
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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



紅日資本有限公司
RED SUN CAPITAL LIMITED

A letter from the Board is set out on pages 8 to 27 of this circular. A letter from the Independent Board Committee is set out on pages 28 and 29 of this circular. A letter from the Independent Financial Adviser is set out on pages 30 to 61 of this circular.

A notice convening the EGM to be held at 48th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong on Friday, 24 December, 2021 at 10:00 am is set out on pages 68 to 70 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 54, 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.

PRECAUTIONARY MEASURES FOR THE EGM

Please refer to page 1 of this circular for the measures to be implemented at the EGM by the Company against the epidemic to protect the attendees from the risk of infection of the coronavirus disease ("COVID-19"), including:

- compulsory body temperature check
- compulsory wearing of surgical face mask
- no distribution of corporate gifts and no serving of refreshments

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. The Company wishes to advise the Shareholders that you may appoint the Chairman of the meeting as your proxy to vote on the resolution at the EGM as an alternative to attending the EGM in person.

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PRECAUTIONARY MEASURES FOR THE EGM

In view of the ongoing COVID-19 epidemic and recent requirements for prevention and control of its spread (as per guidelines issued by the Hong Kong government at <https://www.chp.gov.hk/en/features/102742.html>), the Company will implement necessary preventive measures at the EGM to protect attending Shareholders, proxy and other attendees from the risk of infection, including:

- (i) Compulsory body temperature check will be conducted on every Shareholder, proxy and other attendees at the entrance of the EGM venue. Any person with a body temperature of over 37.2 degrees Celsius may be denied entry into the EGM venue or be required to leave the EGM venue.
- (ii) Attendees are required to prepare his/her own surgical face masks and wear the same inside the EGM venue at all times, and to maintain a safe distance between seats.
- (iii) No corporate gifts will be distributed and no refreshments will be served.

To the extent permitted under law, the Company reserves the right to deny entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In the interest of all attendees' health and safety, the Company wishes to advise all Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising voting rights. As an alternative, by using proxy forms with voting instructions duly completed, Shareholders may appoint the Chairman of the EGM as their proxy to vote on the resolution at the EGM instead of attending the EGM in person.

The proxy form, which can also be downloaded from the Company's website (<https://www.calc.com.hk>), is enclosed to this circular. If you are not a registered Shareholder (i.e. if your Shares are held via banks, brokers, custodians or Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

DEFINITIONS

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

“2018 Supplemental Agreements Circular”	the circular of the Company dated 6 November 2018 in relation to the continuing connected transactions contemplated under the Second Supplemental Agreements
“2020 Annual Report”	the annual report of the Company for the year ended 31 December 2020
“2021 Assignment of Finance Lease Receivables Framework Agreement”	the agreement entered into between the Company and CE Group on 11 November 2021, pursuant to which the Group will assign to associates of CE Group (including but not limited to CE Bank and the Trustee) the FLRs due from Aircraft Lessees related to the aircraft leased by the Group to Aircraft Lessees in accordance with the terms thereunder for the year ending 31 December 2022, 2023 and 2024
“2021 Deposit Services Framework Agreement”	the agreement entered into between the Company and CE Group on 11 November 2021, pursuant to which CE Group has agreed to provide, through CE Bank, deposit services to the Group in accordance with the terms thereunder for the year ending 31 December 2022, 2023 and 2024
“2021 Framework Agreements”	collectively, the 2021 Assignment of Finance Lease Receivables Framework Agreement, the 2021 Deposit Services Framework Agreement and the 2021 Loan Services Framework Agreement
“2021 Interim Report”	the interim report of the Company for the six months ended 30 June 2021
“2021 Loan Services Framework Agreement”	the agreement entered into between the Company and CE Group on 11 November 2021, pursuant to which CE Group has agreed to provide, through CE Bank and/or the Trustee (as the case may be), the Loan Services to the Group in accordance with the terms thereunder for the year ending 31 December 2022, 2023 and 2024
“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

DEFINITIONS

“Amended and Restated Assignment of Finance Lease Receivables Framework Agreement”	the agreement entered into between the Company and CE Group on 14 December 2015 (as amended and supplemented by the First Supplemental Assignment of Finance Lease Receivables Framework Agreement and the Second Supplemental Assignment of Finance Lease Receivables Framework Agreement), pursuant to which the Group will assign to associates of CE Group (including but not limited to CE Bank and the Trustee) the FLRs due from Aircraft Lessees related to the aircraft leased by the Group to Aircraft Lessees in accordance with the terms thereunder
“associate”	has the meaning ascribed thereto under Chapter 14A of the Listing Rules
“Board”	the board of Directors
“CE Aerospace”	China Everbright Aerospace Holdings Limited, a company incorporated in the Cayman Islands with limited liability 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

DEFINITIONS

“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
“Deposit Services Framework Agreements”	the agreement entered into between the Company and CE Group on 14 May 2015 (as amended and supplemented by the First Supplemental Deposit Services Framework Agreement and the Second 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
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held on 24 December 2021, the notice of which is set out on pages 68 to 70 of this circular, and any adjournment thereof for the purpose of considering, and if thought fit, approving the 2021 Framework Agreements and the transactions contemplated thereunder (including the New Annual Caps)
“Existing Annual Caps”	the existing annual caps for the transactions contemplated under the Existing Framework Agreements
“Existing Framework Agreements”	collectively, the Amended and Restated Assignment of Finance Lease Receivables Framework Agreement, the Deposit Services Framework Agreement and the Loan Services Framework Agreement
“First 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 Amended and Restated Assignment of Finance Lease Receivables Framework Agreement
“First 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 Deposit Services Framework Agreement
“First 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 Loan Services Framework Agreement

DEFINITIONS

“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
“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 Ltd.* (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
“Independent Shareholders”	with respect to the 2021 Framework 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) to be proposed at the EGM
“Latest Practicable Date”	3 December 2021, being the latest practicable date before printing of this circular for ascertaining information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Services”	loan services being/to be provided by CE Group, including (i) revolving credit facility and fixed term loan; (ii) guarantees; and (iii) currency swaps, currency forward contracts and interest rate swaps for hedging purpose

DEFINITIONS

“Loan Services Framework Agreement”	the agreement entered into between the Company and CE Group on 14 May 2015, (as amended and supplemented by the First Supplemental Loan Services Framework Agreement and the Second 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), the Loan Services to the Group in accordance with the terms thereunder
“New Annual Caps”	the proposed new annual caps for the years ending 31 December 2022, 2023 and 2024 for the transactions contemplated under the 2021 Framework Agreements
“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 Independent Shareholders in respect of the 2021 Framework Agreements and the transactions contemplated thereunder (including the New Annual Caps for the 2021 Framework Agreements)
“Second Supplemental Agreements”	collectively, the Second Supplemental Assignment of Finance Lease Receivables Framework Agreement, the Second Supplemental Deposit Services Framework Agreement and the Second Supplemental Loan Services Framework Agreement
“Second 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 Assignment of Finance Lease Receivables Framework Agreement
“Second 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 Deposit Services Framework Agreement
“Second 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 Loan Services Framework Agreement

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the Shares
“Share(s)”	share(s) with par value of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto under Chapter 1 of the Listing Rules
“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
“US\$”	United States dollar(s), the lawful currency of United States of America
“%”	per cent

* *For identification purpose only*

LETTER FROM THE BOARD



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:

Dr. Zhao Wei (*Chairman*)

Mr. Poon Ho Man (*Chief Executive Officer*)

Ms. Liu Wanting (*Deputy Chief Executive Officer*)

Non-executive Director:

Mr. Tang Chi Chun

Independent non-executive Directors:

Mr. Fan Yan Hok, Philip

Mr. Nien Van Jin, Robert

Mr. Cheok Albert Saychuan

Dr. Tse Hiu Tung, Sheldon

Registered office in the Cayman Islands:

Maples Corporate Services Limited

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

Principal place of business in Hong Kong:

32nd Floor

Far East Finance Centre

16 Harcourt Road

Hong Kong

9 December 2021

Dear Shareholders,

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

The Board refers to the announcement of the Company dated 11 November 2021 in relation to the 2021 Framework Agreements and the transactions contemplated thereunder (including the New Annual Caps).

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 the 2021 Framework Agreements and the transactions contemplated thereunder (including the New Annual Caps).

II. CONTINUING CONNECTED TRANSACTIONS

(1) The Existing Framework Agreements

Reference is made to the 2018 Supplemental Agreements Circular in relation to the Existing Framework Agreements, pursuant to which the Company and CE Group extended the term of each of the Existing Framework Agreements to 31 December 2021. The transactions contemplated under the Existing Framework Agreements including the Existing Annual Caps were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 28 November 2018.

LETTER FROM THE BOARD

As the Existing Framework Agreements will expire on 31 December 2021, on 11 November 2021, the Company and CE Group entered into the 2021 Framework Agreements for a term of three years, commencing from 1 January 2022 to 31 December 2024, which will further strengthen and broaden the mutually beneficial business cooperation between the Group and CE Group, and satisfy the Group's needs for diversified financial services provided by CE Group to facilitate the Group's business operation and future development.

(2) The 2021 Deposit Services Framework Agreement

The Company and CE Group have entered into the 2021 Deposit Services Framework Agreement to govern the deposit services between the Group and CE Group for the three financial years ending 31 December 2024. Principal terms of the 2021 Deposit Services Framework Agreement are summarised below:

Date

11 November 2021

Parties

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

Subject matter

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

Term

Subject to approval by the Independent Shareholders at the EGM, the term of the 2021 Deposit Services Framework Agreement will commence on 1 January 2022 and expire on 31 December 2024.

Payment

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

LETTER FROM THE BOARD

Other terms

The 2021 Deposit Services Framework Agreement shall be non-exclusive and the Group is at liberty to obtain deposit services from other third parties.

CE Group shall support 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, including but not limited to, Law of the People's Republic of China on Commercial Banks (Order No.47 [1995] of the President of the PRC) and Hong Kong's Banking Ordinance (Cap. 155 of the Laws of Hong Kong).

The deposit services to be provided by CE Group shall be on normal commercial terms which are arrived through 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:

	For the year ended		For the period ended
	31 December 2019	31 December 2020	31 October 2021
	Actual Amount	Actual Amount	Actual Amount
	HK\$'000	HK\$'000	HK\$'000
Maximum daily closing balance of deposits (including interests accrued thereon)	2,256,000	2,472,000	2,460,000

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

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

LETTER FROM THE BOARD

The following table sets out the New Annual Caps for the continuing connected transactions contemplated under the 2021 Deposit Services Framework Agreement:

	31 December 2022	For the year ending 31 December 2023	31 December 2024
	New Annual Cap	New Annual Cap	New Annual Cap
	HK\$'000	HK\$'000	HK\$'000
Maximum daily closing balance of deposits (including interests accrued thereon)	9,360,000	10,920,000	12,480,000

Pricing basis

The interest rate for deposit services shall be on normal commercial terms which is arrived through arm's-length negotiations between the relevant 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.

In determining the pricing basis of the deposit services under the 2021 Deposit Services Framework Agreement, the designated staff from the finance and accounting department of the Company had sought quotations from one to three independent major commercial banks for similar types of deposit services offered by CE Group and had then compared various factors, among others, the deposit interest rate and the banking relationship with the financial institutions as a whole, including total facilities and financing options offered from them.

In addition, with reference to a selection of deposit services placed by the Group with CE Group and the independent third party deposit services providers, on a random sampling basis over a review period of twelve months prior to the Latest Practicable Date, the Directors are of the view that the pricing basis of the deposit services under the 2021 Deposit Services Framework Agreement is no less favourable than terms offered by and/or transacted with the independent third party deposit services providers.

Basis for the New Annual Caps

The Directors (including the independent non-executive 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 2021 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 daily closing balance (including interests 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.

LETTER FROM THE BOARD

Although the Group has recorded relatively low utilisation rate of the Existing Annual Caps for the deposit services during two years ended 31 December 2019 and 2020 and ten months ended 31 October 2021, which was mainly attributable to, (aa) the decrease in demand of the Loan Services affecting the corresponding demand of deposit services due to the reschedule of delivery for 100 aircraft in the Group's order book caused by Boeing 737MAX aircraft groundings which took place in March 2019; and (bb) the development of the coronavirus outbreak domestically and internationally at the material time that adversely affected the number of aircraft delivery. Such circumstances led to lower than expected level of borrowings, which in turn reduced the overall need for deposit services. When considering the New Annual Caps for the deposit services under the 2021 Deposit Services Framework Agreement, the Group has considered the expected amount of deposits that may be placed with CE Bank, which has taken into account, among others, the expected expansion in the aircraft fleet of the Group, the expected expansion in its portfolio trading business, the relevant expected lease income and the consideration of potential debt raisings.

As set out in the 2021 Interim Report and as set out in note 6 under the management discussion and analysis section of the 2021 Interim Report, the Group had 254 aircraft to be delivered in its order book and the total capital commitment attributable to aircraft purchase amounted to approximately HK\$92,550.8 million as at 30 June 2021. The Directors has also contemplated that the number of new aircraft delivery is expected to be in the range of 30 to 40, 40 to 50 and 60 to 70 for the year ending 31 December 2022, 2023 and 2024, respectively. On the assumption that the total capital commitment attributable to aircraft purchase as at 30 June 2021 shall be fulfilled primarily during the three years ending 31 December 2022, 2023 and 2024, it is estimated that the relevant required funds to fulfil such obligations but yet to deploy for the acquisition of new aircraft may amount up to HK\$7,712.6 million in a given quarter of a financial year, and such funds may temporarily utilise the deposit services. In this connection, the aforesaid amount alone already represents over 80% of the New Annual Caps for the deposit services for the year ending 31 December 2022.

Moreover, the Group has planned to continue to expand its portfolio trading business under its current business model. Based on the 2020 Annual Report, the Group had disposed 15 and 18 aircraft which recorded proceeds from disposal of aircraft of approximately HK\$5,905.8 million and HK\$5,534.7 million for the year ended 31 December 2019 and 2020, respectively. As set out in the 2021 Interim Report, the Group has scheduled certain aircraft to be disposed of in the next twelve months from 30 June 2021. With reference to the historical proceeds from disposal of aircraft, it is estimated that the average relevant proceeds from disposal may amount to HK\$1,476.5 million in a given quarter of a financial year, and such proceeds from disposal may also need to utilise the deposit services with CE Bank.

LETTER FROM THE BOARD

For the years ended 31 December 2019 and 2020, the Group generated cash flows from proceeds of borrowings, issuance of bonds and debentures, medium-term notes and perpetual capital securities amounted to approximately HK\$17,636.6 million and HK\$13,013.3 million, respectively. As of 1 December 2021, the syndicated loan facilities of which CE Bank acts as the facility agent amounted to approximately US\$1,250 million (equivalent to approximately HK\$9,750 million) and the revolving loan facilities offered by CE Bank of approximately US\$150 million (equivalent to HK\$1,170 million) are available for drawdown, whenever needed. The Group will also from time to time to arrange other new bilateral loan facilities (including syndicated loan facilities of which CE Bank will be invited to participate in such arrangement and act as the facility agent to the syndicated loan facilities, if appropriate) when additional funding is needed to meet the aircraft delivery schedule under its order book. Such unutilised funds may also be maintained as short-term deposit with CE Bank upon the drawdown of loan facilities and/or receipt of proceeds from the issuance of debt securities.

For the years ended 31 December 2019 and 2020 and the six months ended 30 June 2020 and 2021, the Group's total revenue remained largely stable at approximately HK\$3,523.2 million, HK\$3,485.8 million, HK\$1,635.9 million and HK\$1,585.2 million, respectively. Hence, the Group foresees the expected lease income will remain at a stable level for the three years ending 31 December 2022, 2023 and 2024, which will also need to utilise the deposit services with CE Bank.

The New Annual Caps for the deposit services under the 2021 Deposit Services Framework Agreement represented maximum daily closing balance of deposits (including interests accrued thereon) that may be placed by the Group with CE Bank. In determining the New Annual Caps, the Group has therefore taken into account the maximum aggregate funds that may be available to the Group and placed with CE Bank as disclosed above.

(3) The 2021 Loan Services Framework Agreement

The Company and CE Group have entered into the 2021 Loan Services Framework Agreement to govern the secured Loan Services between the Group and CE Group for the three financial years ending 31 December 2024. Principal terms of the 2021 Loan Services Framework Agreement are summarised below:

Date

11 November 2021

Parties

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

LETTER FROM THE BOARD

Subject matter

- (i) Provision of the secured Loan Services by CE Group, through CE Bank, to the Group; and
- (ii) Provision of the secured Loan Services by CE Group, through the Trustee using the funds of Trust Plans to the Group.

Term

Subject to approval by the Independent Shareholders at the EGM, the term of the 2021 Loan Services Framework Agreement will commence on 1 January 2022 and expire on 31 December 2024.

Payment

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

Other terms

The 2021 Loan Services Framework Agreement shall be non-exclusive and the Group is at liberty to obtain the Loan Services from other third parties.

CE Group shall support CE Bank and/or the Trustee, as the case may be, to provide to the Group the Loan Services, 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, including but not limited to, Law of the People's Republic of China on Commercial Banks (Order No.47 [1995] of the President of the PRC), General Rules for Loans (Order No.2 [1996] of the People's Bank of China), Interim Measures for the Administration of Working Capital Loans (Order No.1 [2010] of China Banking Regulatory Commission), Interim Measures for the Administration of Fixed Asset Loans (Order No.2 [2009] of China Banking Regulatory Commission) and Hong Kong's Money Lenders Ordinance (Cap. 163 of the Laws of Hong Kong).

LETTER FROM THE BOARD

The Loan Services to be provided by CE Group shall be on normal commercial terms which are arrived through 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.

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

The following table sets out the amount of historical transactions for the Loan Services provided by CE Bank and/or the Trustee to the Group:

	For the year ended		For the period ended
	31 December 2019	31 December 2020	31 October 2021
	Actual Amount <i>HK\$'000</i>	Actual Amount <i>HK\$'000</i>	Actual Amount <i>HK\$'000</i>
Maximum daily closing balance of Loan Services	4,782,000	5,201,000	4,575,000

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

	For the year ended		For the year ending
	31 December 2019	31 December 2020	31 December 2021
	Existing Annual Cap <i>HK\$'000</i>	Existing Annual Cap <i>HK\$'000</i>	Existing Annual Cap <i>HK\$'000</i>
Maximum daily closing balance of Loan Services	18,214,000	18,214,000	18,214,000

LETTER FROM THE BOARD

The following table sets out the New Annual Caps for the continuing connected transactions contemplated under the 2021 Loan Services Framework Agreement:

	31 December 2022	For the year ending 31 December 2023	31 December 2024
	Annual Cap	Annual Cap	Annual Cap
	HK\$'000	HK\$'000	HK\$'000
Maximum daily closing balance of Loan Services	18,214,000	21,060,000	24,960,000

Pricing basis

The interest rate for the Loan Services shall be on normal commercial terms, to be arrived through arm's-length negotiations between the relevant 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.

In determining the pricing basis of the Loan Services under the 2021 Loan Services Framework Agreement, the designated staff from the financing department of the Company had sought quotations from one to three comparable independent third party commercial banks for similar types of the Loan Services offered by CE Group and had then compared various factors, among others, the loan interest rate and loan tenure offered.

In addition, with reference to a selection of the Loan Services placed by the Group with the CE Group and the independent third party loan services providers, on a random sampling basis over a review period of twelve months prior to the Latest Practicable Date, the Directors are of the view that the pricing basis of the Loan Services under the 2021 Loan Services Framework Agreement is no less favourable than terms provided by the independent third party loan services providers.

Basis for the New Annual Caps

The Directors (including the independent non-executive 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 2021 Loan Services Framework Agreement. The Directors have determined the New Annual Caps for the Loan Services with reference to a number of factors, including, among other things, (i) the historical figures of the maximum daily closing balance of the Loan Services in previous years, and (ii) the business development plans and financial needs of the Group.

LETTER FROM THE BOARD

Although the Group has recorded relatively low utilisation rate of the Existing Annual Caps for the Loan Services during two years ended 31 December 2019 and 2020 and ten months ended 31 October 2021, which was mainly attributable to, (aa) the decrease in demand of the Loan Services due to the reschedule of delivery for 100 aircraft in the Group's order book caused by Boeing 737MAX aircraft groundings which took place in March 2019; and (bb) the development of the coronavirus outbreak domestically and internationally at the material time that adversely affected the number of aircraft delivery. Such circumstances led to lower than expected level of borrowings, which in turn reduced the overall need for Loan Services. When considering the New Annual Caps for the Loan Services under the 2021 Loan Services Framework Agreement, the Group has primarily taken into consideration, among others, the estimated level of aircraft loans, the loans secured by residual value of aircraft, working capital loans and pre-delivery payment loans, which are required for its expected operational and financial needs for its development according to its expansion plan for the three years ending 31 December 2022, 2023 and 2024.

In particular, the Group has considered its projected increase in fleet size and the expected aircraft delivery schedule for the next three years. The Group has expected an increase in the Loan Services to fund certain part of acquisition cost of the increased fleet of aircraft. As set out in the 2021 Interim Report and as set out in note 6 under the management discussion and analysis section of the 2021 Interim Report, the Group had 254 aircraft to be delivered in its order book and the total capital commitment attributable to aircraft purchase amounted to approximately HK\$92,550.8 million as at 30 June 2021. The Directors has also contemplated that the number of new aircraft delivery is expected to be in the range of 30 to 40, 40 to 50 and 60 to 70 for the year ending 31 December 2022, 2023 and 2024, respectively. Hence, the Group is expected to raise additional borrowings to finance the acquisition of new aircraft and to meet the expected aircraft delivery schedule for the year ending 31 December 2022, 2023 and 2024, respectively.

As set out in the 2020 Annual Report and the 2021 Interim Report, the Group's total borrowings (including borrowings, bonds and debentures and medium-term borrowings) and capital commitment amounted to approximately HK\$135,204.7 million as at 31 December 2020 and approximately HK\$128,565.7 million as at 30 June 2021. The Directors further advised that the Group's total borrowings and capital commitment have fluctuated notably in the past and reached approximately HK\$137,587.3 million as at 30 June 2020. With a view to avoid undue disruptions to the Group's operations attributable to potential insufficient annual caps and to allow a degree of flexibility for the Group's funding options, the New Annual Caps for the Loan Services are required to cater for such notable fluctuations during the term of the 2021 Loan Services Framework Agreement. Furthermore, the New Annual Cap for the Loan Services for the year ending 31 December 2022 of HK\$18,214 million only represents approximately 13.2%, 13.5% and 14.2% of the aforesaid total borrowings and capital commitment of the Group as at 30 June 2020, 31 December 2020 and 30 June 2021, respectively. The Directors are of the view that the Group has been and will continue to seek different funding sources for the development needs of the Group by negotiating with various financial institutions, including CE Group, from time to time.

LETTER FROM THE BOARD

The New Annual Caps for the Loan Services under the 2021 Loan Services Framework Agreement represented maximum daily closing balance of the Loan Services that may be provided to the Group by CE Bank. In determining the New Annual Caps, the Group has therefore taken into account the maximum total borrowings and capital commitment of the Group that may be provided by CE Bank as disclosed above.

(4) The 2021 Assignment of Finance Lease Receivables Framework Agreement

The Company and CE Group have entered into the 2021 Assignment of Finance Lease Receivables Framework Agreement to govern the assignment of FLRs between the Group and CE Group for the three financial years ending 31 December 2024. Principal terms of the 2021 Assignment of Finance Lease Receivables Framework Agreement are summarised below:

Date

11 November 2021

Parties

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

Subject matter

Assignment of the FLRs by the Group to associates of CE Group (including but not limited to CE Bank and the Trustee).

Term

Subject to approval by the Independent Shareholders at the EGM, the term of the 2021 Assignment of Finance Lease Receivables Framework Agreement will commence on 1 January 2022 and expire on 31 December 2024.

Payment

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

LETTER FROM THE BOARD

Other terms

The assignment of FLRs by the Group to CE Group shall be on normal commercial terms which are arrived through arm's-length negotiations and are no less favourable than the terms offered by the Group to independent third party assignees for similar or comparable assignments, in accordance with the rules and regulations within or outside the PRC, including but not limited to, Notice of China Banking Regulatory Commission on Issuing the Guidelines on the Project Financing Business (Order No. 71 [2009] of China Banking Regulatory Commission) and Hong Kong's Companies Ordinance (Cap. 622 of the Laws of Hong Kong).

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:

	For the year ended		For the period ended
	31 December 2019	31 December 2020	31 October 2021
	Actual Amount	Actual Amount	Actual Amount
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total consideration	Nil	Nil	Nil

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

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

The following table sets out the New Annual Caps for the continuing connected transactions contemplated under the 2021 Assignment of Finance Lease Receivables Framework Agreement:

	For the year ending		
	31 December 2022	31 December 2023	31 December 2024
	New Annual Cap	New Annual Cap	New Annual Cap
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total consideration	7,020,000	7,020,000	7,020,000

LETTER FROM THE BOARD

Pricing basis

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

In determining the pricing basis of the assignment of FLRs under the 2021 Assignment of Finance Lease Receivables Framework Agreement, the staff from an independent transaction department of the Company who are certified public accountants and/or chartered financial analysts had compared the detailed benchmarks against one to three comparable historical transaction(s) of the Group for the assignment of FLRs. The same assessment by the relevant department with the same approval process had been carried out by the Group for each assignment of FLRs, regardless of whether the assignee was a connected person or an independent third party.

Considering that the Group did not conduct any assignment of FLRs with CE Group within the preceding three years, the Group had made reference to its historical transactions of the assignment of FLRs with other independent third party assignees and the prevailing market conditions. The Directors are of the view that the pricing basis of the assignment of FLRs under the 2021 Assignment of Finance Lease Receivables Framework Agreement is no less favourable than the terms offered by the Group to independent third parties.

Basis for the New Annual Caps

The Directors (including the independent non-executive 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 2021 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, the business development plans of the Group.

When considering the New Annual Caps for the assignment of FLRs under the 2021 Assignment of Finance Lease Receivables Framework Agreement, the Group has considered the number of new aircraft delivery which is expected to be in the range of 30 to 40, 40 to 50 and 60 to 70 for the year ending 31 December 2022, 2023 and 2024, respectively. Such expected increase in the number of aircraft to be delivered was primarily attributable to the Group's order book on hand and the continued recovery of the PRC domestic aviation market, which was temporarily and adversely affected since the initial coronavirus outbreak started around 2020, but has since experienced notable recovery.

LETTER FROM THE BOARD

Although the Group has recorded zero utilisation of the assignment of FLRs annual caps during two years ended 31 December 2019 and 2020 and ten months ended 31 October 2021, which was mainly attributable to, among others (aa) the Group's strategy in relation to its asset/financing management; (bb) the assignment of FLRs is one of the financing options available and considered by the Group; and (cc) more aircraft trading transactions are selected as other funding options, for instance, the Group had disposed seven lease-attached aircraft and two lease-attached aircraft to a non-wholly-owned subsidiary of CE Bank in 2020 and 2021, respectively. However, the Group will continue to consider assignment of FLRs proposals, and where appropriate conduct assignment of FLRs, going forward. The Group had utilised the assignment of FLRs annual caps in the past when considered suitable, namely, during the years ended 31 December 2016 and 2017, the total consideration under the assignment of FLRs by the Group to CE Group amounted to approximately HK\$3,937 million and HK\$2,529 million, respectively. In terms of the Group's fleet size, the Group had notably increased from 81 aircraft and 107 aircraft as at 31 December 2016 and 2017 to 129 aircraft as at 30 June 2021, which represented an increase of approximately 59.3% and 20.6% compared to the Group's aircraft fleet as at 31 December 2016 and 2017, respectively. Furthermore, the Group has expected its aircraft fleet to expand further during the three years ending 31 December 2022, 2023 and 2024 as additional aircraft shall be delivered to the Group based on its order book. The New Annual Caps for the assignment of FLRs are maintained at the same level as the historical assignment of FLRs annual caps during the years ended 31 December 2016 and 2017 is to allow flexibility for the Group to enter into future assignment of FLRs with CE Group.

(5) Reasons for and Benefits of the Continuing Connected Transactions

Based on CE Group's thorough understanding of the Group's business needs under the long-term relationship of cooperation with its associate CE Bank, one of the principal banks of the Group, the deposit services under the 2021 Deposit Services Framework Agreement and the Loan Services under the 2021 Loan Services Framework Agreement have allowed the Group to enjoy cost-effective and expedient financial services provided by CE Group in a way of simpler and more efficient customer due diligence process as the Group has used and will continue to use the deposits services and the secured Loan Services in CE Bank. Also, the 2021 Assignment of Finance Lease Receivables Framework Agreement, which allows the assignment of FLRs by the Group to associates of CE Group, and the Loan Services to be provided by CE Group under the 2021 Loan Services Framework Agreement will improve the Group's profitability by utilizing the consideration in respect of the assignment of FLRs and the borrowings to fund the Group's expected operational and financial needs according to its expansion plan, and enhance its financial resources by realising un-earned finance income and bring other financial benefits.

LETTER FROM THE BOARD

As such, the Directors (including the independent non-executive Directors) consider that it will be beneficial to enter into the 2021 Framework Agreements to further strengthen and broaden the mutually beneficial business cooperation between the Group and CE Group, and satisfy the Group's needs for diversified financial services to facilitate the Group's business operation and future development.

The Directors (including the independent non-executive Directors) are of the view that (i) the continuing connected transactions contemplated under the 2021 Framework Agreements will be carried out in the ordinary and usual course of business of the Company; (ii) the terms of the 2021 Framework 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 2021 Framework Agreements are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

(6) 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 2021 Deposit Services Framework Agreement, the Loan Services provided by CE Group under the 2021 Loan Services Framework Agreement and the assignment of FLRs carried out between the Group and associates of CE Group under the 2021 Assignment of Finance Lease Receivables Framework Agreement.

The deposit services under the 2021 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 2021 Deposit Services Framework Agreement:

- (1) 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 and 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 on normal commercial terms, to be arrived through arm's-length negotiations between the relevant parties and are not less favourable than those provided by independent commercial banks; and

LETTER FROM THE BOARD

- (3) the independent non-executive Directors 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 2021 Deposit Services Framework Agreement and the relevant Listing Rules.

The Loan Services under the 2021 Loan Services Framework Agreement

The Group has adopted and will continue to adhere to the following review process and assessment criteria when obtaining the Loan Services from CE Group under the 2021 Loan Services Framework Agreement:

- (1) the designated staff from the finance and accounting department of the Company will closely monitor the outstanding Loan Services balances 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 Services transaction contemplated under the 2021 Loan Services Framework Agreement, the designated staff from the financing department of the Company will seek quotations from one to three independent major commercial bank(s) for similar types of the Loan 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 on normal commercial terms, to be arrived through arm's-length negotiations between the relevant parties and are not less favourable than those provided by independent commercial banks; and
- (3) the independent non-executive Directors will review at least every six months the status of the Loan Services provided by CE Group to ensure the Group has complied with internal approval process, the terms of the 2021 Loan Services Framework Agreement and the relevant Listing Rules.

LETTER FROM THE BOARD

The assignment of FLRs under the 2021 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 2021 Assignment of Finance Lease Receivables Framework Agreement:

- (1) 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;
- (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 will review at least 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 2021 Assignment of Finance Lease Receivables Framework Agreement and the relevant Listing Rules.

(7) Listing rules implications

As at the date of 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 37.9% 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 having made all reasonable enquiries, CE Bank is an associate of CE Group. The transactions contemplated under the 2021 Framework Agreements will 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 2021 Framework Agreements will 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.

LETTER FROM THE BOARD

General

Two directors of the Company, namely, Dr. Zhao Wei (who is an executive director of CE Limited and the executive Director of the Company) and Mr. Tang Chi Chun (who has resigned as an executive director of CE Limited with effect from 1 December 2021 and is the non-executive Director of the Company) have abstained from voting on the relevant resolutions of the Board.

(8) General information of the parties

The Company and the Group

The Company is an investment holding company.

The Group is a leading full value chain aircraft solutions provider. Its scope of business includes regular operations such as aircraft operating leasing, purchase and leaseback, and structured financing, as well as value-added services such as fleet upgrade, aircraft maintenance, repair and overhaul, aircraft disassembling and component sales.

CE Group and CE Bank

CE Group was incorporated as a joint stock company with limited liability in the PRC and 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. CE Bank is an associate of CE Group.

LETTER FROM THE BOARD

III. RECOMMENDATION

Based on its views set out above, the Board recommends that the Independent Shareholders vote in favour of the resolutions concerning the 2021 Framework Agreements and the transactions contemplated thereunder (including the New Annual Caps).

Your attention is drawn to the letter from the Independent Board Committee to the Shareholders, the text of which is set out on pages 28 and 29 of this circular. Your attention is also drawn to the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 30 to 61 of this circular. The Independent Board Committee, having taken into account the advice of Red Sun, considers that (i) the transactions contemplated under the 2021 Deposit Services Framework Agreement, the 2021 Loan Services Framework Agreement and the 2021 Assignment of Finance Lease Receivables Framework Agreement will be carried out in the ordinary course of business of the Group; (ii) the terms of the 2021 Deposit Services Framework Agreement, the 2021 Loan Services Framework Agreement and the 2021 Assignment of Finance Lease Receivables Framework 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 2021 Deposit Services Framework Agreement, the 2021 Loan Services Framework Agreement and the 2021 Assignment of Finance Lease Receivables Framework Agreement for the years of 2022, 2023 and 2024 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 2021 Framework Agreements and the transactions contemplated thereunder (including the New Annual Caps) to be proposed at the EGM.

IV. THE EGM AND SHAREHOLDERS' APPROVAL

The EGM will be held at 48th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong on Friday, 24 December 2021 at 10:00 a.m. A notice to convene the EGM is set out on pages 68 to 70 of this circular.

At the EGM, ordinary resolutions will be proposed to approve (i) the 2021 Deposit Services Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps), (ii) the 2021 Loan Services Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps) and (iii) the 2021 Assignment of Finance Lease Receivables Framework Agreement and the transactions contemplated thereunder (including the New Annual Caps).

CE Group (which is the holder of 100% of the issued share capital of CE Hong Kong), 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 37.9% of the Company's total issued share capital as at the Latest Practicable Date) will be required to abstain from voting at the EGM with respect to the ordinary resolutions in connection with the 2021 Framework Agreements and the transactions contemplated thereunder (including the New Annual Caps).

LETTER FROM THE BOARD

In order to determine the list of Shareholders who are entitled to attend and vote at the EGM, the register of the Shareholders will be closed from Tuesday, 21 December 2021 to Friday, 24 December 2021 (both days inclusive), during which period no transfer of Shares will be registered. Shareholders whose names appear on the register of the Shareholders on Friday, 24 December 2021 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 62 to 67 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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



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)

9 December 2021

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company (the “**Circular**”) dated 9 December 2021 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 2021 Framework Agreements and the transactions contemplated thereunder (including the New Annual Caps), 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 Independent Shareholders and us in this regard.

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 the Independent Financial Adviser” 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 2021 Deposit Services Framework Agreement, the 2021 Loan Services Framework Agreement and the 2021 Assignment of Finance Lease Receivables Framework 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 2021 Framework Agreements will be carried out in the ordinary course of business of the Group; (ii) the terms of the 2021 Framework 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 2021 Framework Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, therefore, recommend that you vote in favour of the resolutions to be proposed at the EGM to approve the 2021 Framework Agreements and the transactions contemplated thereunder (including the New Annual Caps).

Yours faithfully,

For and on behalf of

INDEPENDENT BOARD COMMITTEE

**Fan Yan Hok, Philip, Nien Van Jin, Robert,
Cheok Albert Saychuan and Tse Hiu Tung, Sheldon**

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 (including the New Annual Caps) prepared for the purpose of incorporation in this circular.



紅日資本有限公司
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

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

9 December 2021

CONTINUING CONNECTED TRANSACTIONS THE 2021 FRAMEWORK AGREEMENTS

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders regarding the continuing connected transactions contemplated under the 2021 Framework Agreements (i.e. the 2021 Deposit Services Framework Agreement, the 2021 Loan Services Framework Agreement and the 2021 Assignment of Finance Lease Receivables Framework Agreement), including the New Annual Caps for the three financial years ending 31 December 2024 (together the “**Continuing Connected Transactions**”). Details of the 2021 Framework Agreements and the New Annual Caps are set out in the letter from the Board (the “**Letter from the Board**”) in the circular to the Shareholders dated 9 December 2021 (the “**Circular**”). Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

Based on information as set out in the 2018 Supplemental Agreements Circular and pursuant to the Existing Framework Agreements, the Company and CE Group extended the term of each of the Existing Framework Agreements to 31 December 2021. As the Existing Framework Agreements will expire on 31 December 2021, on 11 November 2021, the Company and CE Group entered into the 2021 Framework Agreements for a term of three years, commencing from 1 January 2022 to 31 December 2024, which will further strengthen and broaden the mutually beneficial business cooperation between the Group and CE Group, and satisfy the Group’s needs for diversified financial services provided by CE Group to facilitate the Group’s business operation and future development.

As set out in the Letter from the Board, 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 as at the Latest Practicable Date. CE Limited in turn indirectly holds approximately 37.9% 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 2021 Framework Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 2021 Framework Agreements constitute non-exempted continuing connected transactions of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As set out in the Letter from the Board, CE Group (which is the holder of 100% of the issued share capital of CE Hong Kong), 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 37.9% of the Company's total issued share capital as at the Latest Practicable Date) will be required to abstain from voting at the EGM with respect to the ordinary resolutions in connection with the 2021 Framework Agreements and the transactions contemplated thereunder (including the New Annual Caps).

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of eight Directors, namely Dr. ZHAO Wei, Mr. POON Ho Man and Ms. LIU Wanting as executive Directors, Mr. TANG Chi Chun as a non-executive Director, Mr. FAN Yan Hok, Philip, Mr. NIEN Van Jin, Robert, Mr. CHEOK Albert Saychuan and Dr. TSE Hiu Tung, Sheldon 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 Dr. TSE Hiu Tung, Sheldon, has been established to advise the Shareholders as to whether the terms of the 2021 Framework Agreements (together with the New Annual Caps) are fair and reasonable, and whether the transactions contemplated thereunder are in the ordinary and usual course of business, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Our appointment has been approved by the Independent Board Committee. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee and the Independent Shareholders as to (i) whether the transactions contemplated under the 2021 Framework Agreements are conducted in the ordinary and usual course of business, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolution to approve the 2021 Framework Agreements and the transactions contemplated thereunder at the EGM.

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, CE Group and their respective shareholders, directors or chief executives, or any of their respective associates and accordingly, are qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the 2021 Framework Agreements (together with the New Annual Caps) and the transactions contemplated thereunder. In the last two years, save for our appointment as the independent financial adviser in relation to (i) the connected transaction in relation to the subscription of new shares by the Company in Aviation Synergy Ltd (now known as Linkasia Airlines Group Limited), details of which are set out in the announcements dated 4 and 23 March 2020; (ii) the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

connected transaction in relation to disposal of seven lease-attached aircraft, details of which are set out in the circular dated 9 July 2020; (iii) the major and continuing connected transactions in relation to the shareholders' loan and guarantee agreement and the new annual caps, details of which are set out in the circular dated 23 February 2021; and (iv) the connected transaction in relation to the disposal of two-lease-attached aircraft, details of which are set out in the circular dated 17 May 2021, Red Sun Capital Limited has not acted as an independent financial adviser to the independent board committee and the independent shareholders of the Company for any other transaction.

Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no other arrangements exist whereby we have received or will receive any fees or benefits from the Group that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent from the Group pursuant to Rule 13.84 of the Listing Rules.

IV. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions, beliefs and representations for matters relating to the Group, CE Group and CE Bank 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, CE Group and CE Bank 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, CE Group, CE Bank 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.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Continuing Connected Transactions, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

V. 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 2021 Framework Agreements and the basis of the New Annual Caps.

1. Background information of the Group

As set out in the 2020 Annual Report and the 2021 Interim Report, the Group is principally engaged in the provision of aircraft leasing business. The Group's operations are mainly in the PRC and other countries or regions globally.

Set out below is the summary of the Group's financial results as extracted from the 2020 Annual Report and the 2021 Interim Report:

Summary of consolidated financial performance of the Group

	For the year ended		For the six months ended	
	31 December		30 June	
	2019	2020	2020	2021
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue				
– Finance lease income	664.3	541.2	273.6	265.3
– Operating lease income	1,796.2	1,945.6	991.6	890.7
– Other income	1,062.7	999.0	370.7	429.2
Total revenue	3,523.2	3,485.8	1,635.9	1,585.2
Profit for the year/period attributable to Shareholders of the Company	896.0	334.1	331.6	302.6

Total revenue of the Group remained largely stable at approximately HK\$3,523.2 million for the year ended 31 December 2019 and approximately HK\$3,485.8 million for the year ended 31 December 2020. Profit attributable to Shareholders of the Company decreased by approximately HK\$561.9 million or approximately 62.7%, from approximately HK\$896.0 million for the year ended 31 December 2019 to approximately HK\$334.1 million for the year ended 31 December 2020. Such decrease was mainly attributable to the increase in share of losses and provision on investment in associates and joint ventures to approximately HK\$209.0 million and the increase in other losses to approximately HK\$306.7 million.

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Total revenue of the Group fluctuated from approximately HK\$1,635.9 million for the six months ended 30 June 2020 to approximately HK\$1,585.2 million for the six months ended 30 June 2021. Profit attributable to Shareholders of the Company decreased by approximately HK\$29.0 million or approximately 8.7%, from approximately HK\$331.6 million for the six months ended 30 June 2020 to approximately HK\$302.6 million for the six months ended 30 June 2021.

Summary of consolidated financial position of the Group

	As at		As at
	31 December		30 June
	2019	2020	2021
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	(audited)	(audited)	(unaudited)
Total assets	43,651.3	46,392.5	45,424.5
– Property, plant and equipment	19,611.5	18,450.6	16,261.9
– Finance lease receivables – net	7,790.5	7,263.7	7,476.1
– Cash and cash equivalents	4,352.3	4,877.6	3,155.6
Total liabilities	39,681.6	40,976.8	39,775.8
– Borrowings	26,881.2	26,763.0	27,135.9
– Medium-term notes	1,636.5	1,338.3	1,357.1
– Bonds and debentures	7,245.4	9,054.8	7,521.9
Total equity attributable to Shareholders of the Company	3,969.7	3,893.0	4,159.6

Note: For the avoidance of doubt, only selected major asset and liability components are disclosed in the table above.

During the review period of the years ended 31 December 2019 and 2020, and the six months ended 30 June 2021 (the “**Review Period**”), total assets of the Group fluctuated between approximately HK\$43,651.3 million as at 31 December 2019 to approximately HK\$46,392.5 million as at 31 December 2020, and amounted to approximately HK\$45,424.5 million as at 30 June 2021. The largest component of the Group’s total assets during the Review Period was property, plant and equipment, which amounted to approximately HK\$19,611.5 million, HK\$18,450.6 million and HK\$16,261.9 million as at 31 December 2019, 31 December 2020 and 30 June 2021, respectively. During the Review Period, (i) financial lease receivables – net remained broadly stable at approximately HK\$7,790.5 million, HK\$7,263.7 million and HK\$7,476.1 million as at 31 December 2019, 31 December 2020 and 30 June 2021, respectively; and (ii) cash and cash equivalent balance fluctuated from approximately HK\$3,155.6 million as at 30 June 2021 to approximately HK\$4,877.6 million as at 31 December 2020.

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During the Review Period, total liabilities of the Group fluctuated between approximately HK\$39,681.6 million as at 31 December 2019 to approximately HK\$40,976.8 million as at 31 December 2020, and amounted to approximately HK\$39,775.8 million as at 30 June 2021. The Group's total liabilities during the Review Period mainly comprised of interest-bearing debt, including borrowings, bonds and debentures, and medium-term notes, which in aggregate amounted to approximately HK\$35,763.1 million, HK\$37,156.1 million and HK\$36,014.9 million as at 31 December 2019, 31 December 2020 and 30 June 2021, respectively. As at 31 December 2019 and 2020 and 30 June 2021, the Group's gearing ratio based on the 2020 Annual Report and the 2021 Interim Report, as calculated by dividing interest-bearing debts included in total liabilities by total assets, was approximately 81.9%, 80.1% and 79.3%, respectively.

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 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. CE Bank is an associate of CE Group.

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 2020 (the “**2020 CE Bank Annual Report**”), the CE Bank group recorded net assets and total assets of approximately RMB455.0 billion and RMB5,368.1 billion as at 31 December 2020, respectively. The CE Bank group also generated net profit attributable to equity shareholders of CE Bank of approximately RMB37.8 billion for the year ended 31 December 2020.

As set out in the interim report of CE Bank for the six months ended 30 June 2021 (the “**2021 CE Bank Interim Report**”), the CE Bank group recorded net assets and total assets of approximately RMB464.1 billion and RMB5,772.8 billion as at 30 June 2021, respectively. The CE Bank group also generated net profit attributable to shareholders of CE Bank of approximately RMB22.4 billion for the six months ended 30 June 2021.

For further details of CE Bank, including its business overview, discussion and analysis of operations as well as its consolidated financial statements, please refer to the 2020 CE Bank Annual Report and the 2021 CE Bank Interim Report.

3. Overview of the aviation industry in the PRC

During the year ended 31 December 2020, the aviation industry has been temporarily and adversely affected by the development of the coronavirus outbreak (the “**Outbreak**”) domestically and internationally which caused widespread disruptions to both business and leisure related air travel from time to time. However, as various containment measures are implemented, including vaccination programmes, limitations on large gatherings, social distancing measures, the level of business and social activities have been recovering.

We also noted from a publication by China Aviation Administration of China* (中國民用航空局) (“**CAAC**”) in March 2021 titled “Policies to promote industry development and prospects for industry development in 2021”* (促進行業發展相關政策及對2021年行業發展的前景展望) which sets out that with a view to facilitate the recovery and continuous development of the PRC aviation industry, CAAC shall, among others, propose prominent planning and strategic guidance, implement national fiscal and taxation policies, implement preferential loan policies, and continuously implement reductions in relevant costs and implement fifteen policy measures in six aspects which included cost policy, increasing investment and construction, and implementing precise control of the industry in order to strive to restore (i) the total annual transportation scale to more than 80% before the Outbreak; (ii) the passenger transportation volume to about 90% before the Outbreak; and (iii) the cargo and mail transportation volume to approximately the same level as before the Outbreak, and strive to reduce losses and increase profits for aviation companies.

As set out in Statistics of Key Performance Indicators for China’s Civil Aviation Industry in August 2021* (中國民航2021年8月份主要運輸生產指標統計) (www.caac.gov.cn/XXGK/XXGK/TJSJ/202110/P020211020359452223447.pdf) published by CAAC in October 2021, the aviation industry in the PRC recorded total passenger volume of approximately 316.9 million, of which approximately 315.9 million passengers were attributable to domestic routes, representing an increase of approximately 41.1% from the corresponding period in the prior year.

Furthermore, the 14th Five-Year Plan for National Economic and Social Development of the PRC (2021-2025) included a focus on developing the aviation industry, in tandem with the “One Belt One Road” policy and envisages (i) developing modernised airports including, among others, Beijing-Tianjin-Hebei, Yangtze River Delta, Guangdong-Hong Kong-Macau Greater Bay Area, and Chengdu-Chongqing airport clusters; (ii) carrying out the reconstruction and expansion projects of international hub airports in Guangzhou, Shenzhen, Kunming, Xi’an, Chongqing, Urumqi, and Harbin and regional hub airports in Hangzhou, Hefei, Jinan, Changsha, and Nanning, and build new airports in Xiamen, Dalian, and Sanya; (iii) building a specialised cargo airport in Ezhou, build regional airports in Shuozhou, Jiaxing, Ruijin, Qianbei, and Alar, and add more than 30 civil transportation airports; and (iv) constructing about 20 general border airports in Tashkurgan, Longzi, Suifenhe, and other airports, relocate Yanji Airport.

In this connection, the Management is of the view that the Group is well-positioned to capture the opportunities arising from the continued development of the PRC aviation industry.

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VI. PRINCIPAL FACTORS CONSIDERED FOR THE 2021 FRAMEWORK AGREEMENTS

1. Reasons for and benefits of the 2021 Framework Agreements

Based on CE Group's thorough understanding of the Group's business needs under the long-term relationship of cooperation with its associate CE Bank, one of the principal banks of the Group, the deposit services under the 2021 Deposit Services Framework Agreement and the Loans Services under the 2021 Loan Services Framework Agreement have allowed the Group to enjoy cost-efficient and expedient financial services provided by CE Group. As further set out in the Letter from the Board, the 2021 Assignment of Finance Lease Receivables Framework Agreement, which allows the assignment of FLRs by the Group to associates of CE Group, and the Loan Services to be provided by CE Group under the 2021 Loan Services Framework Agreement will improve the Group's profitability by utilising the consideration in respect of the assignment of FLRs and the borrowings to fund the Group's expected operational and financial needs according to its expansion plan, 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 enter into the 2021 Framework Agreements to further strengthen and broaden the mutually beneficial business cooperation between the Group and CE Group, and satisfy the Group's needs for diversified financial services to facilitate the Group's business operation and future development. As disclosed in the Letter from the Board, the terms of the 2021 Framework 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 2021 Framework Agreements will be conducted in the ordinary and usual course of business of the Company; (ii) the terms of the 2021 Framework 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 2021 Framework Agreements are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the 2021 Framework Agreements

The principal terms of each of the 2021 Framework Agreements, namely the 2021 Deposit Services Framework Agreement, the 2021 Loan Services Framework Agreement, and the 2021 Assignment of Finance Lease Receivables Framework Agreement, are summarised as below:

(i) *The 2021 Deposit Services Framework Agreement*

Pursuant to the 2021 Deposit Services Framework Agreement dated 11 November 2021, the parties have agreed the duration of the 2021 Deposit Services Framework Agreement from 1 January 2022 to 31 December 2024, subject to the Shareholders' approval, and that CE Group shall support 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, including but not limited to, Law of the People's Republic of China on Commercial Banks (Order No.47 [1995] of the President of the PRC) and Hong Kong's Banking Ordinance (Cap. 155 of the Laws of Hong Kong). Such shall be on a non-exclusive basis and that the Company is at liberty to obtain deposit services from other third parties.

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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 is:

- (a) no less favourable than the 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.

(ii) *The 2021 Loan Services Framework Agreement*

Pursuant to the 2021 Loan Services Framework Agreement dated 11 November 2021 entered into between the Company and the CE Group, the parties have agreed the duration of the 2021 Loan Services Framework Agreement from 1 January 2022 to 31 December 2024, subject to the Shareholders' approval.

Pursuant to the 2021 Loan Services Framework Agreement, CE Group agrees to provide Loan Services, including revolving credit facility and fixed term loan; guarantees; and currency swaps, currency forward contracts and interest rate swaps for hedging purpose, through CE Bank and the Trustee using the funds of Trust Plans to the Group on a non-exclusive basis and the Company is at liberty to obtain Loan Services from other third parties.

CE Group shall support CE Bank and/or the Trustee, as the case may be, to provide Loan Services to the Group, 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, including but not limited to, Law of the People's Republic of China on Commercial Banks (Order No.47 [1995] of the President of the PRC), General Rules for Loans (Order No.2 [1996] of the People's Bank of China), Interim Measures for the Administration of Working Capital Loans (Order No.1 [2010] of China Banking Regulatory Commission), Interim Measures for the Administration of Fixed Asset Loans (Order No.2 [2009] of China Banking Regulatory Commission) and Hong Kong's Money Lenders Ordinance (Cap. 163 of the Laws of Hong Kong).

We noted from the Letter from the Board that the Loan Services to be provided by CE Group shall be on normal commercial terms which are arrived upon arm's-length negotiations and are:

- (a) no less favourable than the 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.

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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.

(iii) The 2021 Assignment of Finance Lease Receivables Framework Agreement

Pursuant to the 2021 Assignment of Finance Lease Receivables Framework Agreement dated 11 November 2021 entered into between the Company and the CE Group, the parties have agreed the duration of the 2021 Assignment of Finance Lease Receivables Framework Agreement from 1 January 2022 to 31 December 2024, subject to the Shareholders' approval.

Pursuant to the 2021 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).

As set out in the Letter from the Board, 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, in accordance with the rules and regulations within or outside the PRC, including but not limited to, Notice of China Banking Regulatory Commission on Issuing the Guidelines on the Project Financing Business (Order No. 71 [2009] of China Banking Regulatory Commission) and Hong Kong's Companies Ordinance (Cap. 622 of the Laws of Hong Kong).

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 and pricing basis of each of the 2021 Framework Agreements are set out in the Letter from the Board.

3. Analysis on the principal terms of the 2021 Framework Agreements

Set out below is our analysis on the principal terms of each of the 2021 Framework Agreements:

(i) The 2021 Deposit Services Framework Agreement

We noted from the Letter from the Board that the 2021 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 2021 Framework Agreements, of which the 2021 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 quotations 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, maintaining continuous business relationship requirements, agreed through arm’s-length negotiations between the parties and are in line with those provided by independent commercial banks; and
- (c) the independent non-executive Directors 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 2021 Deposit Services Framework Agreement and the relevant Listing Rules.

The Management confirmed that since the commencement of the Deposit Services Framework Agreement and up to the Latest Practicable Date, there has been no related non-compliance matters in connection with the relevant Internal Control Policy.

We noted from the Management that when selecting the deposit services provider, the Company will consider, where relevant, the deposit interest rate, the banking relationship with the financial institution as a whole, including total facilities and financing options offered. In addition, based on the relevant information provided by the Company, we have reviewed and compared sample deposit transactions, including terms offered by independent third party deposit service providers, these sample transactions were selected on a random sampling basis during a review period of twelve months prior to the Latest Practicable Date, including, where applicable, deposits placed by the Group with the CE Group, Independent Third Parties, as well as terms offered by Independent Third Parties.

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Based on our work performed, which included the comparison of the relevant deposit interest rate of connected sample transactions (the “**Sampled Services Connected Transaction(s)**”) against terms offered by or under similar transactions with independent third parties, we noted that the deposit interest rate under the Sampled Services Connected Transactions were not less favourable than terms offered by and/or transacted with independent deposit services providers. We also noted that each of the sampled deposit transactions were approved by a member of the Management. Based on our work conducted and from our discussions with the Management that the principal terms of the relevant deposits the Group maintained with CE Bank, including interest rates, were no less favourable to those of the sampled commercial banks which are independent deposit services providers.

(ii) *The 2021 Loan Services Framework Agreement*

We noted from the Letter from the Board that the 2021 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.

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 of the Company will closely monitor the outstanding Loan Services balance 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 transaction contemplated under the 2021 Loan Services Framework Agreement, the designated staff from the financing department of the Company will invite several independent commercial bank(s) (one to three comparable independent third parties) to provide the rates and terms for similar types of Loan 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
- (c) the independent non-executive Directors 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 2021 Loan Services Framework Agreement and the relevant Listing Rules.

The Management confirmed that since the commencement of the Loan Services Framework Agreement and up to the Latest Practicable Date, there has been no related non-compliance matters in connection with the relevant Internal Control Policy.

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We have reviewed and compared loan transactions, selected on a random sampling basis, entered into between the Group and CE Bank (the “**Connected Party Loans**”) and compared with sample of similar transactions entered into between the Group and independent loan services providers (the “**Independent Loans**”) during the review period of twelve months prior to the Latest Practicable Date and noted that 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 rate and loan tenure, were no less favourable to those provided by the independent loan services providers; and (ii) the interest rate under the Connected Party Loans were no less favourable to those under the Independent Loans of a similar nature.

(iii) The 2021 Assignment of Finance Lease Receivables Framework Agreement

We note from the Letter from the Board that the 2021 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 will review at least 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 2021 Assignment of Finance Lease Receivables Framework Agreement and the relevant Listing Rules.

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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. In this connection, we noted that the Group did not conduct any assignment of FLRs transaction with the CE Group during the term of the Second Supplemental Assignment of Finance Lease Receivables Framework Agreement, hence we have obtained and reviewed the internal approval documents for sampled transactions in relation to the assignment of FLRs entered into between the Group and (i) independent third parties; and (ii) connected party prior to the term of the Second Supplemental Assignment of Finance Lease Receivables Framework Agreement, and noted that relevant internal procedures were carried out to ensure terms for transactions with a connected person is not less favourable than terms offered by independent third party and the Management advised that such internal procedures shall continue to apply for relevant transactions going forward.

Having considered the aforesaid, we concur with the Directors' view that the effective implementation of the internal control procedures of the Group shall ensure the transactions under the 2021 Framework Agreements to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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4. Rationale for determining the respective New Annual Caps in connection with the 2021 Framework Agreements

4.1 New annual caps for the deposit services under the 2021 Deposit Services Framework Agreements (the “Deposit Services New Annual Caps”)

- (i) Historical figures, the existing annual caps and the new annual caps for deposit services

Set out below is information regarding (a) the maximum daily closing balance of deposits (including interests accrued thereon) under the deposit services provided by CE Bank to the Group for the respective period indicated; (b) the Existing Annual Caps under the Second Supplemental Deposit Services Framework Agreement (maximum daily closing balance of deposits (including interests accrued thereon)); and (c) the proposed New Annual Caps under the 2021 Deposit Services Framework Agreement (maximum daily closing balance of deposits (including interests accrued thereon)):

	For the year ended		For the
	31 December		ten months
	2019	2020	ended
	2019	2020	31 October
	<i>HK\$ million</i>	<i>HK\$ million</i>	2021
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Maximum daily closing balance of deposits (including interests accrued thereon) under the deposit services provided by CE Bank to the Group <i>(Actual amount)</i>	2,256	2,472	2,460
The Existing Annual Caps under the Second Supplemental Deposit Services Framework Agreement <i>(Maximum daily closing balance of deposits (including interests accrued thereon))</i>	3,843	3,843	3,843

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	For the year ending		
	31 December		
	2022	2023	2024
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
The proposed Deposit Services	9,360	10,920	12,480
New Annual Caps under the	(the “ 2022	(the “ 2023	(the “ 2024
2021 Deposit Services	Deposit	Deposit	Deposit
Framework Agreement	Services	Services	Services
<i>(Maximum daily closing balance</i>	Annual	Annual	Annual
<i>of deposits (including interests</i>	Cap”)	Cap”)	Cap”)
<i>accrued thereon))</i>			

(ii) Our analysis on the Deposit Services New Annual Caps

As set out in the Letter from the Board, the Directors have determined the New Annual Caps in connection with the 2021 Deposit Services Framework Agreement for the deposit services with reference to a number of factors, including, among other things, (a) the historical figures of the maximum closing balance (including interest accrued thereon) of deposit in previous years; (b) 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 (c) the business development plans and financial needs of the Group. For further details on the basis of the Deposit Services New Annual Caps, please refer to the section headed “(2) The 2021 Deposit Services Framework Agreement – Basis for the New Annual Caps” in the Letter from the Board.

We noted from our discussion with the Management that the Deposit Services New Annual Caps in connection with the 2021 Deposit Services Framework Agreement are primarily determined by the expected amount of deposits that may be placed with CE Bank, which has taken into account, among others, 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.

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In addition to the above, when considering the fairness and reasonableness of the Deposit Services New Annual Caps, we have also considered, among others, the following factors:

- (a) based on information as set out in the 2021 Interim Report, the Group had 254 aircraft in its order book to be delivered, comprising 158 Airbus A320 aircraft family and 66 Boeing B737 aircraft family and 30 ARJ21 series aircraft and as set out in note 6 under the management discussion and analysis section of the 2021 Interim Report, the total aircraft purchase commitment amounted to approximately HK\$92,550.8 million as at 30 June 2021 (the “**Commitment Amount**”). Based on information provided by the Management, the number of new aircraft delivery is expected to be in the range of 30 to 40, 40 to 50 and 60 to 70 for the year ending 31 December 2022, 2023 and 2024, respectively, compared to 16 new aircraft delivery to the Group during the ten months ended 31 October 2021. It is noted that the Management may contemplate to deposit the funds raised but yet to deploy for the acquisition of new aircraft, with CE Bank from time to time. On the assumption that the Commitment Amount shall be fulfilled primarily during the three years ending 31 December 2022, 2023 and 2024, it is estimated that the relevant required funds to fulfil such obligations under the Commitment Amount may amount up to HK\$7,712.6 million in a given quarter of a financial year, such funds may temporarily utilise the deposit services. In this connection, the aforesaid amount alone already represents over 80% of the 2022 Deposit Services Annual Cap. It should be noted that the aforesaid calculated amount is subject to, among others, the timing of the delivery of new aircraft, the number of aircraft being delivered at the material time, the size of the fund-raising exercise and the payment schedule of the respective aircraft. As the aforesaid analysis is for illustration purposes only with a view to assess the fairness and reasonableness of the Deposit Services New Annual Caps, given the variable factors as set out above, the actual amount may differ from the above calculation;
- (b) the Group has continued to expand its portfolio trading business under its current business model, during the year ended 31 December 2019 and 2020, the Group had disposed 15 and 18 aircraft, respectively. Based on the 2020 Annual Report, the Group recorded proceeds from disposal of aircraft of approximately HK\$5,905.8 million (the “**2019 Disposal Proceeds**”) and HK\$5,534.7 million (the “**2020 Disposal Proceeds**”) for the year ended 31 December 2019 and 2020, respectively. In addition, as set out in the 2021 Interim Report, the Group has scheduled certain aircraft to be disposed of in the next twelve months from 30 June 2021. The Management estimated that funds raised from the disposals of aircraft may vary notably in amount, subject to, where applicable, the number of aircraft being disposed, the type, age and conditions of the aircraft, the lease attached to the aircraft and the profile of the lessee,

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etc. Based on the 2019 Disposal Proceeds and 2020 Disposal Proceeds, the average disposal proceeds on a quarterly basis, calculated based on the subject yearly balance divided by four quarters in a calendar year, amounted to approximately HK\$1,476.5 million for the year ended 31 December 2019 and approximately HK\$1,383.7 million for the year ended 31 December 2020. However, it should be noted that the aforesaid analysis is for illustration purposes only and with a view to assess the fairness and reasonableness of the Deposit Services New Annual Caps, and may or may not reflect the actual disposal proceeds as such are subject to a number of factors as set out above;

- (c) as set out in the 2020 Annual Report, the Group raised funds from, where applicable, borrowings and issuance of bonds, debentures, medium-term notes and other securities for its operational and financial needs during the years ended 31 December 2019 and 2020 and we noted that the Group generated cash flows from proceeds of borrowings, issuance of bonds and debentures, medium-term notes and perpetual capital securities amounted to approximately HK\$17,636.6 million (the “**2019 Debt Proceeds**”) and HK\$13,013.3 million (the “**2020 Debt Proceeds**”) for the years ended 31 December 2019 and 2020, respectively. It is also noted that, in general, upon the drawdown of loan facilities and/or receipt of proceeds from the issuance of debt securities, the unutilised funds at the relevant time may be maintained as short-term deposit with a financial institution, including the CE Bank, subject to the then prevailing terms. Based on the 2019 Debt Proceeds and 2020 Debt Proceeds, the average debt proceeds on a quarterly basis, calculated based on the subject yearly balance divided by four quarters in a calendar year, amounted to approximately HK\$4,409.1 million for the year ended 31 December 2019 and approximately HK\$3,253.3 million for the year ended 31 December 2020. However, given, among other factors, the liquidity and financial position of the Group at the material time, the prevailing market conditions and sentiment, the capital requirement of the Group, the size and timing of the debt raising, the Management estimated that the debt proceeds may vary notably in a given year as a result. On this basis, it should be noted that the aforesaid analysis is for illustration purposes only and with a view to assess the fairness and reasonableness of the Deposit Services New Annual Caps, and may or may not reflect the actual debt proceeds as such are subject to various factors as mentioned above;

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- (d) we noted that (aa) the Group's total revenue remained largely stable at approximately HK\$3,523.2 million and HK\$3,485.8 million for the year ended 31 December 2019 and 2020, respectively, and its net cash flows from operating activities (after changes in working capital) fluctuated between approximately HK\$2,010.1 million and HK\$964.3 million for the two years ended 31 December 2019 and 2020, respectively; and (bb) the Group's total revenue remained stable at approximately HK\$1,635.9 million and HK\$1,585.2 million for the six months ended 30 June 2020 and 2021, respectively, and its net cash flows from operating activities amounted to approximately HK\$796.0 million and HK\$1,220.5 million for the six months ended 30 June 2020 and 2021, respectively, representing an increase of approximately HK\$424.5 million or 53.3%. Based on the above and our calculation of dividing the relevant yearly balance (i.e. for the year ended 31 December 2019 and 2020, respectively) by four and half-yearly balance (i.e. for the six months ended 30 June 2021) by two to estimate the quarterly net cash flows from operating activities (after changes in working capital), such was calculated to be between approximately HK\$398.0 million to HK\$610.3 million per financial year quarter for illustration purposes;
- (e) based on the information and analysis as set out under (a), (b), (c) and (d) above, including the aforesaid analysis on the respective potential cash inflow sources, may lead to a particularly high short-term utilisation of the Deposit Services based on historical published financial information, which is estimated to be in the region of HK\$12,500 million to more than HK\$14,000 million. However, such figure has yet to be taken into account the fact that there will be further potential increase driven by the number of new aircraft delivery, which is expected to be in the range of 30 to 40, 40 to 50 and 60 to 70 for the year ending 31 December 2022, 2023 and 2024, respectively, compared to 16 new aircraft delivery to the Group during the ten months ended 31 October 2021, and that the historical growth in the Group's Aggregate Asset Balance (defined hereafter) has recorded a compound annual growth rate ("CAGR") of approximately 30.0% between 31 December 2018 and 31 December 2020 as detailed under (f) below, we also noted that the expected needs for deposit services of the Group as a whole, estimated by the Management, could be up to the region of HK\$20,000 million in a given point in time, after taking into consideration of, among others, the possibility of high fluctuation in short-term cash balances attributable to temporary influx of capital from capital market debt raising exercises and/or prior to significant planned cash outlay attributable to aircraft transactions, which is notably higher than the Deposit Services New Annual Caps. On this basis, the Directors considered, and we concur, that the Deposit Services New Annual Caps are fair and reasonable. Nonetheless, additional analysis was conducted and set out below to further support such view;

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- (f) furthermore, the Group’s consolidated financial position as set out in the 2020 Annual Report and 2021 Interim Report, the Management considered that the relevant assets of the Group, which are relatively short-term in nature and, if required, may be converted into cash in a relatively short period of time, and thereby utilise the deposit services (i.e. total assets excluding (aa) property, plant and equipment and right-of-use assets; (bb) investments in and loans to associates and joint ventures; and (cc) finance lease receivables – net, all of which are considered to be more long-term in nature) (the “**Aggregate Asset Balance**”), amounted to approximately HK\$15,131.7 million, HK\$19,543.3 million and HK\$20,375.6 million as at 31 December 2019 and 2020 and 30 June 2021. On this basis, the 2022 Deposit Services Annual Cap represents approximately 45.9% of the aforesaid highest Aggregate Asset Balance. Having considered the Aggregate Asset Balance has fluctuated notably in the past as evidenced by the above, which represented a fluctuation of approximately 34.7% and the continued business growth of the Group, the aforesaid 2022 Deposit Services Annual Cap to Aggregate Asset Balance ratio could even be lower going forward.

In addition, the Deposit Services New Annual Caps amounted to HK\$9,360 million, HK\$10,920 million and HK\$12,480 million for the year ending 31 December 2022, 2023 and 2024, respectively, which represent a year-on-year increase of approximately 16.7% and 14.3%, while the Aggregate Asset Balance amounted to approximately HK\$11,560.9 million, HK\$15,131.7 million, and HK\$19,543.3 million as at 31 December 2018, 2019 and 2020, respectively, representing the CAGR of approximately 30.0% between 31 December 2018 and 31 December 2020 and the such balance was increased further to approximately HK\$20,375.6 million as at 30 June 2021. For illustration purposes only, the 2022 Deposit Services Annual Cap of HK\$9,360 million represents approximately 45.9% of the aforesaid Aggregate Asset Balance as at 30 June 2021 and the CAGR for the Deposit Service New Annual Caps was approximately 15.5% which was lower than the CAGR of the Aggregate Asset Balance between 31 December 2018 to 31 December 2020 of approximately 30.0%;

- (g) furthermore, the Management advised that CE Bank had and shall continue to provide Loan Services to the Group, subject to the relevant pricing policies as set out under “(3) The 2021 Loan Services Framework Agreement” in the Letter from the Board, and that CE Bank may also provide debt underwriting services and/or syndicated loan facilities to the Group from time to time. In this connection, the Management advised that any drawdown in relation to the Loan Services, the relevant fund raised through syndicated loans and/or debt issuance whereby CE Bank is one of the lead debt underwriters, as part of CE Bank’s fund transfer administrative procedures (the “**Fund Transfer Administrative Procedures**”), when the aforesaid funds are released by the CE Bank to the Group, such funds will first be transferred to the Group’s bank account maintained with the CE Bank,

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after which the Group will transfer such fund to its other bank accounts for utilisation, when appropriate. Given the Loan Services New Annual Caps, which are considered to be fair and reasonable as analysed under section headed “4.2 New annual caps for the Loan Services under the 2021 Loan Services Framework Agreement” below, the respective Deposit Services New Annual Caps represents approximately 50% to 52% of the corresponding Loan Services New Annual Caps. In addition, the CE Bank is one of the principal banks of the Group with long-term business relationship and CE Bank offers the Group integrated banking services, which, among other financial services, allows the Group to deposit unutilised fund raised temporarily, including but not limited to those under the Loan Services Framework Agreement, with the CE Bank from time to time.

Based on the 2021 CE Bank Interim Report, CE Bank is a financial institution licensed by the China Banking and Insurance Regulatory Commission with approximately RMB5,772.8 billion in total assets as at 30 June 2021 and is publicly listed on the Shanghai Stock Exchange and the Stock Exchange, and the largest shareholder of CE Bank is a state-owned enterprise. In this connection, the Management is of the view that CE Bank is a sizeable and reliable financial institution with good historical track record, credit worthiness and market reputation. The Management considered that placing deposit with the CE Bank is in the ordinary and usual course of business, the subject counter-party credit risk is comparably lower than placing deposits with other less sizeable and/or reliable financial institutions in the market and that the Management will evaluate, and consider where appropriate, utilise the deposit services by the CE Bank in accordance with the relevant internal control policies to ensure that the subject transactions are fair and reasonable; and

- (h) the Group has the option but not the obligation to transact with the CE Group under the Deposit Services New Annual Caps. In any event, transactions in connection with the Deposit Services to be provided by CE Group will subject to the internal control procedures and shall be conducted at terms no less favourable than others available from independent third parties.

Based on above, in particular, our analysis on the 2022 Deposit Services Annual Cap to the Aggregate Asset Balance ratio, the historical fluctuation in the demand for deposit services, the expected number of new aircraft delivery in the next few years, the Fund Transfer Administrative Procedures and that placing deposit with the CE Bank is in the ordinary and usual course of business, the subject counter-party credit risk is comparably lower than placing deposits with other less sizeable and/or reliable financial institutions in the market and that the Management will evaluate, and consider where appropriate, utilise the deposit services by the CE Bank in accordance with the relevant internal control policies to ensure that the subject transactions are fair and reasonable, we concur with the Director’s view that the Deposit Services New Annual Caps are fair and reasonable.

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4.2 *New annual caps for the Loan Services under the 2021 Loan Services Framework Agreement (the “Loan Services New Annual Caps”)*

- (i) Historical figures, the existing annual caps and the new annual caps for the Loan Services

As extracted from the Letter from the Board, set out below is information regarding (a) the maximum daily relevant closing balances under the Loan Services provided by CE Bank and the Trustee to the Group for the respective period indicated; (b) the Existing Annual Caps under the Second Supplemental Loan Services Framework Agreement (maximum daily relevant closing balance of Loan Services); and (c) the proposed Loan Services New Annual Caps under the 2021 Loan Services Framework Agreement (maximum daily relevant closing balance of Loan Services):

	For the year ended		For the ten months
	31 December		ended
	2019	2020	31 October
	<i>HK\$ million</i>	<i>HK\$ million</i>	2021
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Maximum daily relevant closing balance of Loan Services provided by CE Bank and the Trustee to the Group <i>(Actual amount)</i>	4,782	5,201	4,575
The Existing Annual Caps under the Second Supplemental Loan Services Framework Agreement <i>(Maximum daily relevant closing balance of Loan Services)</i>	18,214	18,214	18,214

	For the year ending		
	31 December		
	2022	2023	2024
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
The proposed Loan Services New Annual Caps under the 2021 Loan Services Framework Agreement <i>(Maximum daily relevant closing balance of Loan Services)</i>	18,214 (the “2022 Loan Services Annual Cap”)	21,060 (the “2023 Loan Services Annual Cap”)	24,960 (the “2024 Loan Services Annual Cap”)

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(ii) Our analysis on the Loan Services New Annual Caps

As set out in the Letter from the Board, the Directors have determined the Loan Services New Annual Caps with reference to a number of factors, including, among other things, the business development plans and financial needs of the Group. For further details on the basis of the Loan Services New Annual Caps, please refer to the section headed “(3) The 2021 Loan Services Framework Agreement – Basis for the New Annual Caps” in the Letter from the Board.

We noted from our discussion with the Management based on the projected increase in fleet size and the expected aircraft delivery schedule, there will be an expected increase in the Loan Services required by the Group to, among others, fund certain part of acquisition cost of the increased fleet of aircraft. As set out in the 2021 Interim Report, the Group has 129 aircraft in its fleet, including 104 owned and 25 managed aircraft, and 254 aircraft to be delivered in its order book, comprising 158 Airbus A320 aircraft family and 66 Boeing B737 aircraft family and 30 ARJ21 series aircraft as at 30 June 2021.

In addition to the above, when considering the fairness and reasonableness of the Loan Services New Annual Caps, we have considered, among others, the following factors:

- (a) we noted from the 2020 Annual Report and 2021 Interim Report, the Group’s total borrowings (including borrowings, bonds and debentures and medium-term borrowings) and capital commitment (the “**Indebtedness Balance**”) amounted to approximately HK\$135,204.7 million as at 31 December 2020 and approximately HK\$128,565.7 million as at 30 June 2021. The Management further advised that the Indebtedness Balance have fluctuated notably in the past, the Indebtedness Balance reached approximately HK\$137,587.3 million as at 30 June 2020, and with a view to avoid undue disruptions to the Group’s operations attributable to potential insufficient annual caps and to allow a degree of flexibility for the Group’s funding options, the Loan Services New Annual Caps are required to cater for such notable fluctuations during the term of the 2021 Loan Services Framework Agreement. Furthermore, the 2022 Loan Services Annual Cap of HK\$18,214 million only represents approximately 13.2%, 13.5% and 14.2% of the aforesaid Indebtedness Balance as at 30 June 2020, 31 December 2020 and 30 June 2021 (the “**Relevant Loan Portions**”), respectively. The Management also advised that the Group has been and will continue to seek different funding sources for the development needs of the Group by negotiating with various financial institutions, including the CE Group, from time to time;

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- (b) as per the Loan Services New Annual Caps schedule up to 31 December 2024 (the “**New Annual Caps Schedule**”) provided by the Company together with their principal underlying assumptions, when determining the basis of the Loan Services New Annual Caps, the Management has primarily considered the level of loan required for its operations and development as a Group for the three years ending 31 December 2022, 2023 and 2024, and has also taken into consideration, among others, the estimated level of aircraft loans, loans secured by residual value of aircraft (“**RV Loans**”), working capital loans and pre-delivery payment loans (“**PDP Loans**”) based on the Group’s expected operational and financial needs according to its expansion plan.

Based on estimates by the Management given the business expansion of the Group, expected new aircraft delivery schedule and after taking into consideration the expected required amount for the aforesaid loans, the Management estimated that the total borrowing and the corresponding loan facility amounts may increase in the range of approximately 16.4% and 38.1% in the next few years according to the New Annual Caps Schedule. On this basis, the 2022 Loan Services Annual Cap will therefore represent less than the Relevant Loan Portions, being less than 15% as calculated under (a) above, to the overall Indebtedness Balance. Nonetheless, it should be noted that the aforesaid analysis is for illustration purposes only with a view to assess the fairness and reasonableness of the Loan Services New Annual Caps and may or may not reflect the actual increase in a given year as it is subject to the market conditions and actual development of the Group, the financial position of the Group, the Indebtedness Balance at the material time, as well as the terms offered by the CE Group and independent third party loan services providers;

- (c) the New Annual Caps Schedule sets out that the expected number of new aircraft delivery is expected to be in the range of 30 to 40, 40 to 50 and 60 to 70 for the year ending 31 December 2022, 2023 and 2024, respectively. The notable expected increase in the number of aircraft to be delivered during the three years ending 31 December 2022, 2023 and 2024 was primarily attributable to the Group’s order book on hand and the continued recovery of the PRC domestic aviation market, which was temporarily and adversely affected since the initial Outbreak started around 2020, but has since experienced notable recovery;
- (d) with reference to the New Annual Caps Schedule, the expected number of new aircraft delivery is expected to be in the range of 30 to 40, 40 to 50 and 60 to 70 for the year ending 31 December 2022, 2023 and 2024, respectively. In this connection, with reference to the additional loan amount typically obtained for the acquisition of a new aircraft by the Group historically, subject to the availability of internal and external financing resources and options for the Group at the material time, the Group is expected to raise additional borrowings to finance the acquisition of new aircraft for the year ending 31 December 2022, 2023 and 2024, respectively;

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- (e) we noted from the 2021 Interim Report, other borrowings of the Group, save for the type of loan described under (d) above, has been in the region of approximately HK\$25.4 billion as at 30 June 2021, attributable to the aforesaid estimated expansion in business operations and aircraft fleet, such borrowings are expected to increase during the three years ending 31 December 2022, 2023 and 2024, respectively;
- (f) in addition, we concur with the Management that there is a genuine need for the Group to allow sufficient flexibility to cater any unforeseen short-term financing needs arising from events beyond the Management's control. With a view to manage these potential short-term fluctuations in funding needs, the Management plans to maintain a level of undrawn facilities during the three years ending 31 December 2022, 2023 and 2024;
- (g) with reference to the estimation/calculation as set out above, the expected financing needs of the Group is notably higher than the Loan Services New Annual Caps for the respective years. As the CE Group is one of several financial institutions the Group maintains ongoing banking relationship with during its ordinary and usual course of business, thus the Loan Services New Annual Caps only represent a portion of the total expected financing needs of the Group during the respective financial years; and
- (h) the Group has the option but not the obligation to transact with the CE Group under the Loan Services New Annual Caps. In any event, transactions in connection with the Loan Services to be provided by CE Group will subject to the internal control procedures and shall be conducted at terms no less favourable than others available from independent third parties.

Based on above, in particular, (a) the 2022 Loan Services Annual Cap (aa) only represented less than 15% of the Indebtedness Balance as at 31 December 2020 and 30 June 2021, respectively; and (bb) attributable to the historical fluctuation in the demand for loan services for, among others, business expansion and development of the Group at the material time, it represented only approximately 13.2% of the Indebtedness Balance as at 30 June 2020; and (b) that the growth rate for the 2023 Loan Services Annual Cap and 2024 Loan Services Annual Cap is reasonable based on historical growth rate of the Group and the expected number of new aircraft delivery in the next few years, we concur with the Director's view that the Loan Services New Annual Caps are fair and reasonable.

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4.3 *New annual cap for the assignment of finance lease receivables under the 2021 Assignment of Finance Lease Receivables Framework Agreement (the “Assignment of FLR New Annual Caps”)*

- (i) Historical figures, the existing annual caps and the new annual caps for the assignment of FLRs

Set out below is information regarding (a) total consideration under the assignment of FLRs by the Group to CE Group; (b) the Existing Annual Caps under the Second Supplemental Assignment of Finance Lease Receivables Framework Agreement (total consideration); and (c) the proposed Assignment of FLR New Annual Caps (total consideration):

	For the year ended		For the
	31 December		ten months
	2019	2020	ended
	<i>HK\$ million</i>	<i>HK\$ million</i>	31 October
			2021
			<i>HK\$ million</i>
Total consideration under the assignment of FLRs by the Group to CE Group <i>(Actual amount)</i>	Nil	Nil	Nil
The Existing Annual Caps under the Second Supplemental Assignment of Finance Lease Receivables Framework Agreement <i>(Total consideration)</i>	7,020	7,020	7,020
	For the year ending		
	31 December		
	2022	2023	2024
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
The proposed Assignment of FLR New Annual Caps <i>(Total consideration)</i>	7,020	7,020	7,020
	(the “2022	(the “2023	(the “2024
	Assignment	Assignment	Assignment
	of FLR New	of FLR New	of FLR New
	Annual	Annual	Annual
	Cap”)	Cap”)	Cap”)

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As set out in the Letter from the Board, the Directors have determined the Assignment of FLR New Annual Caps in connection with the 2021 Assignment of Finance Lease Receivables Framework Agreement for the assignment of FLRs with reference to the business development plan of the Group. The Management advised that such factors included the number of aircraft owned by the Group and to be delivered to the Group as well as the corresponding expected increase in finance lease receivables in relation to the relevant aircraft for the three years ending 31 December 2022, 2023 and 2024. For further details on the basis of the Assignment of FLR New Annual Caps, please refer to the section headed “(4) The 2021 Assignment of Finance Lease Receivables Framework Agreement – Basis for the New Annual Caps” in the Letter from the Board.

Based on our discussion with the Management, we were given to understand that the assignment of FLRs has been and shall continue to be one of the financing options the Group may consider when managing its liquidity and cash flow positions from time to time. In general, the higher the net increase as a result of the number of aircraft delivered and paid less the number of aircraft sold in a given financial year, the higher the Group’s cash flow requirement will be during that financial year.

The zero utilisation rate of the historical assignment of FLRs annual caps for the year ended 31 December 2019 and 2020 and for the ten months ended 31 October 2021 was primarily attributable to the fact the Management considered there to be other more suitable financing options than the assignment of FLRs offered by the CE Group at the material time. Given the Group’s financial position, the available financing options as well as the market conditions will change from time to time, it is considered that the historical utilisation rate shall not be the sole consideration when determining the Assignment of FLR New Annual Caps.

- (ii) Our analysis on the Assignment of FLR New Annual Caps by the Group to CE Group

We have reviewed the New Annual Caps Schedule provided by the Company as well as their principal underlying assumptions, and discussed the basis and assumption with the Management, including the expected expansion in the aircraft fleet in 2022, 2023 and 2024. Based on the New Annual Caps Schedule provided by the Management, the number of new aircraft delivery is expected to be in the range of 30 to 40, 40 to 50 and 60 to 70 for the year ending 31 December 2022, 2023 and 2024, respectively. The notable expected increase in the number of aircraft to be delivered during the three years ending 31 December 2022, 2023 and 2024 was primarily attributable to the Group’s order book on hand and the continued recovery of the PRC domestic aviation market, which was temporarily and adversely affected since the initial Outbreak started around early 2020, but has since experienced notable recovery.

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In addition to the above, when considering the fairness and reasonableness of the Assignment of FLR New Annual Caps, we have also taken into consideration, among others, the following factors:

- (a) the Group shall continue with its asset-light model as part of its corporate strategy as set out in the 2020 Annual Report. In order to facilitate its asset-light model, the Group shall continue to maintain its access to a wide range of working capital and financing options across various channels so as to maintain its flexibility and ability to obtain the required external financing at a reasonable cost going forward;
- (b) the Group recorded FLRs of approximately the HK\$7,263.7 million and HK\$7,476.0 million as at 31 December 2020 and 30 June 2021, and such amount had fluctuated in the past as evidenced by the FLRs recorded by the Group amounted to approximately HK\$10,020.8 million as at 31 December 2018. With the expected delivery of new aircraft, assuming the rate of delivery is greater than the rate of disposal of aircraft going forward, and that leases will be agreed for these new aircraft, the FLRs balance is expected to increase over time. As the asset balance for FLRs increases, the Group will have more FLRs assets at its disposal for Assignment of FLR transactions, as and when it considered appropriate, subject to, among others, its then aircraft portfolio, financial and liquidity positions of the Group, terms of the Assignment of FLR transactions from the CE Group and independent third party;
- (c) while the utilisation of the Assignment of FLR New Annual Caps is calculated based on the subject aggregate transaction value on a cumulative basis during a given year, the FLRs balance as recorded on the consolidated balance sheet, which only represents the FLRs balance on a given date, may fluctuate during a given financial year attributable to the acquisition and/or disposal of aircraft, thus the need for the Group to maintain a degree of flexibility in the financing options available to the Management;
- (d) based on the Group's expansion plan as set out in the 2021 Interim Report, the Group had total capital commitments of HK\$92,550.8 million as at 30 June 2021, which mainly related to acquisition of aircraft that will be delivered in stages in the coming years till the end of 2027, such amount will be financed by the Group via, among others, internal resources as well as external financing means at the relevant time, which the assignment of FLRs may be one of the financing options to be considered by the Management;

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- (e) although the Group recorded zero utilisation of the assignment of FLRs annual caps during two years ended 31 December 2019 and 2020, and ten months ended 31 October 2021, which was mainly attributable to, among others (aa) the Group's strategy in relation to its indebtedness management; and (bb) the terms of the assignment of FLRs offered by the independent third parties and/or CE Group were not considered to be as favourable to the Group as other funding/borrowing options.

Nonetheless, the Management advised that members of the Group has entered into negotiations and evaluated assignment of FLRs proposals with independent third parties during the course of the Second Supplemental Assignment of Finance Lease Receivables Framework Agreement. As part of our work performed, we have obtained supporting documents, including internal evaluation documents and/or related correspondence in relation to two assignment of FLRs proposals evaluated by the Group, each proposal involved multiple aircraft. We also noted from the Management that given the assignment of FLRs would involve the securitisation of the lease receivables of the relevant aircraft, subject to the terms thereof, the Group can realise the underlying asset value and/or recycle its cash flows via the disposal of a subject aircraft or assignment of FLRs for that same aircraft, but not both for the same aircraft. During the course of the Second Supplemental Assignment of Finance Lease Receivables Framework Agreement, the Management considered that the terms of disposal of aircraft to be more suited to the Group's strategy at the material time, as evidenced by the disposal transactions conducted the Group during the relevant period, thus the low utilisation of the annual caps for the assignment of FLRs during the two years ended 31 December 2019 and 2020 and ten months ended 31 October 2021. However, the Management will continue to consider assignment of FLR proposals, and where appropriate conduct assignment of FLRs, going forward.

It is also noted that the Group had utilised the assignment of FLRs annual caps in the past when considered suitable, namely, during the years ended 31 December 2016 ("**FY2016**") and 2017 ("**FY2017**"), the total consideration under the assignment of FLRs by the Group to the CE Group amounted to approximately HK\$3,937 million and HK\$2,529 million, respectively. In terms of scale of the Group's business at the time, the Group had 81 aircraft and 107 aircraft as at 31 December 2016 and 2017, respectively. During the year ended 31 December 2016, 2017 and 2018, the total consideration under the assignment of FLRs by the Group to the independent third parties amounted to nil, approximately HK\$3,080.2 million and HK\$795.8 million, respectively. However, the Group's business scale has notably increased since, as evidenced by aircraft fleet, which had increased to 129 aircraft as at 30 June 2021, such represented an increase of approximately 59.3% and 20.6%

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compared to the Group's aircraft fleet as at 31 December 2016 and 2017, respectively. Furthermore, the Management expects its aircraft fleet to expand further during the three years ending 31 December 2022, 2023 and 2024 as additional aircraft shall be delivered to the Group based on its order book. Despite the increase in the Group's business scale and aircraft fleet, the Assignment of FLR New Annual Caps are at the same level as the historical assignment of FLR annual caps for FY2016 and FY2017, respectively;

- (f) the Management will continue to manage the Group's liquidity position, through various financing channels including the assignment of FLRs during its usual course of business, and the utilisation level of the Assignment of FLR New Annual Caps going forward will subject to, among others, the actual financing needs of the Group during the relevant period, the availability and terms of other financing options available as well as the terms for the assignment of FLRs to be offered by the CE Group and independent third party service providers at the material time; and
- (g) the Assignment of FLR New Annual Caps offer another channel of financing for the Group, which the Group has the option but not the obligation to transact with the CE Group. In any event, transactions in connection with the assignment of FLRs with CE Group will subject to the internal control procedures and shall be conducted at terms no less favourable than others available from independent third parties.

Based on above analysis and work performed, we concur with the Directors' view that the Assignment of FLR New Annual Caps are fair and reasonable.

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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. 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.

VII. 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 2021 Framework 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 relevant financial services and realisation of FLRs under the 2021 Framework Agreements;
- (iii) the transactions to be conducted under each of the 2021 Framework Agreements shall be on normal commercial terms that are no less favourable than those prices and terms available to or from independent third parties to the Group and in accordance to the relevant Internal Control Policy; and
- (iv) the value of, and the basis for determining, the respective annual caps under the 2021 Framework Agreements are reasonable as discussed under the section headed "4. Rationale for determining the respective New Annual Caps in connection with the 2021 Framework Agreements" in this letter above,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

we consider the Continuing Connected Transactions contemplated under the 2021 Framework Agreements to be in the ordinary and usual course of business and on normal commercial terms which are fair and reasonable, 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 resolutions to approve the Continuing Connected Transactions contemplated under the 2021 Framework Agreements 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 licensed person registered with the SFC and 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 and has over 15 years of experience in the corporate finance industry.

* *For identification purposes only*

GENERAL INFORMATION

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 held (L) ⁽¹⁾	Number of underlying Shares held (L) ⁽¹⁾	Approximate percentage of interest ⁽²⁾
Dr. Zhao Wei	Beneficial owner	Derivatives interest	–	10,000,000 ⁽³⁾	1.34%
Mr. Poon Ho Man	Interest of controlled corporation	Corporate interest	222,534,554 ⁽⁴⁾	–	29.77%
Ms. Liu Wanting	Interest of controlled corporation	Corporate interest	11,678,914 ⁽⁵⁾	–	1.56%
Mr. Tang Chi Chun	Beneficial owner	Personal interest	200,000	–	0.03%
Mr. Fan Yan Hok, Philip	Beneficial owner	Personal interest	200,000	–	0.03%
Mr. Nien Van Jin, Robert	Beneficial owner	Personal interest	234,000	–	0.03%
Mr. Cheok Albert Saychuan	Beneficial owner	Personal interest	5,000	–	0.001%

GENERAL INFORMATION

Notes:

- (1) The letter “L” denotes the entity/person’s long position in the securities.
- (2) Based on 747,619,737 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 Dr. Zhao Wei pursuant to the post-IPO share option scheme of the Company.
- (4) Mr. Poon Ho Man was deemed to be interested in 222,534,554 Shares in the following manner:

213,203,965 Shares held by FPAM, a substantial shareholder of the Company and wholly-owned by Capella Capital Limited (“Capella”) which in turn was owned as to 50% by Ms. Christina Ng and 50% by Mr. Poon; and 9,330,589 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. Poon.
- (5) 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. FPAM is a company having an interest in the 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.

GENERAL INFORMATION

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) ⁽¹⁾	Total interests (L) ⁽¹⁾	Approximate percentage of Shares in issue ⁽²⁾
CE Aerospace	Beneficial owner	244,065,373 ⁽³⁾	244,065,373	32.65%
CE Limited	Interest of controlled corporation	283,417,693 ⁽³⁾	283,417,693	37.91%
CE Hong Kong	Interest of controlled corporation	283,417,693 ⁽⁴⁾	283,417,693	37.91%
CE Group	Interest of controlled corporation	283,417,693 ⁽⁵⁾	283,417,693	37.91%
Huijin Limited	Interest of controlled corporation	283,417,693 ⁽⁵⁾	283,417,693	37.91%
FPAM	Beneficial owner	213,203,965 ⁽⁶⁾	213,203,965	28.52%
Capella	Interest of controlled corporation	213,203,965 ⁽⁶⁾	213,203,965	28.52%
Mr. Poon Ho Man	Interest of controlled corporation	222,534,554 ^{(7)&(8)}	222,534,554	29.77%
Ms. Christina Ng	Interest of controlled corporation	213,203,965 ⁽⁷⁾	–	
	Beneficial owner	7,500,000 ⁽⁸⁾	220,703,965	29.52%

Notes:

- (1) The letter “L” denotes the entity/person’s long position in the securities.
- (2) Based on 747,619,737 Shares in issue as at Latest Practicable Date.
- (3) CE Limited was deemed to be interested in 244,065,373 and 39,352,320 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.
- (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.

GENERAL INFORMATION

- (6) The issued share capital of FPAM was wholly-owned by Capella. Accordingly, Capella was deemed to be interested in all Shares held by FPAM.
- (7) The issued share capital of Capella is owned as to 50% by Ms. Christina Ng and 50% by Mr. Poon Ho Man. Accordingly, Mr. Poon and Ms. Ng were deemed to be interested in all Shares mentioned in note (6) above.
- (8) Mr. Poon Ho Man was interested in 9,330,589 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. Poon.

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 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, 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 2020 (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.

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.

GENERAL INFORMATION

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 2020, 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:

Name	Qualification
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 2020 (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.

X. MISCELLANEOUS

- (1) The registered office of the Company is at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and the principal place of business in Hong Kong is situated at 32nd 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 Chartered Governance Institute and The Chartered Governance Institute.
- (3) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 54, 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.

GENERAL INFORMATION

XI. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<https://www.calc.com.hk>) from the date of this circular up to and including the date of the EGM:

In relation to the 2021 Framework Agreements

- (1) the 2021 Deposit Services Framework Agreement, the 2021 Loan Services Framework Agreement and the 2021 Assignment of Finance Lease Receivables Framework Agreement;
- (2) the Deposit Services Framework Agreement, the Loan Services Framework Agreement and the Amended and Restated Assignment of Finance Lease Receivables Framework Agreement;

Others

- (3) the letter of consent referred to under the section headed “Expert and Consent” in this appendix.

NOTICE OF EGM



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 48th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong on Friday, 24 December 2021 at 10:00 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 9 December 2021.

ORDINARY RESOLUTIONS

1. The 2021 Deposit Services Framework Agreement

“THAT

- (a) the 2021 Deposit Services Framework Agreement dated 11 November 2021 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 2022, 2023 and 2024 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 2021 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 2021 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.”

2. The 2021 Loan Services Framework Agreement

“THAT

- (a) the 2021 Loan Services Framework Agreement dated 11 November 2021 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 2022, 2023 and 2024 be and are hereby approved, confirmed and ratified; and

NOTICE OF EGM

- (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 2021 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 2021 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 2021 Assignment of Finance Lease Receivables Framework Agreement

“THAT

- (a) the 2021 Assignment of Finance Lease Receivables Framework Agreement dated 11 November 2021 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 2022, 2023 and 2024 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 2021 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 2021 Assignment of Finance Lease Receivables Framework Agreement and the transaction 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, 9 December 2021

As at the date of this notice, (i) the executive Directors are Dr. Zhao Wei, 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 Dr. Tse Hiu Tung, Sheldon.

NOTICE OF EGM

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 Tuesday, 21 December 2021, to Friday, 24 December 2021 (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 Friday, 24 December 2021 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on Monday, 20 December 2021.
2. A member of the Company entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or if he/she is the holder of two or more Shares, more than one proxy to attend and, subject to the provisions of the memorandum of association and articles of association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
3. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 54, 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 <https://www.hkexnews.hk> and the Company's website at <https://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 with the circular of the Company dated 9 December 2021.