
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)

**(1) MAJOR AND CONTINUING CONNECTED TRANSACTIONS
THE FOURTH SUPPLEMENTAL AGREEMENT AND NEW ANNUAL CAPS
(2) MAJOR AND CONNECTED TRANSACTIONS
THE ENTERING INTO OF THE EB SUBSCRIPTION AGREEMENT
IN RESPECT OF SUBSCRIPTION OF THE EXCHANGEABLE BONDS TO BE
ISSUED BY ARI EXCHANGEABLE INTO ORDINARY SHARES OF CAAM
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



A letter from the Board is set out on pages 9 to 34 of this circular. A letter from the Independent Board Committee is set out on pages 35 and 36 of this circular. A letter from the Independent Financial Adviser is set out on pages 37 to 73 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, 15 December 2023 at 10:00 a.m. is set out on pages EGM-1 and EGM-3 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 17th Floor, Far East Finance Centre, 16 Harcourt Road, 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.

29 November 2023

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DEFINITIONS

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

“2021 ARI Circular”	the circular of the Company dated 23 February 2021 in relation to, among others, the major and continuing connected transactions contemplated under the Shareholders’ Loan and Guarantee Agreement
“Aircraft Recycling International Holdings”	Aircraft Recycling International Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Announcement”	the announcement of the Company dated 27 October 2023 in relation to the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions (including the New Annual Caps)
“ARG”	ARG Cayman 1 Limited, an aviation investment vehicle incorporated in the Cayman Islands with limited liability and a non-wholly-owned subsidiary of ARI
“ARI”	Aircraft Recycling International Limited, a company incorporated in the Cayman Islands with limited liability and a commonly held entity of the Company as at the Latest Practicable Date
“ARI Business”	the business model of ARI, which broadly includes the following: <ul style="list-style-type: none">(i) purchasing, including direct purchase of aircraft, or purchase through portfolio trade with lease attached and purchase and leaseback arrangement;(ii) selling, including direct sale, sale after re-certified and conditional sales lease;(iii) leasing, including leasing of aircraft, engine and components;(iv) disassembling, including disassembly and parting-out of aircraft and parts and components from the airframe;(v) replacing, including replacing old components with new ones through the provision, exchange and sharing of serviceable components;

DEFINITIONS

	(vi) conversion, including conversion of passenger aircraft into a freighter and modification of aircraft components for other uses;
	(vii) maintenance, repair and overhaul (MRO), including base maintenance, line maintenance, engine, auxiliary power unit and landing gear repair and management solutions and parts remanufacturing; and
	(viii) establishment of ARG, an aviation investment fund under ARI, and acting as a servicer to ARG
“ARI Group”	ARI and its subsidiaries
“ARI Holdings”	ARI Holdings Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of ARI
“ARI Shareholders”	Aircraft Recycling International Holdings, China Aero, Sky Cheer and Neo Modern
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bondholders”	holders of the Exchangeable Bonds from time to time
“Business Day”	means a day (other than a Saturday and a Sunday and a day on which a tropical cyclone warning number 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks are open for general banking business in Hong Kong throughout their normal business hours
“CAAM”	China Aviation Aftermarket Holdings Limited (中飛航空後市場控股有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of ARI
“CAAM Share(s)”	the ordinary share(s) in the capital of CAAM and all other (if any) stock or shares from time to time and for the time being ranking pari passu therewith, and all other (if any) stock or shares resulting from such Shares from time to time or from any sub-division, consolidation, re-classification or re-designation thereof, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of CAAM

DEFINITIONS

“CE Group”	China Everbright Group Ltd.* (中國光大集團股份公司), a joint stock company incorporated under the laws of the PRC with limited liability and is owned as to approximately 63.16% by Central Huijin
“CE Hong Kong”	China Everbright Holdings Company Limited (中國光大集團有限公司), a company incorporated in 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 in Hong Kong with limited liability, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 0165) and is indirectly owned as to approximately 49.74% by CE Group as at the Latest Practicable Date
“Central Huijin”	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, which is indirectly wholly-owned by the State Council of the PRC
“China Aero”	China Aero Investments Limited, a company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of FPAM
“commonly held entity”	has the meaning ascribed to it in Rule 14A.27 of the Listing Rules
“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, whose Shares are listed on the Main Board of the Stock Exchange (Stock Code: 1848)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Contracts”	the EB Subscription Agreement, bond certificate of each Exchangeable Bond and terms and conditions of the Exchangeable Bonds set out in that certificate
“Director(s)”	the director(s) of the Company
“EB Closing”	the closing of the EB Subscription Agreement pursuant to the terms of the EB Subscription Agreement

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“EB Closing Date”	the third Business Day after all the Conditions Precedent are satisfied or waived in accordance with the terms of the EB Subscription Agreement (or such other date as ARI and ZF Oriental may agree in writing)
“EB Conditions Precedent”	the conditions precedent as set out in the section headed “The EB Subscription Agreement – Conditions Precedent” in this circular, and each an “EB Condition Precedent”
“EB Subscription Agreement”	the exchangeable bond subscription agreement dated 27 October 2023 entered into between ARI and ZF Oriental in respect of the subscription of the Exchangeable Bonds
“EB Subscription Money”	HK\$850,000,000, being 100% of the aggregate principal amount of the Exchangeable Bonds
“EGM”	the extraordinary general meeting of the Company to be convened and held on Friday, 15 December 2023 at 10:00 a.m., the notice of which is set out on pages EGM-1 to EGM-3 of this circular, and any adjournment thereof for the purpose of considering, and if thought fit, approving the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions (including the New Annual Caps)
“Exchange Price”	HK\$1.25 per CAAM Share initially, subject to adjustment in the manner provided in the relevant provisions in the terms and conditions of the Exchangeable Bonds
“Exchange Rights”	has the meaning ascribed thereto under the section headed “Principal Terms of the Exchangeable Bonds” in this circular
“Exchangeable Bonds”	the HK\$850,000,000 exchangeable bonds due 2026 which are exchangeable into CAAM Shares
“Exchangeable Shares”	680,000,000 CAAM Shares and any additional CAAM Shares issued, allotted or otherwise converted from time to time during the exchange period of the Exchangeable Bonds
“Existing Annual Caps”	the existing annual caps for the transactions contemplated under the Shareholders’ Loan and Guarantee Agreement for the three years ended/ending 31 December 2021, 2022 and 2023
“First Supplemental Agreement”	the first supplemental agreement to the Original Shareholders’ Loan and Guarantee Agreement dated 14 November 2016 entered into between ARI and the ARI Shareholders

DEFINITIONS

“Fourth Supplemental Agreement”	the fourth supplemental agreement to the Shareholders’ Loan and Guarantee Agreement dated 27 October 2023 entered into between ARI and the ARI Shareholders
“FPAM”	Friedmann Pacific Asset Management Limited, a company incorporated in the British Virgin Islands with limited liability and beneficially owned as to 50% by Mr. Poon Ho Man (an executive Director and the Chief Executive Officer of the Company) and 50% by Ms. Christina Ng. As at the Latest Practicable Date, Friedmann Pacific Asset Management Limited is a substantial shareholder of the Company
“Group”	the Company and its subsidiaries from time to time
“Guarantee”	the guarantee provided by an ARI Shareholder or any group company of an ARI Shareholder for the loans borrowed by ARI from ARI’s bankers, financial or other institutions
“Guarantee Fee”	the guarantee fee payable by ARI to the Guarantor pursuant to the Shareholders’ Loan and Guarantee Agreement (as supplemented and amended by the Fourth Supplemental Agreement)
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors
“Independent Financial Adviser”	Maxa Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions and to make recommendation as to voting
“Independent Shareholders”	Shareholders other than (i) FPAM and its associates; (ii) CE Limited and its associates; and (iii) any other Shareholders who are required by the Listing Rules to abstain from voting at the EGM

DEFINITIONS

“Issue Date”	the date on which the Exchangeable Bonds are issued, being the EB Closing Date
“Issue Price”	has the meaning ascribed thereto under the section headed “Principal Terms of the Exchangeable Bonds” in this circular
“Latest Practicable Date”	23 November 2023, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Maturity Date”	31 December 2026
“Neo Modern”	Neo Modern Limited, a company incorporated in the British Virgin Islands with limited liability and an indirectly wholly-owned subsidiary of CE Limited
“New Annual Caps”	the proposed new annual caps for the Shareholders’ Loan advanced and may be advanced by Aircraft Recycling International Holdings and the guarantee provided and may be provided by the Group to ARI and/or its subsidiaries together with interest accrued on the Shareholders’ Loan advanced by Aircraft Recycling International Holdings and the Guarantee Fee for each of the three financial years ending 31 December 2026
“Original Shareholders’ Loan and Guarantee Agreement”	the shareholders’ loan and guarantee agreement dated 6 April 2016 entered into between ARI and the ARI Shareholders, pursuant to which, among other things, the ARI Shareholders will provide the Shareholders’ Loan and guarantee to ARI
“PRC”	the People’s Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan)
“Prime Rate”	in respect of a day during the interest period for the relevant Shareholders’ Loan or during the period which any Exchangeable Bond remains outstanding, the prime lending rate for Hong Kong Dollars as quoted by the Bank of China (Hong Kong) Limited on that day
“Proposed Shareholder’s Loan and Guarantee Transaction”	the proposed advance of Shareholders’ Loan by Aircraft Recycling International Holdings and the provision of guarantee by the Group to ARI and/or its subsidiaries for the three financial years ended 31 December 2026

DEFINITIONS

“Proposed Subscription”	the proposed subscription of the Exchangeable Bonds under the EB Subscription Agreement
“Proposed Transactions”	the Proposed Shareholders’ Loan and Guarantee Transaction and the Proposed Subscription
“Second Supplemental Agreement”	the second supplemental agreement to the Original Shareholders’ Loan and Guarantee Agreement (as supplemented and amended by the First Supplemental Agreement) dated 15 October 2018 entered into between ARI and the ARI Shareholders
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	share(s) with par value of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Shareholders’ Loan”	the shareholders’ loan advanced by any of the ARI Shareholders to ARI pursuant to the Shareholders’ Loan and Guarantee Agreement (as supplemented and amended by the Fourth Supplemental Agreement)
“Shareholders’ Loan and Guarantee Agreement”	the Original Shareholders’ Loan and Guarantee Agreement (as supplemented and amended by the First Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement)
“Share Mortgage”	the share mortgage dated 6 April 2016 (as amended and supplemented from time to time) entered into by ARI (as mortgagor) in favour of Aircraft Recycling International Holdings (as security trustee) in respect of the entire issued share capital of ARI Holdings
“Sky Cheer”	Sky Cheer International Limited, a company incorporated in Hong Kong with limited liability and owned by Mr. Li Yuze William and Mr. Li Weiwei Tony
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Third Supplemental Agreement”	the third supplemental agreement to the Original Shareholders’ Loan and Guarantee Agreement (as supplemented and amended by the First Supplemental Agreement and the Second Supplemental Agreement) dated 26 January 2021 entered into between ARI and the ARI Shareholders
“Total Redemption Amount”	100% of the outstanding principal amount of the Exchangeable Bonds, together with accrued interest, and all other amounts accrued or outstanding under the Exchangeable Bonds
“ZF Oriental”	ZF Oriental 38 Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“%”	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:

Mr. ZHANG Mingao (*Chairman*)

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

Ms. LIU Wanting (*Deputy Chief Executive Officer
and Chief Commercial Officer*)

Registered office in the Cayman Islands:

Maples Corporate Services Limited

PO Box 309, Uglund House

Grand Cayman, KY1-1104

Cayman Islands

Non-executive Director:

Ms. WANG Yun

Principal place of business in Hong Kong:

32nd Floor, Far East Finance Centre

16 Harcourt Road

Hong Kong

Independent Non-executive Directors:

Mr. CHEOK Albert Saychuan

Dr. TSE Hiu Tung, Sheldon

Mr. FAN Chun Wah, Andrew, *J.P.*

29 November 2023

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONTINUING CONNECTED TRANSACTIONS
THE FOURTH SUPPLEMENTAL AGREEMENT AND NEW ANNUAL CAPS
(2) MAJOR AND CONNECTED TRANSACTIONS
THE ENTERING INTO OF THE EB SUBSCRIPTION AGREEMENT
IN RESPECT OF SUBSCRIPTION OF THE EXCHANGEABLE BONDS TO BE
ISSUED BY ARI EXCHANGEABLE INTO ORDINARY SHARES OF CAAM
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

The Board refers to the Announcement in relation to (i) the Fourth Supplemental Agreement and the transactions contemplated thereunder (including the New Annual Caps); and (ii) the EB Subscription Agreement and the Proposed Subscription. The purpose of this circular is to provide Shareholders with information relating to, among others, (i) the Fourth Supplemental Agreement and the transactions contemplated thereunder (including the New Annual Caps); (ii) the EB Subscription Agreement and the issuance of the Exchangeable Bonds; and (iii) the notice of the EGM.

LETTER FROM THE BOARD

II. THE FOURTH SUPPLEMENTAL AGREEMENT AND NEW ANNUAL CAPS

(i) The Fourth Supplemental Agreement

The principal terms of the Fourth Supplemental Agreement are set out below.

Date: 27 October 2023 (after trading hours)

Parties:

- (i) ARI
- (ii) Aircraft Recycling International Holdings
- (iii) China Aero
- (iv) Sky Cheer
- (v) Neo Modern

Subject matter: Pursuant to the Fourth Supplemental Agreement, ARI and ARI Shareholders agreed to extend the term of the Shareholders' Loan and Guarantee Agreement to 31 December 2026. Subject to the terms of the Fourth Supplemental Agreement, all other terms and conditions of the Shareholders' Loan and Guarantee Agreement remain unchanged and shall continue in full force and effect and be operative and binding on ARI and ARI Shareholders and the Shareholders' Loan and Guarantee Agreement and the Fourth Supplemental Agreement shall be read and construed together as one agreement.

Conditions Precedent: The Fourth Supplemental Agreement is conditional on (i) the approval by the independent shareholders of the Company at its general meeting of the Fourth Supplemental Agreement and the Proposed Shareholders' Loan and Guarantee Transactions (including the New Annual Caps) as required under the Listing Rules having been obtained, and (ii) the EB Subscription Agreement having been entered into and become unconditional.

The Fourth Supplemental Agreement shall take effect on 1 January 2024, or if the condition(s) precedent is/are not all satisfied prior to 1 January 2024, such other date as notified by the ARI Shareholders in writing.

LETTER FROM THE BOARD

**Shareholders' Loan and
Guarantee:**

Set out below are some details on the Proposed Shareholders' Loan and Guarantee Transactions. Please refer to the 2021 ARI Circular for further details.

(i) Shareholders' Loan

In the event ARI proposes to raise the Shareholders' Loan from the ARI Shareholders, each ARI Shareholder shall have a right (but not the obligation) to advance a portion of the Shareholders' Loan to ARI pro rata to its shareholding in ARI. If one or more ARI Shareholders decline to advance its respective pro rata portion of the Shareholders' Loan, then the unaccepted participation of such Shareholders' Loan shall automatically be deemed to be accepted by the ARI Shareholders who have indicated to ARI a desire to advance the whole or part of such unaccepted participation. The interest rate of the Shareholders' Loan is 3% per annum above the Prime Rate from time to time, which was determined after arm's length negotiation between ARI and ARI Shareholders, having taken into account the satisfactory financial background of ARI, the market terms from external banks for unsecured borrowings available to ARI and ARI's capital requirements in the future. Taking into account the above, the Directors consider that the interest rate is on normal commercial terms and better for the Group.

LETTER FROM THE BOARD

(ii) Guarantee

In the event ARI proposes to raise loans from banks, financial or other institutions and Guarantee is required to be provided to the lender of the loans, each ARI Shareholder or any of its group of companies shall have a right (but not the obligation), subject to the acceptance and approval of the lender, to provide and/or procure any of its group companies to provide Guarantee. If (a) an ARI Shareholder; or (b) any group company of an ARI Shareholder, whose consolidated net asset value is not less than HK\$500 million has provided the Guarantee, ARI shall pay the guarantor the Guarantee Fee equal to 3% per annum of the principal amount of the loans from banks, financial or other institutions (as the case may be) guaranteed by the guarantor, which was determined after arm's length negotiation between ARI and ARI Shareholders, having taken into account the satisfactory financial background of ARI, the market terms from external banks for unsecured borrowings available to ARI and ARI's capital requirements in the future. Taking into account the above, the Directors consider that the Guarantee Fee is on normal commercial terms and better for the Group.

Security:

The obligations and liabilities of ARI under the Shareholders' Loan and Guarantee Agreement (as supplemented and amended by the Fourth Supplemental Agreement) are secured by the Share Mortgage.

LETTER FROM THE BOARD

(ii) The New Annual Caps

The Existing Annual Cap for each of the three years ended/ending 31 December 2021, 2022 and 2023 was HK\$1,500 million respectively.

As part of the Shareholders' Loan as provided by Aircraft Recycling International Holdings and assigned to ZF Oriental will be applied to settle the EB Subscription Money of the Exchangeable Bonds pursuant to the EB Subscription Agreement, the Board proposes that the New Annual Cap for the Shareholders' Loan and Guarantee Agreement (as amended and supplemented by the Fourth Supplemental Agreement) for each of the years ending 31 December 2024, 2025 and 2026 will be reduced to HK\$650 million respectively.

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

The following tables set out the amount of each of (i) the Existing Annual Caps, (ii) the historical transactions for the Shareholders' Loan and guarantee provided by the Group, and (iii) the New Annual Caps:

	For the year ended/ending		
	31 December 2021	31 December 2022	31 December 2023
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Existing Annual Cap	1,500,000	1,500,000	1,500,000
Maximum daily closing balance of loans (together with the interest and Guarantee Fee) (Approximate)	1,465,000	1,447,000	1,280,000
			(For the nine months ended 30 September 2023) ^(Note)

Note: The Company does not expect that the maximum daily closing balance of loans (together with the interest and Guarantee Fee) for the period from 1 October 2023 to the date of the EGM will exceed the Existing Annual Cap for the year ending 31 December 2023.

	For the year ending		
	31 December 2024	31 December 2025	31 December 2026
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
New Annual Cap	650,000	650,000	650,000

LETTER FROM THE BOARD

Basis for the New Annual Caps

The New Annual Caps represent the maximum daily closing balance of outstanding principal amount of the loans (including the Shareholders' Loan advanced and may be advanced by Aircraft Recycling International Holdings and the guarantee provided and may be provided by the Group to ARI and/or its subsidiaries) together with interest accrued on the Shareholders' Loan advanced by Aircraft Recycling International Holdings and the Guarantee Fee. The New Annual Caps were determined with reference to (i) the expected level of income, operational expenses as well as other financial needs of ARI Group as compared to those for the two years ended 31 December 2022; (ii) the amount of the guarantee provided to ARI and its subsidiaries by the Group in connection with the loans granted by banks, financial or other institutions which may or may not be extended upon maturity; (iii) the expected business development, e.g. the proposed acquisition of around 15 to 20 aged aircraft and aircraft engines during the years from 2024 to 2026, and potential expansion of the existing business of ARI Group through organic growth and/or acquisitions, and based on the assumptions that (a) part of the financial needs of ARI Group for the three financial years ending 31 December 2026 will be financed by bank borrowings; (b) the Company or other companies in the Group (at its sole discretion) will provide the full amount of the Shareholders' Loan and/or guarantee required by ARI and/or its subsidiaries if other ARI Shareholders and their respective group companies do not provide any amount out of their respective pro rata portion of such Shareholders' Loan and/or guarantee; and (iv) the reduction of the principal amount of the Exchangeable Bonds from the Existing Annual Caps. In the event any ARI Shareholder and their respective group companies, other than the Group, provide the Shareholders' Loan and/or guarantee required by ARI and/or its subsidiaries, the New Annual Caps may not be fully utilised.

Internal control measures for the Proposed Shareholders' Loan and Guarantee Transaction

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

- (1) designated staff from the finance and accounting department of the Company is responsible for overseeing the connected transactions of the Company. The finance and accounting department of the Company will monitor and collect detailed information in relation to each advance under the Shareholders' Loan and each guarantee provided to ensure that each relevant transaction is conducted in accordance with the Shareholders' Loan and Guarantee Agreement (as supplemented and amended by the Fourth Supplemental Agreement);
- (2) designated staff from the finance and accounting department of the Company will closely monitor the amount of the Proposed Shareholders' Loan and Guarantee Transaction on a monthly basis to ensure that it does not exceed the proposed annual monetary caps;

LETTER FROM THE BOARD

- (3) the independent non-executive Directors will review at least every six months the status of the Proposed Shareholders' Loan and Guarantee Transaction to ensure that the Group has complied with the internal approval process, and confirm in the annual report whether the Proposed Shareholders' Loan and Guarantee Transaction has been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and
- (4) an independent auditor appointed by the Company every year will review and report the status of the Proposed Shareholders' Loan and Guarantee Transaction in accordance with the internal control measures and the relevant Listing Rules.

III. THE ENTERING INTO OF THE EB SUBSCRIPTION AGREEMENT AND THE PRINCIPAL TERMS OF THE EXCHANGEABLE BONDS

(i) The entering into of the EB Subscription Agreement

The principal terms of the EB Subscription Agreement are set out below.

Date: 27 October 2023 (after trading hours)

Parties: (i) ARI (as issuer)
(ii) ZF Oriental (as subscriber)

Proposed Subscription: Subject to the terms and conditions of the EB Subscription Agreement, ARI agreed to issue the Exchangeable Bonds, and ZF Oriental agreed with ARI to subscribe and pay, or to procure to be subscribed and paid, for the Exchangeable Bonds, on the EB Closing Date at the issue price of 100% of the aggregate principal amount of the Exchangeable Bonds of HK\$850,000,000.

LETTER FROM THE BOARD

EB Conditions Precedent: The EB Subscription Agreement and the Fourth Supplemental Agreement are inter-conditional and the obligations of ZF Oriental to subscribe and pay for the Exchangeable Bonds are conditional on:

- (i) **Compliance:** At the EB Closing Date:
 - (a) the acknowledgements, representations, warranties, agreements, undertakings and covenants of ARI in the Contracts being true and accurate in all respects and not misleading at and as if made on such date;
 - (b) ARI having performed all of its obligations under the Contracts to be performed on or before such date, including but not limited to (1) the execution and delivery of the Contracts, (2) the use of best effort to procure the satisfaction of the EB Conditions Precedent (other than the corporate approvals of ZF Oriental and the Company as stated in paragraphs (iv) and (v) below) and delivery of the relevant performance certificate to ZF Oriental, (3) the notification to ZF Oriental in the event that anything occurs which renders or may render untrue, inaccurate or misleading any of its representations, warranties, undertakings, covenants and indemnities in any of the Contracts, and (4) compliance with the lock-up provisions (as disclosed below) and other undertakings given by ARI in the EB Subscription Agreement;
 - (c) after giving effect to the issue of the Exchangeable Bonds, no default or event of default specified in the EB Subscription Agreement would occur and be continuing; and since the date of the EB Subscription Agreement, no event has occurred or circumstance arisen which, had the Exchangeable Bonds already been issued on the date of the EB Subscription Agreement, might (whether or not with the giving of notice and/or the passage of time and/or the fulfilment of any other requirement) constitute a default or event of default specified in the EB Subscription Agreement, or require an adjustment of the Exchange Price applicable to the Exchangeable Bonds; and
 - (d) there having been delivered to ZF Oriental a certificate in the form as set out in the EB Subscription Agreement dated as of such date;

LETTER FROM THE BOARD

- (ii) **Material Adverse Change:** There having been no change (nor any development or event involving a prospective change) which, in the opinion of ZF Oriental, may have a material adverse effect on the business, operations, assets, liabilities (including contingent liabilities), condition (financial or other), earnings, results, shareholders' equity, prospects or general affairs of any of ARI, CAAM and any other member of the ARI Group;
- (iii) **Corporate approvals and other consents of ARI:** On or prior to the EB Closing Date, there having been delivered to ZF Oriental copies of all necessary and applicable consents and approvals of any sort (including but not limited to approvals from the board of directors of CAAM and the shareholders of ARI and if applicable, approvals from the third party creditors of the ARI Group, in relation to the issue of the Exchangeable Bonds and the transfer of the Exchangeable Shares upon full exchange of the Exchangeable Bonds and the performance by ARI of its obligations under the Exchangeable Bonds and the Contracts;
- (iv) **Corporate approvals and other consents of the Subscriber:** On or prior to the EB Closing Date, all consents, approvals, permits, authorisations or clearances (as the case may be) that ZF Oriental reasonably considers necessary pursuant to applicable laws, regulations or rules for its execution, implementation and closing of the EB Subscription Agreement and the performance by ZF Oriental of its obligations under the Exchangeable Bonds and the Contracts having been obtained, and all such consents, approvals, permits, authorisations and clearances not having been revoked or withdrawn;
- (v) **Corporate approvals of the Company:** On or prior to the EB Closing Date, the Company, having obtained the necessary shareholders' approval pursuant to the Listing Rules for (i) the Fourth Supplemental Agreement and the transactions contemplated under the Fourth Supplemental Agreement; and (ii) the EB Subscription Agreement and the Proposed Subscription; and

LETTER FROM THE BOARD

(vi) **Legality:** There having been no statute, law, rule or regulation or judicial or regulatory decision in Hong Kong, Cayman Islands or other applicable jurisdictions which would reasonably be expected to prohibit, restrict or materially delay the execution, delivery or performance of the Contracts, including the issue of the Exchangeable Bonds, or the consummation of the transactions thereunder.

ZF Oriental may, at its sole and absolute discretion and upon such terms and conditions as it thinks fit, waive satisfaction of any of the EB Conditions Precedent except for Condition Precedent (iv) and (v).

ARI shall use its best efforts to procure that each Conditions Precedent (except for Condition Precedent (iv) and (v)) will be satisfied as soon as practicable and in any event within three months from the date of the EB Subscription Agreement or such longer period as ARI and ZF Oriental may agree in writing. In the event that any of the Conditions Precedent shall not have been not satisfied, or waived, within such period, the EB Subscription Agreement shall terminate and save in respect of claims arising out of antecedent breach of the EB Subscription Agreement. As at the Latest Practicable Date, Condition Precedent (iii) and (iv) above have been satisfied.

Closing:

The EB Closing will take place on the EB Closing Date. Upon EB Closing, ARI will, among other things, issue and deliver the Exchangeable Bonds and ZF Oriental will pay the EB Subscription Money.

**Subscription Money
(or Issue Price):**

100% of the aggregate principal amount of the Exchangeable Bonds of HK\$850,000,000.

The EB Subscription Money was determined after arm's length negotiations between ARI and ZF Oriental taking into account the market value of 100% equity interest of CAAM of HK\$1,067,000,000 as at 31 August 2023 as appraised by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, based on market approach. The EB Subscription Money represents approximately a discount of 20% to the equity value of CAAM as at 31 August 2023.

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Against compliance of the obligation of ARI upon EB Closing, ZF Oriental will satisfy the payment of the EB Subscription Money on the EB Closing Date by way of the set-off of the Issue Price against an equivalent amount of the Shareholders' Loan as provided by Aircraft Recycling International Holdings to ARI and assigned to ZF Oriental.

ARI confirms that the performance of the payment obligation above shall represent the full and final payment of the entire amount of the Issue Price under the EB Subscription Agreement.

No other financing:

Without prejudice to any other provisions of the Contracts, ARI undertakes with ZF Oriental at any time and from time to time, unless with the prior written consent of ZF Oriental, save as contemplated under the Contracts and the Fourth Supplemental Agreement, not to incur any other indebtedness or create or constitute any other financing for, or security interests or other form of encumbrances of any kind over any of the assets.

ARI's interest in its subsidiaries:

ARI undertakes with ZF Oriental that, for so long as any of the Exchangeable Bonds remains outstanding and save as contemplated under the Contracts, ARI has and will continue to have and maintain an aggregate direct and/or indirect shareholding interest of the total issued share capital of ARI Holdings and CAAM on an as enlarged, converted and exchanged and fully diluted basis (i.e., assuming that all outstanding Exchangeable Bonds and all other securities convertible or exchangeable into Shares or other securities of ARI Holdings or CAAM, if any, are converted or exchanged in full) at all times and from time to time, and that therefore ARI is and will always continue to be the sole ultimate beneficial owner of ARI Holdings and CAAM.

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Lock up:

Save as contemplated under the Contracts or with the prior written consent of ZF Oriental, neither ARI nor any person acting on its behalf will: (i) issue, offer, sell, pledge, contract to sell or otherwise dispose of, transfer or deal with or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in (a) any shares in any subsidiary of ARI, (b) any securities of the same class as the Exchangeable Bonds or any shares in any subsidiary of ARI, (c) any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Exchangeable Bonds or any shares in any subsidiary of ARI, (d) securities of the same class as the Exchangeable Bonds or any shares in any subsidiary of ARI or other instruments representing interests in the Exchangeable Bonds or other securities of the same class as them; (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of any shares in any subsidiary of ARI; (iii) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing; or (iv) announce or otherwise make public an intention to do any of the foregoing, in any such case between the date of the EB Subscription Agreement and the date which is 120 days after 31 December 2026.

(ii) Principal terms of the Exchangeable Bonds

Set out below is a summary of the principal terms of the Exchangeable Bonds.

Issuer:	ARI
Principal Amount:	HK\$850,000,000
Form and Denomination:	The Exchangeable Bonds are issued in registered form in the denomination of HK\$5,000,000 each.
Issue Price:	100% of the aggregate principal amount of the Exchangeable Bonds of HK\$850,000,000.

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- Interest:** In respect of the three-year period commencing from and including the Issue Date up to the Maturity Date, the aggregate of Prime Rate plus 0.5% per annum, which is determined having taken into account (i) the average effective interest rate of the Group's total interest-bearing debts for the six months ended 30 June 2023 of approximately 5.72%, with a range from 3.5% to 7.8%; and (ii) the potential upside of HK\$217.0 million if the Exchangeable Bonds are fully converted, based on the difference between the principal amount of Exchangeable Bonds and the valuation of 100% equity interest in CAAM appraised by an independent valuer as at 31 August 2023.
- Interest shall be payable semi-annually in arrears. For illustration purpose only, assuming the Exchangeable Bonds are issued on 29 December 2023, the interest shall be payable on 28 June and 28 December in each year commencing on 28 June 2024.
- Maturity Date:** 31 December 2026
- Status:** The Exchangeable Bonds constitute senior, direct, unsubordinated, unconditional and unsecured obligations of ARI and shall at all times rank pari passu and without any preference or priority among themselves.
- Exchange Right:** Each Exchangeable Bond shall entitle the Bondholder to exchange such Exchangeable Bonds or part of an Exchangeable Bond for CAAM Shares on one or more than one occasion during the exchange period in respect of all or part of the outstanding principal amounts under the Exchangeable Bonds.
- To exercise the Exchange Right attaching to an Exchangeable Bond, the holder of such Exchangeable Bond must complete, execute and deposit an exchange notice at its own expense during normal business hours at the principal office of ARI in Hong Kong.
- Exchange Price:** HK\$1.25 per CAAM Share initially, subject to adjustment in the manner provided in the relevant provisions in the terms and conditions of the Exchangeable Bonds. The initial Exchange Price is calculated by dividing the principal amount of the Exchangeable Bonds by the total number of existing Exchangeable Shares.
- Exchange Period:** Any time following the first anniversary of the Issue Date and up to and including the Maturity Date.

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Exchangeable Shares: 680,000,000 CAAM Shares and any additional CAAM Shares issued, allotted or otherwise converted from time to time.

The number of Shares to be transferred on exchange of an Exchangeable Bond upon the exercise of the Exchange Right will be determined by the following formula:

$$S = \frac{B}{P}$$

Where:

S = number of Shares to be transferred;

B = the whole or such part of the principal amounts of the Exchangeable Bonds to be exchanged; and

P = the Exchange Price.

Ranking of Exchangeable Shares: The Exchangeable Shares shall rank pari passu with the other CAAM Shares then outstanding.

Adjustments: The Exchange Price shall from time to time be adjusted if and whenever there shall be an alteration to the total amount of share capital of the CAAM Shares as a result of consolidation, subdivision or any other change of the total number of the CAAM Shares in issue, and the Exchange Price shall be adjusted by multiplying the Exchange Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

Where:

A = the total number of CAAM Shares immediately before such alteration; and

B = the total number of CAAM Shares immediately after such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

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However, no adjustment shall be made to the Exchange Price in any case in which the amount by which the same would be reduced in accordance with the above provision would be less than one-tenth of a cent and any adjustment that would otherwise be required then to be made shall not be carried forward.

Voting:

The Bondholders shall not be entitled to vote at any meetings of shareholders of CAAM.

Transferability:

Subject to the following provisions, an Exchangeable Bond may be transferred or exchanged at any time by delivery of the respective bond certificate, with the duly completed and signed form of transfer set out in the terms and conditions of the Exchangeable Bonds to ARI:

No transfer of title to an Exchangeable Bond will be valid unless and until entered on the register of Bondholders.

Each new bond certificate to be issued upon a transfer of an Exchangeable Bond will, within 10 Business Days of receipt by ARI of the original bond certificate and the form of transfer duly completed and signed and, if required under applicable laws, stamped, be made available for collection at the specified office of ARI or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Exchangeable Bonds (but free of charge to the holder and at ARI's expense) to the address specified in the form of transfer.

Registration of a transfer of Exchangeable Bonds and issuance of new bond certificates will be effected without charge by ARI.

Redemption:

ARI's Redemption Obligation on the Maturity Date

On the Maturity Date, subject to and pursuant to the terms and conditions of the Exchangeable Bonds, ARI shall and is obliged to redeem the Exchangeable Bonds, in whole but not in part, unless then previously redeemed, exchanged or cancelled in accordance with the terms and conditions of the Exchangeable Bonds, at the Total Redemption Amount.

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Early Redemption Right at the option of ARI

Without prejudice to ARI's redemption obligation under the terms and conditions of the Exchangeable Bonds, at any time after the first anniversary of the Issue Date and up to but excluding the Maturity Date ("**ARI's Redemption Right Period**"), subject to and in accordance with the following provisions, ARI may redeem all (and not some only) of the Exchangeable Bonds:

- (i) To request for an exercise of its redemption right, ARI shall notify the Bondholders in writing and specifying the intended redemption date, which shall in any event be not later than the Maturity Date. Such notice shall be made within the ARI's Redemption Right Period and at least one calendar month before such intended redemption date.
- (ii) On such intended redemption date, ARI shall pay the Bondholders the Total Redemption Amount.

Early Redemption Right at the option of Bondholders

Without prejudice to ARI's redemption obligation and ARI's redemption right under the terms and conditions of the Exchangeable Bonds, at any time after the first anniversary of the Issue Date and up to but excluding the Maturity Date ("**Bondholders' Redemption Right Period**"), subject to and in accordance with the following provisions, the Bondholders may require ARI to redeem all (and not some only) of the Exchangeable Bonds at the Total Redemption Amount:

- (i) To exercise the Bondholders' Redemption Right, a Bondholder must complete, sign and deposit at ARI's office a duly completed and signed notice of redemption and specifying the intended redemption date, which shall be within the Bondholders' Redemption Right Period and at least 15 calendar days before such intended redemption date together with the certificate evidencing the Exchangeable Bonds to be redeemed.
- (ii) Such notice, once delivered, shall be irrevocable (and may not be withdrawn unless with the consent of ARI) and ARI shall redeem the Exchangeable Bonds subject to such notice delivered as aforesaid on the intended redemption date.

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- Cancellation:** All Exchangeable Bonds which are redeemed or exchanged in accordance with the terms and conditions of the Exchangeable Bonds will forthwith be cancelled and such Exchangeable Bonds may not be reissued or resold.
- Revival of Exchange Right:** In an event that (a) any Exchangeable Bond has become due and payable prior to the Maturity Date due to the occurrence of any event of default, or (b) any Exchangeable Bond is not redeemed on the Maturity Date in accordance with the provisions as stated in the paragraph headed “Redemption” above, then (i) the Exchange Right attaching to such Exchangeable Bond will revive and/or will continue to be exercisable up to and including the close of business on the date upon which the full amount of the moneys payable in respect of such Exchangeable Bond has been duly received by the Bondholders; and (ii) any Exchangeable Bond in respect of which the bond certificate and notice of exchange given by the holder of the Exchangeable Bond are deposited for exchange prior to the payment date shall be exchanged on the relevant exchange date, notwithstanding that the full amount of the moneys payable in respect of such Exchangeable Bond shall have been received by any Bondholder before such exchange date or that the exchange period as stated in the paragraph above may have expired before such exchange date, but provided that arrangements satisfactory to ARI and the relevant Bondholder shall have been reached concerning repayment of such funds within 20 Business Days from the payment date.

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Negative Pledge:

So long as there are outstanding Exchangeable Bonds, unless with the prior written consent of the Bondholders, ARI will not create or permit to subsist (other than pursuant to the Share Mortgage, which is a continuing security for the payment and discharge in full of all moneys, debts and liabilities due, owing or incurred by ARI under or in connection with the Shareholders' Loan and Guarantee Agreement, the deed creating the Share Mortgage and any agreement or documents entered into or to be entered into pursuant to the terms thereof), and ARI will procure that no subsidiary of ARI will create or permit to subsist, any mortgage, charge, pledge, lien, guarantee, indemnity or other form of encumbrance or security interest upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any debt securities or to secure any guarantee of or indemnity in respect of, any debt securities, unless, at the same time or prior thereto, ARI's obligations under the Exchangeable Bonds: (a) are secured equally and rateably therewith; or (b) have the benefit of such other mortgage, charge, pledge, lien, guarantee, indemnity or other form of encumbrance or security interest, guarantee, indemnity or other arrangement as is not materially less beneficial to the Bondholders or as shall be approved by the Bondholders.

LETTER FROM THE BOARD

IV. REASONS FOR AND BENEFITS OF (1) THE FOURTH SUPPLEMENTAL AGREEMENT AND THE NEW ANNUAL CAPS; AND (2) THE EB SUBSCRIPTION AGREEMENT

(i) Business model of the Group

The Group has continued its development as a full life cycle aircraft solutions provider for the global aviation industry, offering one-stop and value-added solutions tailored to new, mid-aged and retiring aircraft (the “**Full Life Cycle Aircraft Solutions**”) for aviation partners worldwide. The Group’s Full Life Cycle Aircraft Solutions gives the Group competitive advantages over its competitors as it is able to provide its customers, including the airlines, with a solution at “both ends”, namely, the Group takes up the airlines’ existing operating aircraft, often being mid-aged and/or matured aircraft, thereby releasing the airlines’ demand for capacity, which then allows the Group to provide these airlines with leases of younger aircraft satisfying such demand.

Such business model has been effective as the Group has been able to leverage off the respective resources and synergies among its member companies and affiliated companies, including ARI, enabling the Group to offer services, through itself and/or together with such companies, covering every stage of an aircraft life cycle, including (a) aircraft ordering and procurement; (b) aircraft leasing, sale and leaseback, and portfolio trading; and (c) aircraft disassembly and component sales, and aircraft maintenance, repair & overhaul (“**MRO**”).

In view of the above, ARI’s operations and service offerings, which include solutions for second aircraft lease as well as mid-to-end-of-life aircraft, form an integral part of the Group’s overall business strategy as a Full Life Cycle Aircraft Solutions provider.

(ii) Continuous development of ARI

- (a) ARI operates a global life cycle solutions platform to support the Group’s value chain ecosystem with its dual aircraft recycling bases in Harbin, the PRC and in the United States, which is managed by its wholly-owned subsidiary, Universal Asset Management (“**UAM**”), specialising in aircraft disassembly, full recycling solutions, component sales, warehousing and third-party logistics headquartered in the United States. Given the industrial knowledge, expertise and the role of UAM in ARI’s aircraft recycling business, the Company considered it to be one of the key assets to its global disassembly and distribution network in its downstream aviation value-chain. Together, ARI and UAM offer solutions to aging aircraft internationally, further strengthening the Group’s position as a Full Life Cycle Aircraft Solutions provider, thereby enhancing its overall competitiveness in the market, which is considered to be in the interests to the Company as a whole;
- (b) ARI and the Group established an aircraft maintenance and engineering joint venture (the “**FLARI JV**”) in Harbin, the PRC in 2018, which provides MRO services for aircraft with a focus on, among others, aircraft base maintenance, scheduled checks and overhaul, aircraft disassembly, engineering services, technical training and consultation. At the moment, the FLARI JV is owned as to 49%, 40% and 11% by ARI, PT Linkaviasi Asia Indonesia and the Group, respectively;

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- (c) ARI together with other investors established ARG in December 2019, being an aviation investment fund under ARI which focuses on the leasing of mid-age and older aircraft primarily in the PRC domestic market, as well as aircraft component disassembly and used parts trading. ARG is a non-wholly-owned subsidiary of ARI; and
- (d) As ARI's business continued to develop, its needs for financial resources also increased. ARI has continued to explore external financing options and develop its own financing capacities. Nonetheless, the Shareholders' Loan and Guarantee Agreement (as supplemented and amended by the Fourth Supplemental Agreement) shall provide an additional financing option to ARI for its continuous development.

(iii) Ongoing mutually beneficial relationship between the Group and ARI

- (a) ARI's old aircraft solutions and aftermarket service offerings form an integral part of the Group's business model as a Full Life Cycle Aircraft Solutions provider. The capability of ARI to assist airlines to retire old aircraft has been well recognised by the Group's clients which in turn drive the Group's new aircraft leasing business, especially when airlines are urged to upgrade their fleet in response to the global wave of green aviation. Such synergies open up more business opportunities with both the Group and ARI's existing and potential clients;
- (b) As one of the Group's portfolio trading channel and source of transaction gain, the Group has sold four aircrafts to ARG and may potentially enter into further aircraft transactions going forward. Such transactions are expected to enable ARI to gradually build up its track record among aviation investors as an asset manager specialized in old aircraft;
- (c) Based on CAAM's development plan, the lease terms of 96 aircrafts of the Group over the age of 12 years will expire from 2024 to 2028 and those aircrafts will be potentially injected to CAAM. The potential injection of aircrafts, if materialised, is expected to provide a reasonable return for the Group and flexibility to optimize its fleet portfolio while broadening the portfolio of reserve assets and supporting future business growth of CAAM;
- (d) As one of the Group's early investments in low-carbon and circular economy, ARI also forms an essential part of the Group's continuous endeavor and commitment to aviation sustainability. Over the past years, two large aircraft recycling facilities have been in operation in China and the United States respectively and multiple innovations and breakthroughs were made, the details of which were disclosed in the Group's environmental, social, and governance ("ESG") reports;
- (e) ARI Group has provided various aircraft inspection, consultancy, aircraft technical related services to the Group from time to time; and
- (f) Since the establishment of ARI, such platform has generated stable interest income for the Group.

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(iv) Long-term strategy of ARI

ARI is the strategic platform undertaking the Group's long-term commitment to aviation sustainability. As ESG has long been a top priority of the Group's agenda, the Group has actively invested in the field of low-carbon and circular economy and continued to enhance its full value-chain operations and improve professional assets management capabilities in mid- to end-of-life aircraft. As such, ARI was founded and developed to form an integral part of the Group's business model that applies the "green aviation" concept to the traditional aircraft leasing business. Against the global wave of green aviation and China's Carbon Neutrality goal, the Group has been and would continue to enhance its one-stop aircraft full life cycle service capabilities and leveraging synergies among its member companies and affiliates, including ARI, to better grasp business opportunities emerged from accelerated fleet renewal of airline customers while promoting a greener and more sustainable future for global aviation industry.

As the business of ARI continues to develop and take shape, ARI shall seek strategic investors to further support its growth and explore, among others, the possibility of listing on a stock exchange in the future, thereby enabling ARI to attain financial independence. The Company has also entered into a co-investment memorandum of understanding with a reputable State-owned enterprise in the PRC to develop the aviation aftermarket business.

The Directors believe that the Proposed Subscription would provide the Group with an opportunity to have a stable source of interest income while having the flexibility to benefit from the potential growth of CAAM by exercising the Exchange Right at such time as it considers appropriate during the Exchange Period after assessing the performance of CAAM from time to time. Given there is no effective cash outflow in the Company for the Proposed Subscription and the EB Subscription Money represents a discount over the valuation of CAAM, the Board considers that it is fair and reasonable for the Group to enter into the Proposed Subscription. The Group has reviewed CAAM's audited financial statements for the two years ended 31 December 2022 and management accounts for the six months ended 30 June 2023, and noted that CAAM recorded net assets value of approximately HK\$747.2 million as at 30 June 2023.

The Group has also considered that the interest rate of the Exchangeable Bonds (being Prime Rate plus 0.5% per annum) is lower than the interest rate of the Shareholders' Loan (being Prime Rate plus 3.0% per annum) by approximately 2.5% per annum, and therefore the Proposed Subscription would effectively reduce the amount of interest income earned by the Group by HK\$63.8 million as compared to the previous transactions contemplated under the Shareholders' Loan and Guarantee Agreement. Notwithstanding the above, the Board is of the view that the entering into of the EB Subscription Agreement is in the interest of the Company and Shareholders taking into account the followings:

- (a) the Company is optimistic about the future prospect of CAAM's business and industry outlook of the aviation aftermarket services and aged aircraft recycling considering (i) rapid recovery of global aviation market post-pandemic would catalyst huge aftermarket demand as aircraft return to service; (ii) it is in line with national agenda being one of the strategic emerging industries in the 14th Five-Year Plan of the PRC; and (iii) accelerating retirement of aged aircraft in response to global trend of green aviation would drive disassembly and recycling demand;

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- (b) the principal amount of the Exchangeable Bonds and the Exchange Price of HK\$850.0 million and HK\$1.25 per CAAM Share, respectively, are reasonably determined with approximately 20% discount to the 100% equity value of CAAM as appraised by the independent valuer. Although the principal amount of the Exchangeable Bonds represents a premium of approximately 13.8% over the net asset value of CAAM of approximately HK\$747.2 million as at 30 June 2023, the Directors consider that as CAAM is principally engaged in the provision of aircraft aftermarket services and recycling solutions, including aircraft disassembling or “passenger-to-freighter” conversions, CAAM's business would primarily vest on CAAM's professional and technical team's competencies and technical capabilities, as well as its developed customer base. Currently, CAAM's seasoned professional and technical team are experienced in the solutions for aged aircrafts such as maintenance, repair and overhaul, lease of aged aircraft and sales of disassembly products. In addition, CAAM maintains long-term customer relationship with various clients, including reputable airline companies. CAAM is deepening and exploring new cooperation directions with such airline clients, which facilitates its business expansion along the aviation value chain and future earning potential. Having regard to such business nature of CAAM, the Directors are of the view that the net asset value may not fully capture the intangible competencies, human capital and future earning potential of CAAM. The market approach, which captures the market sentiment and dynamics at a given point of time by taking into account factors such as market supply and demand, investor sentiment and market trends, and at the same time without relying on subjective inputs and assumptions, allows for an assessment of opinion of value of the subject asset that is responsive to changes in market conditions and provides a more relevant and objective valuation, and is the most appropriate approach to conduct the valuation of the market value of 100% equity interest in CAAM. As such, the determination of the principal amount of the Exchangeable Bonds and the Exchange Price with reference to such valuation based on the market approach is fair and reasonable. The Proposed Subscription would enable the Group to (i) capture the potential upside from the capital appreciation of CAAM should the financial performance and business operation continued to improve in the foreseeable future; and (ii) generate stable source of interest income from the Exchangeable Bonds with the flexibility of increasing its equity interest during the Exchange Period where the Board considers appropriate; and
- (c) the interest rate of the Exchangeable Bonds of approximately 6.375% per annum (based on the Prime Rate of 5.875% as at the Latest Practicable Date plus 0.5% per annum) would provide the Group with a relatively attractive investment return as it is higher than (i) the Group's average effective interest rate of the total interest-bearing debts of approximately 5.72%; and (ii) the interest rates of recent comparable exchangeable bonds and convertible bonds.

The terms of the Fourth Supplemental Agreement and the EB Subscription Agreement have been agreed upon arm's length negotiations between the parties. The Directors (including the members of the Independent Board Committee whose opinion is set forth in the “Letter from the Independent Board Committee” in this circular after considering the advice of the Independent Financial Adviser) are of the view that (1) whilst the Proposed Transactions, which involve the grant of financial assistance, are not entered into in the ordinary and usual course of business of the Group, the Proposed Transactions are on normal commercial terms and in the interest of the Company and its Shareholders as a whole; and (2) the terms of the Fourth Supplemental Agreement, the New Annual Caps, and the EB Subscription Agreement are fair and reasonable.

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The Company will comply with the requirements under Chapters 14 and 14A of the Listing Rules in relation to the exercise of the Exchange Rights under the EB Subscription Agreement as and when necessary.

V. INFORMATION OF THE GROUP, ARI, ARI SHAREHOLDERS AND CAAM

The Group

The Group is principally engaged in the global aircraft leasing business with a fleet of 163 owned aircraft and 27 managed aircraft respectively as at the Latest Practicable Date.

ARI

ARI was incorporated in the Cayman Islands with limited liability on 22 August 2014 and is principally engaged in the ARI Business through its subsidiaries, including CAAM. As at the Latest Practicable Date, ARI is held by the Company (through Aircraft Recycling International Holdings) as to 48%, Sky Cheer as to 20%, China Aero as to 18% and Neo Modern as to 14%.

ARI Shareholders

Aircraft Recycling International Holdings is an investment holding company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

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

China Aero is an investment holding company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of FPAM, a substantial Shareholder interested in 176,496,672 Shares (representing approximately 23.71% of the total issued share capital of the Company), and FPAM is beneficially owned as to 50% by Mr. Poon Ho Man (an executive Director and the Chief Executive Officer of the Company) and 50% by Ms. Christina Ng. Accordingly, China Aero is a connected person of the Company.

Neo Modern is an investment holding company incorporated in the British Virgin Islands with limited liability and an indirectly wholly-owned subsidiary of CE Limited, a substantial Shareholder interested in 283,417,693 Shares (representing approximately 38.08% of the total issued share capital of the Company). CE Limited is a company incorporated in Hong Kong with limited liability, whose shares are listed on the Stock Exchange (Stock Code: 0165) and is indirectly owned as to approximately 49.74% by CE Group. Accordingly, Neo Modern is a connected person of the Company.

ZF Oriental

ZF Oriental is an investment holding company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company.

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CAAM

CAAM is a company incorporated Hong Kong with limited liability on 4 September 2014 and an indirect wholly-owned subsidiary of ARI. CAAM is principally engaged in airframe and engine disassembly, disassembled parts sales as well as aircraft and engines trading and leasing business, and majority of its business generated in the United States, Europe, Hong Kong and the PRC. As at the Latest Practicable Date, CAAM has a total of 680,000,000 shares in issue. For further information on the financial information of CAAM, please refer to the section headed “Financial Performance of the Target Company” as set out in Appendix II to this circular.

VI. LISTING RULES IMPLICATIONS

The highest applicable percentage ratio in respect of the Proposed Shareholders’ Loan and Guarantee Transactions calculated based on the New Annual Caps, on a standalone basis, is more than 5% but less than 25%. As the highest applicable percentage ratio in respect of the Proposed Subscription, on a standalone basis, and when aggregated with the Proposed Shareholders’ Loan and Guarantee Transactions calculated based on the New Annual Caps based on the fact that (a) the Fourth Supplemental Agreement and the Exchangeable Bonds were entered into with ARI and (b) the EB Subscription Money will be settled by the Shareholders’ Loan having been provided by Aircraft Recycling International Holdings and assigned to ZF Oriental, exceeds 25% but is lower than 75%, the Proposed Shareholders’ Loan and Guarantee Transactions (including the New Annual Caps) and the Proposed Subscription constitute major transactions for the Company, and are subject to the reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, ARI is owned by the Company (through Aircraft Recycling International Holdings) as to 48%, Sky Cheer as to 20%, China Aero as to 18% and Neo Modern as to 14%. Given (i) Neo Modern is a wholly-owned subsidiary of CE Limited, a substantial Shareholder interested in 283,417,693 Shares (representing approximately 38.08% of the total issued share capital of the Company) and (ii) China Aero is a wholly-owned subsidiary of FPAM, a substantial Shareholder interested in 176,496,672 Shares (representing approximately 23.71% of the total issued share capital of the Company), and FPAM is beneficially owned as to 50% by Mr. Poon Ho Man (an executive Director and the Chief Executive Officer of the Company) and 50% by Ms. Christina Ng, ARI is a commonly held entity under Chapter 14A of the Listing Rules. Thus, the Proposed Shareholders’ Loan and Guarantee Transactions (including the New Annual Caps) constitute continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Proposed Subscription constitutes a connected transaction of the Company is subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Company will comply with the requirements under Chapters 14 and 14A of the Listing Rules in relation to the exercise of the Exchange Rights as and when necessary.

Three Directors, namely, Mr. Zhang Mingao (by virtue of his position as an executive director of CE Limited and the president of CE Limited and its subsidiaries), Mr. Poon Ho Man (by virtue of his position as the sole director of China Aero and a director of ARI and certain of its subsidiaries) and Ms. Wang Yun (by virtue of her position as an executive director of CE Limited and a director of ARI), have abstained from voting on the relevant Board resolutions approving the Proposed Transactions.

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VII. FINANCIAL EFFECTS OF THE PROPOSED TRANSACTIONS

The aggregate principal amount of the Exchangeable Bonds is HK\$850,000,000 under the EB Subscription Agreement. As part of the Shareholders' Loan as provided by Aircraft Recycling International Holdings and assigned to ZF Oriental will be applied to settle the EB Subscription Money of the Exchangeable Bonds, the New Annual Caps and the Proposed Subscription are not expected to result in an impact on the assets and liabilities of the Group.

Given that the interest rate (Prime Rate plus 0.5% per annum) of the Exchangeable Bonds is lower than the interest rate (Prime Rate plus 3.0% per annum) of the Shareholders' Loan by approximately 2.5% per annum, the Proposed Subscription would reduce the amount of interest income earned by the Group by approximately HK\$21.3 million for each of the three financial years ending 31 December 2026 or approximately HK\$63.8 million for the three financial years ending 31 December 2026, as compared to the previous transactions contemplated under the Third Supplemental Agreement.

In addition, the Exchangeable Bonds will be recognised as financial assets at fair value through profit or loss. A fair value gain or loss on the Exchangeable Bonds will be recognised subsequently in profit or loss in the period in which they arise.

VIII. RECOMMENDATION

Based on its views set out above, the Board recommends that (a) the Independent Shareholders vote in favour of the resolutions concerning the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions (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 35 and 36 of this circular. Your attention is also drawn to the letter from Maxa Capital Limited which contains its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 37 to 73 of this circular.

IX. THE EGM AND SHAREHOLDERS' APPROVAL

The EGM will be held at 48th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong on Friday, 15 December 2023 at 10:00 a.m. A notice to convene the EGM is set out on pages EGM-1 to EGM-3 of this circular.

At the EGM, ordinary resolutions will be proposed to approve (i) the Fourth Supplemental Agreement and the transactions contemplated thereunder (including the New Annual Caps); and (ii) the EB Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

CE Limited and its associates (including CE Group and CE Hong Kong), FPAM, Mr. Poon Ho Man and his associate, Equal Honour Holdings Limited, and Ms. Christina Ng (both of Mr. Poon Ho Man and Ms. Christina Ng being the ultimate shareholders of FPAM) (other than Tricor Equity Trustee Limited, as the trustee of Capella Succession Trust, of which the immediate family members of Mr. Poon and Ms. Christina Ng are beneficiaries and which is required to follow the voting instruction of Lombard Odier (Hong Kong) Limited, an independent investment power holder) will be required to abstain from voting at the EGM with respect to the ordinary resolutions in connection with the Fourth Supplemental Agreement (including the New Annual Caps) and the EB Subscription Agreement. Taking into account that Lombard Odier (Hong Kong) Limited (a) is an independent investment power holder, which, consistent with its past voting practice, is not under the control or influence by Mr. Poon Ho Man nor Ms. Christina Ng over the voting rights in respect of the Shares subject to Capella Succession Trust; and (b) has no material interest in the Fourth Supplemental Agreement (including the New Annual Caps) and the EB Subscription Agreement, Lombard Odier (Hong Kong) Limited (through Tricor Equity Trustee Limited) is not required to abstain from voting at the EGM with respect to the ordinary resolutions in connection with the Fourth Supplemental Agreement (including the New Annual Caps) and the EB Subscription Agreement.

As at the Latest Practicable Date, CE Limited and its associates (including CE Group and CE Hong Kong) held in aggregate 283,417,693 Shares (representing approximately 38.08% of the issued share capital of the Company), and FPAM held 176,496,672 Shares (representing approximately 23.71% of the issued share capital of the Company). Mr. Poon Ho Man and his associate, Equal Honour Holdings Limited, held in aggregate 9,930,589 Shares (representing approximately 1.33% of the issued share capital of the Company) and Ms. Christina Ng held 7,500,000 Shares (representing approximately 1.01% of the issued share capital of the Company). CE Limited and its associates, FPAM, Mr. Poon Ho Man and his associate and Ms. Christina Ng are entitled to exercise control over the voting rights in respect the aforementioned Shares. In addition, Mr. Poon Ho Man and Ms. Christina Ng set up Capella Succession Trust, which held 36,707,293 Shares (representing approximately 4.93% of the issued share capital of the Company) as at the Latest Practicable Date. As Tricor Equity Trustee Limited, the trustee of Capella Succession Trust, is required to exercise the voting rights in respect of such Shares subject to Capella Succession Trust in accordance with the instructions of Lombard Odier (Hong Kong) Limited, an independent investment power holder, neither Mr. Poon Ho Man nor Ms. Christina Ng is entitled to exercise control over the voting rights in respect of such Shares.

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, 12 December 2023 to Friday, 15 December 2023 (both days inclusive), during which no transfer of Shares will be registered. Shareholders whose names appear on the register of the Shareholders on 15 December 2023 will be entitled to attend and vote at the EGM.

X. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to 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)

29 November 2023

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONTINUING CONNECTED TRANSACTIONS
THE FOURTH SUPPLEMENTAL AGREEMENT AND NEW ANNUAL CAPS
AND
(2) MAJOR AND CONNECTED TRANSACTIONS
THE ENTERING INTO OF THE EB SUBSCRIPTION AGREEMENT**

We refer to the circular of the Company (the “**Circular**”) dated 29 November 2023 and despatched to the Shareholders of 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 Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions (including the New Annual Caps), details of which are set out in the section headed “Letter from the Board” in the Circular. Maxa Capital Limited has been appointed as the Independent Financial Adviser to advise the Shareholders and the Independent Board Committee in this regard.

Details of the advice of the Independent Financial Adviser and the principal factors and reasons the Independent Financial Adviser 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.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the terms of the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions (including the New Annual Caps), the advice of the Independent Financial Adviser, as well as the reasons and benefits stated in the section headed “IV. Reasons for and benefits of (1) The Fourth Supplemental Agreement and The New Annual Caps; and (2) The EB Subscription Agreement” as set out in the “Letter from The Board”, we are of opinion that: (1) whilst the Proposed Transactions, which involve the grant of financial assistance, are not entered into in the ordinary and usual course of business of the Group, the Proposed Transactions are on normal commercial terms and in the interest of the Company and its Shareholders as a whole; and (2) the terms of the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions (including the New Annual Caps) are fair and reasonable.

We, therefore, recommend that you vote in favour of the resolutions to be proposed at the EGM to approve the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions (including the New Annual Caps).

Yours faithfully,

For and on behalf of

INDEPENDENT BOARD COMMITTEE

CHEOK Albert Saychuan, TSE Hiu Tung, Sheldon and FAN Chun Wah, Andrew, J.P.

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Maxa Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, setting out its advice in respect of (i) the terms of the Fourth Supplemental Agreement, the transactions contemplated thereunder and the New Annual Caps; and (ii) the terms of the EB Subscription Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



Unit 1908, Harbour Center
25 Harbour Road
Wan Chai
Hong Kong

29 November 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONTINUING CONNECTED TRANSACTIONS
THE FOURTH SUPPLEMENTAL AGREEMENT AND NEW ANNUAL CAPS
AND (2) MAJOR AND CONNECTED TRANSACTIONS
THE ENTERING INTO OF THE EB SUBSCRIPTION AGREEMENT
IN RESPECT OF SUBSCRIPTION OF THE EXCHANGEABLE BONDS TO BE
ISSUED BY ARI EXCHANGEABLE INTO ORDINARY SHARES OF CAAM**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the terms of the Fourth Supplemental Agreement, the transactions contemplated thereunder and the New Annual Caps; and (ii) the terms of the EB Subscription Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 29 November 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the 2021 ARI Circular in relation to, among others, the major and continuing connected transactions contemplated under the Third Supplemental Agreement. In view of the continuing development of the ARI Business, ARI and the ARI Shareholders (including Aircraft Recycling International Holdings) entered into the Fourth Supplemental Agreement on 27 October 2023 (after trading hours) to extend the term of the Shareholders’ Loan and Guarantee Agreement to 31 December 2026.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 27 October 2023 (after trading hours), ZF Oriental, as subscriber, and ARI, as issuer, entered into the EB Subscription Agreement, pursuant to which ZF Oriental conditionally agreed to subscribe for, and ARI conditionally agreed to issue, the Exchangeable Bonds. The Exchangeable Bonds will confer the right upon the Bondholders, exercisable in whole or in part at any time during the Exchange Period, to exchange for in aggregate up to 680,000,000 CAAM Shares (representing the total number of issued CAAM Shares) at HK\$1.25 per Exchangeable Share, subject to adjustment pursuant to the terms and conditions of the Exchangeable Bonds.

LISTING RULES IMPLICATION

The highest applicable percentage ratio in respect of the Proposed Shareholders' Loan and Guarantee Transactions calculated based on the New Annual Caps, on a standalone basis, is more than 5% but less than 25%. As the highest applicable percentage ratio in respect of the Proposed Subscription on a stand alone basis and when aggregated based on the fact that (a) the Fourth Supplemental Agreement and the Exchangeable Bonds were entered into with ARI and (b) the EB Subscription Money will be settled by the Shareholders' Loan having been provided by Aircraft Recycling International Holdings and assigned to ZF Oriental exceeds 25% but is lower than 75%, the Proposed Shareholders' Loan and Guarantee Transactions (including the New Annual Caps) and the Proposed Subscription constitute major transactions for the Company and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, ARI is owned by the Company (through Aircraft Recycling International Holdings) as to 48%, Sky Cheer as to 20%, China Aero as to 18% and Neo Modern as to 14%. Given (i) Neo Modern is a wholly-owned subsidiary of CE Limited, a substantial Shareholder interested in 283,417,693 Shares (representing approximately 38.08% of the total issued share capital of the Company) and (ii) China Aero is a wholly-owned subsidiary of FPAM, a substantial Shareholder interested in 176,496,672 Shares (representing approximately 23.71% of the total issued share capital of the Company), and FPAM is beneficially owned as to 50% by Mr. Poon Ho Man (an executive Director and the Chief Executive Officer of the Company) and 50% by Ms. Christina Ng, ARI is a commonly held entity under Chapter 14A of the Listing Rules. Thus, the Proposed Shareholders' Loan and Guarantee Transactions (including the New Annual Caps) constitute continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Proposed Subscription constitutes a connected transaction of the Company is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will comply with the requirements under Chapters 14 and 14A of the Listing Rules in relation to the exercise of the Exchangeable Rights as and when necessary.

The EGM will be convened for the Independent Shareholders to consider and, if thought fit, approve the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions (including the New Annual Caps). CE Limited and its associates (including CE Group and CE Hong Kong), FPAM, Mr. Poon Ho Man and his associate, Equal Honour Holdings Limited, and Ms. Christina Ng (both of Mr. Poon Ho Man and Ms. Christina Ng being the ultimate shareholders of FPAM) (other than Tricor Equity Trustee Limited, as the trustee of Capella Succession Trust, of which the immediate family members of Mr. Poon and Ms. Christina Ng are beneficiaries and which is required to follow the voting instruction of Lombard Odier (Hong Kong) Limited, an independent investment power holder) will abstain from voting at the EGM with respect to the ordinary resolutions in connection with the Fourth Supplemental Agreement (including the New Annual Caps) and EB Subscription Agreement and the Proposed Transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Cheok Albert Saychuan, Dr. Tse Hiu Tung, Sheldon, and Mr. Fan Chun Wah, Andrew, J.P., being all the independent non-executive Directors, has been formed to advise the Independent Shareholders in respect of the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions (including the New Annual Caps). We, Maxa Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence in accordance with Rule 13.84 of the Listing Rules and accordingly, were qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of (i) the terms of the Fourth Supplemental Agreement, the transactions contemplated thereunder and the New Annual Caps; and (ii) the terms of the EB Subscription Agreement and the transactions contemplated thereunder. Save for this appointment, there was no engagement between the Company and us in the past two years. Apart from the normal advisory fee payable to us in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among other things: (i) the Shareholders' Loan and Guarantee Agreement and the Fourth Supplemental Agreement; (ii) the basis and assumption adopted in determining the New Annual Caps; (iii) the EB Subscription Agreement; (iv) the valuation report of 100% equity interest of CAAM; and (v) the annual report of the Company for the year ended 31 December 2021 (the "**2021 AR**"), the annual report of the Company for the year ended 31 December 2022 (the "**2022 AR**") and the interim report of the Company for the six month ended 30 June 2023 (the "**2023 IR**"). We consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Group (the "**Management**"). We have reviewed, inter alia, the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the EGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representations and opinions expressed by the Company, its advisers and/or the Directors. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions (including the New Annual Caps), we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in the global aircraft leasing business with a fleet of 163 owned aircraft and 27 managed aircraft respectively as at the Latest Practicable Date. Set out below are the summarized financial information of the Group for the three years ended 31 December 2020 (“FY2020”), 31 December 2021 (“FY2021”) and 31 December 2022 (“FY2022”) and the six months ended 30 June 2022 (“1H2022”) and 2023 (“1H2023”), as extracted from the 2021 AR, 2022 AR and 2023 IR of the Company:

	For the year ended 31 December			For the six months ended 30 June	
	2020	2021	2022	2022	2023
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Total revenue	3,485,782	3,278,066	4,171,002	1,890,791	2,326,257
– Finance lease income	541,243	540,634	574,683	284,403	296,555
– Operating lease income	1,945,545	1,959,809	2,967,565	1,369,364	1,759,898
– Net income from aircraft transactions and aircraft components trading	514,275	301,741	207,072	66,492	44,695
– Other income	484,719	475,882	421,682	170,532	225,109
Operating profit	948,722	819,918	775,193	349,808	302,745
Profit/(Loss) for the year/period	267,943	627,270	215,684	(70,439)	306,902

The Group engaged in the provision of aircraft leasing services to global airline companies. The Group leases its aircraft to airline companies under finance leases or operating leases under which it receives rentals.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In 2021, although new COVID-19 variants still inflicted repeated outbreaks, with vaccines became increasingly popular, many countries and regions relaxed border control policies one after another, global air traffic and load capacity continued to improve steadily, with domestic routes taking the lead in recovery. Operations of many airlines had been steadily improving with various liquidity support from governments and aircraft lessors. During FY2021, the Group recorded lease income of approximately HK\$2,500.4 million, which comprises finance lease income and operating lease income, accounted for approximately 76.3% of its total revenue (approximately 71.3% of the Group's total revenue for FY2020). The Group delivered a total of 34 aircraft through its order book placement as well as purchase and leaseback arrangements, and disposed of 9 aircraft during FY2021. As at 31 December 2021, the Group's fleet had expanded to 152 aircraft, including 127 owned and 25 managed aircraft. The total revenue of the Group is approximately HK\$3,278.1 million for FY2021, representing a decrease of approximately 6.0% as compared to approximately HK\$3,485.8 million for FY2020. Such decrease in the revenue is primarily attributable to the decrease in net income from aircraft transactions and aircraft components trading by approximately HK\$212.5 million, which is mainly due to the decrease in gain from disposal of 9 aircraft for FY2021 as compared to gain from disposal of 18 aircraft for FY2020. The Group's operating profit decreased by approximately 13.6% from approximately HK\$948.7 million for FY2020 to approximately HK\$819.9 million for FY2021, which is mainly due to, among others, decrease in total revenue for FY2021 as discussed above and increase in expected credit losses by approximately 78.9% to approximately HK\$144.2 million for FY2021.

The Group recorded net profit of approximately HK\$627.3 million for FY2021, representing an increase of approximately 134.1% as compared to approximately HK\$267.9 million for FY2020. Such increase in net profit for FY2021 is mainly due to the combined effects of (i) decrease in operating profit by approximately HK\$128.8 million as discussed above; (ii) change from other losses of approximately HK\$306.8 million for FY2020 to other gains of approximately HK\$13.6 million mainly due to the reduction of net exchange losses in RMB from approximately HK\$305.7 million for FY2020 to approximately HK\$13.5 million for FY2021; and (iii) reduction in share of losses and provisions on investment in associates and joint ventures from approximately HK\$209.0 million for FY2020 to approximately HK\$1.3 million for FY2021. The amount for FY2020 mainly represents the share of losses and provisions of approximately HK\$205.4 million on the investment in PT TransNusa Aviation Mandiri ("TAM"), a joint venture acquired by the Group in March 2020 due to the global pandemic exacted pressure on TAM's operation.

In 2022, airlines from various countries have progressively steered out of the doldrums of COVID-19 and there was a continuous improvement in operating and financial conditions. Driven by strong demand, aircraft became assets of tight supply and its market value and rental level have been steadily restored. During FY2022, the Group's lease income amounted to HK\$3,542.2 million, accounted for approximately 84.9% of its total revenue. The Group delivered a total of 28 aircraft, among which 18 were new aircraft from order book placement and 10 aircraft were completed through purchase and leaseback arrangement and sold a total of 5 aircraft to its aircraft asset management joint venture platform and third parties during FY2022. As a result, the Group's fleet increased to 176 aircraft as at 31 December 2022, including 150 owned aircraft and 26 managed aircraft. The Group's total revenue amounted to approximately HK\$4,171.0 million for FY2022, representing an increase of approximately 27.2% as compared to approximately HK\$3,278.1 million for FY2021. Such increase in the revenue is primarily attributable to expansion of the Group's fleet from 152 aircraft as at 31 December 2021 to 176 aircraft as 31 December 2022 and increase in average lease rental yield of operating leases for FY2022, resulting in increase in operating lease income for FY2022 by approximately HK\$1,007.8 million or 51.4% to approximately HK\$2,967.6 million as compared to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2021. The Group's operating profit decreased by approximately 5.5% from approximately HK\$819.9 million for FY2021 to approximately HK\$775.2 million for FY2022, which is mainly due to the combined effects of (i) increase in total revenue by approximately HK\$892.9 million for FY2022 as discussed above; (ii) increase in interest expenses by approximately HK\$399.2 million for FY2022 mainly due to the increase in total interest-bearing debts from approximately HK\$40,480.4 million as at 31 December 2021 to approximately HK\$45,104.1 million as at 31 December 2022; and (iii) increase in depreciation by approximately HK\$535.9 million for FY2022 mainly attributable to the increase in number of aircraft under operating leases from 78 aircraft as at 31 December 2021 to 101 aircraft as at 31 December 2022 and the full year impact of the 22 aircraft delivered in fourth quarter of 2021.

The Group recorded net profit of approximately HK\$215.7 million for FY2022, representing a decrease by approximately 65.6% as compared to approximately HK\$627.3 million for FY2021. Such decrease in net profit for FY2022 is mainly due to the combined effects of (i) decrease in operating profit by approximately HK\$44.7 million as discussed above; (ii) net write-off of two aircraft remained in Russia of approximately HK\$439.0 million for FY2022. In March 2022, in compliance with the sanctions in relation to commercial activities with businesses in Russia imposed by the European Union, the United States of America, the United Kingdom and other countries, the Group terminated leasing arrangements with Russian lessees in respect of two owned aircraft. Given that there is uncertainty to repossess the aircraft from Russia in the foreseeable future, the Group had fully written down the net book value of these two aircraft (excluding one of the engines located outside Russia that is under control by the Group) (the "Net Write-off"); and (iii) change from other gains of approximately HK\$13.6 million for FY2021 to other gains of approximately HK\$184.6 million mainly due to the Group's recognition of net exchange gains in RMB of approximately HK\$185.5 million for FY2022 as compared to net exchange losses in RMB of approximately HK\$13.5 million for FY2021.

Against the background of continuing strong recovery of global air passenger demand during 1H2023, the Group's revenue amounted to approximately HK\$2,326.3 million for 1H2023, representing an increase by approximately 23.0% as compared to approximately HK\$1,890.8 million for 1H2022, which is mainly attributable to the increase in finance lease income and operating lease income for 1H2023 by approximately HK\$12.2 million and HK\$390.5 million, respectively as the Group had delivered a total of 13 new aircraft to airline customers. As at 30 June 2023, the Group's total fleet has increased to 189 aircraft, including 162 owned aircraft and 27 managed aircraft. The Group's operating profit decreased by approximately 13.5% from approximately HK\$349.8 million for 1H2022 to approximately HK\$302.7 million for 1H2023, which is mainly due to the combined effects of (i) increase in total revenue by approximately HK\$435.5 million for 1H2023 as discussed above; (ii) increase in interest expenses by approximately HK\$318.0 million for 1H2023 mainly due to the increase in 3 month US\$ LIBOR rate from 2.29% as at 30 June 2022 to 5.55% as at 30 June 2023 and the increase in interest-bearing debts from approximately HK\$44,194.5 million as at 30 June 2022 to approximately HK\$52,453.1 million as at 30 June 2023; and (iii) increase in depreciation by approximately HK\$157.3 million for 1H2023 mainly attributable to the increase in number of aircraft under operating leases from 82 aircraft as at 30 June 2022 to 108 aircraft as at 30 June 2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded net profit of approximately HK\$306.9 million for 1H2023 as compared to net loss of approximately HK\$70.4 million for 1H2022. Such turnaround to net profit was mainly due to the combined effects of (i) decrease in operating profit by approximately HK\$47.1 million for 1H2023 as discussed above; and (ii) the Group recognised the Net Write-off of approximately HK\$439.0 million in 1H2022 and no such write-off was incurred in 1H2023.

	As at 31 December		As at 30 June	
	2020	2021	2022	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Total assets	46,392,519	50,029,119	55,332,080	63,185,584
Property, plant and equipment and right-of-use assets	18,450,641	23,243,760	27,354,373	31,341,659
Prepayments and other assets	13,418,840	11,232,542	11,362,415	13,376,592
Cash and cash equivalents	4,877,557	4,776,389	3,552,533	5,417,966
Total liabilities	40,976,750	44,011,864	49,075,863	56,921,584
Borrowings	26,763,014	32,477,860	38,001,150	43,916,287
Medium-term notes	1,338,308	979,816	1,696,509	1,618,998
Bonds and debentures	9,054,779	7,022,708	5,406,490	6,917,832
Total equity	5,415,769	6,017,255	6,256,217	6,264,000

The Group had total assets of approximately HK\$50.0 billion as at 31 December 2021, which mainly comprised of (i) property, plant and equipment and right-of-use assets of approximately HK\$23.2 billion; (ii) prepayments and other assets of approximately HK\$11.2 billion; (iii) net finance lease receivables of approximately HK\$7.7 billion; and (iv) cash and cash equivalents of approximately HK\$4.8 billion. The increase in the total assets by approximately HK\$3.6 billion to approximately HK\$50.0 billion as at 31 December 2021 as compared to approximately HK\$46.4 billion as at 31 December 2020 was mainly attributable to (i) the increase in property, plant and equipment and right-of-use assets by approximately HK\$4.8 billion primarily due to the addition of aircraft and engine; and (ii) was partially offset by the decrease in prepayments and other assets by approximately HK\$2.2 billion primarily due to decrease in pre-delivery payments (the “PDP”) and prepayments and receivables relating to aircraft acquisition. The Group had total liabilities of approximately HK\$44.0 billion as at 31 December 2021, which mainly comprised of (i) borrowings of approximately HK\$32.5 billion; (ii) bonds and debentures of approximately HK\$7.0 billion; and (iii) other liabilities and accruals of approximately HK\$2.2 billion. The increase in the total liabilities by approximately HK\$3.0 billion to approximately HK\$44.0 billion as at 31 December 2021 as compared to approximately HK\$41.0 billion as at 31 December 2020 was mainly due to (i) the increase in borrowings by approximately HK\$5.7 billion to finance aircraft acquisition; and (ii) was partially offset by the decrease in bonds and debentures by approximately HK\$2.0 billion as the aggregate amount of bonds and debentures repurchased and repaid exceed the aggregated amount of new bonds and debentures issued during FY2021. As at 31 December 2021, the Group’s gearing ratio, which is calculated by dividing interest-bearing debts by total assets, (the “Gearing Ratio”) slightly increase to approximately 80.9% as compared to approximately 80.1% as at 31 December 2020.

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The Group had total assets of approximately HK\$55.3 billion as at 31 December 2022, which mainly comprised of (i) property, plant and equipment and right-of-use assets of approximately HK\$27.4 billion; (ii) prepayments and other assets of approximately HK\$11.4 billion; (iii) net finance lease receivables of approximately HK\$8.2 billion; and (iv) cash and cash equivalents of approximately HK\$3.6 billion. The increase in the total assets by approximately HK\$5.3 billion to approximately HK\$55.3 billion as at 31 December 2022 as compared to approximately HK\$50.0 billion as at 31 December 2021 was mainly attributable to the increase in property, plant and equipment and right-of-use assets by approximately HK\$4.1 billion primarily due to the addition of aircraft and engine. The Group had total liabilities of approximately HK\$49.1 billion as at 31 December 2022, which mainly comprised of (i) borrowings of approximately HK\$38.0 billion; (ii) bonds and debentures of approximately HK\$5.4 billion; and (iii) other liabilities and accruals of approximately HK\$2.5 billion. The increase in the total liabilities by approximately HK\$5.1 billion to approximately HK\$49.1 billion as at 31 December 2022 as compared to approximately HK\$44.0 billion as at 31 December 2021, which is mainly due to the increase in borrowings by approximately HK\$5.5 billion in order to finance the Group's aircraft acquisition and expansion. As at 31 December 2022, the Gearing Ratio increased to approximately 81.5% as compared to approximately 80.9% as at 31 December 2021.

As disclosed in the 2023 IR, the Group had total assets of approximately HK\$63.2 billion as at 30 June 2023, which mainly comprised of (i) property, plant and equipment and right-of-use assets of approximately HK\$31.3 billion; (ii) prepayments and other assets of approximately HK\$13.4 billion; (iii) net finance lease receivables of approximately HK\$8.5 billion; and (iv) cash and cash equivalents of approximately HK\$5.4 billion. The Group's total assets increased by approximately HK\$7.9 billion as compared to approximately HK\$55.3 billion as at 31 December 2022, which is mainly attributable to (i) the increase in property, plant and equipment and right-of-use assets by approximately HK\$4.0 billion primarily due to the addition of aircraft and engine; (ii) increase in prepayments and other assets by approximately HK\$2.0 billion primarily due to increase in PDP and prepayments and receivables relating to aircraft acquisition; and (iii) increase in cash and cash equivalents by approximately HK\$1.9 billion primarily due to the net cash flows generated from operation and additional funding from financing activities. The Group had total liabilities of approximately HK\$56.9 billion as at 30 June 2023 which mainly comprised of (i) borrowings of approximately HK\$43.9 billion; (ii) bonds and debentures of approximately HK\$6.9 billion; and (iii) other liabilities and accruals of approximately HK\$2.8 billion. The increase in the total liabilities by approximately HK\$7.8 billion to approximately HK\$56.9 billion as at 30 June 2023 as compared to approximately HK\$49.1 billion as at 31 December 2022 is mainly attributable to the increase in (i) borrowings by approximately HK\$5.9 billion for aircraft acquisition financing; and (ii) bonds and debentures by approximately HK\$1.5 billion as the Group did not repurchase or repay any bonds and debentures during 1H2023. As at 30 June 2023, the Gearing Ratio further increased to approximately 83.0% as compared to approximately 81.5% as at 31 December 2022.

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2. Background information of ARI, ARI Shareholders and CAAM

2.1 Information of ARI

ARI was incorporated in the Cayman Islands with limited liability on 22 August 2014 and is principally engaged in the ARI Business through its subsidiaries, including CAAM. As at the Latest Practicable Date, ARI is held by the Company (through Aircraft Recycling International Holdings) as to 48%, Sky Cheer as to 20%, China Aero as to 18% and Neo Modern as to 14%.

2.2 Information of ARI Shareholders

Aircraft Recycling International Holdings is an investment holding company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

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

China Aero is an investment holding company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of FPAM, a substantial Shareholder interested in 176,496,672 Shares (representing approximately 23.71% of the total issued share capital of the Company), and FPAM is beneficially owned as to 50% by Mr. Poon Ho Man (an executive Director and the Chief Executive Officer of the Company) and 50% by Ms. Christina Ng. Accordingly, China Aero is a connected person of the Company.

Neo Modern is an investment holding company incorporated in the British Virgin Islands with limited liability and an indirectly wholly-owned subsidiary of CE Limited, a substantial Shareholder interested in 283,417,693 Shares (representing approximately 38.08% of the total issued share capital of the Company). CE Limited is a company incorporated in Hong Kong with limited liability, whose shares are listed on the Stock Exchange (Stock Code: 0165) and is indirectly owned as to approximately 49.74% by CE Group. Accordingly, Neo Modern is a connected person of the Company.

2.3 Information of CAAM

CAAM is a company incorporated in Hong Kong with limited liability on 4 September 2014 and an indirectly wholly-owned subsidiaries of ARI. CAAM is principally engaged in airframe and engine disassembly, disassembled parts sales as well as aircraft and engines trading and leasing business, and majority of its business generated in the United State, Europe, Hong Kong and the PRC. As at the Latest Practicable Date, CAAM has a total of 680,000,000 shares in issue. Please refer to the valuation report of CAAM in Appendix II to the Circular for details of certain financial information.

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2.4 Information of ZF Oriental

ZF Oriental is an investment holding company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company.

3. Background information on the PRC aviation industry

Based on the Statistics of Key Performance Indicators for China's Civil Aviation Industry in August 2023 (中國民航2023年8月份主要生產指標統計) published by the Civil Aviation Administration of China ("CAAC"), the PRC's main aviation regulator, in September 2023, we note that the aviation industry in the PRC recorded (i) a total passenger volume of approximately 410.2 million for the eight months ended 31 August 2023, representing an increase of approximately 122.4% as compared to the corresponding period in the prior year; and (ii) total cargo and mail handled of approximately 4.5 million tons for the eight months ended 31 August 2023, representing an increase of approximately 9.6% as compared to the corresponding period in the prior year. The statistics of PRC's aviation industry in 2023 show that the PRC's aviation industry has recovered from the adversely affection caused by the pandemic in 2022.

The ongoing development of the PRC's aviation industry is also affected by the regulatory policies of the PRC government. According to the Fourteenth Five-Year Plan for Civil Aviation Development (《“十四五”民用航空發展規劃》) released by CAAC, by the end of 2025, China will have over 270 civil transport airports, which will handle 17 million takeoffs and landings a year and the civil aviation sector will handle 930 million passenger trips and 9.5 million metric tons of cargo and parcels annually by 2025. As the Chinese economy is recovering from the pandemic and continuing to develop, the rising affluence of Chinese residents and increased business activities are expected to continue to boost demand for domestic leisure and business-related travel.

Based on the above factors, the Management is of the view that the used aircraft components and mid-life aircraft market in the PRC is sizeable and will continue to grow notably in the long term as the PRC's aviation industry continues its recovery from the pandemic and further driven by the expected expansion of the Chinese aircraft fleet over time. Considering the above factors and given the Group's strong presence in the PRC aircraft leasing market and that ARI's end-of-life aviation solution business in the PRC strategically complements the Group's business model as a one-stop integrated aircraft full life-cycle service provider to its customers, which comprised of a comprehensive range of services from leasing to end-of-life aviation solutions, thereby extracting further value from the aircraft life cycle and enhancing the overall competitiveness of the Group in the market. In this connection, the continuation of the transactions pursuant to the Fourth Supplemental Agreement and the New Annual Caps, and the Proposed Subscription are in the interests of the Company.

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4. Reasons for and benefits of (i) the Fourth Supplemental Agreement and the New Annual Caps; and (ii) the EB Subscription Agreement

As disclosed in the Letter from the Board, the Company consider it will be beneficial to continue the transactions contemplated (including the New Annual Caps) under the Fourth Supplemental Agreement and enter into of the EB Subscription Agreement for the following reasons:

(i) Business model of the Group

The Group has continued its development as a full life cycle aircraft solutions provider for the global aviation industry, offering one-stop and value-added solutions tailored to new, mid-aged and retiring aircraft (the “**Full Life Cycle Aircraft Solutions**”) for aviation partners worldwide. The Group’s Full Life Cycle Aircraft Solutions gives the Group competitive advantages over its competitors as it is able to provide its customers, including the airlines, with a solution at “both ends”, namely, the Group takes up the airlines’ existing operating aircraft, often being mid-aged and/or matured aircraft, thereby releasing the airlines’ demand for capacity, which then allows the Group to provide these airlines with leases of younger aircraft satisfying such demand. The Group’s revenue and other income increased from approximately HK\$1,549.3 million for the year ended 31 December 2015 to approximately HK\$4,171.0 million for the year ended 31 December 2022, representing a compound annual growth rate of approximately 15.2%.

Such business model has been effective as the Group has been able to leverage off the respective resources and synergies among its member companies and affiliated companies, including ARI, enabling the Group to offer services, through itself and/or together with such companies, covering every stage of an aircraft life cycle, including (a) aircraft ordering and procurement; (b) aircraft leasing, purchase and leaseback, and portfolio trading; and (c) aircraft disassembly and component sales, and aircraft maintenance, repair & overhaul (“**MRO**”).

In view of the above, ARI’s operations and service offerings, which include solutions for second aircraft lease as well as mid-to-end-of-life aircraft, form an integral part of the Group’s overall business strategy as a Full Life Cycle Aircraft Solutions provider.

(ii) Continuous development of ARI

ARI has continued to expand its downstream aviation value chain over the years including, among others, the establishment of an aircraft maintenance and engineering joint venture by ARI and the Group, and the formation of ARG, being an aviation asset management platform, details of which are set out below:

- (a) ARI operates a global life cycle solutions platform to support the Group’s value chain ecosystem with its dual aircraft recycling bases in Harbin, the PRC and in the United States, which is managed by its wholly-owned subsidiary, Universal Asset Management (the “**UAM**”), specialising in aircraft disassembly, full recycling solutions, component sales, warehousing and third-party logistics headquartered in the United States. As set out in the website of UAM, UAM was founded in 1992, and was subsequently acquired by ARI and became its wholly-owned subsidiary in 2017 as part of the its downstream aviation value-chain extension. In addition to its U.S. headquarter, UAM also has disassembly facility and global distribution centre in the U.S. as well as sales office in

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the United Kingdom. Given the industrial knowledge, expertise and the role of UAM in ARI's aircraft recycling business, the Management considered it to be one of the key assets to its global disassembly and distribution network in its downstream aviation value-chain. Together, ARI and UAM offer solutions to aging aircraft internationally, further strengthening the Group's position as a Full Life Cycle Aircraft Solutions provider, thereby enhancing its overall competitiveness in the market, which is considered to be in the interests to the Company as a whole;

- (b) ARI and the Group established an aircraft maintenance and engineering joint venture, namely FLARI Aircraft Maintenance & Engineering Company (the "**FLARI JV**"), in Harbin, the PRC in 2018, which provides MRO services for aircraft with a focus on, among others, aircraft base maintenance, scheduled checks and overhaul, aircraft disassembly, engineering services, technical training and consultation. At the moment, the FLARI JV is owned as to 49%, 40% and 11% by ARI, PT Linkaviasi Asia Indonesia and the Group, respectively;
- (c) ARI together with other investors established ARG in December 2019, being an aviation investment fund under ARI which focuses on the leasing of mid-age and older aircraft primarily in the PRC domestic market, as well as aircraft component disassembly and used parts trading. ARG is a non-wholly-owned subsidiary of ARI. As advised by the Management, ARI shall continue to act as a servicer to ARG, while making use of its established aircraft asset management capabilities of mid-life to end-of-life aircraft to cater for investors' interests in extracting returns at various points of an aircraft lifecycle, it shall also provide all rounded services to ARG, including, among others, financing, marketing, technical support, rental collection, in return for a servicer fee. Based on the unaudited financial information of ARG provided by the Management, the total asset balance of ARG amounted to approximately US\$61.75 million as at 30 September 2023, of which approximately US\$17.60 million was funded by ARI; and
- (d) As ARI's business continued to develop, its needs for financial resources also increased. ARI has continued to explore external financing options and develop its own financing capacities. As advised by the Management, ARI has obtained a number of loan facilities from four different financial institutions denominated in HK\$, RMB and US\$, with aggregate drawdown amounted to approximately HK\$2,117.2 million as at 30 September 2023. Nonetheless, the Shareholders' Loan and Guarantee Agreement (as supplemented and amended by the Fourth Supplemental Agreement) shall provide an additional financing option to ARI for its continuous development.

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(iii) Ongoing mutually beneficial relationship between the Group and ARI

- (a) ARI's old aircraft solutions and aftermarket service offerings constitute an integral part of the Group's business model as a Full Life Cycle Aircraft Solutions provider. The capability to assist airlines retire old aircraft has been well recognized by the Group's clients which in turn drive the Group's new aircraft leasing business, especially when airlines are urged to upgrade their fleet in response to the global wave of green aviation. Such synergies open up more business opportunities with both the Group and ARI's existing and potential clients;
- (b) as one of the Group's portfolio trading channel and source of transaction gain, the Group has sold four aircrafts to ARG with a potential for further aircraft transactions going forward, providing underlying assets to gradually build up ARI's track record among aviation investors as an asset manager specialized in old aircraft;
- (c) a development plan of CAAM provided by the Management showed that 96 aircraft over age of 12 years will expire their lease term during 2024 to 2028 and be potentially injected to CAAM, which is expected to provide reasonable return for the Group and flexibility to optimize its fleet portfolio while serve as reserve assets supporting future business growth of CAAM;
- (d) as one of the Group's early investments in low-carbon and circular economy, ARI also forms an essential part of the Group's continuous endeavor and commitment to aviation sustainability with two large aircraft recycling facilities in China and US respectively and multiple innovations and breakthroughs made in the past years and disclosed in the Group's ESG reports;
- (e) ARI Group has provided various aircraft inspection, consultancy, aircraft technical related services to the Group from time to time; and
- (f) Since the establishment of ARI, such platform has generated stable interest income for the Group .

(iv) Long-term strategy of ARI

ARI is the strategic platform undertaking the Group's long-term commitment to aviation sustainability. With ESG has long been a top priority of the Group's agenda, it has actively invested in the field of low-carbon and circular economy and continued to enhance its full value-chain operations with improving professional assets management capabilities in mid- to end-of-life aircraft. As such, ARI was founded and developed into an essential part of the Group's business model that integrates the "green aviation" concept into the traditional aircraft leasing business. Against the global wave of green aviation and China's Carbon Neutrality goal, the Group has been and would continue enhancing its one-stop aircraft full life cycle service capabilities and leveraging synergies among its member companies and affiliates, including ARI, to better grasp business opportunities emerged from accelerated fleet renewal of airline customers while promoting a greener and more sustainable future for global aviation industry.

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As the business of ARI continues to develop and take shape, ARI shall seek strategic investors to further support its growth and explore, among others, the possibility of listing on a stock exchange in the future, thereby enabling ARI to attain financial independence and further expand into different businesses along the aviation sector. The Company has also entered into a co-investment memorandum of understanding with a reputable State-owned enterprise in the PRC to develop the aviation aftermarket business.

CAAM is the principal subsidiary of ARI that operates the ARI Business. Reference is also made to the circular of the Company dated 10 June 2016 where when the Group, Sky Cheer, China Aero and Neo Modern co-invested in ARI, there was an option granted to the Group to subscribed about 5.77% of shares in ARI at a nominal value. Such option has already expired after sixth years from the date of grant. The Directors believe that the Proposed Subscription would provide the Group with an opportunity to have a stable source of interest income while having the option and flexibility to benefit from the potential growth of CAAM by exercising the Exchange Right at such time as it considers appropriate during the Exchange Period after assessing the performance of CAAM from time to time. The Exchange Right will allow the Group to hold the interest of CAAM directly without the need of getting the consent from existing shareholders of ARI upon exercise of such. Given there is no effective cash outflow in the Company for the Proposed Subscription and the EB Subscription Money represents a discount over the valuation of CAAM, the Board considers that it is fair and reasonable for the Group to enter into the Proposed Subscription.

According to the 2023 IR, the Group actively invests in the field of low-carbon and circular economy and continues to enhance its full value-chain operations with improving professional assets management capabilities in mid- to end-of-life aircraft. During 1H2023, the Group made breakthroughs in aircraft disassembly and recycling and CAAM, as the Group's associate company, completed the comprehensive solutions to the 5 old aircraft acquired from Air China Limited to assist the airline's fleet retirement plan. CAAM successfully maximized the residual value of the assets through a series of complex sustainability solutions including parts swap, passenger-to-freighter conversions, portfolio trading, aircraft disassembly, component repair and sales. Based on our review of the audited financial statement for FY2021 and FY2022, and management accounts for 1H2023 of CAAM, we note that the CAAM have been profit-making for FY2021, FY2022 and 1H2023 with net assets value of approximately HK\$747.2 million as at 30 June 2023.

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Given that the interest rate (Prime Rate plus 0.5% per annum) of the Exchangeable Bonds is lower than the interest rate (Prime Rate plus 3.0% per annum) of the Shareholders' Loan by approximately 2.5% per annum, we reckon that the Proposed Subscription would effectively reduce the amount of interest income earned by the Group by approximately HK\$21.3 million for each financial year or approximately HK\$63.8 million for the three years ending 31 December 2026, as compared to the previous transactions contemplated under the Shareholders' Loan and Guarantee Agreement. However, having taken into account the following:

- (i) the Management is optimistic about the future prospect of CAAM's business and industry outlook of the aviation aftermarket services and aged aircraft recycling considering a) rapid recovery of global aviation market post-pandemic would catalyst huge aftermarket demand as aircraft go back to service; b) it is in line with national agenda being one of the strategic emerging industry in China's 14th Five-Year Plan; and c) accelerating retirement of aged aircraft in response to global trend of green aviation would drive disassembly and recycling demand. We have also reviewed a development plan of CAAM provided by the Management and note that 96 aircraft over age of 12 years will expire their lease term during 2024 to 2028 and be potentially passed to CAAM, which will become important resources of CAAM to further development of its business;
- (ii) the principal amount of the Exchangeable Bonds and the Exchange Price of HK\$850.0 million and HK\$1.25 per CAAM Share, respectively, are reasonably determined with discount of approximately 20% (or approximately HK\$217.0 million) to the 100% equity value of CAAM as appraised by the independent valuer. Despite of the principal amount of the Exchangeable Bonds represents a premium of approximately 13.8% over the net asset value of CAAM of approximately HK\$747.2 million as at 30 June 2023, having regard to the business nature and asset composition of CAAM, we consider that the net asset value may not fully capture the intangible competencies, human capital and future earning potential of CAAM. In particular, based on our review of CAAM's unaudited management accounts for the six months ended 30 June 2023, we note that CAAM's business is not capital intensive in nature as the aggregated carry value of the fixed assets (including property, plant and equipment, and investment properties) accounted for less than 50% of CAAM's total assets as at 30 June 2023. In addition, we have conducted research on the price-to-book ratio of the Comparable Companies (as defined in the sub-section headed "7.2 Assessment of the Issue Price" below) and note that the price-to-book ratios of such Comparable Companies ranging from 0.9 times to 8.9 times with average and median of 4.1 times and 3.8 times, respectively, which indicates that the valuation of companies engaged in the sales and manufacturing of aviation products generally represents a premium over its net asset value. Therefore, we consider that the principal amount of the Exchangeable Bonds and the Exchange Price, which are determined with reference to the equity value of CAAM and at premium over the net asset value of CAAM, are fair and reasonable. Please refer to the sub-section headed "7.2 Assessment of the Issue Price" below for details of the basis and methodology adopted in determining the valuation of CAAM. The Proposed Subscription would enable the Group to (a) capture the potential upside from the capital appreciation of CAAM should its financial performance and business operation continued to improve in the foreseeable future; and (b) have stable source of interest income from the Exchangeable Bonds with the flexibility of increasing its equity interest during the Exchange Period where the Management considers appropriate; and

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- (iii) the interest rate of the Exchangeable Bonds of approximately 6.375% per annum (based on the Prime Rate of 5.875% as at the Latest Practicable Date plus 0.5% per annum) would provide the Group with a relatively attractive investment return as it is higher than (a) the Group's average effective interest rate of the total interest-bearing debts of approximately 5.72% for 1H2023; and (b) the interest rates of the Comparable Bonds (as defined below). Please refer to the sub-sections headed "5.1 The annuity return of the Proposed Shareholders' Loan and Guarantee Transactions" and "7.3 Assessment of the interest rate and Exchange Price" below for details. Although the interest rate of the Exchangeable Bonds is lower than the that of the Shareholders' Loan and would potentially result in a decrease of interest income by approximately HK\$63.8 million during the term of the Exchangeable Bonds, such reduction in interest income is justifiable given that the principal amount of the Exchangeable Bonds is at a discount of approximately HK\$217.0 million to the 100% equity value of CAAM of approximately HK\$1,067.0 million as at 31 August 2023,

we consider that the entering into of the EB Subscription Agreement is justifiable and in the interest of the Company and Shareholders as a whole.

In view of the above, we concur with the Directors that the transactions contemplated under the Shareholders' Loan and Guarantee Agreement (as supplemented and amended by the Fourth Supplemental Agreement), the New Annual Caps and the Proposed Subscription are in the interest of the Company and the Shareholders as a whole.

5. The Fourth Supplemental Agreement

The principal terms of the Fourth Supplemental Agreement are set out below:

- Date:** 27 October 2023 (after trading hours)
- Parties:**
- (i) ARI
 - (ii) Aircraft Recycling International Holdings
 - (iii) China Aero
 - (iv) Sky Cheer
 - (v) Neo Modern

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Subject matter: Pursuant to the Fourth Supplemental Agreement, ARI and ARI Shareholders agreed to extend the term of the Shareholders' Loan and Guarantee Agreement to 31 December 2026. Subject to the terms of the Fourth Supplemental Agreement, all other terms and conditions of the Shareholders' Loan and Guarantee Agreement remain unchanged and shall continue in full force and effect and be operative and binding on ARI and ARI Shareholders and the Shareholders' Loan and Guarantee Agreement and the Fourth Supplemental Agreement shall be read and construed together as one agreement.

Conditions Precedent: The Fourth Supplemental Agreement is conditional on (i) the approval by the independent shareholders of the Company at its general meeting of the Fourth Supplemental Agreement and the Proposed Shareholders' Loan and Guarantee Transactions (including the New Annual Caps) as required under the Listing Rules having been obtained, and (ii) the EB Subscription Agreement having been entered into and become unconditional.

The Fourth Supplemental Agreement shall take effect on 1 January 2024, or if the condition(s) precedent is/are not all satisfied prior to 1 January 2024, such other date as notified by the ARI Shareholders in writing.

Shareholders' Loan and Guarantee: Set out below are some details on the Proposed Shareholders' Loan and Guarantee Transactions. Please refer to the 2021 ARI Circular for further details.

(i) Shareholders' Loan

In the event ARI proposes to raise the Shareholders' Loan from the ARI Shareholders, each ARI Shareholder shall have a right (but not the obligation) to advance a portion of the Shareholders' Loan to ARI pro rata to its shareholding in ARI.

If one or more ARI Shareholders decline to advance its respective pro rata portion of the Shareholders' Loan, then the unaccepted participation of such Shareholders' Loan shall automatically be deemed to be accepted by the ARI Shareholders who have indicated to ARI a desire to advance the whole or part of such unaccepted participation.

The interest rate of the Shareholders' Loan is 3% per annum above the Prime Rate from time to time, which was determined after arm's length negotiation between ARI and ARI Shareholders, having taken into account the satisfactory financial background of ARI, the market terms from external banks for unsecured borrowings available to ARI and ARI's capital requirements in the future.

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(ii) Guarantee

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

If (a) an ARI Shareholder; or (b) any group company of an ARI Shareholder, whose consolidated net asset value is not less than HK\$500 million has provided the Guarantee, ARI shall pay the guarantor the Guarantee Fee equal to 3% per annum of the principal amount of the loans from banks, financial or other institutions (as the case may be) guaranteed by the guarantor, which was determined after arm's length negotiation between ARI and ARI Shareholders, having taken into account the satisfactory financial background of ARI, the market terms from external banks for unsecured borrowings available to ARI and ARI's capital requirements in the future.

The obligations and liabilities of ARI under the Shareholders' Loan and Guarantee Agreement (as supplemented and amended by the Fourth Supplemental Agreement) are secured by the Share Mortgage.

In assessing the fairness and reasonableness of the terms in the Fourth Supplemental Agreement, we have obtained and reviewed the Shareholders' Loan and Guarantee Agreement and the Fourth Supplemental Agreement and note that save for the relevant annual caps and the conditions precedent in relation to the EB Subscription, the major terms in relation to the Shareholders' Loan and Guarantee Transactions in the Fourth Supplemental Agreement are similar with those in the Shareholders' Loan and Guarantee Agreement which was approved by the independent shareholders in the general meeting of the Company held on 10 March 2021.

5.1 The annuity return of the Proposed Shareholders' Loan and Guarantee Transactions

As set out in the Letter from the Board, any ARI Shareholder(s) who provide loan(s) to ARI under the Fourth Supplemental Agreement shall receive (i) the annuity return at the rate of 3.0% above the Hong Kong dollar prime lending rate ("**Prime Rate**"), being approximately 8.875% per annum (based on the Hong Kong dollar prime rate of 5.875% per annum as at the Latest Practicable Date as disclosed on the official website of Bank of China (Hong Kong) Limited) (the "**Interest Annuity Return**"); and (ii) a Guarantee Fee at 3.0% per annum of the principal amount of the ARI bank loans guaranteed by the Guarantor (the "**Guarantee Annuity Return**").

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

- (i) the Interest Annuity Return of 8.875% for the provision of Shareholders' Loan, as calculated based on information available as at the Latest Practicable Date, is higher than the average interest rate of the Group's outstanding debt financing instruments. Based on our review of the 2023 IR, the effective interest rate or the interest rate of the Group's debt financing (without convertible features) are as follows:
 - (a) the average effective interest rate of total interest-bearing debts for 1H2023 was 5.72%;
 - (b) the annual interest rate for 3-year medium-term notes with principal amount of RMB1,500 million issued by the Group in April 2022 is 4.50%;
 - (c) the effective average interest rates of 46 long-term borrowings from trust plans or asset-back securities programme, which amounted to approximately HK\$4,488.6 million as at 30 June 2023, ranged from approximately 3.5% to 7.8%;
 - (d) four borrowings of approximately HK\$399.8 million as at 30 June 2023 obtained through a structured financing arrangement for aircraft with effective interest rate ranging from 3.9% to 5.7%; and
 - (e) the interest rates of 5.5%, 5.9%, 4.2%, 4.85%, 4.4%, 3.56%, and 3.85% per annum on each of the Group's US\$200 million unsecured bonds issued in March 2017, US\$70 million unsecured bonds issued in November 2020 and January 2021, RMB100 million unsecured bonds issued in August 2021, US\$100 million unsecured guaranteed notes issued in December 2021, RMB1,200 million private bonds issued in February 2022, RMB1,000 million super short-term debentures issued in October 2022 and RMB1,500 million corporate bonds issued in June 2023, respectively;

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- (ii) based on the information as set out in a schedule with details of the bank loans (including the respective facility amount, outstanding loan balance, interest rates and tenor) granted to ARI by financial institutions (the “**Bank Loan Schedule**”) provided by the Management, the interest rate of the outstanding loans of ARI granted by other financial institutions as at 30 September 2023 ranged from approximately 2.75% to 8.61% per annum with facility amount ranged from approximately HK\$31.2 million to HK\$1,000 million, being lower than that of the Interest Annuity Return;
- (iii) we have conducted market research on transaction announcements in relation to the provision of loan directly by companies listed on the Main Board of Stock Exchange, the principal business of which does not include money lending, to their respective connected person(s) with an amount equivalent to not less than HK\$500 million (which we consider to be comparable with the reference to the New Annual Cap of HK\$650 million for the three years ending 31 December 2026), and not in proportion to their equity interest in the subject connected person, within 12 months prior to the date of the Announcement (the “**Review Period**”). Based on our research on the Stock Exchange website, on a best effort basis, we have identified an exhaustive list of six lending transactions which fit the aforesaid selection criteria (the “**Comparable Lending Transactions**”). We consider that the review period of 12 months to be a reasonable period to present the recent market practice and the Comparable Lending Transactions are sufficient, fair and representative samples for our assessment of the Interest Annuity Return of 3% above the Prime Rate. The following table sets forth the summary of the Comparable Lending Transactions:

Date of the announcement	Company name (stock code)	Principal amount of the loan provided to the connected person	Interest rate to the relevant loan amount
11-Oct-23	Sinofert Holdings Limited (“ Sinofert ”) (297.HK)	RMB500 million	Determined based on the highest interest rate of the comparable loans obtained by the connected person
11-Oct-23	Sinofert Holdings Limited (“ Sinofert ”) (297.HK)	RMB1,000 million	from independent third-party banks, which is higher than the interest rate available to Sinofert for placing cash deposits with commercial banks in the PRC.
27-Jan-23	Summit Ascent Holdings Limited (102.HK)	HK\$500 million	6.00%

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Date of the announcement	Company name (stock code)	Principal amount of the loan provided to the connected person	Interest rate to the relevant loan amount
5-Dec-22	Kerry Properties Limited (683.HK)	RMB630 million	3.30%
24-Nov-22	SCE Intelligent Commercial Management Holdings Limited (606.HK)	RMB900 million	7.00%
1-Nov-22	Huaneng Power International, Inc. (“Huaneng Power”) (902.HK)	RMB13,200 million	The loan interest rate under the agreement is determined by Huaneng Power, and the fixed interest rate is adopted. The annual interest rate is the total amount of upstream fund raising costs and related taxes, etc., and the actual signed renewable entrusted loan interest rate shall prevail.
		Maximum (Note 2)	7.00%
		Minium (Note 2)	3.30%
		Average (Note 2)	5.43%
		Median (Note 2)	6.00%
The Company		HK\$650 million	8.875%, being 3% above the Prime Rate

Notes:

- For the purpose of illustration, the amounts denominated in RMB have been converted into HK\$ at an exchange rate of RMB1.00=HK\$1.08.
- As the interest rate of the loans provided by Sinofert was not available from public sources and the interest rate of the loans provided by Huaneng Power was not yet determined at the date of announcing the subject transaction, they are excluded for comparison purpose.

Source: the website of the Stock Exchange (www.hkexnews.hk)

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As set out in the table above, the interest rate under the Comparable Lending Transactions ranged from 3.30% to 7.00% per annum. On this basis, the Interest Annuity Return of 3% above Prime Rate, being 8.875% per annum, under the Shareholders' Loan and Guarantee Agreement is higher than the interest rate of the Comparable Lending Transactions. Having regard to the fact that the interest rate of the Proposed Shareholders' Loan is determined based on floating rate, being the Prime Rate, plus premium of 3% per annum whereas all of the Comparable Lending Transactions (except for the loan transaction of Huaneng Power and Sinofert) have fixed interest rates, which are determined and disclosed at the relevant announcement date, we have also observed the Prime Rate for any material fluctuation during the Review Period. Given that the Prime Rate is at an increasing trend during the Review Period ranging from 5.125% to 5.875%, we consider that the Interest Annuity Return during the Review Period would be ranging from 8.125% to 8.875% per annum, which is still higher than the high end of the interest rate of the Comparable Lending Transactions. In respect of the interest rate of Huaneng Power, we note that its loan interest rate is determined based on the fixed rate with reference to the amount of upstream fund-raising costs and related expenses. Given that the Interest Annuity Return of 8.875% is higher than the average interest rate of the Group's outstanding debt financing instruments as discussed above, we consider that the Interest Annuity Return is no less favourable than the interest rate of Huaneng Power's loan to connected person. In respect of the interest rates of Sinofert, we note that its loan interest rates are determined based on fixed rate with reference to the highest interest rate of the comparable loans obtained by the connected person from independent third-party banks and the interest rate available to Sinofert for placing cash deposits with commercial banks in the PRC. Given that the Interest Annuity Return of 8.875% is higher than the highest interest rate of the outstanding loans of ARI and the interest rate available to the Company for placing cash deposits with commercial banks in the PRC, we consider that the Interest Annuity Return is no less favourable than the interest rates of Sinofert's loan to connected person. Having considered the above, we are of the view that the Interest Annuity Return is fair and reasonable;

- (iv) During FY2021, FY2022 and 1H2023, save for a HK\$144.3 million loan facilities for FY2021 and a HK\$1,000 million loan facilities for FY2022 and 1H2023 of ARI which the Group is providing guarantee for, ARI had no facilities whereby the Group provided guarantee for. Prior to the aforesaid guarantee for ARI's loan facility in favour of the subject financial institution was provided by the Group, the respective ARI Shareholders was offered by ARI to take up such guarantee at the guarantee fee of 3% pursuant to the Shareholders' Loan and Guarantee Agreement. As part of our due diligence work, we have obtained and reviewed the relevant documents demonstrating that the ARI Shareholders were indeed offered by ARI to take up such guarantee at the guarantee fee of 3% pursuant to the Shareholders' Loan and Guarantee Agreement. In order to assess the fairness and reasonableness of the Guarantee Annuity Return, we have conducted market research on transaction announcements in relation to the provision of guarantee by companies listed on the Main Board of Stock Exchange to their respective connected person(s) with an amount of HK\$500 million or more (which we consider to be comparable with the reference to the New Annual Cap of HK\$650 million for the three years ending 31 December 2026) and not in proportion to their equity interest in the subject connected person, within 12 months prior to the date of the Announcement (the "**Comparable Guarantee Transactions**"). Based on our research on the Stock Exchange website, on a best effort basis, we have identified an

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exhaustive list of four Comparable Guarantee Transactions which fit the aforesaid selection criteria. We consider that the review period of 12 months to be a reasonable period to present the recent market practice and the Comparable Guarantee Transactions are sufficient, fair and representative samples for our assessment of the Guarantee Annuity Return of 3%. The following table sets forth the summary of the Comparable Guarantee Transactions:

Date of the announcement	Company name (stock code)	Guaranteed amount provided to the connected person	% of the guarantee fee to the relevant guaranteed amount
26-Apr-23	Agile Group Holdings Limited (3383.HK)	RMB700 million	Nil
22-Dec-22	Wison Engineering Services Co. Ltd. (2236.HK)	Maximum of RMB1,005 million	0.50%
1-Nov-22	Xiwang Special Steel Company Limited (1266.HK)	Not exceed RMB5,000 million	0.50%
28-Oct-22	Shanghai Pioneer Holding Ltd (1345.HK)	Not more than RMB500 million	0.10%
		Maximum	0.50%
		Minium	Nil
		Average	0.275%
		Median	0.30%
	The Company		3.0%

Source: the website of the Stock Exchange (www.hkexnews.hk)

As set out in the table above, the interest rate under the Comparable Guarantee Transactions ranged from nil to 0.50% per annum. On this basis, the Guarantee Annuity Return of 3.0% per annum under the Shareholders' Loan and Guarantee Agreement is higher than guarantee fee rates of the Comparable Guarantee Transactions and that the Guarantee Annuity Return of 3% is offered to each of the respective ARI Shareholders, thus such terms are not less favourable than those offered to other ARI Shareholders.

- (v) As advised by the Management, the Group did not provide any loan or guarantee to independent third party during the two years ended 31 December 2022 and up to the Latest Practice Date. The Management would endeavor to ensure that, should the Group provide loan or guarantee to independent third parties during the term of the Fourth Supplemental Agreement, the Interest Annuity Return and Guarantee Annuity Return offered by ARI will not be less favourable than those offered by independent third parties. Having considered the above, we are of the view that the Guarantee Annuity Return are fair and reasonable.

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In view of the above, we consider that the terms of Fourth Supplemental Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. The New Annual Caps

6.1 *The Existing Annual Caps, historical transactions for the Shareholders Loan and Guarantee provided by the Group and the New Annual Caps*

The following tables set out the amount of each of (i) the Existing Annual Caps; (ii) the historical transactions for the Shareholders' Loan and Guarantee provided by the Group; and (iii) the New Annual Caps:

	For the year ended/ending		
	31 December 2021	31 December 2022	31 December 2023
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Existing Annual Cap	1,500,000	1,500,000	1,500,000
Maximum daily closing balance of loans (together with the interest and Guarantee Fee) (Approximate)	1,465,000	1,447,000	1,280,000 (For the nine months ended 30 September 2023)

Note: The Company does not expect that the maximum daily closing balance of loans (together with the interest and Guarantee Fee) for the period from 1 October 2023 to the date of the EGM will exceed the Existing Annual Cap for the year ending 31 December 2023.

	For the year ending		
	31 December 2024	31 December 2025	31 December 2026
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
New Annual Cap	650,000	650,000	650,000

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6.2 Basis of determination of the New Annual Caps

The New Annual Caps represent the maximum daily closing balance of outstanding principal amount of the loans (including the Shareholders' Loan advanced and may be advanced by Aircraft Recycling International Holdings and the guarantee provided and may be provided by the Group to ARI and/or its subsidiaries) together with interest accrued on the Shareholders' Loan advanced by Aircraft Recycling International Holdings and the Guarantee Fee. The New Annual Caps were determined with reference to (i) the expected level of income, operational expenses as well as other financial needs of ARI Group as compared to those for the two years ended 31 December 2022; (ii) the amount of the guarantee provided to ARI and its subsidiaries by the Group in connection with the loans granted by banks, financial or other institutions which may or may not be extended upon maturity; (iii) the expected business development and potential expansion of the existing business of ARI Group through organic growth and/or acquisitions, and based on the assumptions that (a) part of the financial needs of ARI Group for the three financial years ending 31 December 2026 will be financed by bank borrowings; (b) the Company or other companies in the Group (at its sole discretion) will provide the full amount of the Shareholders' Loan and/or guarantee required by ARI and/or its subsidiaries if other ARI Shareholders and their respective group companies do not provide any amount out of their respective pro rata portion of such Shareholders' Loan and/or Guarantee; and (iv) the reduction of the principal amount of the Exchangeable Bonds from the Existing Annual Caps. In the event any ARI Shareholder and their respective group companies, other than the Group, provide the Shareholders' Loan and/or guarantee required by ARI and/or its subsidiaries, the New Annual Caps may not be fully utilised.

6.3 Assessment on the New Annual Caps

In order to assess the fairness and reasonableness of the New Annual Caps, we have reviewed the historical transactions for the Shareholders Loan and Guarantee provided by the Group, the Existing Annual Caps and the New Annual Caps. We noted that (i) the New Annual Caps for the three years ending 31 December 2026 of HK\$650.0 million represent a decrease of approximately 56.7% as compared with the Existing Annual Caps for the three years ending 31 December 2023; (ii) the highest historical utilisation rate of the Existing Annual Cap reached 96.8% during the validity period of the Third Supplemental Agreement, which is in FY2021; and (iii) the maximum daily closing balance of loans (together with the interest and Guarantee Fee) for the nine months ended 30 September 2023 reached approximately HK\$1,280.0 million, representing an utilisation rate of approximately 85.3% of the Existing Annual Cap for the year ending 31 December 2023.

As advised by the Management, the decrease of the New Annual Caps for the three years ending 31 December 2026 to HK\$650 million as compared to the Existing Annual Caps is due to part of the Shareholder's Loans provided by the Group (i.e. HK\$850 million) will be set off by the subscription of the Exchangeable Bonds. For the details of the EB Subscription Agreement, please refer to the section headed "7. The subscription of the Exchange Bonds" below. The Management also advises that the New Annual Caps are determined with reference to factors including (i) the proposed acquisition of around fifteen to twenty aged aircraft and aircraft engines during the years from 2024 to 2026; (ii) the ongoing business development in relation to ARI's end of life aviation solution business and operational expenses as well as other financial needs of (a) ARI, which involves aircraft parts and components supply, mid-to-end-of-life aircraft trading, and (b) the group companies of ARI, namely FLARI JV's MRO and aircraft parts and component supply services business, UAM's aircraft disassembly, full recycling solutions, component sales,

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warehousing and third party logistics business, and ARG's leasing of mid-aged and older aircraft, aircraft component disassembly and used parts trading business; and (iii) potential further investments and/or expansion of the existing ARI Business, including FLARI JV, UAM and ARG, through organic growth which may require additional working capital from ARI and/or its aforesaid group companies from time to time to satisfy its cashflow needs for, among others, acquisition of aged aircraft, purchase of aircraft parts and components for sales and trading, the obtaining of base maintenance licenses in the PRC and Europe as well as expansion in work force and operations to cater for such expansion and/or acquisitions, and based on the assumptions that (a) part of financial needs of ARI for the three years ending 31 December 2026 will be financed by bank borrowings; and (b) the Company will provide full amount of the Shareholders' Loan and/or Guarantee required by ARI if other ARI Shareholders and their respective group companies do not provide any amount out of their respective pro rata portion of such Shareholders' Loan and/or guarantee.

We note that the historical maximum daily closing balance of loans (together with the interest and Guarantee Fee) to ARI fluctuated from time to time during FY2021, FY 2022 and nine months ended 30 September 2023 and we understand from the Management that although the aforesaid daily closing balance may vary from time to time, the financial needs of ARI is expected to remain the same level in the foreseeable future given the ongoing development of ARI. We have also obtained and analysed the Bank Loan Schedule with the details of the bank loans granted to ARI by financial institutions as at 30 September 2023, including the respective facility amount, outstanding loan balance, interest rates and tenor, ranged from year 2023 to 2028, which supports that the financial needs of ARI have been partly financed by bank borrowings.

We have discussed with the Management and the Management has confirmed that, during FY2021, FY 2022 and nine months ended 30 September 2023, the Group has not experienced material delay or default in loan and/or interest repayment due from ARI under the Shareholders' Loan and Guarantee Agreement.

Based on the above, we consider the New Annual Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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7. The subscription of the Exchange Bonds

For the details of the EB Subscription Agreement, please refer to the Letter from the Board.

7.1 Principal terms of the Exchangeable Bonds

The principal terms of the Exchangeable Bonds are summarized as below:

Issuer:	ARI
Principal Amount:	HK\$850,000,000
Form and Denomination:	The Exchangeable Bonds are issued in registered form in the denomination of HK\$5,000,000 each.
Issue Price:	100% of the aggregate principal amount of the Exchangeable Bonds of HK\$850,000,000.
Interest:	<p>In respect of the three-year period commencing from and including the Issue Date up to the Maturity Date, the aggregate of Prime Rate plus 0.5% per annum, which is determined having taken into account (i) the average effective interest rate of the Group's total interest-bearing debts for the six months ended 30 June 2023 of approximately 5.72%, with a range from 3.5% to 7.8%; and (ii) the potential upside of HK\$217.0 million if the Exchangeable Bonds are fully converted, based on the difference between the principal amount of Exchangeable Bonds and the valuation of 100% equity interest in CAAM appraised by an independent valuer as at 31 August 2023.</p> <p>Interest shall be payable semi-annually in arrears. For illustration purpose only, assuming the Exchangeable Bonds are issued on 29 December 2023, the interest shall be payable on 28 June and 28 December in each year commencing on 28 June 2024.</p>
Maturity Date:	31 December 2026
Status:	The Exchangeable Bonds constitute senior, direct, unsubordinated, unconditional and unsecured obligations of ARI and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves.

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Exchange Right: Each Exchangeable Bond shall entitle the Bondholder to exchange such Exchangeable Bonds or part of an Exchangeable Bond for CAAM Shares on one or more than one occasion during the exchange period in respect of all or part of the outstanding principal amounts under the Exchangeable Bonds in accordance with the terms and conditions of the Exchangeable Bonds.

To exercise the Exchange Right attaching to an Exchangeable Bond, the holder of such Exchangeable Bond must complete, execute and deposit an exchange notice at its own expenses during normal business hours at the principal office of ARI in Hong Kong.

Exchange Price: HK\$1.25 per CAAM Share initially, subject to adjustment in the manner provided in the relevant provisions in the terms and conditions of the Exchangeable Bonds. The initial Exchange Price is calculated by dividing the principal amount of the Exchangeable Bonds by the total number of existing Exchangeable Shares.

Exchange Period: Any time following the first anniversary of the Issue Date and up to and including the Maturity Date.

Exchangeable Shares: 680,000,000 CAAM Shares and any additional CAAM Shares issued, allotted or otherwise converted from time to time.

The number of Shares to be transferred on exchange of an Exchangeable Bond upon the exercise of the Exchange Right will be determined by the following formula:

$$S = \frac{B}{P}$$

where:

S = number of Shares to be transferred;

B = the whole or such part of the principal amounts of the Exchangeable Bonds to be exchanged; and

P = the Exchange Price.

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7.2 *Assessment of the Issue Price*

Review of the valuation report

As set out in the Letter from the Board, the Issue Price of HK\$850 million was determined after arm's length negotiations between ARI and Aircraft Recycling International Holdings taking into account the market value of 100% of equity interest of CAAM of approximately HK\$1,067,000,000 as at 31 August 2023 as appraised by Jones La LaSalle Corporate Appraisal and Advisory Limited (the "JLL" or the "Independent Valuer"), an independent valuer, based on market approach (the "Valuation"). The Issue Price represents approximately a discount of 20% to the Valuation.

In order to assess the expertise and independence of the Independent Valuer, we have obtained and reviewed the engagement letter and relevant licenses, qualifications and experience of the Independent Valuer and its working team. We have discussed with the working team of the Independent Valuer to understand its previous experiences on valuation projects, the methodologies, basis and assumptions they have adopted in the valuation report as well as the steps and measures taken by them in conducting the Valuation. The Independent Valuer confirmed that it is independent from the Group and their respective associates. Based on the above, we consider that the Independent Valuer is qualified and possesses relevant experience in conducting the valuations, and the terms and scope of the engagement between the Company and the Independent Valuer are appropriate to the opinion the Independent Valuer is required to give.

We have reviewed the valuation report and noted that the market approach is adopted. The Independent Valuer has considered three generally accepted approaches, namely, market approach, cost approach and income approach. In the business valuation context, the market approach valuation shall analyse recent transaction(s) in the equity interest of the valuation subject and/or comparable companies and benchmark the valuation subject with the selected comparable(s).

Regarding the income approach, we have discussed with the Independent Valuer and understand that the income approach relies on detailed operational information and long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained. Taking into account (i) the future income of CAAM will be depending upon specific aircraft disassembly contracts to be secured with its clients, which are unlikely to predict with high degree of certainty; (ii) the result of income approach may be very sensitive to certain input and hence with high uncertainty; and (iii) the substantial objective supporting data is not available to the Independent Valuer, we concur with the Independent Valuer that income approach is inappropriate for valuing the equity interest in CAAM.

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Regarding the cost approach, we note that CAAM is principally engaged in the provision of aircraft aftermarket services and recycling solutions such as aircraft disassembling or “passenger-to-freighter” conversions, and therefore its earning potential would primarily vast on CAAM’s resources in the aviation value chain as well as its technical capabilities in aircraft. In view of CAAM’s business nature as discussed above, we concur with the Independent Valuer that the cost approach is inappropriate as it does not fully capture the economic benefits contributed by CAAM.

The Independent Valuer has selected the enterprise value (“EV”) to earnings before interest, tax, depreciation and amortisation (“EBITDA”) (collectively known as “EV/EBITDA”) multiple in valuing the 100% equity interest in CAAM given that such multiple is suitable for profitable companies and can factor in differences in balance sheet positions between the subject and the comparable companies. We understood that (i) price-to-earnings (“P/E”) multiple is not appropriate as P/E fails to overcome the distortions caused by different accounting policies and capital structures of the comparable companies; (ii) price-to-book (“P/B”) multiple is not adopted as P/B fails to capture the intangible company-specific competencies and advantages so in general, the equity’s book value has little bearing with its fair value; and (iii) price-to-sales and EV-to-sales multiple are not applicable as they do not take into account CAAM’s cost structure and profitability.

We have reviewed the exhaustive list of four comparable companies identified from the following selection criteria by the Independent Valuer: (i) the companies are publicly listed; (ii) the companies derive more than half of their revenues from sales and leasing of aftermarket aviation assets; and (iii) sufficient data, including the EV/EBITDA ratio, on the comparable companies are available as at the valuation date. As (i) in FY2022, CAAM generated 50.0% of its revenue from contracts with customers (including sale of aircraft disassembly products, sale of aircraft consignment products, aircraft disassembly services, logistic services and management services) and 43.6% of its revenue from operating lease; and (ii) CAAM recorded positive EBITDA for the trailing twelve months ended 30 June 2023, we consider that the selection criteria adopted by the Independent Valuer are fair and reasonable.

Given that (i) the market approach is widely used in the business valuation while the cost approach and income approach are not optimal approaches for appraising value of CAAM with certain limitation; and (ii) EV/EBITDA multiple is suitable for profitable company like CAAM and can factor in differences between the balance sheet position and capital structure of CAAM and the comparable companies, we consider the market approach and the EV/EBITDA multiple adopted by the Independent Valuer to determine the appraised value of CAAM is fair and reasonable.

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The Independent Valuer applied the median of the adjusted EV/EBITDA multiple of approximately 11.64 times and the EBITDA for the twelve months ended 30 June 2023 of CAAM of approximately HK\$172.1 million to arrive at the EV. The cash and cash equivalents, amount due from related parties that is non-trading in nature and lease portion of investment property are added back, while debts as well as bank loan interest payable, non-trading payable and lease liabilities are deducted from the EV when calculating the equity interest of CAAM before the adjustments of a control premium (“CP”) of 17.80% and a discount for lack of marketability (“DLOM”) of 13.15%. CP is applied to reflect the differences between the comparable companies and CAAM with regard to the ability to make decisions, while DLOM is applied to reflect the differences in the ability to convert business interest into cash quickly with minimum transaction and administrative costs and with a high degree of certainty as to the amount of net proceeds (i.e. CAAM being a private company while the comparable companies being all publicly listed). Based on our interview with the Independent Valuer, we understand that the abovementioned adjustments are fully in line with the relevant valuation and market standards for appraising equity interests. We note that a DLOM of 13.15% was adopted as estimated by put option method of Black Scholes Option Pricing Model, which taking into account the risk free rate of 5% and the volatility of the comparable companies of 40%. We also note that a CP of 17.80% is adopted based on the Mergerstat Control Premium Study (2nd Quarter 2023) published by FactSet Mergerstat, LLC., which is a widely accepted sources among valuers.

Comparable companies analysis

In order to further assess the fairness and the reasonableness of the Issue Price, we conducted a comparable analysis to crosscheck the EV/EBITDA multiple applied by the Independent Valuer in the Valuation through identifying listed companies (i) whose shares are listed on Shenzhen Stock Exchange, Shanghai Stock Exchange or the Stock Exchange; and (ii) at least 50% of whose total revenue for FY2022 is generated from manufacturing and sales of aviation products. We have identified an exhaustive list of nine comparable companies (the “**Comparable Companies**”) based on the abovementioned criteria. Although the primary business of the Comparable Companies are not identical as CAAM, taking into account (i) CAAM is operating niche business in aviation industry and we have not identified any listed company operating the same business as CAAM; (ii) given that (a) 75.0% of CAAM’s revenue from contracts with customers are derived from operation in United State and the PRC; and (b) CAAM’s two operation bases are located in Memphis of United State and Harbin of the PRC, respectively, it should be operated under similar business environment to the Comparable Companies, all of which have their principal place of business in the PRC, we consider that the list of Comparable Companies forms a fair and representative sample to provide the reference on the recent market sentiment on valuation of the relevant companies in aviation industry and listed on Hong Kong and the PRC stock exchanges.

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The following table sets out the summary of business nature, market capitalisation and EV/EBITDA of the Comparable Companies:

Company name and stock code	Principal place of business	Business nature	Market Capitalisation as at the Latest Practicable Date (HK\$ million)	EV/EBITDA multiple (times)
Avic Xi'An Aircraft Industry Group Company Ltd. (000768.SZ)	the PRC	Manufacturing and sales of aviation products	66,999.2	37.4
Chengdu Ald Aviation Manufacturing Corporation (300696.SZ)	the PRC	Manufacturing of aviation products	5,910.5	23.1
Guanglian Aviation Industry Co., Ltd. (300900.SZ)	the PRC	Manufacturing of aviation products	5,430.3	20.3
Avic Airborne Systems Co., Ltd. (600372.SH)	the PRC	Manufacturing and sales of aviation products	70,138.9	22.4
Aecc Aero Science and Technology Co., Ltd (600391.SH)	the PRC	Manufacturing and sales of aviation products	6,641.7	16.7
Avic Shenyang Aircraft Company Limited (600760.SH)	the PRC	Manufacturing of aviation products	127,188.0	29.8
Aecc Aviation Power Co, Ltd (600893.SH)	the PRC	Manufacturing and sales of aviation products	101,735.1	30.9
Wuxi Hyatech Co., Ltd. (688510.SH)	the PRC	Manufacturing of aviation products	4,621.0	46.0
AviChina Industry & Technology Company Limited (2357.HK) ("AviChina")	the PRC	Manufacturing and sales of aviation products	26,868.5	1.0 (Note 1)
			Average (Note 1)	28.5
			Median (Note 1)	26.5
			Maximum	46.0
			Minimum (Note 1)	16.7

Note:

- As the EV/EBITDA multiple of AviChina is substantially lower than other Comparable Companies', it is regard as outliers and excluded for comparison purpose.

Source: Wind

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Based on the analysis of the Comparable Companies set out in the table above, we note that the EV/EBITDA multiples of the Comparable Companies ranging from approximately 16.7 times to approximately 46.0 times with average and median approximately 28.5 times and 26.5 times, respectively. We note that the EV/EBITDA multiple applied by the Independent Valuer of approximately 11.64 times is lower than the low end of the EV/EBITDA multiple of the Comparable Companies. The Independent Shareholders are reminded that, given the businesses and/or operations of the Comparable Companies are not directly matched with CAAM, the EV/EBITDA multiples of the Comparable Companies are for reference only.

7.3 Assessment of the interest rate and Exchangeable Price

As set out in the Letter from the Board, the interest of the Exchangeable Bonds (the “**EB Interest Rate**”) is the aggregate of Prime Rate plus 0.5% per annum (being approximately 6.375% per annum as calculated based on information available as at the Latest Practicable Date) and the Exchange Price is at approximately 20% discount to the Valuation. In assessing the fairness and reasonableness of the EB Interest Rate and Exchange Price, we have identified a list of exchangeable bonds which were announced by companies listed on the Main Board of Stock Exchange with principal amount of over HK\$500 million during the six months prior to the date of the Announcement (the “**Comparable EB**”), and we have only identified one issuance of Comparable EB which fits the aforesaid criteria. In order to generate a meaningful sample size for comparison purpose, we decide to extend our selection criteria to include the issuance of convertible bonds which were announced by companies listed on the Main Board of the Stock Exchange with principal amount of over HK\$500 million during the six months prior to the date of the Announcement as exchangeable bonds and convertible bonds are similar structure financing methods which entitle the bondholders to convert or exchange the bonds into equity interest (collectively, the “**Comparable Bonds**”). Based on our research on the Stock Exchange website, we have identified an exhaustive list of nine Comparable Bonds which fit the aforesaid extended criteria. Although the business, operation and prospects of ARI are not the same as the listed issuers of the Comparable Bonds, we consider that (i) the review period of six months could on one hand, provide us a reference on the recent market practice of exchangeable/convertible bond issuance in the Hong Kong equity capital market and on the other hand, generate sufficient sample size for comparison purpose; and (ii) the Comparable Bonds were determined under similar market conditions and sentiment and hence, provide a fair and representative reference on the key terms of exchangeable or convertible bonds issued by companies listed on the Stock Exchange. The following table sets out the details of the Comparable Bonds:

Date of announcement	Company name and stock code	Debt security	Principal amount	Interest rate	Premium/ (discount) of conversion/exchange price over/(to) the closing price of the last trading day prior to the date of the announcement
20-Sep-23	Kingkey Financial International (Holdings) Limited (1468.HK)	Convertible Bonds	HK\$1,000 million	2.00%	9.89%

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Date of announcement	Company name and stock code	Debt security	Principal amount	Interest rate	Premium/ (discount) of conversion/exchange price over/(to) the closing price of the last trading day prior to the date of the announcement
19-Sep-23	NIO Inc. (9866.HK)	Convertible Bonds	US\$500 million	3.875%	30.00%
19-Sep-23	NIO Inc. (9866.HK)	Convertible Bonds	US\$500 million	4.625%	30.00%
28-Jun-23	Luye Pharma Group Ltd. (2186.HK)	Convertible Bonds	US\$180 million	6.25%	26.10%
23-Jun-23	Dingyi Group Investment Limited (508.HK) (“Dingyi”)	Convertible Bonds	HK\$980 million	5.50%	441.00% (Note2)
13-Jun-23	Sunac China Holdings Limited (1918.HK) (“Sunac”)	Convertible Bonds	US\$1,000 million	1.00%	336.68% (Note2)
13-Jun-23	Sunac China Holdings Limited (1918.HK)	Mandatory Convertible Bonds	US\$1,750 million	Nil	326.00% (Note2)
9-Jun-23	China Mengniu Dairy Company Limited (2319.HK)	Exchangeable Bonds	HK\$650 million	4.50%	30.00%
12-May-23	Hong Kong Aerospace Technology Group Limited (1725.HK)	Convertible Bonds	HK\$800 million	0.50%	(8.91%)
			Average (Note2)	3.53%	19.51%
			Median (Note2)	4.19%	28.05%
			Maximum (Note2)	6.25%	30.00%
			Minimum	Nil	(8.91%)
	The Company		HK\$850 million	6.375%	(20.00%)

Notes:

- For the purpose of illustration, the amounts denominated in US\$ have been converted into HK\$ at an exchange rate of US\$1.00=HK\$7.80.
- As the premium of the conversion price over the closing price of the last trading day prior to the date of announcement of Dingyi and Sunac are over 100% and substantially higher than other Comparable Bonds’, they are regard as outliers and excluded for comparison purpose.

Source: The Stock Exchange website

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As illustrated by the table above, we note that the interest rates of the Comparable Bonds ranged from approximately nil to 6.25%, with the mean and median of approximately 3.53% and 4.19%, respectively. The EB Interest Rate is higher than the highest interest rate of the Comparable Bonds. Having regard to the fact that the EB Interest Rate is determined based on floating rate, being the Prime Rate, plus premium of 0.5% per annum whereas all of the interest rates of Comparable Bonds have fixed interest rates, which are determined at the relevant announcement date, we have also observed the Prime Rate for any material fluctuation during the six months prior to the date of the Announcement. Given that the Prime Rate is at an increasing trend during the six months prior to the date of the Announcement ranging from 5.625% to 5.875%, we consider that the EB Interest Rate during the Review Period would be ranging from 6.125% to 6.375% per annum and still within or higher than the high end of the interest rates of the Comparable Bonds.

Based on the analysis of the Comparable Bonds set out in the table above, we note that the premium/discount of the exchange/conversion price of all the Comparable Bonds to market value of the respective exchangeable/conversion share ranging from discount of approximately 8.91% to premium of approximately 30.00% with average and median premium of approximately 19.51% and 28.05%, respectively. We note that the discount of approximately 20% represented by the Exchange Price to the Valuation is at a deeper discount than the low end of the discount of the Comparable Bonds.

In view of the above, we consider the terms of the Exchangeable Bonds are fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

8. The internal control policies

We have reviewed the internal control policies of the Company for the transactions carried out under the Fourth Supplemental Agreement (the “**Internal Control Policies**”) and discussed the relevant measures and procedures with the Management. Based on the Internal Control Policies and our discussion with the Management, the Company shall adopt, among others, the following review process and assessment criteria when providing Shareholders’ Loan and guarantee pursuant to the Fourth Supplemental Agreement:

- (i) designated staff from the finance and accounting department of the Company is responsible for overseeing the connected transactions of the Company. The finance and accounting department of the Company will monitor and collect detailed information in relation to each advance under the Shareholders’ Loan and each guarantee provided to ensure that each transaction is conducted in accordance with the Third Supplemental Shareholders’ Loan and Guarantee Agreement;
- (ii) the designated staff from the finance and accounting department of the Company will closely monitor the amount of the Shareholders’ Loan and guarantee required by ARI to be provided and provided by the Company on a monthly basis to ensure that it does not exceed the proposed annual monetary caps;

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- (iii) the independent non-executive Directors of the Company will review at least every six months the status of the Shareholders' Loan and/or guarantee provided by the Company and confirm in the annual reports of the company whether the transactions have been entered into (i) in the ordinary and usual course of business of the listed issuer's group; (ii) on normal commercial terms or better; and (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the listed issuer's shareholders as a whole; and
- (iv) an independent auditor appointed by the Company every year will review and report the status of the Shareholder's Loan and guarantee in accordance with the internal control measures and relevant Listing Rules.

We have discussed with the designated staff from the finance and accounting department of the Company on the relevant review and assessment procedures as set out above and understood their relevant work conducted in that respect. In addition, we have also conducted work on the internal control procedures carried out and factors considered prior to deciding whether to proceed with each of the loan and/or guarantee request from ARI, including (i) conduct a review of the overall cashflow position of the Group at the relevant time by the finance and accounting department; (ii) consider the proposed use of the loan proceeds by ARI; (iii) perform checks on the information on the relevant supporting documents, such as drawdown notice for the Shareholder's Loan to ARI; and (iv) obtain approval by the Director(s) and/or the Management prior to the transfer of funds to ARI. In this connection, we have obtained and reviewed documents, including, (i) the relevant written internal control procedures of the Group setting out the procedures to be carried out for approving Shareholders' Loan and guarantee to ARI, including the type of documents required for the respective internal control procedures and the authorised signatory required; and (ii) samples of internal control documents, including the Shareholders' Loan request submitted by ARI to the Group, form of drawdown notice and fund transfer by way of cheque with two authorised signatures. Furthermore, we have reviewed the relevant supporting documents on a sample basis, including (i) the approval from the Group to remit Shareholders' Loan to ARI; (ii) the remittance records of the Shareholders' Loan to ARI; and (iii) the documents setting out the reconciliation of outstanding Shareholders' Loan balance and accrued interest per month maintained by the Group to ensure that it does not exceed the Existing Annual Caps under the Shareholders' Loan and Guarantee Agreement. Based on documents obtained and reviewed by us, we did not note any non-compliance in relation to the aforesaid internal control procedures and/or the relevant annual caps.

We have also reviewed the 2021 AR and 2022 AR and noted that the independent non-executive Directors and the auditor of the Company have reviewed the non-exempt continuing connected transactions, including the Shareholders' Loan and Guarantee Agreement, during two years ended 31 December 2022 and provided the relevant confirmations. As confirmed with the Company, the Company will continue to comply with the relevant annual review requirement under the Listing Rules on an on-going basis and there has been no non-compliance to the Shareholders' Loan and Guarantee Agreement for the period since 1 January 2023 up to the Latest Practicable Date.

Based on the above, we concur with the Directors' view that the Group has effective internal policies in place to continue to monitor the transactions carried out under the Fourth Supplemental Agreement and the New Annual Caps, and hence the interest of the Independent Shareholders would be safeguarded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having taken into consideration the principal factors and reasons discussed above, we are of the view that (i) the entering into of the Fourth Supplemental Agreement and the transactions contemplated thereunder (including the New Annual Caps), although are not in the ordinary and usual course of business of the Group, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the EB Subscription Agreement, although is not in the ordinary and usual course of business of the Group, is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the relevant resolutions to be proposed for approving the Fourth Supplemental Agreement and the transactions contemplated thereunder (including the New Annual Caps) and the EB Subscription Agreement at the SGM.

Yours faithfully,
For and on behalf of
Maxa Capital Limited
Sammy Leung
Managing Director

Mr. Sammy Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa 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 11 years of experience in the corporate finance industry.

1. CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial information of the Group for each of the three years ended 31 December 2020, 2021 and 2022 and the unaudited consolidated financial information of the Group for the six months ended 30 June 2023 have been disclosed in the annual reports and interim report of the Company respectively.

Details of the financial statements have been published on the Stock Exchange website (<http://www.hkexnews.hk>) and Company website (<http://www.calc.com.hk>) and can be accessed by the direct hyperlinks below:

- annual report of the Company for the year ended 31 December 2020 (pages 79 to 171):
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0331/2021033101394.pdf>
- annual report of the Company for the year ended 31 December 2021 (pages 76 to 171):
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0408/2022040800373.pdf>
- annual report of the Company for the year ended 31 December 2022 (pages 74 to 169):
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0417/2023041701453.pdf>
- interim report of the Company for the six months ended 30 June 2023 (pages 36 to 86):
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0914/2023091401014.pdf>

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 October 2023, which is the latest practicable date for the purpose of determining the amount of indebtedness, the Company had outstanding interest-bearing borrowings of HK\$47,632.0 million, which were comprised of:

- (i) secured bank borrowings and long-term borrowings of HK\$26,343.7 million. The secured bank borrowings and long-term borrowings are secured by (a) in addition to other legal charges, the related aircraft leased to airline companies under either finance leases or operating leases; (b) pledge of the shares in the subsidiaries owning the related aircraft; (c) guarantees from certain companies of the Group; and (d) pledge of bank deposits amounting to HK\$100.3 million;
- (ii) unsecured bank borrowings and long-term borrowings of HK\$14,384.8 million, which were guaranteed by the Company and certain companies of the Group;
- (iii) unsecured and unguaranteed medium-term notes of HK\$1,603.1 million; and
- (iv) unsecured bonds and debentures of HK\$5,300.4 million, HK\$1,873.7 million of which were guaranteed by the Company.

As at 31 October 2023, the Group was a guarantor of certain bank borrowings of associates and joint ventures amounting to HK\$576.6 million, of which HK\$222.4 million was counter-guaranteed by an investor of the joint ventures. After excluding the portion of counter-guarantee as mentioned above, the Group guaranteed HK\$354.2 million of these bank borrowings.

As at 31 October 2023, the Group had lease liabilities of approximately HK\$15.4 million, of which approximately HK\$12.6 million was due within one year and approximately HK\$2.8 million was due after one year.

As at 31 October 2023, except as disclosed above, the Group did not have any contingent liabilities.

Save as aforesaid or as otherwise disclosed above, at the close of business on 31 October 2023, the Group had no other outstanding indebtedness in respect of any borrowings, mortgages, charges or debentures, loan capital, bank loans and overdrafts, term loans or other loans, debt securities or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits or hire purchase commitments, finance lease commitments, guarantees or other contingent liabilities or indebtedness.

3. WORKING CAPITAL

Based on the unaudited financial information of the Group, as at 31 October 2023, the Group's current liabilities exceeded its current assets by HK\$16,239.3 million. The Group had total capital commitments of HK\$53,131.6 million as at 31 October 2023, which mainly related to the acquisition of aircraft that will be delivered in stages in the coming years until the end of 2027. Out of the total capital commitments, HK\$9,816.6 million is forecasted to be incurred and payable within the next fourteen months based on the current delivery schedules and forecasted delivery schedules with the Original Equipment Manufacturers (the "OEMs"). The Group will satisfy these capital commitments through the Group's internal resources, available and additional banking facilities and aircraft project loans which usually can only be confirmed by the relevant banks shortly before the delivery of the aircraft. As at 31 October 2023, the Group had cash and bank balances of HK\$4,286.5 million and undrawn borrowing facilities of HK\$6,909.5 million. The total balance of cash and bank balances with undrawn borrowing facilities was HK\$11,196.0 million.

The Group will need to secure a substantial amount of funds in the foreseeable future to finance the financial obligations and capital expenditures under contractual and other arrangements. The Directors have given due and careful consideration to the liquidity of the Group and its available sources of financing in assessing whether the Group has sufficient working capital for its present requirements, covering a period of not less than fourteen months from 31 October 2023. The Directors have taken into account the following plans and measures for the purposes of their assessment:

- According to the relevant aircraft purchase agreements, the scheduled payment of Pre-Delivery Payments ("PDP") for the next fourteen months from 31 October 2023 amounts to HK\$3,287.7 million.

The payment schedule of the PDP is subject to a number of factors including delivery schedule which in turn, in some cases, is subject to the approvals from the relevant aviation authorities. The Group forecasted the PDP payment schedule based on its experience, latest delivery schedule and industry knowledge.

In addition, three PDP facilities are set to expire and the utilised facility drawdowns of HK\$6,601.6 million will need to be repaid in the next fourteen months from 31 October 2023.

For the scheduled payment of PDP and repayment of utilised facility drawdowns under the facilities expiring in the next fourteen months from 31 October 2023, certain portion will be repaid by the PDP facilities to be released when PDP financing is repaid. The Group has initiated the process to obtain new PDP loan facilities with various onshore and offshore banks and financial institutions. Up to 31 October 2023, an approval has already been obtained from a mandated lead arranging bank for a new syndicated facility. With the recovery of aviation industry, the Directors believe that certain lenders of our existing PDP syndication are interested in participating in a new PDP syndication and given the Group's past experience in renewing PDP facilities, the Directors are confident that the Group will be able to obtain new PDP facilities in the next fourteen months from 31 October 2023. With such new facilities, internal resources and/or facilities obtained from other financing channels of the Group, the Group will be able to satisfy payments of the committed PDP and repayment of PDP facilities at maturity in the next fourteen months from 31 October 2023.

- The Group had continuous communication of anticipated changes in the delivery schedule with the OEMs and had been successful in adjusting the delivery schedules in the past. Apart from the ordinary reschedule flexibility under the purchase agreements, the OEMs may accommodate slot rearrangement and deferral of corresponding payment requests with specific circumstances. Based on their experience, the Directors are confident that the Group would be able to negotiate with the OEMs from time to time to manage the payment schedule of PDP under specific circumstances, and obtain the consent from the OEMs on rescheduling and slot rearrangement requests in the next fourteen months from 31 October 2023 as and when needed.
- New aircraft project loans are primarily used for the payment of the balances of the aircraft acquisition costs and, the repayments of the PDP financing which is usually due upon delivery of aircraft. New aircraft project loans will only be confirmed by the banks before the delivery of the relevant aircraft. Besides, the Group sometimes finances the new aircraft with internal resources or short-term bridging financing and the Group may obtain refinancing for these aircraft through new aircraft project loans. During the ten months ended 31 October 2023, the Group has obtained 37 aircraft project loan facilities of HK\$9,524.5 million from certain onshore and offshore banks and financial institutions. The Group will continue to arrange aircraft project loan facilities from time to time subsequent to 31 October 2023. Based on these aircraft project loan arrangements, the Directors are of the view that the Group will be able to obtain the necessary aircraft project loans as and when required in the next fourteen months from 31 October 2023.

- As at 31 October 2023, the Group had working capital loan and revolving loan facilities of HK\$7,985.0 million out of which HK\$5,820.2 million has been utilised. Based on the previous experience, the Directors are confident that the Group can drawdown the remaining unutilised loan facilities of HK\$2,164.8 million as and when required and will be able to renew substantially all the existing revolving facilities and further secure new working capital loan facilities.
- The Group is also pursuing other sources of financing, including issuance of bonds and medium-term notes and so on. In particular, the Group has obtained approval from the China Securities Regulatory Commission for issuance of unsecured bonds with a principal amount of RMB2.0 billion or less in the PRC within a two-year period from October 2022. In June 2023, the Group completed the issuance of three-year corporate bonds of RMB1.5 billion in the PRC. The Group plans to issue the remaining three-year corporate bonds of RMB0.5 billion in late November. The Group will continue to review the market conditions and may issue additional RMB medium-term notes and RMB bonds when needed. Moreover, the Group also plans to renew the facilities of offshore medium-term notes as an alternative financing option. Based on the credit profile of the Group, the successful history of issuance of similar debt instruments, the Directors are confident that the Group will be able to issue the relevant debt instruments and obtain the required financing as and when required.
- The Group has been preserving the multi-faceted development of its asset-light business model through establishment and management of aviation-related funds and joint venture companies, while at the same time, building up network buyers that will acquire aircraft from its aircraft portfolio. As part of its normal course of business, the Group continues to expand its portfolio trading business and it has scheduled to dispose of certain aircraft in the next fourteen months from 31 October 2023. As of 31 October 2023, the Group has signed sale and purchase agreements or letters of intent for the disposals of two aircraft and based on the Group's past experience in aircraft portfolio trading, the Directors are confident that the scheduled disposals of aircraft will be completed, and the proceeds will be collected according to the expected schedule in the next fourteen months from 31 October 2023.

The Directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Group's internal resources, the cash flows generated from its business operations, continued availability of existing and new banking facilities, the successful execution of its plans in obtaining the aircraft project loans from the banks and financial institutions, the successful issuance of debt instruments and the successful disposals of aircraft as planned and the effect of the Fourth Supplemental Agreement, the EB Subscription Agreement and the Proposed Transactions, the Group has sufficient working capital for its present requirements in the next fourteen months from 31 October 2023. Accordingly, the Directors consider that the Group has sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there had been no material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS

In general, the recovery momentum of the global aviation industry remains strong. With diminishing impact of past adverse external factors, the medium and long-term industry prospects are promising. IATA had recently announced an expected strengthening of airline industry profitability in an upgrade of its outlook for 2023, by which the industry's net profits were expected to reach US\$9.8 billion in 2023, more than double its previous forecast. With respect to the leasing market, the rapid growth of air travel amid ongoing supply chain issues, coupled with high inflation and interest rates, had been and is expected to continue pushing up lease rates. It is generally expected that the narrow-body shortage would likely persist for a couple of years, contributing to high market value and lease rates.

Meanwhile, the low-carbon transition of the aviation industry is accelerating. IATA released strategic roadmaps this June, aiming at providing step-by-step detailing of critical actions for aviation to achieve net zero carbon emissions by 2050. The concept of "green aviation" has become a consensus in the industry. Riding on its strengths of aircraft full-value-chain operation, in the second half of the year, the Group will grasp the business opportunities brought by the rapid recovery of China and overseas aviation markets as well as the opportunities emerging from airlines' accelerated fleet replacement and optimization in response to the trend of green aviation. It would sharpen its edges in new aircraft leasing as well as mid- to end-of life aircraft solutions to further enhance its one-stop fleet upgrade service capabilities, so as to promote aviation sustainability. In addition, the Group will also closely monitor the market to speed up portfolio trade when appropriate by strengthening cooperation with institutional investors and financiers to continuously enrich its aircraft asset portfolio and enhance asset management capabilities. The Group would thus further optimize its financial structure to enhance its operating strength and credit profile, creating better value for all stakeholders of the Group.



Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F One Taikoo Place 979 King's Road Hong Kong
Tel +852 2846 5000 Fax +852 2169 6001
Company Licence No.: C-030171

29 November 2023

The Board of Directors

China Aircraft Leasing Group Holdings Limited

32nd Floor, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong

Dear Sirs,

In accordance with the instructions from China Aircraft Leasing Group Holdings Limited (the “**Company**”), Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“**JLL**”) has undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100% equity interest in China Aviation Aftermarket Holdings Limited (the “**Target Company**”) as at 31 August 2023 (the “**Valuation Date**”). The report which follows is dated 29 November 2023 (the “**Report Date**”). The purpose of this valuation is to express an independent opinion for the Company’s internal reference.

Our valuation was carried out on a market value basis. According to the International Valuation Standards (“**IVS**”) issued by the International Valuation Standards Council (“**IVSC**”), market value is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.”

BACKGROUND

The Target Company, incorporated in Hong Kong, is a limited liability company. It is principally engaged in airframe and engine disassembly, disassembled parts sales as well as aircraft and engines trading and leasing business. Over the past few years, majority of its business is generated in the United States, Europe, Hong Kong and the People’s Republic of China.

The Subject of this valuation is being 100% equity interest in the Target Company (the “**Subject**”).

FINANCIAL PERFORMANCE OF THE TARGET COMPANY

Key financial information of the Target Company for the latest two financial years ended 31 December, and for the latest two six-month period ended 30 June is set out as below:

Reporting Period	1 January	1 January	1 January	1 January
	2021 – 31	2022 – 31	2022 – 30	2023 – 30
	December	December	June 2022	June 2023
	2021	2022	June 2022	June 2023
In Hong Kong Dollars (“HKD”)	(Audited)	(Audited)	(Unaudited)	(Unaudited)
Revenue	430,984,765	354,068,102	157,153,561	482,786,375
Earnings before interest, taxes, depreciation and amortization (the “EBITDA”)	243,309,861	212,916,215	74,568,406	133,905,820
Net Profit	62,048,143	55,462,019	8,140,052	35,015,263

Revenue

The Target Company’s total revenue was HKD430,984,765, HKD354,068,102 and HKD679,700,916 for the twelve-month period ending on 31 December 2021, 31 December 2022 and 30 June 2023 respectively. A portion of 2021 and 2023 revenue were generated from disposal of aircrafts and engines. Based on breakdown of revenue from contracts with customers as disclosed in the year 2022 audited report of the Target Company, 63% of such revenue is generated from the United States, followed by 16% and 15% as generated from the European Union and the People Republic of China (including Hong Kong) respectively.

Adjusted EBITDA

Based on the financial information as provided by the Company, other income mainly comprised of government grant and inter-company interest income, while other gain/loss mainly includes currency exchange gain/loss. Since these two items are not related to the recurring operating business of the Target Company, we have excluded them in the calculation of the adjusted EBITDA (the “Adjusted EBITDA”) during the period from 1 July 2022 to 30 June 2023 (the “Financial Period”), and the Adjusted EBITDA amounted to HKD172,104,687.

Calculation of the Adjusted EBITDA

	Unit	Amount
EBITDA from 1 January 2022 to 31 December 2022	HKD	212,916,215
Add: EBITDA from 1 January 2023 to 30 June 2023	HKD	133,905,820
Deduct: EBITDA from 1 January 2022 to 30 June 2022	HKD	<u>(74,568,406)</u>
EBITDA during the Financial Period	HKD	272,253,629
Add: Provision for inventories during the Financial Period	HKD	3,893,452
Deduct: Other Income during the Financial Period	HKD	(80,652,339)
Deduct: Other Gain/Loss during the Financial Period	HKD	<u>(23,390,055)</u>
Adjusted EBITDA during the Financial Period	HKD	172,104,687

SOURCES OF INFORMATION

In conducting our valuation of the Subject, we have reviewed information including, but not limited to:

- Background of the Target Company;
- Historical financial information of the Target Company for the fiscal year 2021 and 2022, as well as for the six-month periods from 1 January 2022 to 30 June 2022 and from 1 January 2023 to 30 June 2023;
- A valuation report prepared by Knight Frank Petty Limited (the “**Property Valuation Report**”) in relation to the investment property as owned by the Target Company and partially leased to certain third parties. The property is an industrial property located at the south of Harbin Taiping International Airport in the Heilongjiang Province of the People’s Republic of China; and
- Other operation and market information in relation to the business of the Target Company.

We have held discussions with management of the Company and conducted market research from public sources to assess the reasonableness and fairness of information provided. We assumed such information to be reliable and legitimate, and we have relied to a considerable extent on the information provided in arriving at our conclusion of value.

BASIS OF OPINION

We have conducted our valuation in accordance with the IVS. The valuation procedures employed include a review of legal status and economic condition of the Target Company and an assessment of key assumptions, estimates and representations made by the proprietor or the operator of the Target Company. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of the Subject;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business;
- Consideration and analysis on the micro and macro economy affecting the business of the Subject;
- Analysis on tactical planning, management standard and synergy of the Subject; and
- Assessment of the leverage of the Subject.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the valuation of the Subject.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach (sometimes referred to as asset-based approach) considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

To select the most appropriate approach, we have considered the purpose of the valuation and the resulting basis of value as well as the availability and reliability of information provided to us to form an analysis. We have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of this Subject. In our opinion, the cost approach is inappropriate for valuing the Subject, as it does not directly incorporate information about the economic benefits contributed by the Subject. The income approach is inappropriate as this approach requires detailed operational information and long-term financial projection of the Target Company but such information with substantial objective supporting data is not available to us. The market approach relies on comparable data from similar assets or companies in establishing a benchmark for valuation. Such approach captures the market sentiment and dynamics at a given point of time by taking into account factors such as market supply and demand, investor sentiment and market trends, and at the same time without relying on subjective inputs and assumptions. Hence, the market approach allows for an assessment of opinion of value of the subject asset that is responsive to changes in market conditions and provides a more relevant and objective valuation. Hence, the market approach is adopted in this valuation.

There are two common methods under market approach, namely, guideline public company method and guideline transaction method. Guideline public companies method requires identifying suitable guideline public companies and selection of appropriate trading multiples, while guideline transaction method takes reference to recent mergers and acquisitions transaction between unrelated parties and ratio of transaction price to target company's financial parameters.

In this valuation exercise, the market value of the 100% equity interest of the Target Company was developed through the guideline public company method. The guideline transaction method is not adopted due to lack of recent market transactions with similar nature as the Target Company. The guideline public company method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple.

BENCHMARK MULTIPLES

In this valuation, we have considered the following commonly used benchmark multiples:

- Price-to-earnings multiple (the "**P/E Multiple**"), which is computed as share price divided by earnings per share, is the most commonly used multiple since investors want to know how profitable a company is, hence earnings are important for valuing a company's stock. This multiple has the limitations that it cannot be used to value loss-making companies, and fail to overcome the distortions caused by different accounting policies and capital structures.

- Price-to-book multiple (the “**P/B Multiple**”), which is computed as the proportion of share price to book value per share, is common to value companies within asset intensive industries. However, since book value captures only the tangible assets of a company, a company’s intangible assets as well as company-specific competencies and advantages are not captured in the P/B Multiple.
- Price-to-sales multiple (the “**P/S Multiple**”), which is estimated by dividing share price by sales per shares, is commonly used to value early-stage or loss-making companies. A shortcoming of this multiple is that it ignores the cost structure and hence the profitability of a company.
- A firm’s enterprise value is equal to its equity value plus its debt less any cash. Enterprise value to EBITDA multiple (the “**EV/EBITDA Multiple**”), which is estimated by dividing enterprise value by EBITDA, allows direct comparison of firms regardless of their difference in capital structure. Compared to the P/E Multiple, the EV/EBITDA Multiple is considered to be less affected by difference in accounting treatment. Yet, since the EV/EBITDA Multiple excludes depreciation and amortization expenses, which measure how much the company needs to spend on capital expenditure to maintain its business growth, the multiple does not account for cost of debt capital or its tax effect.
- Enterprise value-to-sales multiple (the “**EV/Sales Multiple**”) is considered to be less affected by difference in accounting treatment as other price multiples. Similar to the price-to-sales ratio, it is commonly used to value early-stage or loss-making companies. Yet, EV/Sales Multiple has the benefits over price-to-sales ratio that it takes into account a company’s debt load.

The following benchmark multiples are not adopted due to the following consideration:

- P/E Multiple, P/B Multiple and P/S Multiple are not adopted as they are more likely to be distorted when companies are having different capital structures.
- EV/Sales Multiple is not adopted as it does not reflect the cost structure and probability of companies.

We have taken into consideration the business cycle and profitability of the Target Company in which it has been generating a relatively stable EBITDA margins in the latest two financial years ended 31 December, as well as maintaining profit-making position for the latest two financial years ended 31 December, and for the latest six-month period ended 30 June. Further, given that EBITDA is a financial measure that shows how well a company performed through its core operations net of taxes and it excludes tax savings from existing debt and one-time losses or charges. It is considered that the EV/EBITDA Multiple is the most appropriate multiple and hence it is being adopted in this valuation.

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value. The following key assumptions in determining the market value of the Subject have been made:

- We assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued;
- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Subject;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- We have been provided with copies of the operating licenses and company incorporation documents. We have assumed such information to be reliable and legitimate;
- We have assumed the accuracy of the financial and operational information such as management accounts, contractual agreements and manufacturing capabilities, provided to us by the Company relied to a considerable extent on such information in arriving at our opinion of value; and
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

MARKET MULTIPLE

In determining the market multiple, a list of comparable companies was identified. The selection criteria include the followings:

- The comparable companies are publicly listed;
- The comparable companies are searchable in Capital IQ and Bloomberg databases;
- The business of the comparable companies involves aircraft aftermarket services;
- The companies derive at least 50% of their revenues from the same industry of the Target Company, i.e. sale and leasing of aftermarket aviation assets; and
- Sufficient data, including the EV/EBITDA Multiples as at the Valuation Date of the comparable companies, is available.

As sourced from Capital IQ and Bloomberg, an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis. The business and geographic description of the comparable companies are listed below:

Company Name	Listing Location	Principal Business Location	Company Description
FTAI Aviation Ltd.	United States	United States	FTAI Aviation Ltd. owns and acquires infrastructure and related equipment for the transportation of goods and people worldwide. It operates through two segments, aviation leasing and aerospace products. The aviation leasing segment owns and manages aviation assets, including aircraft and aircraft engines, which it leases and sells to customers. The aerospace products segment develops, manufactures, repairs, and sells aircraft engines and aftermarket components for aircraft engines.
AAR Corp.	United States	United States	AAR Corp. provides products and services to commercial aviation, government, and defense markets worldwide. It operates through aviation services and expeditionary services segments. The aviation services segment engages in lease and sale of new, overhauled and repaired engine, and airframe parts and components, as well as aircrafts; and offers customized flight hour component inventory and repair, warranty claim management, and outsourcing programs for engine and airframe parts and components. The expeditionary services segment designs, manufactures, and repairs transportation pallets and containers and shelters for military and humanitarian tactical deployment activities, including armories, supply and parts storage, refrigeration systems, tactical operation centers, briefing rooms, laundry and kitchen facilities, water treatment, and sleeping quarters, as well as engages in provision of engineering, design, and system integration services for specialized command and control systems.

Company Name	Listing Location	Principal Business Location	Company Description
AerSale Corporation	United States	Worldwide ¹	AerSale Corporation provides aftermarket commercial aircraft, engines, and its parts to passenger and cargo airlines, leasing companies, original equipment manufacturers, and government and defense contractors, as well as maintenance, repair, and overhaul service providers worldwide. It operates in two segments, asset management solutions and technical operations. The asset management solutions segment engages in the sale and lease of aircraft, engines, and airframes, as well as disassembly of these assets for component parts. The technical operations segment provides internal and third-party aviation services, including internally developed engineered solutions, heavy aircraft maintenance and modification, and component maintenance, repair, and overhaul, as well as end-of-life disassembly services.
Willis Lease Finance Corporation	United States	Worldwide ²	Willis Lease Finance Corporation operates as a lessor and servicer of commercial aircraft and aircraft engines worldwide. The company operates through two segments, leasing and related operations, and spare parts sales. The leasing and related operations segment engages in acquiring and leasing commercial aircraft, aircraft engines, and other aircraft equipment, as well as the purchase and resale of commercial aircraft engines and other aircraft equipment, and other related businesses. The spare parts sales segment purchases and resells after-market engine parts, whole engines, engine modules, and portable aircraft components.

Notes:

1. Around 39%-42% of its revenue is generated from the United States during year 2021 to year 2022.
2. Around 40%-46% of its revenue is generated from the United States during year 2021 to year 2022.

Some key financial information of the comparable companies is listed below, as presented in millions of United States dollar (“USD”):

Company Name	Market Capitalization as at the Valuation Date <i>(in USD Million)</i>	Enterprise Value as at the Valuation Date <i>(in USD Million)</i>	EBITDA for Last Twelve-month Period <i>(in USD Million)</i>	Net Operating Profit after Tax for Last Twelve-month Period <i>(in USD Million)</i>
FTAI Aviation Ltd.	3,684	5,836	483 (up to 30 June 2023), 518 (up to 30 September 2023) ¹	295 (up to 30 September 2023) ¹
AAR Corp.	2,155	2,441	158	105
AerSale Corporation	760	765	45	24
Willis Lease Finance Corporation	271	2,142	212	89

Note:

- Given a non-recurring net operating loss after tax amounted to USD 6.07 billion during the third quarter of year 2022, we have taken reference to the last twelve-month period EBITDA and net operating profit after tax up to 30 September 2023 in deriving the EBITDA-to-NOPAT ratio.

The comparable companies are of different size from the Target Company. Larger companies generally have lower expected returns that translate into higher values. On the other hand, small companies are generally perceived as riskier in relation to business operation and financial performance, and therefore the expected returns are higher and resulting in lower multiples. Therefore, the base multiples were adjusted to reflect the difference in natures between the comparable companies and Target Company.

We referred to a formula in a widely-adopted textbook “Financial Valuation – Applications and Model, 2017” by James R. Hitchner, a renowned valuation expert in the United States, for the benchmark multiple adjustments:

The adjustment on the EV/EBITDA Multiple is calculated using the following formula:

$$\text{Adjusted EV/EBITDA Multiple} = 1/((1/M) + \theta \times (E/EV) \times (EBITDA/NOPAT))$$

where:

M = The EV/EBITDA Multiple without adjustment

θ = Required adjustment in the difference in size

E = Market capitalization

EV = Enterprise value

EBITDA = Earnings before interest, taxes, depreciation and amortization

NOPAT = Net operating profit after tax

(Reference: Hitchner, R. (2017) Financial Valuation: Applications and Models (4th Edition))

The logic behind the pricing multiple adjustments is that the reciprocal of the base multiple represents a capitalization rate. In this valuation, the reciprocal of the base EV/EBITDA multiple represents a capitalization rate of the enterprise value.

For the parameter θ , it was used as a desired adjustment to reflect the difference in natures between the comparable companies and the Subject. With reference to Cost of Capital Navigator 2022 published by Kroll, depending on the market capitalization of each of the comparable companies, size premium differentials were adopted to capture the size difference between the comparable companies and the Target Company. With reference to “The Adjusted Capital Asset Pricing Model for Developing Capitalization Rates: An Extension of Previous “Build-Up” Methodologies Based Upon the Capital Asset Pricing Model” published in 1989 by Z. Christopher Mercer, specific risks were adopted to capture the difference in profitability including net profit and net operating profit after tax (the “NOPAT”) level, between the comparable companies and the Target Company.

The ratio of the market capitalization to enterprise value E/EV was adopted as a weighting factor. As aforesaid, the logic behind this formula is that a pricing multiple is the reciprocal of the capitalization rate. In the case of an enterprise value multiple, the capitalization rate is driven by the weighted average cost of capital (the “WACC”) of the valuation subject. Since the size and specific risk premium differentials “ θ ” are applicable only to the equity portion (for a listed company, market capitalization represents the market value of its equity) but not to the debt portion of the WACC, we shall only adjust the equity portion of the capitalization rate in this pricing multiple adjustment formula. The ratio E/EV was used to apply an appropriate weighting on the parameter θ so that the capitalization rate was adjusted only to the extent of its equity portion. In other words, the ratio E/EV takes into account of the varying capital structures among the comparable companies.

The ratio of EBITDA to NOPAT was used as a scale factor, which is applied in the adjustment of the EV/EBITDA multiple. It is considered that the base measure of the benefits for enterprise value to be NOPAT (Hitchner, R., 2017), which is a financial measure that shows how well a company performed through its core operations net of taxes and it excludes tax savings from existing debt and one-time losses or charges.

After the aforesaid adjustment on the EV/EBITDA Multiple, the EV/EBITDA multiples after adjustment (the “**Adjusted EV/EBITDA Multiple**”) of the comparable companies are listed as below:

Company Name	Market Capitalization <i>(in USD Million)</i>	EV/EBITDA Multiple	Required adjustment in the difference in size <i>(%)</i>	Adjusted EV/EBITDA Multiple
FTAI Aviation Ltd.	3,684	12.09	1.22%	10.40
AAR Corp.	2,155	15.50	0.99%	12.89
AerSale Corporation	760	17.05	0.39%	15.16
Willis Lease Finance Corporation	271	10.13	0%	<u>10.13</u>
		Median		11.64

Discount for Lack of Marketability (the “DLOM”)

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

We have assessed the DLOM of this interest using a put option method. The concept is that when comparing a public share and a private share, the holder of a public share has the ability to sell the shares (i.e. a put option) to the stock market right away. As the time to a liquidity event becomes shorter, the degree of the DLOM becomes smaller.

We have adopted Black Scholes Option Pricing Model with the following parameters to estimate the DL0M.

Parameter	Input	Remark	Source
Option Type	European Put		
Spot Price	HKD 1.00	Assumed	
Exercise Price	HKD 1.00	Assumed	
Risk Free Rate	5%	Based on 1-year United States dollar swap curve	Bloomberg database
Maturity Period	1 year	Assumed	
Volatility	40%	Based on historical 1-year volatility of comparable companies	Bloomberg database
Implied DL0M	13.15%	Calculated	

Control Premium (the “CP”)

Control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest a business enterprise that reflects the power of a control. Both factors recognize that control owners have rights that minority owners do not and that the difference in those rights and, perhaps more importantly, how those rights are exercisable and to what economic benefits, cause a differential in the per-share value of a control ownership block versus a minority ownership block.

We have made reference to most recent quarterly control premium report as published by the second quarter of 2023 by FactSet Mergerstat, LLC. Since the Control Premium Studies do not have sufficient data for aircraft equipment asset sales and leasing industry, we have applied the data related to international transactions from all industries.

In the valuation, we adopted the median control premiums of 17.80%, which includes negative premiums. The distributor of the Control Premium Studies explained that there are two possible scenarios in which negative premium may arise: first, if the buyer is public and paying with its own stock, its stock price may have decreased between the announcement and the time the deal closes. Another scenario may be that the selling company could be struggling and on the verge of failure.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value of the Subject is estimated based on the financial information of the Target Company and the market multiples of the comparable companies derived from Bloomberg database as at the Valuation Date. We have also taken into account the two factors, which is being the marketability discount and control premium.

The calculation of the market value of 100% equity interest of the Target Company as at the Valuation Date is as follows:

Parameter	Unit	Input
Adjusted EBITDA of the Target Company during the Financial Period	HKD	172,104,687
Median Adjusted EV/EBITDA Multiple of the Comparable Companies		11.64
Enterprise Value of the Target Company before CP and DLOM as at the Valuation Date	HKD	2,003,452,101
Add: Cash ¹	HKD	90,589,026
Add: Amount due from related parties that is non-trading in nature ^{1,2}	HKD	1,352,091,204
Add: Lease portion of investment property ³	HKD	187,492,210
Deduct: Debt ¹	HKD	(2,122,258,625)
Deduct: Bank loan interest payable ¹	HKD	(1,201,336)
Deduct: Non-trading payable ¹	HKD	(434,737,480)
Deduct: Lease liabilities ¹	HKD	(32,751,650)
Equity Value of the Target Company before DLOM and CP as at the Valuation Date	HKD	1,042,675,450
Add: Control Premium (17.80%)	HKD	185,596,230
Equity Value of the Target Company before DLOM as at the Valuation Date	HKD	1,228,271,680
Deduct: Discount for lack of marketability (13.15%)	HKD	(161,467,292)
Equity Value of the Target Company after control premium and discount for lack of marketability as at the Valuation Date (Rounded)	HKD	1,067,000,000

Note:

1. Figures as at 30 June 2023 based on management account are adopted, and it assumed that the figures as at 30 June 2023 have no material difference from that as at the Valuation Date.
2. Amount due from related parties mainly comprised of loans to the holding company of the Target Company.
3. The market value of leased portion of the investment property is extracted from the Property Valuation Report provided by the Company.

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Company, the Company and JLL.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

This report is issued subject to our Limiting Conditions as attached.

INDEPENDENCE DECLARATION

We confirm that to the best of our knowledge and belief, we are independent of the Company and the Target Company, and have not contravened any independence requirements stipulated as per our professional memberships. Our fee is not contingent upon our conclusion of value.

OPINION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that the market value of 100% equity interest in China Aviation Aftermarket Holdings Limited as at the Valuation Date are reasonably stated at the amount of **HKD1,067,000,000**.

Yours faithfully,

For and on behalf of

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Simon M.K. Chan

Executive Director

Note: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS). He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of this Report, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Client/Target Company and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our Report was used as part of the analysis of the Client/Target Company in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the Subject rests solely with the Client.
2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.
3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.
4. The board of directors and the management of Client/Target Company have reviewed this Report and agreed and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.
5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.
6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.
7. The use of and/or the validity of the Report is subject to the terms of the Agreement and the full settlement of the fees and all the expenses.
8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the Subject.
9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Client/Target Company because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This Report has been prepared solely for internal use purpose. The Report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.
11. This Report is confidential to the Client and the calculation of values expressed herein is valid only for the purpose stated in the Agreement as at the Valuation Date. In accordance with our standard practice, we must state that this Report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.
12. Where a distinct and definite representation has been made to us by parties interested in the Subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.
13. The Client/Target Company agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.
14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.
15. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Client/Target Company and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

16. This Report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the Report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Client/Target Company and other sources. Actual transactions involving the Subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the knowledge and motivation of the buyers and sellers at that time. The transaction amount does not need to be close to the result as estimated in this report.

17. The board of directors, management, staff, and representatives of the Client/Target Company have confirmed to us that they are independent to JLL in this Valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independence in our work, the Client/Target Company and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors 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.

2. DISCLOSURE OF INTERESTS

(a) Interests of the Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its 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 interests or short positions which they were taken or deemed 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 in that section, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Capacity	Number of Shares held (L) ⁽¹⁾		Approximate percentage of Shares in issue ⁽²⁾
		Number of Shares/underlying Shares held	Total interests	
POON Ho Man	Interest of controlled corporation	185,827,261 ⁽³⁾		
	Beneficial owner	600,000	186,427,261	25.05%
LIU Wanting	Interest of controlled corporation	12,278,069 ⁽⁴⁾		
	Beneficial owner	4,800,000 ⁽⁵⁾	17,078,069	2.29%
CHEOK Albert Saychuan	Beneficial owner	5,000	5,000	0.001%

Notes:

- (1) The letter “L” denotes the entity/person’s long position in the securities.
- (2) Based on 744,355,352 Shares in issue as at the Latest Practicable Date.
- (3) Mr. POON Ho Man was deemed to be interested in 185,827,261 Shares by virtue of the SFO in the following manner:
 - (a) 176,496,672 Shares held by FPAM, a substantial Shareholder wholly-owned by Capella Capital Limited which in turn was owned as to 50% by Ms. Christina NG and 50% by Mr. POON Ho Man; and
 - (b) 9,330,589 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON Ho Man.
- (4) These Shares were held by Smart Aviation Investment Limited, a company wholly-owned by Ms. LIU Wanting.
- (5) These interests represented the interests in the underlying Shares in respect of the share options granted by the Company to Ms. LIU Wanting pursuant to the post-IPO share option scheme of the Company.

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. Zhang Mingao is an executive director of CE Limited and the president of CE Limited and its subsidiaries, Mr. Poon Ho Man is a director of FPAM and Ms. Wang Yun is an executive director of CE Limited. Both CE Limited and FPAM have 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.

(b) Interests of the substantial shareholders of the Company

As at the Latest Practicable Date, so far as the Directors were aware, the following persons had interests and/or short positions in the Shares or the underlying Shares which would fall to be disclosed to the Company pursuant to 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 pursuant to Section 336 of the SFO:

Name of shareholders	Capacity	Number of Shares held (L) ⁽¹⁾		Approximate percentage of Shares in issue ⁽²⁾
		Number of Shares held	Total interests	
CEL Aviation Investment Holdings Limited (“CEL Aviation”)	Beneficial owner	244,065,373 ⁽³⁾	244,065,373	32.79%
CE Limited	Interest of controlled corporation	283,417,693 ⁽³⁾	283,417,693	38.08%
CE Hong Kong	Interest of controlled corporation	283,417,693 ⁽⁴⁾	283,417,693	38.08%
CE Group	Interest of controlled corporation	283,417,693 ⁽⁵⁾	283,417,693	38.08%
Central Huijin	Interest of controlled corporation	283,417,693 ⁽⁵⁾	283,417,693	38.08%
POON Ho Man	Interest of controlled corporation	185,827,261 ⁽⁶⁾		
	Beneficial owner	600,000	186,427,261	25.05%
FPAM	Beneficial owner	176,496,672 ⁽⁷⁾	176,496,672	23.71%
Capella Capital Limited (“Capella”)	Interest of controlled corporation	176,496,672 ⁽⁷⁾	176,496,672	23.71%
Christina NG	Interest of controlled corporation	176,496,672 ⁽⁸⁾		
	Beneficial owner	7,500,000	183,996,672	24.72%

Notes:

- (1) The letter “L” denotes the entity/person’s long position in the securities.
- (2) Based on 744,355,352 Shares in issue as at the Latest Practicable Date.
- (3) By virtue of the SFO, CE Limited was deemed to be interested in 244,065,373 and 39,352,320 Shares held by CEL Aviation and China Everbright Financial Investments Limited respectively, both of which were wholly-owned by CE Limited.
- (4) CE Limited was owned as to 49.39% by Honorich Holdings Limited and 0.35% by Everbright Investment & Management Limited, both of which were wholly-owned by CE Hong Kong. CE Hong Kong therefore indirectly held more than one-third of the voting power at general meetings of CE Limited. Accordingly, CE Hong Kong was deemed to be interested in all Shares mentioned in note (3) above by virtue of the SFO.
- (5) Central Huijin held 63.16% interest in CE Group which in turn held 100% interest in CE Hong Kong. Accordingly, CE Group and Central Huijin were deemed to be interested in all Shares mentioned in notes (3) and (4) above by virtue of the SFO.
- (6) Mr. POON Ho Man was deemed to be interested in 185,827,261 Shares by virtue of the SFO in the following manner:
 - (a) 176,496,672 Shares held by FPAM, a substantial Shareholder wholly-owned by Capella Capital Limited which in turn was owned as to 50% by Ms. Christina NG and 50% by Mr. POON Ho Man; and
 - (b) 9,330,589 Shares held by Equal Honour Holdings Limited, a company wholly-owned by Mr. POON Ho Man.
- (7) FPAM was wholly-owned by Capella. Accordingly, Capella was deemed to be interested in all Shares held by FPAM by virtue of the SFO.
- (8) Capella was owned as to 50% by Ms. Christina NG and 50% by Mr. POON Ho Man. Accordingly, Mr. POON Ho Man and Ms. Christina NG were deemed to be interested in all Shares mentioned in note (7) above by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than a Director or chief executive of the Company) who had an interest and/or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company pursuant to 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 pursuant to Section 336 of the SFO.

3. 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).

4. DIRECTORS’ INTEREST IN 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.

5. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

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 2022 (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 by or leased to any member of the Group.

6. 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.

7. LITIGATION AND CLAIMS

As at the Latest Practicable Date, so far as the Directors were aware, no member of the Group was involved in any litigation or claims of material importance, and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

8. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Group) were entered into by members of the Group within the two years immediately preceding the date of this circular which are or may be material:

- (a) the Fourth Supplemental Agreement; and
- (b) the EB Subscription Agreement.

9. QUALIFICATIONS AND CONSENTS OF EXPERTS

- (a) The following are the qualifications of the experts who have given its opinion or advice which is contained in this circular:

Name	Qualification
Maxa 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
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	An independent valuer

- (b) As at the Latest Practicable Date, the experts named above 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.
- (c) As at the Latest Practicable Date, the experts named above had no direct or indirect interest in any assets which had been, since 31 December 2022 (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.
- (d) Each of the experts named above 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.

10. MISCELLANEOUS

- (a) 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.
- (b) The company secretary of the Company is Mr. LI Guohui who obtained professional qualifications as a Chartered Financial Analyst qualified by the CFA Institute and a Certified Public Accountant (Singapore) qualified by the Singapore Institute of Chartered Accountants.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

11. 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>) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the material contracts referred to in the paragraph headed “8. Material Contracts” in this Appendix;
- (b) the letter from the Independent Financial Adviser, the text of which is set out on pages 37 to 73 of this circular;
- (c) the valuation report of CAAM, the text of which is set out in Appendix II to this circular; and
- (d) the written consents referred to in the paragraph headed “9. Qualifications and Consents of Experts” 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, 15 December 2023 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 29 November 2023.

ORDINARY RESOLUTIONS

1. **The Fourth Supplemental Agreement**

“**THAT:**

- (a) the Fourth Supplemental Agreement (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 transactions contemplated under the Fourth Supplemental Agreement be and are hereby approved, confirmed and ratified;
- (b) the New Annual Caps be and are hereby approved, confirmed and ratified; and
- (c) any one director of the Company (the “**Directors**”) 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 giving effect and implementation of the Fourth Supplemental Agreement, including but not limited to the execution of all such documents under seal where applicable, as he/she may consider necessary, expedient, desirable or appropriate in his/her opinion to give effect to and/or implement the Fourth Supplemental Agreement and the transactions contemplated 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.”

NOTICE OF EGM

2. The EB Subscription Agreement

“THAT:

- (a) the EB Subscription Agreement (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 Subscription be and are hereby considered, approved, confirmed and ratified; and
- (b) any one of the Directors be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider as necessary, expedient, desirable or appropriate for the purpose of or in connection with the implementation of the EB Subscription 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 EB Subscription Agreement and the transactions contemplated 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, 29 November 2023

NOTICE OF EGM

Notes:

1. A form of proxy for use at the EGM is enclosed with the circular dated 29 November 2023 to be despatched to the Shareholders.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its common seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. A Shareholder 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 of the Company, more than one proxy to attend and, subject to the provisions of the memorandum and articles of association of the Company, to vote on his/her behalf. A proxy need not be a Shareholder 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.
4. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited ("**Tricor**"), at 17th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours before the time fixed for holding the EGM.
5. The Register of Members will be closed from Tuesday, 12 December 2023 to Friday, 15 December 2023, both days inclusive, on which no transfer of shares will be registered. The Shareholders are reminded that, in order to be eligible to attend and vote at the EGM, they must lodge properly completed transfer forms together with the certificates for the relevant shares with Tricor at the above mentioned address not later than 4:30 p.m. on Monday, 11 December 2023.
6. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting in person at the EGM or at any adjourned meeting thereof (as the case may be) should the Shareholders so wish, and in such an event, the form of proxy shall be deemed to be revoked.
7. Where there are joint registered holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the EGM, whether in person or by proxy, the joint registered holder so present whose name stands first on the Register of Members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.
8. As required under the Listing Rules, all resolutions will be decided by way of poll.
9. In case the above EGM is anticipated to be affected by black rainstorms or tropical cyclone with warning signal no. 8 or above, or "extreme conditions" caused by super typhoons, please refer to the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company's website (www.calc.com.hk) for announcement on bad weather arrangement for the EGM.

As at the date of this notice, (i) the Executive Directors are Mr. ZHANG Mingao (Chairman), Mr. POON Ho Man (Chief Executive Officer) and Ms. LIU Wanting (Chief Commercial Officer); (ii) the Non-executive Director is Ms. WANG Yun; and (iii) the Independent Non-executive Directors are Mr. CHEOK Albert Saychuan, Dr. TSE Hiu Tung, Sheldon and Mr. FAN Chun Wah, Andrew, J.P.