial services provided by CE Bank which has a thorough understanding of the needs of the Group. Also, the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement which provides for assignment of FLRs to CE Group, through CE Bank or the Trustee, and the borrowing from CE Group, through CE Bank or the Trustee, under the Existing CE Loan Services Framework Agreement will improve the Group's profitability and enhance its financial resources and bring other financial benefits. As such, the Directors consider that it will be beneficial to continue to carry out the transactions contemplated under the Existing CE Framework Agreements which will expire on 31 December 2018; and therefore entered into the Second CE Supplemental Framework Agreements to extend the term of each of the Existing CE Framework Agreements to 31 December 2021.

#### *The Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as Supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement)*

As mentioned in the 2016 ARI Circular and the 2016 ARI Shareholders' Loan and Guarantee Agreement Circular, the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) is an arrangement to facilitate ARI, which is still at its early stage of development, in meeting its funding requirements with flexibility while it sources external financing channels. The Directors consider that it will be beneficial to continue the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) in view of the continued development of the ARI business.

#### *General*

The terms of the Second CE Supplemental Agreements, the ARI Shareholders' Loan and Guarantee Agreement and the Second ARI Supplemental Shareholders Loan and Guarantee Agreement have been agreed upon arm's-length negotiations between the parties of the agreements.

The Directors are of the view that (i) the continuing connected transactions contemplated under the Second CE Supplemental Agreements and the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second

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## LETTER FROM THE BOARD

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ARI Supplemental Shareholders' Loan and Guarantee Agreement) will be carried out in the ordinary and usual course of business of the Company; (ii) the terms of the Second CE Supplemental Agreements, the ARI Shareholders' Loan and Guarantee Agreement and the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement are normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and (iii) the New Annual Caps for the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

### **(7) Internal Control Measures for the Continuing Connected Transactions**

To safeguard the interest of the Group, the Group has adopted and will continue to adhere to the following internal control measures in respect of the deposit services provided by CE Group under the Existing CE Deposit Services Framework Agreement (as supplemented by the Second CE Supplemental Deposit Services Framework Agreement), the loan services provided by CE Group under the Existing Loan Services Framework Agreement (as supplemented by the Second CE Supplemental Loan Services Framework Agreement) and the assignment of FLRs carried out between the Group and associates of CE Group under the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement (as supplemented by the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement) and the Shareholders' Loan and guarantee provided by the Group under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement).

#### ***Deposit services under the Second CE Supplemental Deposit Services Framework Agreement***

The Group has adopted and will continue to adhere to the following review process and assessment criteria when obtaining deposit services from CE Group under the Second CE Supplemental Deposit Services Framework Agreement:

- (1) the designated staff from the finance & accounting department of the Company will closely monitor the closing balance of deposits (including interests accrued thereon) of the Group with CE Group on a daily basis to ensure that it does not exceed the stipulated annual caps;
- (2) prior to placing deposits with CE Group, the designated staff from the finance & accounting department of the Company will seek quotations from one to three independent major commercial bank(s) for similar types of deposit services offered by such major commercial banks and will compare them against the interest rates and terms offered by CE Group to ensure that the interest rates and terms offered by CE Group are based on normal commercial terms, agreed through arm's-length negotiations between the parties and are not less favourable than those provided by independent commercial banks; and

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## LETTER FROM THE BOARD

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- (3) the independent non-executive Directors and the risk management & compliance department of the Company will review at least every six months the status of deposit services provided by CE Group to ensure the Group has complied with internal approval process, the terms of the Second CE Supplemental Deposit Services Framework Agreement and the relevant Listing Rules.

### *Loan services under the Second CE Supplemental Loan Services Framework Agreement*

The Group has adopted and will continue to adhere to the following review process and assessment criteria when obtaining loan services from CE Group under the Second CE Supplemental Loan Services Framework Agreement:

- (1) the designated staff from the finance & accounting department of the Company will closely monitor the outstanding loan balances (including the guarantees) of the Group on a daily basis to ensure that it does not exceed the stipulated annual caps;
- (2) prior to entering into a loan service or guarantee transaction contemplated under the Second CE Supplemental Loan Services Framework Agreement, the designated staff from the finance & accounting department of the Company will seek quotations from one to three independent major commercial bank(s) for similar types of loans offered by such major commercial banks and will compare them against the interest rates and terms offered by CE Group to ensure that the interest rates and terms offered by CE Group are based on normal commercial terms, agreed through arm's-length negotiations between the parties and are not less favourable than those provided by independent commercial banks; and
- (3) the independent non-executive Directors and the risk management & compliance department of the Company will review at least every six months the status of loan services provided by CE Group to ensure the Group has complied with internal approval process, the terms of the Second CE Supplemental Loan Services Framework Agreement and the relevant Listing Rules.

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## LETTER FROM THE BOARD

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### *The assignment of FLRs under the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement*

The Group has adopted and will continue to adhere to the following review process and assessment criteria when carrying out assignment of FLRs with CE Group under the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement:

- (1) the designated staff from the finance & accounting department of the Company will closely monitor aggregate transactions of the Group with CE Group against the underlying framework agreement to ensure that it does not exceed the stipulated annual caps;
- (2) the assessment must ensure the transaction terms are negotiated and agreed on arm's-length basis and that such terms do not favor CE Group. Detailed benchmarking against one to three comparable historical transaction(s) and current market conditions will be performed by an independent transaction department with staff who are certified public accountants or chartered financial analysts, and will be a reference for decision making; and
- (3) The independent non-executive Directors and the risk management & compliance department will review every six months the status of assignment of FLRs by the Group to CE Group to ensure the Group has complied with internal approval process, the terms of the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement and the relevant Listing Rules.

### *Shareholders' Loan and guarantee under the ARI Shareholders' Loan and Guarantee Agreement*

The Group has adopted and will continue to adopt the following review process and assessment criteria when providing Shareholders' Loan and guarantee pursuant to the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Loan and Guarantee Agreement):

- (1) the designated staff from the finance & accounting department of the Company will closely monitor the amount of the Shareholders' Loan and guarantee required by ARI to be provided by the Group on a monthly basis to ensure that it does not exceed the proposed annual monetary caps; and
- (2) the independent non-executive Directors and the risk management & compliance department of the Company will review at least every six months the status of the Shareholders' Loan and/or guarantee provided by the Group to ensure that the Group has complied with the internal approval process, the terms of the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Loan and Guarantee Agreement) and the relevant Listing Rules.

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## LETTER FROM THE BOARD

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As the Group has established adequate and appropriate internal control procedures to review the continuing connected transactions, the Directors (including all independent non-executive Directors) consider that such procedures can effectively ensure that the continuing connected transactions under the Second CE Supplemental Deposit Services Framework Agreement, the Second CE Supplemental Loan Services Framework Agreement, the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement and the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) will be conducted on normal commercial terms, fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

### **(8) Listing rules implications**

#### *The Second CE Supplemental Agreements*

In relation to the Second CE Supplemental Agreements, as at the Latest Practicable Date, CE Group is the sole shareholder of CE Hong Kong. CE Hong Kong is the indirect controlling shareholder of CE Limited which indirectly holds approximately 49.7% equity interest in CE Limited. CE Limited in turn indirectly holds approximately 34.0% equity interest in the Company. Accordingly, CE Group is a controlling shareholder of the Company, and CE Group and its associates are connected persons of the Company. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, CE Bank is an associate of CE Group. The transactions contemplated under the Existing CE Framework Agreements (as supplemented by the Second CE Supplemental Agreements) constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) exceeds 5%, the transactions contemplated under each of the Existing CE Framework Agreements (as supplemented by the Second CE Supplemental Agreements) constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### *The Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement)*

In relation to the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement), as at the Latest Practicable Date, as ARI is a commonly held entity (has the meaning ascribed to it in Rule 14A.27 of the Listing Rules) of the Company, the transactions contemplated thereunder constitute continuing connected transactions for the Company under Rule 14A.26 of the Listing Rules. Furthermore, pursuant to Rule

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## LETTER FROM THE BOARD

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14.04(1)(e) of the Listing Rules, the provision of financial assistance to ARI constitutes discloseable transactions for the Company under Chapter 14 of the Listing Rules.

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

### *General*

Three directors of ARI, namely, Mr. Chen Shuang (who is also an executive director and the chief executive officer of CE Limited as well as an executive Director and the Chairman of the Company), Mr. Tang Chi Chun (who is also an executive director of CE Limited and the non-executive Director of the Company) and Mr. Poon Ho Man (who is also the sole director and the ultimate beneficial owner of China Aero as well as an executive Director and the Chief Executive Officer of the Company) have abstained from voting on the relevant resolutions of the Board.

## **(9) General information of the parties**

### *The Company*

The Company is principally engaged in the global aircraft leasing business with a fleet of 111 owned and 14 managed aircraft respectively as at the Latest Practicable Date.

### *CE Group and its associates*

CE Group was incorporated as a joint stock company with limited liability in the PRC and is owned as to 44.33% and 55.67% by MOF and Huijin Limited respectively. CE Group is a conglomerate which, through its subsidiaries and associates, engages in a diverse range of businesses including banking, securities and asset management.

CE Bank was incorporated as a joint stock company with limited liability in the PRC and is one of the major commercial banks in the PRC. CE Bank primarily engages in the commercial banking business, including retail banking, corporate banking and treasury operation, etc.

Sun Life Everbright is a company incorporated in the PRC on 2 March 2012. Sun Life Everbright is principally engaged in the business of fund management trustee services and insurance asset management services.

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## LETTER FROM THE BOARD

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### *ARI and ARI Shareholders*

ARI was incorporated in the Cayman Islands on 22 August 2014 and is held by the Company (through ARI Holdings), Sky Cheer, China Aero and Neo Modern as to 48%, 20%, 18% and 14% respectively as at the Latest Practicable Date. ARI is principally engaged in the ARI Business.

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

Sky Cheer is an investment holding company incorporated in Hong Kong on 4 July 2008 and is owned by Li Yuze William and Li Weiwei Tony. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of Sky Cheer and its ultimate shareholders are third parties independent of the Company and its connected persons.

China Aero is an investment holding company incorporated in the Cayman Islands on 30 January 2012 and is wholly and beneficially owned by FPAM. As at the Latest Practicable Date, FPAM together with its associates are interested in 197,554,589 Shares, representing approximately 29.2% of the issued share capital of the Company, and hence a substantial shareholder of the Company. Accordingly, China Aero is a connected person of the Company.

Neo Modern is an investment holding company incorporated in the British Virgins Islands on 22 January 2016 and a wholly-owned subsidiary of CE Limited. CE Limited is a member of CE Group. As at the Latest Practicable Date, CE Limited is interested in 230,595,479 Shares, representing approximately 34.0% of the issued share capital of the Company, and hence a substantial shareholder of the Company. Accordingly, Neo Modern is a connected person of the Company.

### **III. RECOMMENDATION**

Based on its views set out above, the Board recommends that the Independent Shareholders vote in favour of the resolutions concerning the Second CE Supplemental Agreements and the transactions contemplated thereunder (including the New Annual Caps for the Second CE Supplemental Agreements for the years of 2019, 2020 and 2021), the Second ARI Shareholders' Loan and Guarantee Agreement and the New Annual Caps for the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement).

Your attention is drawn to the letter from the Independent Board Committee to the Shareholders, the text of which is set out on pages 34 and 35 of this circular. Your attention is also drawn to the letter from Red Sun which contains its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 36 to 69 of this circular. The Independent Board Committee, having taken into account the advice of Red Sun, considers that (i) the transactions contemplated under the Second CE

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## LETTER FROM THE BOARD

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Supplemental Deposit Services Framework Agreement, the Second CE Supplemental Loan Services Framework Agreement, the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement and the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) will be carried out in the ordinary course of business of the Group; (ii) the terms of the Second CE Supplemental Deposit Services Framework Agreement, the Second CE Supplemental Loan Services Framework Agreement, the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement and the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) are normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and (iii) the proposed New Annual Caps under the Second CE Supplemental Deposit Services Framework Agreement, the Second CE Supplemental Loan Services Framework Agreement, the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement and the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) for the years of 2019, 2020 and 2021 are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Independent Board Committee recommends that the Independent Shareholders should vote in favour of the resolutions concerning the Second CE Supplemental Agreements and the transactions contemplated thereunder (including the New Annual Caps for the Second CE Supplemental Agreements for the years of 2019, 2020 and 2021), the Second ARI Shareholders' Loan and Guarantee Agreement and the New Annual Caps for the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) to be proposed at the EGM.

#### **IV. THE EGM AND SHAREHOLDERS' APPROVAL**

The EGM will be held at Cliftons Hong Kong, 508–520 Hutchison House, 10 Harcourt Road, Central, Hong Kong on Wednesday, 28 November 2018 at 9:30 a.m. A notice to convene the EGM is set out on pages 76 to 79 of this circular.

At the EGM, ordinary resolutions will be proposed to approve (i) the Second CE Supplemental Deposit Services Framework Agreement and the transactions contemplated thereunder, including the New Annual Caps for transactions for the years of 2019, 2020 and 2021, (ii) the Second CE Supplemental Loan Services Framework Agreement and the transactions contemplated thereunder, including the New Annual Caps for transactions for the years of 2019, 2020 and 2021, (iii) the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement and the transactions contemplated thereunder, including the New Annual Caps for transactions for the years of 2019, 2020 and 2021, and (iv) the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement, including the New Annual Caps for the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) for the years of 2019, 2020 and 2021.

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## LETTER FROM THE BOARD

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CE Group (which is the holder of 100% of the issued share capital of CE Hong Kong as at the Latest Practicable Date), CE Hong Kong (which beneficially holds approximately 49.7% of CE Limited's existing total issued share capital through its wholly-owned subsidiaries as at the Latest Practicable Date) and CE Limited (which beneficially holds approximately 34.0% of the Company's total issued share capital as at the Latest Practicable Date) and their respective associates will be required to abstain from voting at the EGM with respect to the ordinary resolutions in connection with the Second CE Supplemental Agreements and the transactions contemplated thereunder (including the New Annual caps for the Second CE Supplemental Agreements). As at the Latest Practicable Date, CE Group, CE Hong Kong, CE Limited and their respective associates together held 230,595,479 Shares of the Company.

FPAM (which hold approximately 29.2% of the issued share capital of the Company as at the Latest Practicable Date) and CE Limited (which hold approximately 34.0% of the issued share capital of the Company as at the Latest Practicable Date) and their respective associates will be required to abstain from voting at the EGM with respect to the ordinary resolutions in connection with the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and the New Annual Caps for transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement). As at the Latest Practicable Date, CE Limited and its associates held 230,595,479 Shares of the Company, and FPAM and its associates held 197,554,589 Shares of the Company.

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 Friday, 23 November 2018 to Wednesday, 28 November 2018 (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 on Wednesday, 28 November 2018 will be entitled to attend and vote at the EGM.

### V. FURTHER INFORMATION

Your attention is also drawn to the additional information set out on pages 70 to 75 of this circular.

Yours faithfully,  
By order of the Board  
**China Aircraft Leasing Group Holdings Limited**  
**POON HO MAN**  
*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 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)**

6 November 2018

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS:**  
**(I) RENEWAL OF THE EXISTING CE FRAMEWORK AGREEMENTS;**  
**AND**  
**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:**  
**(II) THE SECOND ARI SUPPLEMENTAL SHAREHOLDERS' LOAN**  
**AND GUARANTEE AGREEMENT;**  
**AND**  
**(III) THE NEW ANNUAL CAPS FOR THE ARI SHAREHOLDERS'**  
**LOAN AND GUARANTEE AGREEMENT (AS SUPPLEMENTED BY**  
**THE SECOND ARI SUPPLEMENTAL SHAREHOLDERS' LOAN AND**  
**GUARANTEE AGREEMENT)**

We refer to the circular of the Company (the “**Circular**”) dated 6 November 2018 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 Shareholders in respect of the Second CE Supplemental Agreements and the transactions contemplated thereunder (including the New Annual caps for the Second CE Supplemental Agreements), the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement), details of which are set out in the section headed “Letter from the Board” in the Circular. Red Sun has been appointed to advise the Shareholders and the Independent Board Committee 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 Red Sun has taken into consideration in rendering its advice are set out in the section headed “Letter from Red Sun” in the Circular. Your attention is also drawn to the additional information set out in the Circular.

Having taken into account the terms of the Second CE Supplemental Deposit Services Framework Agreement, the Second CE Supplemental Loan Services Framework Agreement and the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement, the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement) and the transactions contemplated thereunder as well as the advice of Red Sun, we are of the opinion that (i) the continuing transactions contemplated under the Second CE Supplemental Agreements and the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement) will be carried out in the ordinary course of business of the Group; (ii) the terms of the Second CE Supplemental Agreements, the ARI Shareholders’ Loan and Guarantee Agreement and the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement are normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and (iii) the New Annual Caps for the transactions contemplated under the Second CE Supplemental Agreements and the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement) for the years of 2019, 2020 and 2021 are fair and reasonable and in the interests 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 the Second CE Supplemental Agreements and the transactions contemplated thereunder (including the New Annual caps for the Second CE Supplemental Agreements), the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders’ Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement).

Yours faithfully,

For and on behalf of

**INDEPENDENT BOARD COMMITTEE**

**Fan Yan Hok, Philip, Nien Van Jin, Robert,  
Cheok Albert Saychuan and Chow Kwong Fai, Edward**  
*Independent non-executive Directors*

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## LETTER FROM RED SUN

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*The following is the text of the letter of advice from Red Sun to the Independent Board Committee and the Shareholders in relation to the Continuing Connected Transactions prepared for the purpose of incorporation in this circular.*



**红日资本有限公司**  
**RED SUN CAPITAL LIMITED**

Unit 3303, 33/F,  
West Tower, Shun Tak Centre,  
168–200 Connaught Road Central, Hong Kong

Tel: (852) 2857 9208  
Fax: (852) 2857 9100

6 November 2018

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

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS:  
(I) RENEWAL OF THE EXISTING CE FRAMEWORK AGREEMENTS;  
AND  
DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS:  
(II) THE SECOND ARI SUPPLEMENTAL SHAREHOLDERS' LOAN  
AND GUARANTEE AGREEMENT;  
AND  
(III) THE NEW ANNUAL CAPS FOR THE ARI SHAREHOLDERS'  
LOAN AND GUARANTEE AGREEMENT (AS SUPPLEMENTED BY  
THE SECOND ARI SUPPLEMENTAL SHAREHOLDERS' LOAN AND  
GUARANTEE AGREEMENT)**

### **I. INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders with regard to the continuing connected transactions contemplated under (i) the Second CE Supplemental Agreements (i.e. the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement, the Second CE Supplemental Deposit Services Framework Agreement and the Second CE Supplemental Loan Services Framework Agreement) to extend the term of each of the Existing CE Framework Agreements to 31 December 2021; (ii) the ARI Shareholders' Loan and Guarantee Agreement (as supplemented and amended by the First ARI Supplemental Shareholders' Loan and Guarantee Agreement and the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) (the "2018 ARI Shareholders' Loan and Guarantee Agreement"); and (iii) the New Annual Caps (together the "Continuing Connected Transactions").

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## LETTER FROM RED SUN

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Details of the Second CE Supplemental Agreements, the 2018 ARI Shareholders' Loan and Guarantee Agreement and the New Annual Caps are contained in the letter from the Board (the "**Letter from the Board**") in the circular to the Shareholders dated 6 November 2018 (the "**Circular**"). Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

Reference is made to the 2016 Existing CE Framework Agreements Circular in relation to the First CE Supplemental Agreements, pursuant to which, among others, the Company and CE Group extended the term of each of the Existing CE Framework Agreements to 31 December 2018. As set out in the Letter from the Board, the transactions contemplated under the Existing CE Framework Agreements including the Existing Annual Caps were approved by the Shareholders at the extraordinary general meeting of the Company held on 17 May 2016. As the Existing CE Framework Agreements will expire on 31 December 2018, on 15 October 2018, the Company and CE Group entered into the Second CE Supplemental Agreements to extend the term of each of the Existing CE Framework Agreements to 31 December 2021.

Reference is also made to 2016 ARI Circular and 2016 ARI Shareholders' Loan and Guarantee Agreement Circular in relation to, among others, the entering into of the ARI Shareholders' Loan and Guarantee Agreement. In view of the continued development of the ARI Business, the ARI Shareholders entered into the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement to revise the terms governing the Guarantee Fee and interest rate for the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement. Also, as disclosed in the Letter from the Board, the Board expects the transactions contemplated under the 2018 ARI Shareholders' Loan and Guarantee Agreement to continue and the Board proposes that the New Annual Caps for the 2018 ARI Shareholders' Loan and Guarantee Agreement for each of the years ended 31 December 2019, 2020 and 2021 to be HK\$1,300 million, respectively.

As set out in the Letter from the Board, in relation to the Second CE Supplemental Agreements, CE Group is the sole shareholder of CE Hong Kong as at the Latest Practicable Date. CE Hong Kong is the indirect controlling shareholder of CE Limited which indirectly holds approximately 49.7% equity interest in CE Limited. CE Limited in turn indirectly holds approximately 34.0% equity interest in the Company. Accordingly, CE Group is a controlling shareholder of the Company, and CE Group and its associates are connected persons of the Company. The transactions contemplated under the Existing CE Framework Agreements (as supplemented by the Second CE Supplemental Agreements) constitutes continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) exceeds 5%, the transactions contemplated under each of the Existing CE Framework Agreements (as supplemented by the Second CE Supplemental Agreements) constitute non-exempt continuing connected transactions for the Company and 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 RED SUN

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As set out in the Letter from the Board, in relation to the 2018 ARI Shareholders' Loan and Guarantee Agreement and the New Annual Caps for the 2018 ARI Shareholders' Loan and Guarantee Agreement, ARI is a commonly held entity (has the meaning ascribed to it in Rule 14A.27 of the Listing Rules) of the Company, the transactions contemplated thereunder constitute continuing connected transactions for 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 for the Company under Chapter 14 of the Listing Rules.

As the highest of the applicable percentage ratios in respect of the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) is less than 25% on an annual basis and the total value of the financial assistance is more than HK\$10,000,000, the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and such New 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, Mr. POON Ho Man and Ms. LIU Wanting as executive Directors, Mr. TANG Chi Chun as non-executive Director, Mr. FAN Yan Hok, Philip, Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Mr. CHOW Kwong Fai, Edward 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, Mr. CHEOK Albert Saychuan and Mr. CHOW Kwong Fai, Edward, has been established to advise the Shareholders as to whether the terms of the Second CE Supplemental Agreements (together with the New Annual Caps for the Second CE Supplemental Agreements), the 2018 ARI Shareholders' Loan and Guarantee Agreement (together with the New Annual Caps for the 2018 ARI Shareholders' Loan and Guarantee Agreement) and the respective transactions contemplated thereunder (i.e. the Continuing Connected Transactions) 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 Shareholders in these respects and to give our opinion in relation to the Continuing Connected Transactions for the Independent Board Committee's consideration when making their recommendation to the Shareholders.

As at the Latest Practicable Date, we were independent from and not connected with the Company, the CE Group, ARI Holdings, ARI and ARI Shareholders, and accordingly, are qualified to give independent advice to the Independent Board Committee and the Shareholders regarding the Continuing Connected Transactions and the respective transactions contemplated thereunder. Save for our appointment as the Independent Financial Adviser, Red Sun did not act as an independent financial adviser to the Company under the Listing Rules in the past two years. Apart from the normal advisory fee paid or payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

## **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 Continuing Connected Transactions, the Group, the CE Group and the ARI Shareholders 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 (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, the CE Group and the ARI Shareholders 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, the CE Group, ARI Holdings, ARI, the ARI Shareholders 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.

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**LETTER FROM RED SUN**

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**III. BACKGROUND INFORMATION OF THE CONTINUING CONNECTED TRANSACTIONS**

In formulating our opinion on the Continuing Connected Transactions (together with the New Annual Caps), we have taken into consideration the following factors and reasons, including the background information of the relevant parties and principal terms of the Second CE Supplemental Agreements, the 2018 ARI Shareholders' Loan and Guarantee Agreement and the New Annual Caps as well as an overview of the aviation industry in the PRC.

**1. Background information of the Group**

As set out in the Company's annual report for the year ended 31 December 2017 (the "2017 Annual Report") and the interim report for the six months ended 30 June 2018 (the "2018 Interim Report"), the Group is principally engaged in the provision of aircraft leasing services, focusing on long-term aircraft purchase and lease transactions. It also provides other value-added services for used aircraft and aircraft coming to the end of their life such as fleet planning, fleet replacement package deals, aircraft disassembling and component sales. The Group has a single reporting segment from business perspectives, which engages in the provision of aircraft leasing services to global airline companies.

Set out below is the summary of the Group's audited consolidated statement of income and consolidated balance sheet for the years ended 31 December 2016 and 2017 as extracted from the 2017 Annual Report, and the Group's unaudited consolidated statement of income and consolidated balance sheet for the six months ended 30 June 2017 and 2018 as extracted from the 2018 Interim Report:

*Summary of consolidated statement of income*

	For the year ended		For the six months ended	
	31 December		30 June	
	2016	2017	2017	2018
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	(audited)	(audited)	(unaudited)	(unaudited)
<b>Revenue</b>				
— Finance lease income	1,163.1	1,017.5	540.6	432.4
— Operating lease income	416.0	828.8	340.3	729.7
<b>Other income</b>	869.0	1,045.4	377.1	450.0
<b>Profit before tax</b>	892.1	1,012.2	342.8	418.9
<b>Profit for the year/period attributable to Shareholders of the Company</b>	638.4	734.7	248.7	307.8

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**LETTER FROM RED SUN**

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The revenue and other income increased by approximately HK\$443.5 million or approximately 18.1%, from approximately HK\$2,448.1 million for the year ended 31 December 2016 to approximately HK\$2,891.6 million for the year ended 31 December 2017. The profit attributable to Shareholders of the Company increased by approximately HK\$96.3 million or approximately 15.1%, from approximately HK\$638.4 million for the year ended 31 December 2016 to approximately HK\$734.7 million for the year ended 31 December 2017. Such increase was mainly attributable to the increase in lease income from continued expansion of the Group's aircraft leasing business and increased gain from disposal of finance lease receivables.

The revenue and other income increased by approximately HK\$354.1 million or approximately 28.1% from approximately HK\$1,258.0 million for the six months ended 30 June 2017 to approximately HK\$1,612.1 million for the six months ended 30 June 2018. The profit attributable to Shareholders of the Company increased by approximately HK\$59.1 million or approximately 23.8%, from approximately HK\$248.7 million for the six months ended 30 June 2017 to approximately HK\$307.8 million for the six months ended 30 June 2018. The increase in both the revenue and other income and the profit attributable to Shareholders of the Company was mainly due to the increase in lease income from continued expansion of the Group's aircraft leasing business.

*Summary of consolidated balance sheet*

	<b>As at 31 December</b>		<b>As at</b>
	<b>2016</b>	<b>2017</b>	<b>30 June</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	(audited)	(audited)	(unaudited)
<b>Total assets</b>	<b>30,900.2</b>	<b>37,994.3</b>	<b>40,086.4</b>
— Property, plant and equipment	6,214.1	13,059.4	11,743.9
— Finance lease receivables — net	15,031.0	12,556.2	12,065.4
— Cash and cash equivalents	5,840.7	7,023.4	5,695.1
<b>Total liabilities</b>	<b>27,856.8</b>	<b>34,567.2</b>	<b>36,559.4</b>
— Bank borrowings	17,834.7	16,458.4	15,593.8
— Long-term borrowings	2,346.1	5,329.4	5,368.7
— Medium-term notes	740.1	798.1	788.8
— Bonds	4,611.9	8,538.9	8,584.2
<b>Total equity attributable to Shareholders of the Company</b>	<b>3,043.3</b>	<b>3,427.2</b>	<b>3,527.0</b>

The Group's total assets increased by approximately HK\$7,094.1 million or approximately 23.0% from approximately HK\$30,900.2 million as at 31 December 2016 to approximately HK\$37,994.3 million as at 31 December 2017. As at 31 December 2017, assets of the Group mainly comprised of property, plant and equipment of approximately HK\$13,059.4 million and finance lease receivables of approximately HK\$12,556.2 million. As set out in the 2017 Annual Report, this was mainly attributable to the effect of an increase in fleet size during 2017.

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## LETTER FROM RED SUN

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The Group's total liabilities increased by approximately HK\$6,710.4 million or approximately 24.1%, from approximately HK\$27,856.8 million as at 31 December 2016 to approximately HK\$34,567.2 million as at 31 December 2017. As set out in the 2017 Annual Report, this was mainly attributable to the combined effect of (i) an increase in long-term borrowings of approximately HK\$2,983.3 million or 127.2%; and (ii) an increase in bonds of approximately HK\$3,927.0 million or 85.1%, and partly offset by the decrease in bank borrowings of approximately HK\$1,376.3 million or 7.7%. As at 31 December 2017, total liabilities of the Group mainly comprised of bank borrowings of approximately HK\$16,458.4 million, bonds of approximately HK\$8,538.9 million, and long-term borrowings of approximately HK\$5,329.4 million.

The Group's total assets increased by approximately HK\$2,092.1 million or approximately 5.5% from approximately HK\$37,994.3 million as at 31 December 2017 to approximately HK\$40,086.4 million as at 30 June 2018. As at 30 June 2018, assets of the Group mainly comprised of property, plant and equipment of approximately HK\$11,743.9 million and finance lease receivables of approximately HK\$12,065.4 million. As set out in the 2018 Interim Report, the increase was mainly attributable to the increase in pre-delivery payments ("PDP") made for aircraft acquisition during the relevant period. The Group's total liabilities increased by approximately HK\$1,992.2 million or approximately 5.8% from approximately HK\$34,567.2 million as at 31 December 2017 to approximately HK\$36,559.4 million as at 30 June 2018, which was in line with the increase in total assets.

As at 31 December 2016 and 2017 and 30 June 2018, the Group's gearing ratio, as calculated by dividing interest-bearing debts included in total liabilities by total assets, was approximately 83.6%, 82.3% and 75.7%, respectively.

As of 31 December 2017, the Group had a fleet of 107 aircraft. As set out in the 2017 Annual Report, the Group expect to have a fleet of more than 300 aircraft (owned and managed) by 2023 based on committed order. As of the Latest Practicable Date, the Group had fleet of 111 owned and 14 managed aircraft. The Group had 189 aircraft in its order book as at 30 June 2018, which will be delivered by 2023.

## **2. Background information on CE Group and CE Bank**

As set out in the Letter from the Board, CE Group was incorporated as a joint stock company with limited liability in the PRC and is owned as to approximately 44.33% and 55.67% by MOF and Huijin Limited, respectively. CE Group is a conglomerate which, through its subsidiaries and associates, engages in a diverse range of businesses including banking, securities and asset management.

CE Bank was incorporated as a joint stock company with limited liability in the PRC and is one of the major commercial banks in the PRC and primarily engaged in the commercial banking business, including retail banking, corporate banking and treasury operation, etc.

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## LETTER FROM RED SUN

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The H shares and A shares of CE Bank are listed on the Stock Exchange (stock code: 6818) and the Shanghai Stock Exchange (stock code: SH601818), respectively. As set out in the annual report of CE Bank for the year ended 31 December 2017 (the “**2017 CE Bank Annual Report**”), the group of CE Bank recorded total assets of approximately RMB4,088.2 billion which primarily included gross loans and advances to customers of approximately RMB2,032.1 billion as at 31 December 2017. The group of CE Bank also generated net profit attributable to shareholders of CE Bank of approximately RMB31,545 million for the year ended 31 December 2017. As set out in the interim report of CE Bank for the six months ended 30 June 2018 (the “**2018 CE Bank Interim Report**”), the group of CE Bank recorded total assets of approximately RMB4,283.3 billion which primarily included gross loans and advances to customers of approximately RMB2,232.7 billion as at 30 June 2018. The group of CE Bank also generated net profit attributable to shareholders of CE Bank of approximately RMB18,075 million for the six months ended 30 June 2018.

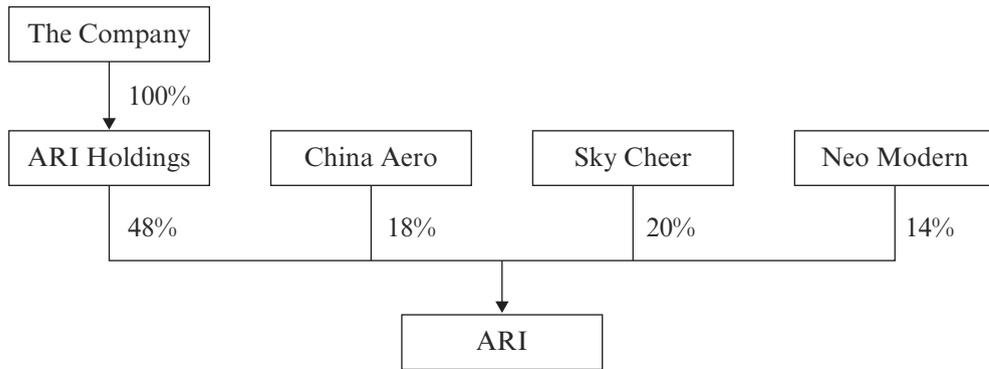
For further details on CE Bank, including its business overview, discussion and analysis of operations, significant events as well as its consolidated financial statements, please refer to the 2017 CE Bank Annual Report and the 2018 CE Bank Interim Report.

Sun Life Everbright is a company incorporated in the PRC on 2 March 2012. Sun Life Everbright is principally engaged in the business of fund management trustee services and insurance asset management services.

Pursuant to the Second CE Supplemental Loan Services Framework Agreement, the provision of secured loan services by CE Group shall be, through the Trustee using funds of a Trust Plan of which CE Group or any of its associates is a beneficiary, to the Group (the Trustee, i.e. the lender, is also one of the assignees of the FLRs under the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement).

### 3. Background information of ARI

The Management advised that as at the Latest Practicable Date, ARI is owned as to 48%, 18%, 20% and 14% by ARI Holdings, China Aero, Sky Cheer and Neo Modern, respectively. Further details of each of the abovementioned parties are set out in the Letter from the Board. The following chart sets out the shareholding structure of ARI as at the Latest Practicable Date:



ARI was incorporated in the Cayman Islands and is owned as to 48% by the Company (through ARI Holdings) as at the Latest Practicable Date. As set out in the Letter from the Board, the business model of ARI broadly includes:

- (i) purchasing, including direct purchase of aircraft, or purchase through portfolio trade with lease attached and purchase and leaseback arrangement;
- (ii) selling, including direct sale, sale after re-certified and conditional sales lease;
- (iii) leasing, including leasing of aircraft, engine and components;
- (iv) disassembling, including disassembly and parting-out of aircraft and parts and components from the airframe;
- (v) replacing, including replacing old components with new ones through the provision, exchange and sharing of serviceable components;
- (vi) conversion, including conversion of passenger aircraft into a freighter and modification of aircraft components for other uses; and
- (vii) maintenance repair and overhaul (MRO), including base maintenance, line maintenance, engine, auxiliary power unit and landing gear repair and management solutions and parts remanufacturing.

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## LETTER FROM RED SUN

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On 6 April 2016, the Group entered into the ARI Shareholders' Loan and Guarantee Agreement pursuant to which, among others, the ARI Shareholders agreed to provide Shareholders' Loan to ARI on certain terms. In view of the continued development of the ARI Business, the ARI Shareholders entered into the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement to revise the terms governing the Guarantee Fee and interest rate for the transactions contemplated under the 2016 ARI Shareholders' Loan and Guarantee Agreement.

### *Recent development of ARI*

As advised by the Management, for the year ended 31 December 2017 and for the six months ended 30 June 2018, ARI recorded revenue of approximately HK\$693.0 million and HK\$248.1 million, respectively, and the principal activities undertaken by ARI included leasing of used aircraft and aircraft engines, provision of used aircraft disassembly and recycle related services. In addition, as set out in the 2017 Annual Report, during the year ended 31 December 2017, ARI acquired 100% equity interest in Universal Asset Management, Inc., being a global aviation services provider based in United States of America. As set out in the 2018 Interim Report, in June 2018, ARI's aircraft recycling facility in Harbin, the PRC, has commenced operation.

The Management has further advised that in the long run, the intention is for ARI to attain financial independence. As evidenced by the loan facilities obtained by ARI from five different financial institutions, these loan facilities amount were approximately US\$98.0 million (equivalent to approximately HK\$762.4 million<sup>1</sup>) and approximately RMB844.3 million (equivalent to approximately HK\$970.9 million<sup>2</sup>) as at 30 September 2018. ARI has continued to develop its own external financing abilities through (i) demonstrating its ability to operate and expand its businesses; and (ii) developing its own financing base with banks from the PRC, Hong Kong and overseas.

From the standpoint of the Group's strategy, we understand from the Management that ARI is the downstream extension of the Group's aviation value chain and has an important role in the aircraft's lifecycle as it provides, among others, mid- to late-life aircraft solutions, which together with the Group's offered aircraft related solutions and services, would well position the Group as a one-stop integrated aircraft full life-cycle services provider.

<sup>1</sup> For illustration purposes only, US\$ has been translated into HK\$ at a rate of 7.78.

<sup>2</sup> For illustration purposes only, RMB has been translated into HK\$ at a rate of 1.15.

#### **4. Background information on the aviation industry**

According to the Statistical Bulletin of Civil Airports in China 2017 released in April 2018 by the Civil Aviation Administration of China (“CAAC”), the PRC’s main aviation regulator, the aviation industry recorded (i) the passenger traffic increased by approximately 12.9% to approximately 1,147.9 million; and (ii) the total amount of cargo and mail handled increased by approximately 7.1% to approximately 16.2 million tons.

According to the Statistics of Key Performance Indicators for China’s Civil Aviation Industry in December 2017 released in February 2018 by CAAC, the total transaction of the aviation industry in the PRC increased by approximately 12.5% to approximately RMB108.30 million for the year ended 31 December 2017, among which approximately 69,460 million passengers were transported by domestic routes, representing an increase of approximately 11.7% from previous year, and approximately 38,850 million passengers were transported by international routes, representing an increase of approximately 14.1% from previous year.

The recent growth of the PRC’s aviation industry is also affected by the regulatory policies of the PRC government. 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. As the PRC economy continues to develop, the rising affluence of PRC residents and business are expected to continue to boost tourism and hence demand for leisure and business-related travel.

According to a publication on market outlook (2018–2037) by an international aircraft manufacturer, the Asia-Pacific (including the PRC) in-service fleet consisted of 6,912 aircraft at the beginning of 2018, with a 20-year forecast delivery total of 15,895 aircraft. The global aircraft in-service fleet at the beginning of 2018 consisted of 21,453 aircraft, with a 20-year forecast delivery total of 37,389 aircraft.

Based on the above factors, the Management is of the view that the used aircraft components and mid-life aircraft market in the PRC is sizeable and will continue to grow significantly as the PRC aircraft fleet continues to expand. Considering the above factors and given the Group’s strong presence in the PRC aircraft leasing market, Management considers that it is strategically relevant to extend its business and participate in the potentially lucrative end-of-life aviation solution business in the PRC. Besides, Management considers through the Company’s proposed Continuing Connected Transactions, in particular, the 2018 ARI Shareholders’ Loan and Guarantee Agreement, the Group will be able to strategically extend its services along the aircraft value chain to offer a one-stop solution covering the full aircraft life cycle, comprising of 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.

**IV. PRINCIPAL FACTORS CONSIDERED FOR THE SECOND CE SUPPLEMENTAL AGREEMENTS**

**1. Reasons for and benefits of the Second CE Supplemental Agreements**

In respect of the Second CE Supplemental Agreements, as mentioned in the 2015 First CE Announcement, the Existing CE Deposit Services Framework Agreement and the loans (including guarantees) from CE Bank under the Existing CE Loan Services Framework Agreement have allowed the Group to enjoy cost-efficient and expedient financial services provided by CE Bank which has a thorough understanding of the needs of the Group. Also, the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement which provides for assignment of FLRs to CE Group, through CE Bank or the Trustee and the borrowing from CE Group, through CE Bank or the Trustee under the Existing CE Loan Services Framework Agreement will improve the Group's profitability and enhance its financial resources by realising un-earned finance income and bring other financial benefits. As such, the Directors consider that it will be beneficial to continue to carry out the transactions contemplated under the Existing CE Framework Agreements which will expire on 31 December 2018, and therefore, entered into the Second CE Supplemental Framework Agreements to extend the term of each of the Existing CE Framework Agreements to 31 December 2021.

As disclosed in the Letter from the Board, the terms of the Second CE Supplemental Agreements have been agreed upon arm's-length negotiations between the Company and CE Group.

The Directors are of the view that (i) the continuing connected transactions contemplated under the Second CE Supplemental Agreements will be conducted in the ordinary and usual course of business of the Company; (ii) the terms of the Second CE Supplemental Agreements are normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and (iii) the New Annual Caps for the transactions contemplated under the Second CE Supplemental Agreements are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

## 2. Principal terms of the Second CE Supplemental Agreements

Based on the Letter from the Board, the principal terms of each of the Second CE Supplemental Agreements, namely the Second CE Supplemental Deposit Services Framework Agreement, Second CE Supplemental Loan Services Framework Agreement, and the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement, are summarised as below:

### *(i) The Second CE Supplemental Deposit Services Framework Agreement*

Pursuant to the Second CE Supplemental Deposit Services Framework Agreement dated 15 October 2018, the parties have agreed to extend the term of the Existing CE Deposit Services Framework Agreement to 31 December 2021, subject to the Shareholders' approval. Save as amended by the Second CE Supplemental Deposit Services Framework Agreement, all other terms of the Existing CE Deposit Services Framework Agreement (as disclosed below) shall remain unchanged.

Pursuant to the Existing CE Deposit Services Framework Agreement (as supplemented by the Second CE Supplemental Deposit Services Framework Agreement), CE Group agrees to provide deposit services through CE Bank to the Group on a non-exclusive basis and the Company is at liberty to obtain deposit services from other third parties.

CE Group shall procure CE Bank to provide to the Group deposit services (including current and fixed term deposit) in accordance with rules and regulations prescribed by the PBOC and/or other relevant rules and regulations within or outside the PRC.

As stated in the Letter from the Board, the deposit services to be provided by CE Group shall be on normal commercial terms which are arrived upon arm's-length negotiations and are no less favourable than:

- (a) terms available to the Group from independent third parties; and
- (b) the most favourable terms offered by CE Bank to independent third party customers for similar or comparable deposit services.

The time and means of payment are to be agreed by the parties with reference to customary business terms through arm's-length negotiations, being normal commercial terms comparable to those for similar or comparable deposit services.

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*(ii) The Second CE Supplemental Loan Services Framework Agreement*

Pursuant to the Second CE Supplemental Loan Services Framework Agreement dated 15 October entered into between the Company and the CE Group, the parties have agreed to extend the term of the Existing CE Loan Services Framework Agreement to 31 December 2021, subject to the Shareholders' approval. Save as amended by the Second CE Supplemental Loan Services Framework Agreement, all other terms of the Existing CE Loan Services Framework Agreement (as disclosed below) shall remain unchanged.

Pursuant to the Existing CE Loan Services Framework Agreement (as supplemented by the Second CE Supplemental Loan Services Framework Agreement), CE Group agrees to provide secured loan services and guarantees through CE Bank and secured loan services through the Trustee using funds of a Trust Plan of which CE Group or any of its associates is a beneficiary, to the Group (the Trustee, i.e. the lender, is also one of the assignees of the FLRs under the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement) on a non-exclusive basis and the Company is at liberty to obtain loan services or guarantees from other third parties.

CE Group shall procure CE Bank and/or the Trustee, as the case may be, to provide to the Group loans and guarantees (including revolving credit facility and fixed term loan), subject to security over the assets of the Group, in accordance with rules and regulations prescribed by the PBOC and/or other relevant rules and regulations within or outside the PRC.

We noted from the Letter from the Board that the loan services and guarantees to be provided by CE Group shall be on normal commercial terms which are arrived upon arm's-length negotiations and are no less favourable than:

- (a) terms available to the Group from independent third parties of comparable credit standing; and
- (b) the most favourable terms offered by CE Bank and/or the Trustee, as the case may be, to independent third party customers for similar or comparable loan services or guarantees.

The time and means of payment are to be agreed by the parties with reference to customary business terms through arm's-length negotiations, being normal commercial terms comparable to those for similar or comparable loan services or guarantees.

*(iii) The Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement*

Pursuant to the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement dated 15 October 2018 entered into between the Company and the CE Group, the parties have agreed to extend the term of the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement to 31 December 2021, subject to the Shareholders' approval. Save as amended by the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement, all other terms of the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement (as disclosed below) shall remain unchanged.

Pursuant to the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement, the Group agrees to assign the FLRs to the associates of CE Group (including but not limited to CE Bank and the Trustee of a Trust Plan of which Sun Life Everbright is one of the beneficiaries).

As set out in the Letter from the Board, the assignment of FLRs by the Group to associates of CE Group shall be on normal commercial terms which is arrived upon arm's-length negotiations and is no less favourable than terms offered by the Group to independent third parties for similar or comparable assignments.

The time and means of payment are to be agreed by the parties with reference to customary business terms through arm's-length negotiations, being normal commercial terms comparable to those under similar or comparable assignment of FLRs.

Further details of the principal terms of each of the Second CE Supplemental Agreements are set out in the Letter from the Board.

**3. Analysis on the principal terms of the Second CE Supplemental Agreements**

Set out below is our analysis on the principal terms of each of the Second CE Supplemental Agreements:

*(i) The Second CE Supplemental Deposit Services Framework Agreement*

We noted from the Letter from the Board that the Existing CE Deposit Services Framework Agreement (as supplemented by the Second CE Supplemental Deposit Services Framework Agreement) shall be non-exclusive and the Company is at liberty (i.e. has the right but not the obligation) to engage CE Group for the provision of deposit services.

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As advised by the Management, the Group has adopted a set of internal control policy (the “**Internal Control Policy**”) to regulate the continuing connected transactions, including those transactions contemplated under the Second CE Supplemental Agreements, of which the Second CE Supplemental Deposit Services Framework Agreement forms part. In this connection, we have reviewed the Internal Control Policy provided by the Company and discussed the relevant measures and procedures with the Management. Based on the Internal Control Policy and our discussion with the Management, it is noted that:

- (a) the designated staff from the finance and accounting department of the Company will closely monitor the outstanding balance of deposits (including interests accrued thereon) of the Group with CE Group on a daily basis to ensure it does not exceed the stipulated annual caps;
- (b) prior to placing deposits with CE Group, the designated staff from the finance and accounting department of the Company will seek quotation(s) from one to three independent major commercial bank(s) for similar types of deposit services offered by CE Group to ensure that the interest rates and terms offered by CE Group are based on normal commercial terms, agreed through arm’s-length negotiations between the parties and are not less favourable than those provided by independent commercial banks; and
- (c) the independent non-executive Directors and the risk management and compliance department of the Company will review at least every six months the status of deposits services provided by CE Group to ensure the Group has complied with the internal approval process, the terms of the Second CE Supplemental Deposit Services Framework Agreement and the relevant Listing Rules.

The Management confirmed that since the commencement of the Existing CE Framework Agreements, there has been no non-compliance to the related Internal Control Policy.

In addition, based on publicly available information and the relevant information provided by the Company, we have reviewed and compared four samples of interest rates and services fees in relation to the relevant comparable deposits of the Group maintained with CE Group and those of three other commercial banks which are independent deposit services providers. We note from our review and from our discussions with the Management that the principal terms of the relevant deposits the Group maintained with CE Bank, including interest rates and services fees, were no less favourable than those of the sampled commercial banks which are independent deposit services providers.

*(ii) The Second CE Supplemental Loan Services Framework Agreement*

We noted from the Letter from the Board that the Existing CE Loan Services Framework Agreement (as supplemented by the Second CE Supplemental Loan Services Framework Agreement) shall be non-exclusive and the Company is at liberty (i.e. has the right but not the obligation) to engage CE Group for the provision of loan services and guarantees.

In this connection, we have reviewed the Internal Control Policy provided by the Company and discussed the relevant measures and procedures with the Management. Based on the Internal Control Policy and our discussion with the Management, we note that:

- (a) the designated staff from the finance and accounting department the Company will closely monitor the outstanding loan balance (including the guarantees) of the Group on a daily basis to ensure that it does not exceed the stipulated annual caps;
- (b) prior to entering into a loan services or guarantee transaction contemplated under the Second CE Supplemental Loan Services Framework Agreement, the designated staff from the finance and accounting department of the Company will seek quotation(s) from one to three independent major commercial bank(s) for similar types of loans offered by such major commercial banks and will compare them against the interest rates and terms offered by CE Group to ensure that the interest rates and terms offered by CE Group are based on normal commercial terms, agreed through arm's-length negotiations between the parties and are not less favourable than those provided by independent commercial banks; and
- (c) the independent non-executive Directors and the risk management and compliance department of the Company will review at least every six months the status of the relevant loan services provided by CE Group to ensure the Group has complied with internal approval process, the terms of the Second CE Supplemental Loan Services Framework Agreement and the relevant Listing Rules.

The Management confirmed that since the commencement of the Existing CE Framework Agreements, there has been no non-compliance to the related Internal Control Policy.

We have reviewed and compared a sample of three contracts of new fixed rate aircraft loan transactions with CE Bank in 2017 (the “**Connected Party Fixed Rate Loans**”) and a sample of three contracts of new fixed rate aircraft loan transactions with independent loan provider in 2017 (the “**Independent Fixed Rate Loans**”) and noted from the relevant documents and supporting materials provided by the Management as well as from our discussions with the Management that (i) the principal terms of these transactions, including interest

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rate and loan tenure, were in line with those provided by the independent loan providers; and (ii) the interest rate under the Connected Party Fixed Rate Loans is within range of the interest rates under the Independent Fixed Rate Loans. As advised by the Management, no new fixed rate aircraft loan transactions with CE Bank was made during the six months ended 30 June 2018.

***(iii) The Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement***

We note from the Letter from the Board that the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement (as supplemented by the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement) is on a non-exclusive basis that the Company is at liberty (i.e. has the right but not the obligation) to engage CE Group for the assignment of the FLRs, subject to the relevant terms and conditions.

We note from the Internal Control Policy and our discussions with the Management in respect of the relevant measures and procedures that:

- (a) the designated staff from the finance and accounting department of the Company will closely monitor aggregate transactions of the Group with CE Group against the underlying framework agreement to ensure that it does not exceed the stipulated annual caps;
- (b) the assessment must ensure the transaction terms are negotiated and agreed on arm's-length basis and that such terms do not favour CE Group. Detailed benchmarking against one to three comparable historical transaction(s) and current market conditions will be performed by an independent transaction department with staff who are certified public accountants and/or chartered financial analysts and will be a reference for decision making; and
- (c) the independent non-executive Directors and the risk management and compliance department will review every six months the status of assignment of FLRs by the Group to CE Group to ensure the Group has complied with internal approval process, the terms of Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement and the relevant Listing Rules.

The Management also advised that in selecting an assignee under a FLR transaction, the assignee, being a connected person or an independent third party (where relevant), shall be subject to the same assessment by the relevant departments of the Group and the same approval process. Based on the results of the aforesaid assessment and after taking into account the terms of the historical transactions and prevailing market conditions, the Group will engage the assignee that offers the most favourable terms to the Group at the time.

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We have reviewed and compared a sample of four contracts including new assignment of the FLRs with the CE Group in 2017 (the “**Connected Party Assignments**”) and a sample of four new assignment of the FLRs with independent service provider for the assignment of the FLRs in 2017 and noted that the relevant documents and supporting material provided by the Management as well as from our discussions with the Management that the principal terms of these transactions were in line with those provided by the independent services providers for the assignment of the FLRs. As advised by the Management, no new assignment of the FLRs with the CE Group was made for the six months ended 30 June 2018.

Having considered the aforesaid, we concur with the Directors’ view that the terms of the Second CE Supplemental Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**4. Rationale for determining the respective New Annual Caps in connection with the Second CE Supplemental Agreements**

Set out below is information regarding the amount of historical transactions for (i) deposit services provided by CE Bank to the Group; (ii) the loan services and guarantees provided by CE Bank and the Trustee to the Group; and (iii) the assignment of FLRs by the Group to CE Group for the two years ended 31 December 2017 and the period ended 30 September 2018:

	<b>For the year ended</b>		<b>For</b>
	<b>31 December</b>		<b>period ended</b>
	<b>2016</b>	<b>2017</b>	<b>30 September</b>
	<b>Actual</b>	<b>Actual</b>	<b>2018</b>
	<b>Amount</b>	<b>Amount</b>	<b>Actual</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
<b>Maximum daily closing balance of deposits (including interests accrued thereon) under the deposit services provided by CE Bank to the Group</b>	1,974	3,043	2,926
<b>Maximum daily closing balance of loans (including guarantee) under the loan services provided by CE Bank and the Trustee to the Group</b>	3,164	4,052	4,594
<b>Total consideration under the assignment of FLRs by the Group to CE Group</b>	3,937	2,529	Nil

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The Existing Annual Caps in connection with (i) the First CE Supplemental Deposit Services Framework Agreement; (ii) the First CE Supplemental Loan Services Framework Agreement; and (iii) the First CE Supplemental Assignment of Finance Lease Receivables Framework Agreement for each of the years ended/ending 31 December and 2016, 2017 and 2018 are set out below:

	<b>For the year ended/ending 31 December</b>		
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
<b>The Existing Annual Caps under the First CE Supplemental Deposit Services Framework Agreement (Maximum daily closing balance of deposits (including interests accrued thereon))</b>	2,741	3,182	3,843
<b>The Existing Annual Caps under the First CE Supplemental Loan Services Framework Agreement (Maximum daily closing balance of loans (including guarantee))</b>	8,146	14,082	18,214
<b>The Existing Annual Caps under the First CE Supplemental Assignment of Finance Lease Receivables Framework Agreement (Total consideration)</b>	7,020	7,020	7,020

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The percentage of the amount of historical transactions for (i) deposit services provided by CE Bank to the Group; (ii) the loan services and guarantees provided by CE Bank and the Trustee to the Group; and (iii) the assignment of FLRs by the Group to CE Group for the years ended 31 December 2016 and 2017 and the period ended 30 September 2018 over their respective Existing Annual Caps are set out below:

	<b>For the year ended</b>		<b>For the</b>
	<b>31 December</b>		<b>period ended</b>
	<b>2016</b>	<b>2017</b>	<b>30 September</b>
			<b>2018</b>
<b>Maximum daily closing balance of deposits (including interests accrued thereon) under the deposit services provided by CE Bank to the Group</b>	72.0%	95.6%	76.1%
<b>Maximum daily closing balance of loans (including guarantee) under the loan services provided by CE Bank and the Trustee to the Group</b>	38.8%	28.8%	25.2%
<b>Total consideration under the assignment of FLRs by the Group to CE Group</b>	56.1%	36.0%	N/A

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The proposed New Annual Caps in connection with (i) the Second CE Supplemental Deposit Services Framework Agreement; (ii) the Second CE Supplemental Loan Services Framework Agreement; and (iii) the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement for each of the years ending 31 December 2019 to 2021 are set out below:

	<b>For the year ending 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
<b>The proposed New Annual Caps under the Second CE Supplemental Deposit Services Framework Agreement (Maximum daily closing balance of deposits (including interests accrued thereon))</b>	3,843 <i>(Note 1)</i>	3,843 <i>(Note 1)</i>	3,843 <i>(Note 1)</i>
<b>The proposed New Annual Caps under the Second CE Supplemental Loan Services Framework Agreement (Maximum daily closing balance of loans (including guarantee))</b>	18,214 <i>(Note 2)</i>	18,214 <i>(Note 2)</i>	18,214 <i>(Note 2)</i>
<b>The proposed New Annual Caps under the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement (Total consideration)</b>	7,020	7,020	7,020

*Notes:*

- 1) The New Annual Caps represent the maximum daily closing balance of deposits (including the annual interest accrued thereon).
- 2) The New Annual Caps represent the maximum daily closing balance of loans (including guarantee).

*(i) The New Annual Caps in connection with the Second CE Supplemental Deposit Services Framework Agreement*

As set out in the Letter from the Board, the Directors have determined the New Annual Caps in connection with the Second CE Supplemental Deposit Services Framework Agreement for the deposit services with reference to a number of factors, including, among other things, (i) the historical figures of the maximum closing balance (including interest accrued thereon) of deposit in previous years; (ii) the expected interest income offered by CE Bank to the Group as compared with interest income that could otherwise be obtained by placing deposits with other commercial banks; and (iii) the business development plans and financial needs of the Group.

Through our discussions with the Management, we understand that the New Annual Caps in connection with the Second CE Supplemental Deposit Services Framework Agreement are primarily determined by the expected amount of deposits to be placed with CE Bank, which has taken into account the expected expansion in the aircraft fleet of the Group, the relevant expected lease income and the consideration of potential debt raisings, from which the proceeds raised (in part or in whole) may be deposited to CE Bank. In addition, we were advised by the Management that a buffer has been incorporated into the New Annual Caps in connection with the Second CE Supplemental Deposit Services Framework Agreement to cater for potential business growth and market uncertainties during the period.

Furthermore, the maximum daily closing balance of deposits (including interests accrued thereon) under the deposit services provided by CE Bank to the Group represented approximately 72.0%, 95.6% and 76.1% of the Existing Annual Caps under the First CE Supplemental Deposit Services Framework Agreement for the years ended 31 December 2016 and 2017 and the period ended 30 September 2018, respectively.

In connection to the above, the Management has provided a schedule up to 31 December 2021 including their principal underlying assumptions for the projection and information as set out in the 2017 Annual Report and the 2018 Interim Report, and we have discussed the basis and assumption of such projection with the Management, including (i) the expected expansion in the Group's aircraft fleet and the order book to be delivered by 2023; (ii) the expected funds (including working capital) being deposited with or transferred through CE Bank; and (iii) the Group's consideration for acquisition of aircraft funded by potential debt raisings, and that the Management may contemplate to deposit the unutilised amount, in part or in whole, with CE Bank. We also noted that the Group's cash flows from operating activities before changes in work capital amounted to approximately HK\$690.3 million and HK\$1,000.9 million for the six months ended 30 June 2017 and 2018, respectively, representing an increase of approximately HK\$310.6 million or 45.0%. The Management advised that, save for any material unforeseen circumstances, the Group is expected to record

operating cash inflow in the foreseeable future. The Management also advised that the buffer would enable the Group to capture potential opportunities, as well as the ability to manage unforeseen circumstances and/or market uncertainties which may cause interruptions to the Group's operations.

Having considered the above, in particular, (i) the aforesaid schedule up to 31 December 2021 provided by the Company; (ii) the expected expansion in the aircraft fleet; (iii) the potential debt raising exercises by the Group; and (iv) the Group has the right but not the obligation to engage CE Group for their provision of deposit services, we concur with the Director's view that the New Annual Caps in connection with the Second CE Supplemental Deposit Services Framework Agreement are fair and reasonable.

***(ii) The New Annual Caps in connection with the Second CE Supplemental Loan Services Framework Agreement***

As set out in the Letter from the Board, the Directors have determined the New Annual Caps for the loan services and guarantees with reference to a number of factors, including, among other things, (i) the historical figures of the maximum closing balance of loans (including the guarantees) in previous years; (ii) the business development plans and financial needs of the Group; and (iii) the economic uncertainties in the coming few years that the Group may have more financing needs. As of the Latest Practicable Date, the Group had a fleet of 111 owned and 14 managed aircraft. As set out in 2018 Interim Report, the Group had 189 aircraft in its order book which will be delivered by 2023. Based on the projected increase in fleet size and the expected aircraft delivery schedule, there will be an expected increase in the amount of loans required by the Group to fund, among others, the acquisition cost, which is in line with the increase in fleet size.

Through our discussions with the Management, we understand that the New Annual Caps under the Second CE Supplemental Loan Services Framework Agreement are primarily determined by the expected amount of loans to be obtained from CE Bank, which has taken into account the expected expansion in the aircraft fleet of the Group and the corresponding expected required loan amount for the three years ending 31 December 2021. For information purposes, we note from the 2017 Annual Report that bank borrowings (including bank borrowings and long-term borrowings) of the Group amounted to approximately HK\$21.8 billion as at 31 December 2017, compared to the relevant New Annual Caps in connection with the Second CE Supplemental Loan Services Framework Agreement for each of the years ending 31 December 2019, 2020 and 2021 of approximately HK\$18.2 billion. In addition, we were advised by the Management that a buffer has been incorporated into the New Annual Caps to enable the Group to capture potential opportunities as well as the ability to manage unforeseen circumstances and/or market uncertainties, such as potential tightening of lending policies by the Group's other existing financiers/lenders, which may otherwise cause interruptions to the Group's operations during the period. We concur with the Management that the buffer is fair and reasonable

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after considering the Group's expected expansion in its aircraft fleet and the potential business development of the Group as such buffer should offer flexibility to cater for unexpected financing needs of the Group. In addition, in light of the economic uncertainties of raising funds from external investors in the coming few years, the Directors consider that there may be a higher utilisation of annual cap for transactions contemplated under the Second CE Supplemental Loan Services Framework Agreement in order to maintain the Group's flexibility in financing its business through a variety of financial channels.

Furthermore, the maximum daily closing balance of loans (including guarantee) under the loan services provided by CE Bank and the Trustee to the Group represented approximately 38.8%, 28.8% and 25.2% of the Existing Annual Caps under the First CE Supplemental Loan Services Framework Agreement for the years ended 31 December 2016 and 2017 and the period ended 30 September 2018, respectively.

In connection to the above, we have reviewed the schedule up to 31 December 2021 provided by the Company as well as their principal underlying assumptions for the projection, and discussed with the Management the basis and assumption of such projection including the expected expansion in the aircraft fleet and the expected maximum loan balance with CE Bank which takes into account, among others, (i) the Group's existing loan balance with CE Bank; (ii) estimated additional aircraft acquisition loan transactions with CE Bank in 2018, 2019 and 2020 and 2021; (iii) estimated additional aircraft PDP loan transactions with CE Bank in 2018, 2019, 2020 and 2021; and (iv) estimated additional long-term loans with the associates of CE Group (including but not limited to CE Bank and the Trustee of a Trust Plan of which CE Group or any of its associates is a beneficiary) in 2018, 2019, 2020 and 2021; and (v) the projected outstanding repayments for each type of loans of the Group with the associates of CE Group. We note from the 2017 Annual Report that (i) during 2017, 26 aircraft were delivered, increasing the Group's fleet size to 107 aircraft as at the end of 2017; and (ii) the Group expect to have a fleet of more than 300 aircraft (owned and managed) by 2023 based on firmed order. For the avoidance of doubt, the Management advised that the Group can arrange various types of loans, including acquisition loans, PDP loans and other long-term loans, for the same aircraft in different stages of lease life cycle (including the purchase of aircraft).

Based on above, we concur with the Director's view that the New Annual Caps in connection with the Second CE Supplemental Loan Services Framework Agreement are fair and reasonable.

***(iii) The New Annual Caps in connection with the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement***

As set out in the Letter from the Board, the Directors have determined the New Annual Caps in connection with the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement for the assignment of FLRs

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with reference to a number of factors, including, among other things, (i) the historical figures of the total consideration in respect of assignment of FLRs in previous years, which have taken into account the carrying value of the FLRs; (ii) the business development plan of the Group. In light of the economic uncertainties of raising funds from external investors in the coming few years, the Directors consider that there may be a higher utilisation of annual cap for transactions contemplated under the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement in order to maintain the Group's flexibility in financing its business through a variety of financial channels. Based on the Group's expansion plan as set out in the 2017 Annual Report, the Group expect to have a fleet of more than 300 aircraft (owned and managed) by 2023 based on firmed order. Such expansion is expected to result in a corresponding increase in the assignment of lease receivables in relation to such aircraft.

We understand from our discussions with the Company that the New Annual Caps for the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement are primarily determined by the expected increase in the number of aircraft owned by the Group and the corresponding expected increase in finance lease receivables in relation to the relevant aircraft for the three years ending 31 December 2019, 2020 and 2021. In addition, the Management advised that a buffer has been incorporated into the relevant New Annual Caps to cater for potential business growth and market uncertainties during the period.

Furthermore, the total consideration under the assignment of FLRs by the Group to CE Group represented approximately 56.1%, 36.0% and nil of the Existing Annual Caps under the First CE Supplemental Assignment of Finance Lease Receivables Framework Agreement for the years ended 31 December 2016 and 2017 and the period ended 30 September 2018, respectively.

In connection to above, we have reviewed the relevant schedule up to 31 December 2021 provided by the Company as well as their principal underlying assumptions for the projection and discussed the basis and assumption of such projection with the Management, including the expected expansion in the aircraft fleet in 2019, 2020 and 2021.

We noted from the 2017 Annual Report after the successful of lease receivables through private placement disposal for 40 aircraft since 2013, in December 2017, the Group launched its first listed asset-backed security ("ABS") denominated and settled in foreign currency. This became an additional financing option for the Group. By way of both private placement and listed ABS agreements, the Group disposed finance lease receivables for a sum of 21 aircraft in 2017. However, the successful launching of future ABS is subject to a number of external factors, such as, prevailing market conditions, market liquidity, investors' sentiment, etc.

We also note from the 2017 Annual Report that the total finance lease receivables disposal consideration of the Group amounted to approximately HK\$5,603.6 million for 31 December 2017, of which approximately 45% was with CE Group and its associates. The Management advised that they have taken into consideration the above when determining the relevant New Annual Caps in connection with the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement for each of the years ending 31 December 2018 to 2020.

Based on above, we concur with the Directors' view that the New Annual Caps under the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement are fair and reasonable.

**5. Continuing obligations under the Listing Rules**

The Listing Rules set out certain ongoing obligations in respect of the annual caps in connection with the Continuing Connected Transactions, in particular, the restriction of the value of the Continuing Connected Transactions by way of the annual cap for each of the relevant financial years and the annual review by the independent non-executive Directors of the terms of such transactions and the relevant annual monetary caps not being exceeded, details of which must be included in the Company's subsequent published annual reports and accounts. In addition, pursuant to the Listing Rules, the auditors of the Company must provide a letter to the Board each year confirming, among other things, that the Continuing Connected Transactions are conducted in accordance with the terms of the relevant agreements and that the New Annual Caps have not been exceeded. Furthermore, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the relevant annual monetary caps not being exceeded.

**V. PRINCIPAL FACTORS CONSIDERED FOR THE SECOND ARI SUPPLEMENTAL SHAREHOLDERS' LOAN AND GUARANTEE AGREEMENT AND THE RELEVANT NEW ANNUAL CAPS**

**1. Reasons for and benefits of the 2018 ARI Shareholders' Loan and Guarantee Agreement**

As disclosed in the Letter from the Board, the Directors consider that it will be beneficial to continue the transactions contemplated under the 2018 ARI Shareholders' Loan and Guarantee Agreement in view of the continued development of the ARI Business.

The Directors are of the view that (i) the 2018 ARI Shareholders' Loan and Guarantee Agreement will be carried out in the ordinary and usual course of business of the Company; (ii) the terms of the 2018 ARI Shareholders' Loan and Guarantee Agreement are normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and (iii) the relevant New Annual Caps are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

**2. Principal terms of the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement**

Pursuant to the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement dated 15 October 2018, the parties have agreed to revise (i) the interest rate of the Shareholders' Loan from 4% to 3% per annum above the Hong Kong dollar prime lending rate quoted by Bank of China (Hong Kong) Limited from time to time; and (ii) the Guarantee Fee from 4% to 3% per annum of the principal amount of the bank loan guaranteed by the Guarantor, subject to the Shareholders' approval. The revision is based on the improved financial background and stronger external fund raising abilities of ARI with lower borrowing cost.

As disclosed in the Letter from the Board, the interest rate of the Shareholders' Loan and the rate of Guarantee Fee were determined after arm's length negotiation between ARI and the ARI Shareholders, having taken into account the prevailing market interest rate, the satisfactory financial background of ARI, the market terms from external banks for unsecured borrowings available to ARI and ARI's capital requirements in the future. The Management advised that, save as amended by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement, all other terms and conditions of the ARI Shareholders' Loan and Guarantee Agreement (as disclosed below) shall remain unchanged.

The 2018 ARI Shareholders' Loan and Guarantee Agreement sets out terms and conditions, including those related to the loan notes and guarantees which may be provided by the ARI Shareholders to financial or other institutions for raising additional capital from time to time. A summary of the principal terms of the ARI Shareholders' Loan and Guarantee Agreement based on the circular of the Company dated 10 June 2016 (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) are as follows:

- ARI may raise 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 rate as specified in the 2018 ARI Shareholders' Loan and Guarantee Agreement;

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- the principal amount of the Shareholders' Loan, 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;
- ARI may from time to time raise loans from banks, financial or other institutions (the "ARI Bank Loans") and if 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 any ARI Shareholder or any members of its group companies, subject to certain condition, has provided guarantee for the loan of ARI as the Guarantor, ARI shall pay the Guarantor the Guarantee Fee equal to a rate as specified in the 2018 ARI Shareholders' Loan and Guarantee Agreement; 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.

In addition, as advised by the Management, ARI executed a share mortgage pursuant to which ARI charged the entire issued share capital in ARI Holdings Limited (formerly known as China Aircraft Disassembly Centre Limited), 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 2018 ARI Shareholders' Loan and Guarantee Agreement.

Management has further advised that in the long run, the intention is for ARI to attain financial independence, and that as at 30 September 2018, ARI has obtained loan facilities from five different financial institutions, facilities amount of which ranged from US\$20.0 million (equivalent to approximately HK\$155.6 million<sup>3</sup>) to approximately RMB475.3 million (equivalent to approximately HK\$546.6 million<sup>4</sup>). Notwithstanding the above, as ARI is still in its development stage, the Management considers that ARI's ongoing development may benefit from having access to additional financing sources and options, which may be utilised from time to time. Having considered the above, the Management believes that the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement together with the New Annual Caps would be an additional financing option for ARI to facilitate its continued development and seize the aforementioned potential business opportunities in a timely manner.

<sup>3</sup> For illustration purposes only, US\$ has been translated into HK\$ at a rate of 7.78.

<sup>4</sup> For illustration purposes only, RMB has been translated into HK\$ at a rate of 1.15.

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As extracted from the Letter from the Board, the maximum daily closing balance of the Shareholders' Loan and the New Annual Caps in relation to the 2018 ARI Shareholders' Loan and Guarantee Agreement for the three years ending 31 December 2021, together with the Existing Annual Caps, are illustrated in the table below:

	Year ended 31 December		Period ended	Year ending 31 December		
	2016	2017	30 September	2019	2020	2021
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
	million	million	million	million	million	million
Maximum daily closing balance of loans (including guarantee fee and interests accrued thereon)	442 <i>(Note 1)</i>	1,168 <i>(Note 1)</i>	1,149 <i>(Note 1)</i>	1,300 <i>(Note 2)</i>	1,300 <i>(Note 2)</i>	1,300 <i>(Note 2)</i>
Percentage of maximum daily closing balance of loans (including guarantee fee and interests accrued thereon) over the Existing Annual Caps	34.0%	89.8%	88.4%	N/A	N/A	N/A

*Note 1:* Existing Annual Caps for the three years ending 31 December 2018 was HK\$1,300 million (including the principal loans guaranteed by the Group).

*Note 2:* The New Annual Caps represent the maximum principal loans outstanding (including the principal loans guaranteed by the Group) together with annual interest and annual guarantee fee amount.

### 3. Analysis on principal terms of the 2018 ARI Shareholders' Loan and Guarantee Agreement

We have reviewed the Internal Control Policy provided by the Company and discussed the relevant measures and procedures with the Management. Based on the Internal Control Policy and our discussion with the Management, the Company shall adopt the following review process and assessment criteria when providing Shareholders' Loan and guarantee pursuant to the 2018 ARI Shareholders' Loan and Guarantee Agreement:

- (a) the designated staff from the finance and accounting department of the Company will closely monitor the amount of the Shareholders' Loan and guarantee required by ARI to be provided by the Company on a monthly basis to ensure that it does not exceed the proposed annual monetary caps; and

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- (b) the independent non-executive Directors and the risk management and compliance 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 2018 ARI Shareholders' Loan and Guarantee Agreement and the relevant Listing Rules.

In connection with the above, we have discussed with the designated staff from the finance and accounting department of the Company on the relevant review and assessment procedures set out above and understood their relevant work conducted in that respect and we have also reviewed a sample of the relevant supporting documents, including (i) the request for Shareholders' Loan submitted by ARI to the Group; (ii) the approval from the Group to remit Shareholders' Loan to ARI; (iii) the remittance records of the Shareholders' Loan to ARI; (iv) the documents setting out the reconciliation of outstanding Shareholders' Loan balance and accrued interest per month maintained by the Group to ensure that it does not exceed the Existing Annual Caps under the ARI Shareholders' Loan and Guarantee Agreement; and (v) the resolutions of the independent board committee comprising all independent non-executive Directors in relation to the transactions under the ARI Shareholders' Loan and Guarantee Agreement.

The Management confirmed that since the commencement of the ARI Shareholders' Loan and Guarantee Agreement (as supplemented and amended by the First ARI Supplemental Shareholders' Loan and Guarantee Agreement), there has been no non-compliance to the relevant Listing Rules.

#### **4. Basis for determining the New Annual Caps in connection with the 2018 ARI Shareholders' Loan and Guarantee Agreement**

The New Annual Caps in connection with the 2018 ARI Shareholders' Loan and Guarantee Agreement represent the maximum principal loans outstanding (including the principal loans guaranteed by the Group) together with annual interest and annual Guarantee Fee amount. The New Annual Caps in connection with the 2018 ARI Shareholders' Loan and Guarantee Agreement were determined with reference to factors including (i) the ongoing business development and operational expenses as well as other financial needs of ARI; and (ii) potential expansion of the existing business of ARI 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 2021 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, provide the Shareholders' Loan and/or guarantee required by ARI, the New Annual Caps in connection with the 2018 ARI Shareholders' Loan and Guarantee Agreement may not be fully utilised.

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The fact that the Existing Annual Caps under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the First ARI Supplemental Shareholders' Loan and Guarantee Agreement) for the year ending 31 December 2018 has almost been reached as at the Latest Practicable Date, and that the Management advised that the New Annual Caps under the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement were determined with reference to factors including (i) the proposed acquisition of a number of aged aircraft and aircraft engines during the years from 2019 to 2021; (ii) the ongoing business development and operational expenses as well as other financial needs of ARI; and (iii) 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 2021 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.

We have discussed with the Management and the Management has confirmed that, for the two years ended 31 December 2016 and 31 December 2017 and the nine months ended 30 September 2018, the Group has not experienced delay or default in loan repayment for all the loans to ARI under the ARI Shareholders' Loan and Guarantee Agreement.

### 5. Annuity return

As set out from the Letter from the Board, any ARI Shareholder(s) who provide loan(s) to ARI under the 2018 ARI Shareholders' Loan and Guarantee Agreement shall receive the annuity return at the rate of 3.0% above the Hong Kong dollar prime lending rate (being approximately 8.125% per annum) based on the Hong Kong dollar prime rate of 5.125% per annum as at the Latest Practicable Date (the "**Annuity Return**").

We have discussed with the Management of the underlying bases and assumptions related thereto as well as conducted the following analysis with a view to assess the reasonableness of the Annuity Return:

- (i) the Annuity Return of 8.125%, as calculated based on information available as at the Latest Practicable Date, is higher than the average interest rate of the Group's outstanding debt financing instruments. For reference, as set out in the 2018 Interim Report, the effective interest rate or the interest rate of the Group's debt financing (without convertible features) are as follows:
  - (a) the interest rate of the Group's bank borrowings, which totalled to approximately HK\$15,593.8 million as at 30 June 2018, was approximately 4.13%;

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- (b) the annual interest rate for 5-year medium-term notes in the aggregate principal amount of RMB340.0 million and RMB330.0 million issued by a subsidiary of the Company in July 2015 was 6.5% and 4.19%, respectively;
  - (c) the effective interest rates of long-term borrowings from trust plans, which amounted to approximately HK\$5,053.6 million as at 30 June 2018, ranged from approximately 3.5% to 7.8%; and
  - (d) the Annuity Return is also higher than the interest rates of 5.9%, 4.9%, 4.7% and 5.5% per annum on each of the Group's US\$300 million bonds issued in May 2016, US\$300 million bonds issued in August 2016, US\$300 million bonds issued in March 2017 and US\$200 million bonds issued in March 2017, respectively;
- (ii) based on information provided by the Management, the interest rate of the outstanding loans of ARI granted by other financial institutions as at 30 September 2018 ranged from approximately 4.13% to 6.62% per annum; and
  - (iii) the terms of the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement, including the Annuity Return, are no less favourable to the Company than terms available to the other ARI Shareholders.

Having considered the aforesaid as well as the information on ARI as set out under paragraph headed "3. Background information of ARI" in this letter, in particular, the strategic importance of ARI to the Group and recent development of ARI, we concur with the Directors' view that the terms of the 2018 ARI Shareholders' Loan and Guarantee Agreement together with the relevant New Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### VI. RECOMMENDATION

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

- (i) the transactions contemplated under each of the Second CE Supplemental Agreements form an integral part of the business model of the Group;
- (ii) the Group has the right but not the obligation to engage CE Group for their provision of financial services and realisation of FLRs;
- (iii) the transactions to be conducted under each of the Second CE Supplemental Agreements will be on normal commercial terms that are no less favourable than those prices and terms available to/from independent third parties to the Group in accordance to the relevant Internal Control Policy;

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- (iv) the value of, and the basis for determining, the respective annual caps under the Second CE Supplemental Agreements are reasonable as discussed in this letter above;
- (v) the analysis conducted by us on the Annuity Return as detailed under the section headed “5. Annuity Return” in this letter; and
- (vi) the terms of the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement are no less favourable to the Company than terms available to the other ARI Shareholders. Additionally, (a) the Company is neither obliged nor committed to provide the Shareholders’ Loan and/or guarantee for ARI Bank Loans under the Second ARI Supplemental Shareholders’ Loan and Guarantee Agreement; (b) 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 relevant time; and (c) the Management shall adopt the review process and assessment criteria under the Internal Control Policy when providing Shareholders’ Loan and guarantee.

We therefore conclude that the Continuing Connected Transactions to be on normal commercial terms which are fair and reasonable, entered into in the ordinary and usual course of business of the Group, the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Shareholders, as well as the Independent Board Committee to advise the Shareholders, to vote in favour of the resolution to approve the Continuing Connected Transactions and the New Annual Caps at the EGM.

Yours faithfully  
For and on behalf of  
**Red Sun Capital Limited**  
**Lewis Lai**  
*Managing Director*

*Mr. Lewis Lai is a Responsible Officer of Red Sun Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry, and has been involved in and completed various corporate finance advisory transactions.*

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## GENERAL INFORMATION

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### I. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the 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.

### II. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and/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	Nature of interest	Number of Shares/ underlying Shares held (L) <sup>(1)</sup>	Total interests (L)	Approximate percentage of interest <sup>(2)</sup>
Mr. Chen Shuang	Beneficial owner	Personal interest	400,000	10,400,000	1.54%
	Beneficial owner	Derivatives interest	10,000,000 <sup>(3)</sup>		
Mr. Poon Ho Man	Interest of controlled corporation	Corporate interest	197,554,589 <sup>(4)</sup>	201,354,589	29.73%
	Interest of spouse	Family interest	3,800,000 <sup>(5)</sup>		
Ms. Liu Wanting	Interest of controlled corporation	Corporate interest	10,000,000 <sup>(6)</sup>	13,000,000	1.92%
	Beneficial owner	Derivatives interest	3,000,000 <sup>(3)</sup>		
Mr. Tang Chi Chun	Beneficial owner	Personal interest	200,000	200,000	0.03%
Mr. Fan Yan Hok, Philip	Beneficial owner	Personal interest	200,000	200,000	0.03%
Mr. Nien Van Jin, Robert	Beneficial owner	Personal interest	234,000	234,000	0.03%
Mr. Cheok Albert Saychuan	Beneficial owner	Personal interest	5,000	205,000	0.03%
	Beneficial owner	Derivatives interest	200,000 <sup>(3)</sup>		
Mr. Chow Kwong Fai, Edward	Beneficial owner	Personal interest	200,000 <sup>(3)</sup>	200,000	0.03%

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*Notes:*

- (1) The letter “L” denotes the entity/person’s long position in the securities.
- (2) Based on 677,269,380 Shares in issue as at the Latest Practicable Date.
- (3) These interests represented the interests in 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.
- (4) Mr. Poon Ho Man was deemed to be interested in 197,554,589 Shares in the following manner:
  - (a) 182,554,589 Shares held by Friedmann Pacific Asset Management Limited which is owned as to 0.000001% by Ms. Christina Ng, the spouse of Mr. Poon, and 99.999999% by Capella Capital Limited (“Capella”) which is in turn owned as to 10% by Ms. Ng and 90% by Mr. Poon; and
  - (b) 15,000,000 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. Poon.
- (5) These interests represented the interests in the underlying shares in respect of the share options granted by the Company to Ms. Christina Ng pursuant to the post-IPO share option scheme of the Company.
- (6) These Shares were held by Smart Aviation Investment Limited, a company wholly-owned by Ms. Liu Wanting.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any associated corporations (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 the 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 pursuant to the Model Code.

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. Each of FPAM and CE Aerospace is a company having an interest in the Company’s 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.

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### III. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, substantial Shareholders and other 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 were as follows:

Name of shareholders	Capacity/ nature of interest	Number of Shares held (L) <sup>(1)</sup>	Number of underlying Shares held (L) <sup>(1)</sup>	Approximate percentage of Shares in issue <sup>(2)</sup>
CE Aerospace	Beneficial owner	208,979,479 <sup>(3)</sup>	—	30.9%
CE Limited	Interest of controlled corporation	230,595,479 <sup>(3)</sup>	—	34.0%
CE Hong Kong	Interest of controlled corporation	230,595,479 <sup>(4)</sup>	—	34.0%
CE Group	Interest of controlled corporation	230,595,479 <sup>(5)</sup>	—	34.0%
Huijin Limited	Interest of controlled corporation	230,595,479 <sup>(5)</sup>	—	34.0%
FPAM	Beneficial owner	182,554,589 <sup>(6)</sup>	—	26.9%
Capella	Interest of controlled corporation	182,554,589 <sup>(6)</sup>	—	26.9%
Mr. Poon Ho Man	Interest of controlled corporation	197,554,589 <sup>(7)</sup>	—	29.2%
	Interest of spouse	—	3,800,000 <sup>(8)</sup>	0.6%
Ms. Christina Ng	Interest of spouse	197,554,589 <sup>(7)</sup>	—	29.2%
	Beneficial owner	—	3,800,000 <sup>(8)</sup>	0.6%

*Notes:*

- (1) The letter "L" denotes the entity/person's long position in the securities.
- (2) Based on 677,269,380 Shares in issue as at Latest Practicable Date.
- (3) CE Limited was deemed to be interested in 208,979,479 and 21,616,000 Shares held by CE Aerospace and China Everbright Financial Investments Limited respectively, both of which are wholly-owned by CE Limited.
- (4) CE Hong Kong indirectly holds more than one-third of the voting power at general meetings of CE Limited. Accordingly, CE Hong Kong is deemed to be interested in all Shares mentioned in note (3) above.

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- (5) According to the Company's announcements in respect of the restructuring of CE Group 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 mentioned in notes (3) and (4) above.
- (6) 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 held by FPAM.
- (7) 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 mentioned in note (6) above. Mr. Poon is also interested in 15,000,000 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. Poon.
- (8) Ms. Christina Ng is the spouse of Mr. Poon Ho Man and is deemed to be interested in all Shares held by Mr. Poon as mentioned in note (7) above.
- (9) These interests represented the interests in underlying shares in respect of the share options granted by the Company to Ms. Christina Ng pursuant to the post-IPO share option scheme of the Company.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

#### **IV. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group other than contracts expiring or determinable by the relevant employer within one year without payment of compensation (except statutory compensation).

#### **V. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or their respective close associates was considered by the Company to have interests in businesses which compete with, or might compete with, either directly or indirectly, the businesses of the Group.

#### **VI. DIRECTORS' INTEREST IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date, none of the Directors had any interests, either directly or indirectly, in any assets which had been, since 31 December 2017 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of or leased to any member of the Group, or were proposed to be acquired or disposed of or leased to any member of the Group.

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## GENERAL INFORMATION

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### VII. OTHER ARRANGEMENTS INVOLVING DIRECTORS

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors was materially interested and which was significant in relation to the business of the Group.

### VIII. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited financial statements of the Company were made up.

### IX. EXPERT AND CONSENT

- (1) The following are the qualifications of the expert who has given its opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Red Sun Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- (2) As at the Latest Practicable Date, the above expert did not have any interest, direct or indirect, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (3) As at the Latest Practicable Date, the above expert had no direct or indirect interest in any assets which had been, since 31 December 2017 (being the date to which the latest published audited financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.
- (4) The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name included herein in the form and context in which it appears.

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## GENERAL INFORMATION

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### X. MISCELLANEOUS

- (1) The registered office of the Company is at Maples Corporate Services Limited, PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business in Hong Kong is situated at 28th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (2) The company secretary of the Company is Ms. Tai Bik Yin who is a fellow member of both The Hong Kong Institute of Chartered Secretaries and ICOSA: The Governance Institute). Ms. Tai is also a Chartered Governance Professional.
- (3) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (4) In any event of inconsistency, the English version of this circular shall prevail over the Chinese version to the extent of such inconsistency.

### XI. DOCUMENTS AVAILABLE 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 for a period of 14 days (excluding Saturdays and public holidays) from the date of this circular:

#### **In relation to the Second CE Supplemental Agreements**

- (a) the Second CE Supplemental Deposit Services Framework Agreement, the Second CE Supplemental Loan Services Framework Agreement and the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement;
- (b) the First CE Supplemental Deposit Services Framework Agreement, the First CE Supplemental Loan Services Framework Agreement and the First CE Supplemental Assignment of Finance Lease Receivables Framework Agreement;
- (c) the Existing CE Deposit Services Framework Agreement, the Existing CE Loan Services Framework Agreement and the Amended and Restated CE Assignment of Finance Lease Receivables Framework Agreement;

#### **In relation to the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement**

- (d) the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement;
- (e) the First ARI Supplemental Shareholders' Loan and Guarantee Agreement;
- (f) the ARI Shareholders' Loan and Guarantee Agreement; and

#### **Others**

- (g) The letter of consent referred to under the section headed "Expert and Consent" in this appendix.



**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 OF EXTRAORDINARY GENERAL MEETING**

**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 on Wednesday, 28 November 2018 at 9:30 a.m. for the purposes 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 6 November 2018.

**ORDINARY RESOLUTIONS**

**1. The Second CE Supplemental Deposit Services Framework Agreement**

**“THAT:**

- (a) the Second CE Supplemental Deposit Services Framework Agreement dated 15 October 2018 entered into between the Company and CE Group (a copy of which is produced to the EGM marked “A” and signed by the Chairman of the EGM for the purpose of identification), and the proposed New Annual Caps for the transactions contemplated thereunder for the years of 2019, 2020 and 2021 be and are hereby approved, confirmed and ratified; and
- (b) 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 Second CE Supplemental Deposit Services Framework Agreement, 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 the Second CE Supplemental Deposit Services Framework Agreement 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.”

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## NOTICE OF EGM

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### 2. The Second CE Supplemental Loan Services Framework Agreement

“THAT:

- (a) the Second CE Supplemental Loan Services Framework Agreement dated 15 October 2018 entered into between the Company and CE Group (a copy of which is produced to the EGM marked “B” and signed by the Chairman of the EGM for the purpose of identification), and the proposed New Annual Caps for the transactions contemplated thereunder for the years of 2019, 2020 and 2021 be and are hereby approved, confirmed and ratified; and
- (b) 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 Second CE Supplemental Loan Services Framework Agreement, 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 the Second CE Supplemental Loan Services Framework Agreement 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.”

### 3. The Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement

“THAT:

- (a) the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement dated 15 October 2018 entered into between the Company and CE Group (a copy of which is produced to the EGM marked “C” and signed by the Chairman of the EGM for the purpose of identification), and the proposed New Annual Caps for the transactions contemplated thereunder for the years of 2019, 2020 and 2021 be and are hereby approved, confirmed and ratified; and
- (b) 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 Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement, 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 the Second CE Supplemental Assignment of Finance Lease Receivables Framework Agreement 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.”

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## NOTICE OF EGM

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**4. The Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and the New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement)**

**“THAT:**

- (a) the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement dated 15 October 2018 entered into between ARI and ARI Shareholders (a copy of which is produced to the EGM marked “D” and signed by the Chairman of the EGM for the purpose of identification) and the proposed New Annual Caps for the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) for the years of 2019, 2020 and 2021 be and are hereby approved, confirmed and ratified; and
- (b) 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 Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and the proposed New Annual Caps for the transactions contemplated under the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement), 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 the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement and the proposed New Annual Caps for the ARI Shareholders' Loan and Guarantee Agreement (as supplemented by the Second ARI Supplemental Shareholders' Loan and Guarantee Agreement) 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**  
**POON HO MAN**  
*Executive Director and Chief Executive Officer*

Hong Kong, 6 November 2018

*As at the date of this notice, (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.*

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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 Friday, 23 November 2018, to Wednesday, 28 November 2018 (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 on Wednesday, 28 November 2018 will be 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 and transfer office, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on Thursday, 22 November 2018.
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 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 Listing Rules, 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.